

FM GLOBAL GROUP

1301 Atwood Avenue, Johnston, Rhode Island, United States 02919
Mail Address: P.O. Box 7500, Johnston, Rhode Island, United States 02919
Web: www.fmglobal.com

Tel: 401-275-3000
AMB#: 18502

Fax: 401-275-3029

BEST'S RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Rating of A+ (Superior). The group's Financial Size Category is Class XV.

RATING UNIT MEMBERS

FM Global Group

(AMB# 18502):

<u>AMB#</u>	<u>COMPANY</u>	<u>RATING</u>	<u>POOL%</u>
04067	Factory Mutual Insurance Co	A+ g	86.00
00103	Affiliated FM Insurance Co	A+ g	12.00
02345	Appalachian Insurance Co	A+ g	2.00
86513	FM Insurance Company Limited	A+ g	

RATING RATIONALE

Rating Rationale: The group rating applies to Factory Mutual Insurance Company and its two wholly owned U.S. subsidiaries, Affiliated FM Insurance Company and Appalachian Insurance Company, which are also members of an inter-company 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 extremely 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. Additionally, FM Global maintains high, although manageable, common stock leverage, which adds some volatility to the group's balance sheet. Further, and while the group's European operation has traditionally generated profitable underwriting results, the UK company suffered significant losses in both 2006 and 2007 which triggered the stop loss treaty with its parent in both years. Losses at this subsidiary were more than offset by \$400 million of additional capital provided by the parent company during the second half of 2007. Nonetheless, a significant mitigating factor is the expectation that solid earnings and cash flows over the near term will continue to grow FM Global's invested asset base.

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's susceptibility to natural and man-made catastrophe losses remains a concern, the group has taken a number of steps to limit the magnitude of such losses via higher deductibles, attachment points and reinsurance.

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 current level of capitalization. A.M. Best has stress tested the group's capitalization, as measured by its Best Capital Adequacy Ratio (BCAR), for a terrorist event, with capitalization projected to remain more than sufficient to support the current rating.

Best's Rating: A+

Outlook: Stable

FIVE YEAR RATING HISTORY

<u>Date</u>	Best's <u>Rating</u>
12/27/07	A+
04/18/07	A+
05/05/06	A+
02/04/05	A+
06/22/04	A+
11/26/03	A+
05/02/03	A+

KEY FINANCIAL INDICATORS

Period <u>Ending</u>	Statutory Data (\$000)		
	Direct	Net	Pretax
	<u>Premiums</u> <u>Written</u>	<u>Premiums</u> <u>Written</u>	<u>Operating</u> <u>Income</u>
2002	2,758,203	2,242,213	549,841
2003	2,858,288	2,678,201	971,709
2004	2,538,478	2,285,193	770,648
2005	2,801,112	2,648,015	766,705
2006	3,176,357	2,850,693	883,899
09/2006	2,345,753	2,142,732	925,352
09/2007	2,300,134	2,142,873	763,628

Period <u>Ending</u>	Statutory Data (\$000)		
	Net	Total	Policy-
	<u>Income</u>	<u>Admitted</u> <u>Assets</u>	holders' <u>Surplus</u>
2002	234,068	5,473,569	1,933,030
2003	675,966	6,850,581	2,833,295
2004	555,227	7,599,835	3,532,791
2005	605,486	8,689,477	4,204,219
2006	683,686	9,953,049	5,016,705
09/2006	706,489	9,459,351	4,809,510
09/2007	660,468	10,889,155	5,679,720

Period	Profitability			Leverage			Liquidity	
	Comb.	Inv.	Pretax	NA Inv	NPW	Net	Overall	Oper.
<u>Ending</u>	<u>Ratio</u>	<u>Yield</u>	<u>ROR</u>	<u>Lev</u>	<u>to PHS</u>	<u>Lev</u>	<u>Liq</u>	<u>Cash-</u>
		<u>(%)</u>	<u>(%)</u>				<u>(%)</u>	<u>flow (%)</u>
2002	72.1	3.0	30.2	78.5	1.2	2.9	155.9	199.0
2003	66.5	2.7	38.1	86.0	0.9	2.3	171.6	146.0
2004	74.5	2.7	33.0	90.4	0.6	1.8	188.0	141.0
2005	76.9	2.5	29.5	90.6	0.6	1.7	194.8	140.2
2006	74.4	2.7	32.5	91.0	0.6	1.5	202.8	133.2
5-Yr Avg	72.8	2.7	32.8	...	...	...	...	...
09/2006	60.8	XX	45.8	XX	0.6	1.5	204.5	147.4
09/2007	69.7	XX	37.8	XX	0.5	1.4	210.2	145.1

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

CORPORATE STRUCTURE

<u>AMB#</u>	<u>COMPANY NAME</u>	<u>DOMICILE</u>	<u>%OWN</u>
04067	Factory Mutual Insurance Co	RI	
86513	FM Insurance Company Limited	United Kingdom	100.00
50323	FMIC Holdings Inc	RI	100.00
00103	Affiliated FM Insurance Co	RI	100.00
02345	Appalachian Insurance Co	RI	100.00
57600	Risk Engineering Ins Co Ltd	Bermuda	100.00

BUSINESS REVIEW

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

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

Insurance coverage provided includes all-risk policies and policies providing fire and extended coverage, boiler and machinery, difference in conditions, ocean cargo or any combination of these lines of coverage. Business interruption insurance is also offered as a supplement to these lines of coverage. With the implementation of TRIA in November 2002, FM Global was required to offer full limits terrorism coverage to all its insureds. The group's deductible under TRIA is approximately \$510

million in 2007. Also under TRIA, FM Global is financially responsible for 15% of losses above its deductible.

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

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

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

2006 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product	Premiums Written		% of	Pure	Loss
<u>Line</u>	<u>Direct</u>	<u>Net</u>	<u>Total</u>	<u>Loss</u>	<u>& LAE</u>
Allied Lines	1,306,260	1,201,611	42.2	26.5	473,048
Inland Marine	761,169	577,896	20.3	4.9	180,827
Fire	648,423	576,704	20.2	107.3	680,904
Boiler & Mach	367,293	419,037	14.7	42.3	173,146
Com'l MultiPeril	69,950	54,801	1.9	28.8	10,540
All Other	23,262	20,645	0.7	783.8	855,357
Totals	3,176,357	2,850,693	100.0	47.5	2,373,821

Major 2006 Direct Premium Writings By State (\$000): California, \$351,593 (11.1%); Texas, \$200,640 (6.3%); New York, \$160,688 (5.1%); Florida, \$123,030 (3.9%); Illinois, \$115,510 (3.6%); 49 other jurisdictions, \$1,734,187 (54.6%); Canada, \$426,196 (13.4%); Aggregate Alien, \$64,512 (2.0%).

FINANCIAL PERFORMANCE

Overall Earnings: Solid operating returns have been posted since 2002, largely the result of underwriting profits and modest levels of net investment income. Over a five-year period, underwriting earnings have outpaced net investment income by approximately 3.5 times. Strong underwriting earnings are the result of the group's strong loss control procedures, low expense ratio and favorable market conditions. In the years immediately prior to 2002, results were negatively impacted by reserve strengthening on discontinued operations and severe price competition. Despite current softening market conditions, management anticipates continued (albeit somewhat declining) operating profits.

The group's investment yield lags its industry peers as invested assets are skewed towards common stock holdings that represented approximately 50% of its overall invested assets. This is in contrast to the majority of its industry peers whose investment portfolios tend to be concentrated in long-term bond holdings. However, the group's investment return measure over a five-year period (inclusive of capital gains) compares favorably to its peer composite. While FM Global's elevated investment leverage adds to earnings volatility, such volatility is expected to decline as the group's surplus continues to grow through earnings.

PROFITABILITY ANALYSIS

Period	Company				Industry Composite			
	Pretax	Return	Comb.	Oper.	Pretax	Return	Comb.	Oper.
<u>Ending</u>	<u>ROR</u>	<u>on</u>			<u>ROR</u>	<u>on</u>		
	<u>(%)</u>	<u>PHS(%)</u>	<u>Ratio</u>	<u>Ratio</u>	<u>(%)</u>	<u>PHS(%)</u>	<u>Ratio</u>	<u>Ratio</u>
2002	30.2	6.3	72.1	65.4	-0.8	-7.0	106.2	95.2
2003	38.1	42.2	66.5	61.0	17.1	20.5	88.9	80.6
2004	33.0	21.8	74.5	67.4	1.6	0.2	104.5	96.4
2005	29.5	18.0	76.9	70.1	8.6	6.7	101.4	93.2
2006	32.5	17.7	74.4	66.3	35.6	32.0	80.6	71.6
5-Yr Avg	32.8	20.9	72.8	65.9	14.2	12.2	95.2	86.4
09/2006	45.8	XX	60.8	52.9	XX	XX	XX	XX
09/2007	37.8	XX	69.7	60.8	XX	XX	XX	XX

Underwriting Income: FM Global has produced excellent underwriting results over a five-year period under rising rates and tightening terms and conditions. The group's 1999 merger brought together three former competitors which ultimately produced very significant expense savings. The group's expense ratio further benefits from its modest commission's expense structure and ultimately its expense ratio is below the property industry composite. As a result of such profitability, FM Global was in a position to further strengthen asbestos and environmental reserves in 2002, 2003, 2004 and 2006. Favorable underwriting results since 2001 has led the Company to provide three membership credits totaling in excess of \$1 billion.

Although there was an increase in loss severity in its U.K. operations in 2006, the group's loss ratio declined modestly and underwriting results improved from the prior year. Similarly, despite weak results in its U.K. operations in 2007, its combined ratio remained highly favorable. In both 2006 and 2007, the group's U.K. operations penetrated their stop-loss treaty with Factory Mutual as its combined ratio reached 125%. Nonetheless, strong underwriting results on its domestic business offset weak results on the overseas book. Ultimately, A.M. Best expects FM Global's strong underwriting results to continue over the near term despite the softening pricing environment and the potential variability in operating results that comes with writing a large property exposed book of business.

The group's underwriting performance remains exposed to future acts of terrorism. Under the TRIA extension, FM Global's retention (deductible) is approximately \$510 million for 2007, plus another 15% of all certified losses in excess of this deductible. Approximately 50% of FM Global's policyholders have accepted the terrorism coverage offered by the group under TRIA.

UNDERWRITING EXPERIENCE

Year	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.		
2002	425,438	49.0	3.3	52.4	0.2	19.5	19.7	0.0	72.1
2003	826,440	41.0	3.3	44.3	3.5	18.7	22.2	0.0	66.5
2004	608,820	43.6	4.9	48.5	3.4	22.6	25.9	0.0	74.5
2005	588,585	50.0	3.4	53.4	2.4	21.2	23.6	0.0	76.9
2006	666,197	47.5	3.8	51.3	3.1	19.9	23.1	0.0	74.4
5-Yr Avg	...	46.1	3.7	49.9	2.6	20.3	22.9	0.0	72.8
09/2006	766,036	37.2	2.8	40.0	XX	XX	20.8	0.0	60.8
09/2007	584,142	43.1	3.0	46.1	XX	XX	23.6	0.0	69.7

Investment Income: The group's total return on invested assets is marginally above its industry composite average, as evidenced by its five-year average total return on invested assets. In recent years, favorable total investment returns have been

driven by capital gains from the group's substantial equity portfolio. Net investment income has grown annually over the last five years due to reinvestment of strong cash flows into fixed income securities. However, FM Global's investment yields are typically low, reflecting the group's elevated level of common equity holdings.

INVESTMENT INCOME ANALYSIS (\$000)

<u>Year</u>	<u>Company</u>		
	Net	Realized	Unrealized
	Inv	Capital	Capital
	<u>Income</u>	<u>Gains</u>	<u>Gains</u>
2002	123,284	-125,471	-116,972
2003	140,323	22,458	329,387
2004	165,867	57,336	139,455
2005	177,364	74,432	90,366
2006	218,955	99,046	132,763
09/2006	160,275	75,958	-6,599
09/2007	181,275	112,934	97,025

<u>Year</u>	<u>Company</u>			<u>Industry Composite</u>	
	Inv Inc	Inv	Total	Inv Inc	Inv
	Growth	Yield	Return	Growth	Yield
	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>
2002	12.2	3.0	-2.8	8.0	4.2
2003	13.8	2.7	9.9	0.0	3.7
2004	18.2	2.7	5.9	5.9	3.6
2005	6.9	2.5	4.8	8.9	3.8
2006	23.4	2.7	5.5	24.3	4.3
5-Yr Avg	15.2	2.7	5.0	9.9	3.9
09/2006	XX	XX	2.9	XX	XX
09/2007	XX	XX	4.2	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

<u>Asset Class</u>	2006 Inv	% of Invested Assets		<u>Annual % Chg</u>
	<u>Assets (\$000)</u>	<u>2006</u>	<u>2005</u>	
Long-Term bonds	3,394,667	37.9	38.3	14.1
Stocks	4,276,884	47.8	45.7	20.6
Affiliated Investments	527,164	5.9	6.2	9.2
Other Inv Assets	755,549	8.4	9.7	-0.2
Total	8,954,264	100.0	100.0	15.4

2006 BOND PORTFOLIO ANALYSIS

Asset	% of	Mkt Val	Avg.	Class	Class	Struc.	Struc.
	Total	to Stmt	Maturity	1 - 2	3 - 6	Secur.	Secur.
<u>Class</u>	<u>Bonds</u>	<u>Val(%)</u>	<u>(Yrs)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(% of PHS)</u>
Governments	13.4	0.0	7.1	100.0	...	...	...
States, terr & poss	45.5	-0.2	16.3	99.0	1.0	...	...
Corporates	41.1	-0.2	6.8	93.5	6.5	19.8	6.2
Total all bonds	100.0	-0.2	11.1	96.9	3.1	8.1	6.2

CAPITALIZATION

Capital Generation: The group's surplus has more than doubled since 2002 primarily through operating earnings and capital gains related to its common stock investment portfolio. In 2006, these factors contributed to strong surplus growth of 19%. Surplus continued to grow in 2007 largely on strong underwriting earnings and (to a lesser degree) unrealized capital gains and net investment income. Strong growth has occurred despite the issuance of approximately \$ 650 million in membership credits since 2004. A.M. Best expects the group to continue to grow its surplus through strong operating earnings, however, FM Global's exposure to terrorism losses is potentially significant under TRIA's deductible program. In addition, the group's surplus continues to be exposed to potential changes in the equity markets with high common stock leverage of approximately 85% of surplus.

CAPITAL GENERATION ANALYSIS (\$000)

<u>Year</u>	<u>Source of Surplus Growth</u>		
	Pretax	Total	Net
	Operating	Inv.	Contrib.
	<u>Income</u>	<u>Gains</u>	<u>Capital</u>
2002	549,841	-242,443	179
2003	971,709	351,846	-333
2004	770,648	196,790	-5,083
2005	766,705	164,798	-333
2006	883,899	231,808	-333
5-Yr Total	3,942,801	702,799	-5,901
09/2006	925,352	69,358	...
09/2007	763,628	209,959	...

<u>Year</u>	<u>Source of Surplus Growth</u>		
	Other,	Change	PHS
	Net of	in	Growth
	<u>Tax</u>	<u>PHS</u>	<u>(%)</u>
2002	-156,231	151,346	8.5
2003	-422,957	900,265	46.6
2004	-262,859	699,496	24.7
2005	-259,742	671,428	19.0
2006	-302,889	812,486	19.3
5-Yr Total	-1,404,678	3,235,022	...
09/2006	-389,419	605,291	14.4
09/2007	-310,572	663,015	13.2

Overall Capitalization: FM Global maintains a strong level of capitalization as evidenced by Best's Capital Adequacy Ratio (BCAR) that comfortably supports its current rating. 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 catastrophe losses, this risk is mitigated through an extensive risk management program and reinsurance utilization to reduce net exposures to reasonable levels.

In October 2006, the group announced it would distribute up to \$355 million in premium credits to renewing policyholders, commencing January 1, 2007, for policyholders with policies in force as of September 30, 2006. This represents FM Global's third such disbursement to policyholders since 2001. With the 2007 disbursement, FM Global collectively will have distributed approximately \$650 million in membership credits since 2004. Nevertheless, A.M. Best expects that surplus will continue to grow through strong earnings, even with the potential of another membership credit distribution in 2008. Barring any unusual events, capitalization will remain strong over the near term. This assumes a normalized level of catastrophes, absent of a terrorist event and no material adverse change in the equity markets.

QUALITY OF SURPLUS (\$000)

Year	Year-End PHS	% of PHS			Dividend Requirements		
		Cap Stk/ Contrib.	Un- assigned	Other	Stock- holder	Div to POI	Div to Net Inc.
		Cap.	Surplus		Divs	(%)	(%)
2002	1,933,030	...	99.9	0.1	175	0.0	-0.1
2003	2,833,295	...	100.0	0.0	-333	0.0	0.0
2004	3,532,791	...	100.0	0.0	-333	0.0	0.1
2005	4,204,219	...	100.0	0.0	-333	0.0	0.1
2006	5,016,705	...	100.0	0.0	-333	0.0	0.0
09/2006	4,809,510	...	100.0	0.0	...	...	...
09/2007	5,679,720	...	100.0	0.0	...	...	...

Underwriting Leverage: FM Global's underwriting leverage has steadily improved over the five-year period. Despite growth in net premium, the corresponding increase in risk exposure relative to total insured values (TIV) has risen by less than 10% annually in the most recent years. Further, surplus growth during each of the last five years has exceeded growth in net premium volume, thus reducing leverage further. FM Global's loss reserve leverage remains conservative and somewhat below industry composite norms.

LEVERAGE ANALYSIS

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2002	1.2	0.7	2.9	4.4	0.9	0.9	2.9	4.3
2003	0.9	0.6	2.3	3.2	0.9	0.7	2.6	3.6
2004	0.6	0.6	1.8	2.5	1.0	0.8	2.9	4.1
2005	0.6	0.5	1.7	2.3	1.0	0.9	3.0	4.4
2006	0.6	0.5	1.5	2.1	0.9	0.6	2.6	3.6
09/2006	0.6	0.5	1.5	XX	XX	XX	XX	XX
09/2007	0.5	0.4	1.4	XX	XX	XX	XX	XX

Current BCAR: 309.2

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period <u>Ending</u>	<u>DPW</u>		<u>GPW</u>	
	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2002	2,758,203	83.6	2,918,721	80.1
2003	2,858,288	3.6	3,059,948	4.8
2004	2,538,478	-11.2	2,759,117	-9.8
2005	2,801,112	10.3	3,016,267	9.3
2006	3,176,357	13.4	3,404,590	12.9
5-Yr CAGR	...	16.2	...	16.0
5-Yr Change	...	111.4	...	110.0
09/2006	2,345,753	16.8	2,928,201	11.6
09/2007	2,300,134	-1.9	2,971,877	1.5

Period <u>Ending</u>	<u>NPW</u>		<u>NPE</u>	
	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2002	2,242,213	93.6	1,822,869	108.5
2003	2,678,201	19.4	2,549,478	39.9
2004	2,285,193	-14.7	2,334,485	-8.4
2005	2,648,015	15.9	2,601,032	11.4
2006	2,850,693	7.7	2,719,395	4.6
5-Yr CAGR	...	19.7	...	25.5
5-Yr Change	...	146.2	...	211.0
09/2006	2,142,732	7.8	2,019,399	4.1
09/2007	2,142,873	0.0	2,022,761	0.2

Reserve Quality: The group has reported favorable loss reserve development in the most recent accident years driven by the recognition of redundancies in property lines of business. Approximately \$200 million in favorable accident year development was recognized in earnings in calendar year 2005 and approximately half that amount in 2006. Nevertheless, the group still maintains exposure to asbestos and environmental claims.

FM Global's discontinued operations pertain to direct casualty business cancelled in 1978, assumed treaty reinsurance cancelled in 1986 and business assumed through past participation in the Mutual Marine Office Pool. According to A.M. Best's estimates, FM Global ranks in the top 30 in the nation with approximately 0.2% historical market share in commercial lines that are potentially exposed. FM Global reported approximately \$660 million in net A&E reserves at year-end 2006, approximately 70% of this amount pertaining to asbestos liabilities. The group's net A&E reserves represent approximately 28% of its overall loss reserve base and roughly 13% 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. As a result of reserve strengthening in recent years, FM Global's A&E reserve levels meet or exceed several industry funding benchmarks, including historical premium and paid market shares, as well as three-year survival ratios. The group maintains a centralized claims unit that continues to evaluate, monitor and process claims.

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

Calendar	Original Loss	Developed Reserves	Develop. to	Develop. to	Develop. to	Unpaid Reserves	Unpaid Resrv. to
<u>Year</u>	<u>Reserves</u>	<u>Thru 2006</u>	<u>Orig.(%)</u>	<u>PHS (%)</u>	<u>NPE (%)</u>	<u>@ 12/2006</u>	<u>Dev.(%)</u>
2001	1,147,295	1,925,969	67.9	43.7	220.3	775,599	40.3
2002	1,366,507	1,782,783	30.5	21.5	97.8	799,984	44.9
2003	1,715,760	1,837,555	7.1	4.3	72.1	823,906	44.8
2004	1,884,882	1,794,627	-4.8	-2.6	76.9	924,430	51.5
2005	2,186,388	2,243,726	2.6	1.4	86.3	1,394,299	62.1
2006	2,267,329	2,267,329	...	...	83.4	2,267,329	100.0

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

Accident	Original Loss	Developed Reserves	Develop. to	Unpaid Reserves	Acc Yr. Loss	Acc Yr. Comb
<u>Year</u>	<u>Reserves</u>	<u>Thru 2006</u>	<u>Orig.(%)</u>	<u>@12/2006</u>	<u>Ratio</u>	<u>Ratio</u>
2001	595,408	736,807	23.7	5,716	129.7	160.2
2002	446,912	374,549	-16.2	24,385	33.2	53.0
2003	622,480	517,943	-16.8	23,922	32.3	54.5
2004	667,777	600,420	-10.1	100,524	39.6	65.6
2005	1,141,670	1,080,676	-5.3	469,869	59.9	83.5
2006	873,030	873,030	...	873,030	48.2	71.3

ASBESTOS & ENVIRONMENTAL (A&E) RESERVES ANALYSIS

	Company		
	Net A&E Reserves	Reserve Retention	Net IBNR
<u>Year</u>	<u>(\$000)</u>	<u>(%)</u>	<u>Mix (%)</u>
2002	442,388	48.7	64.0
2003	422,358	48.8	41.2
2004	493,467	42.7	51.9
2005	490,933	44.3	48.2
2006	658,691	54.6	66.9

	Company			Industry Composite		
	Survival Ratio	Comb Ratio	Comb Impact	Survival Ratio	Comb Ratio	Comb Impact
<u>Year</u>	<u>(3 yr)</u>	<u>(1 yr)</u>	<u>(3 yr)</u>	<u>(3 yr)</u>	<u>(1 yr)</u>	<u>(3 yr)</u>
2002	...	7.5	...	...	2.2	...
2003	...	0.8	...	...	1.7	...
2004	19.6	4.5	3.9	8.3	1.4	1.7
2005	15.6	0.6	1.9	8.4	1.0	1.4
2006	22.3	7.5	4.2	7.9	0.5	0.9

Reinsurance Utilization: Aggregate per risk and catastrophe reinsurance programs are utilized by FM Global to limit their 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 Probable Maximum Loss (PML), that are moderate.

The group's net retention of unaffiliated gross premium has steadily risen in recent years to slightly 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. Reinsurance recoverables have declined to relatively low levels in recent years. The quality of FM Global's reinsurers is excellent and defaults are anticipated to be negligible. In addition, reinsurance recoverables are distributed primarily among a large number of highly rated reinsurers.

CEDED REINSURANCE ANALYSIS (\$000)

Year	Company				Industry Composite		
	Ceded	Business	Rein Rec	Ceded	Business	Rein Rec	Ceded
	Reins	Retention	to PHS	Reins to	Retention	to PHS	Reins to
	Total	(%)	(%)	PHS (%)	(%)	(%)	PHS(%)
2002	2,873,351	69.1	96.8	148.6	66.4	88.8	136.4
2003	2,341,791	76.3	53.1	82.7	73.7	66.1	100.7
2004	2,376,693	73.9	44.2	67.3	70.2	70.1	114.4
2005	2,707,628	78.3	46.8	64.4	69.5	95.6	144.2
2006	2,681,476	76.0	35.4	53.5	69.2	55.6	98.5

2006 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid <u>Losses</u>	<u>IBNR</u>	Unearned <u>Premiums</u>	Other <u>Recov*</u>	Total Reins <u>Recov</u>
US Affiliates	56,846	...	14,249	...	71,095
Foreign Affiliates	4,165	1,043	4,875	...	10,083
US Insurers	411,689	237,088	191,878	-3,777	836,878
Pools/Associations	179,116	145,302	1	-28,111	296,308
Other Non-US	482,428	33,924	126,385	-12,037	630,700
Total (ex US Affils)	1,077,398	417,357	323,139	-43,925	1,773,969
Grand Total	1,134,244	417,357	337,388	-43,925	1,845,064

* Includes Commissions less Funds Withheld

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Year	Company					Industry Composite		
	Class	Real	Other	Non-Affl		Class		
	3-6	Estate/ Bonds	Invested Mtgs	Common Stocks	Inv. Lev.	Affil Inv.	3-6 Bonds	Common Stocks
2002	4.2	0.0	2.9	71.4	78.5	13.2	5.6	36.0
2003	3.9	0.0	4.4	77.6	86.0	11.5	4.2	30.8
2004	3.2	0.0	2.8	84.5	90.4	12.1	3.1	36.3
2005	3.9	0.0	2.3	84.4	90.6	11.5	2.7	40.9
2006	2.4	0.0	3.4	85.3	91.0	10.5	1.8	35.1

LIQUIDITY

Overall Liquidity: FM Global's balance sheet is sound with invested assets exceeding liabilities by comfortable margins. Current and quick liquidity measures compare favorably to industry composite norms and are enhanced by strong underwriting and operating cash flows. With the implementation of higher deductibles and attachment points, as well as ongoing rate adequacy, and engineering and loss control initiatives, cash flows from underwriting and operations have remained strong over a five-year period. A.M. Best expects cash flows from operations to remain very strong in the medium term.

LIQUIDITY ANALYSIS

Year	Company				Industry Composite			
	Quick	Current	Overall	Gross Agents Bal	Quick	Current	Overall	Gross Agents Bal
	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>to PHS(%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>to PHS(%)</u>
2002	64.9	126.6	155.9	20.4	50.7	119.2	150.0	16.6
2003	68.3	141.5	171.6	17.5	55.2	127.5	159.7	14.7
2004	75.9	158.6	188.0	11.1	54.2	120.4	152.0	19.6
2005	80.0	164.6	194.8	11.2	53.0	121.5	151.8	19.0
2006	77.5	173.5	202.8	10.3	59.3	128.7	160.1	19.8
09/2006	XX	174.9	204.5	8.0	XX	XX	XX	XX
09/2007	XX	181.5	210.2	6.6	XX	XX	XX	XX

CASH FLOW ANALYSIS (\$000)

Year	Company			Industry Composite			
	Underw	Oper	Net	Underw	Oper	Underw	Oper
	Cash	Cash	Cash	Cash	Cash	Cash	Cash
	<u>Flow</u>	<u>Flow</u>	<u>Flow</u>	<u>Flow (%)</u>	<u>Flow (%)</u>	<u>Flow (%)</u>	<u>Flow (%)</u>
2002	1,204,496	1,206,465	501,192	211.0	199.0	99.4	108.4
2003	1,096,751	830,405	-93,352	175.1	146.0	113.8	118.1
2004	824,145	719,718	-210,896	153.5	141.0	115.6	118.9
2005	909,155	786,586	40,081	155.0	140.2	108.1	114.6
2006	826,881	771,743	-81,142	141.3	133.2	119.8	133.7
09/2006	880,140	756,975	-23,578	165.3	147.4	XX	XX
09/2007	857,801	755,897	-140,556	161.6	145.1	XX	XX

HISTORY

FM Global traces its origins back to the formation of the Factory Mutual System in the 1800s. Allendale Mutual Insurance Company, a founding member of the Factory Mutual System, commenced operations in 1835 under the name Manufacturers Mutual Fire Insurance Company and was formed in Providence, Rhode Island. After several consolidations and renamings, the name Allendale Mutual was adopted in July 1971. On July 2, 1999, the two other remaining Factory Mutual companies, Arkwright Mutual and Protection Mutual, merged into Allendale Mutual, with the latter changing its name to Factory Mutual Insurance Company. Factory Mutual owns 100% of the stock of the Appalachian Insurance Company, formed in 1941, Affiliated FM Insurance Company, formed in 1949, and FM Insurance Company Ltd., formed in the U.K. in 1963.

MANAGEMENT

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

REINSURANCE PROGRAMS

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 \$600 million excess of \$150 million per risk and \$750 million excess of \$250 million per catastrophe. The group also has two-300 million CAT bonds that cover its earthquake exposure in the northwestern United States.

CONSOLIDATED BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>2006 %</u>	<u>2005 %</u>
Bonds	3,394,667	2,975,913	34.1	34.2
Common stock	4,276,884	3,546,559	43.0	40.8
Cash & short-term invest	538,689	619,831	5.4	7.1
Other non-affil inv asset	170,910	97,413	1.7	1.1
Investments in affiliates	524,538	480,250	5.3	5.5
Real estate, offices	2,625	2,705	0.0	0.0
Total invested assets	8,908,314	7,722,671	89.5	88.9
Premium balances	518,255	469,907	5.2	5.4
Accrued interest	45,950	39,458	0.5	0.5
All other assets	480,529	457,440	4.8	5.3
Total assets	9,953,049	8,689,477	100.0	100.0
<u>LIABILITIES & SURPLUS</u>	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>2006 %</u>	<u>2005 %</u>
Loss & LAE reserves	2,373,821	2,282,801	23.9	26.3
Unearned premiums	1,444,096	1,312,798	14.5	15.1
Conditional reserve funds	28,595	24,848	0.3	0.3
All other liabilities	1,089,831	864,811	10.9	10.0
Total liabilities	4,936,344	4,485,258	49.6	51.6
Total policyholders' surplus	5,016,705	4,204,219	50.4	48.4
Total liabilities & surplus	9,953,049	8,689,477	100.0	100.0

CONSOLIDATED SUMMARY OF 2006 OPERATIONS (\$000)

<u>STATEMENT OF INCOME</u>	<u>12/31/2006</u>	<u>FUNDS PROVIDED FROM OPERATIONS</u>	<u>12/31/2006</u>
Premiums earned	2,719,395	Premiums collected	2,826,741
Losses incurred	1,292,548	Benefit & loss related pmts	1,283,756
LAE incurred	103,244		
Undrw expenses incurred	657,137	LAE & undrw expenses paid	715,844
Div to policyholders	269	Div to policyholders	261
Net underwriting income	666,197	Undrw cash flow	826,881
Net investment income	218,955	Investment income	269,645
Other income/expense	-1,253	Other income/expense	-1,253
Pre-tax oper income	883,899	Pre-tax cash operations	1,095,274
Realized capital gains	99,046		
Income taxes incurred	299,258	Income taxes pd (recov)	323,530
Net income	683,686	Net oper cash flow	771,743

INTERIM BALANCE SHEET

<u>ADMITTED ASSETS</u>	<u>03/31/2007</u>	<u>06/30/2007</u>	<u>09/30/2007</u>
Cash & short term invest	584,154	338,927	398,134
Bonds	3,487,168	3,693,499	3,795,591
Common stock	4,947,219	5,270,787	5,599,287
Other investments	237,620	312,145	250,755
Total investments	9,256,161	9,615,358	10,043,766
Premium balances	523,561	615,031	373,690
Reinsurance funds	192,995	224,118	217,225
Accrued interest	44,905	45,818	50,225
All other assets	235,862	186,293	204,250
Total assets	10,253,484	10,686,618	10,889,155
<u>LIABILITIES & SURPLUS</u>	<u>03/31/2007</u>	<u>06/30/2007</u>	<u>09/30/2007</u>
Loss & LAE reserves	2,273,348	2,281,854	2,400,890
Unearned premiums	1,553,235	1,610,921	1,571,715
Conditional reserve funds	28,595	28,595	28,595
All other liabilities	1,073,197	1,125,962	1,208,235
Total liabilities	4,928,375	5,047,332	5,209,435
Capital & assigned surp	1,250	1,250	1,250
Unassigned surplus	5,323,858	5,638,035	5,678,470
Policyholders' surplus	5,325,108	5,639,285	5,679,720
Total liabilities & surplus	10,253,484	10,686,618	10,889,155

INTERIM INCOME STATEMENT

	Period Ended <u>09/30/2007</u>	Period Ended <u>09/30/2006</u>	Increase/ <u>Decrease</u>
Premiums earned	2,022,761	2,019,399	3,362
Losses incurred	872,010	751,792	120,218
LAE incurred	61,055	55,852	5,203
Underwriters expenses incurred	505,334	445,513	59,820
Div to policyholders	220	205	15
Net underwriting income	584,142	766,036	-181,894
Net investment income	181,275	160,275	21,000
Other income/expenses	-1,789	-959	-830
Pre-tax operating income	763,628	925,352	-161,724
Realized capital gains	112,934	75,958	36,977
Income taxes incurred	216,094	294,821	-78,727
Net income	660,468	706,489	-46,021

INTERIM CASH FLOW

	Period Ended <u>09/30/2007</u>	Period Ended <u>09/30/2006</u>	Increase/ <u>Decrease</u>
Premiums collected	2,250,453	2,227,281	23,172
Benefit & loss related pmts	805,461	823,633	-18,172
Undrw expenses paid	586,973	523,308	63,665
Div to policyholders	217	199	18
Underwriting cash flow	857,801	880,140	-22,339
Investment income	183,429	128,504	54,925
Other income/expense	-1,789	-959	-830
Pre-tax cash operations	1,039,442	1,007,685	31,756
Income taxes pd (recov)	283,544	250,710	32,834
Net oper cash flow	755,897	756,975	-1,078