018502 - FM Global Group

Report Revision Date: 10/02/2012

Rating and Commentary [1]	Financial [2]	General Information [3]
Best's Credit Rating: N/A	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** 02/12/2004
Rating Rationale: N/A	**Last Updated:** 08/13/2013	**States Licensed:** N/A
Report Commentary: 10/02/2012	**Status:** Quality Cross Checked	**Officers and Directors:** N/A

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Additional Online Resources

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Company Overview	AMB Country Risk Reports - United States

[1]The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2]The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3]The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Associated Parent: Factory Mutual Insurance Company

FM Global Group

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Tel.: 401-275-3000 **Web:** www.fmglobal.com **Fax:** 401-275-3029

AMB #: 018502 **Associated Parent:** 004067 **NAIC #:** N/A **FEIN #:** N/A

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Rating Rationale

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

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

The group's operating results were impacted in 2011 and to a lesser extent in 2012 by increased natural hazard losses that occurred on both its domestic and international book as a result of the unusual frequency and severity of global natural catastrophes in that year. Management expects to occasionally experience years with above-average losses due to the nature of its property coverages and has worked to build up a sizable capital base over the past ten years to 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.

FM Global is a market leader among providers of commercial property insurance in the U.S., serving a significant number of Fortune 1000 companies worldwide, many of which have been with FM Global for more than 25 years. The group's ability to consistently retain more than 90% of its policyholders is a result of its stable capacity, unmatched engineering, global reach, loss prevention technology, shared commitment (with its policyholders) to property preservation and the strategic use of membership (premium) credits.

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

Rating Unit Members

FM Global Group (AMB# 018502)

		BEST'S		
AMB#	**Company**	**FSR**	**ICR**	**Pool %**
004067	Factory Mutual Insurance Co	A+	aa	86.0

Rating Unit Members (Continued ...)

AMB#	Company	BEST'S FSR	BEST'S ICR	Pool %
000103	Affiliated FM Insurance Co	A+	aa	12.0
002345	Appalachian Insurance Co	A+	aa	2.0
086513	FM Insurance Company Limited	A+	aa	

Key Financial Indicators

Period Ending	Statutory Data ($000)					
	Premiums Written Direct	Premiums Written Net	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
2012	3,535,702	3,365,663	751,222	712,258	13,571,874	7,525,122
2011	3,177,979	3,042,469	-369,293	-32,075	12,029,919	6,431,612
2010	2,951,824	2,819,495	827,591	767,289	12,100,024	6,961,909
2009	3,199,857	3,027,581	1,239,599	1,037,050	10,886,837	6,203,646
2008	2,800,566	2,652,385	283,152	-558,845	9,444,575	4,734,211
06/2013	1,985,561	1,906,421	752,326	576,340	14,227,517	8,358,641
06/2012	1,837,287	1,855,648	259,288	279,556	12,997,698	6,851,114

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	84.2	2.2	22.7	72.5	0.4	1.2	225.6	110.2
2011	120.2	2.3	-12.6	73.3	0.5	1.3	216.4	107.9
2010	78.4	2.4	29.6	73.3	0.4	1.1	237.3	147.9
2009	67.2	2.8	41.0	63.4	0.5	1.2	234.1	125.4
2008	99.1	2.8	10.5	63.1	0.6	1.5	201.6	121.0
5-Yr Avg	89.5	2.5	18.5	...	...	...	...	...
06/2013	59.7	2.1	44.9	75.2	0.4	1.1	243.7	119.6
06/2012	88.7	2.1	15.9	73.9	0.5	1.4	212.9	124.1

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

Business Profile

FM Global is one of the largest underwriters of highly protected risk (HPR) within the commercial property market and is widely recognized throughout the industry for its extensive loss control, risk management and engineering capabilities. FM Global is afforded a distinct competitive advantage over most insurers by virtue of its professional property engineering expertise, inspection and loss prevention services, training and research. These bundled professional services 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. Many of the group's largest policyholder organizations are also members of FM Global's board of directors, advisory boards and risk management executive councils, which reinforces its understanding of the needs of its clients. A majority of FM Global's policyholders maintain worldwide operating facilities and are typically large industrial companies operating in varied manufacturing and servicing industries. Business is produced on a direct basis and through brokers.

Insurance coverage provided includes all-risk policies and policies providing fire and extended coverage, boiler and machinery, difference in conditions, ocean cargo or any combination of these lines of coverage. Business interruption insurance is also offered as a supplement to these lines of coverage. With the implementation of the U.S. government reinsurance of terrorism exposures in November 2002, FM Global was required to offer terrorism coverage to all its insureds with full limits. The group's deductible under TRIPRA is $606 million in 2013, with the group also financially responsible for 15% of losses above its deductible. If TRIPRA 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, Spain, Sweden, Switzerland, Singapore, Hong Kong, Labuan (Malaysia) and Australia. Effective January 1, 2009, FM Insurance retains roughly 40% 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 half 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%.

Scope of Operations

Scope of Operations (Continued ...)

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	3,535,702	11.3	395,275	5.3	565,314	10.6	3,365,663	10.6
2011	3,177,979	7.7	375,555	27.3	511,065	19.6	3,042,469	7.9
2010	2,951,824	-7.8	295,124	18.7	427,453	1.5	2,819,495	-6.9
2009	3,199,857	14.3	248,695	4.1	420,972	8.7	3,027,581	14.1
2008	2,800,566	-7.8	238,941	1.7	387,122	-22.5	2,652,385	-4.3
5-Yr CAGR	...	3.1	...	11.0	...	2.5	...	4.0
06/2013	1,985,561	8.1	768,017	14.1	847,158	29.4	1,906,421	2.7
06/2012	1,837,287	15.3	672,855	-6.3	654,493	-7.3	1,855,648	15.6

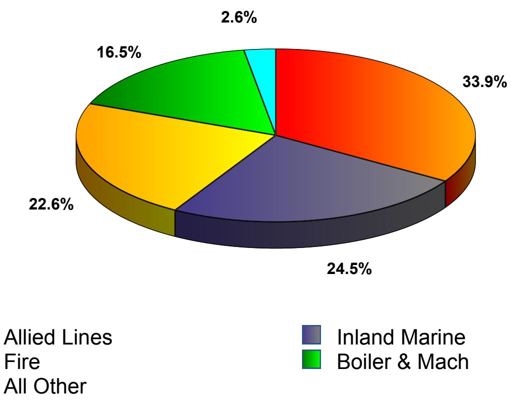
Business Trends

2012 By-Line Business ($000)

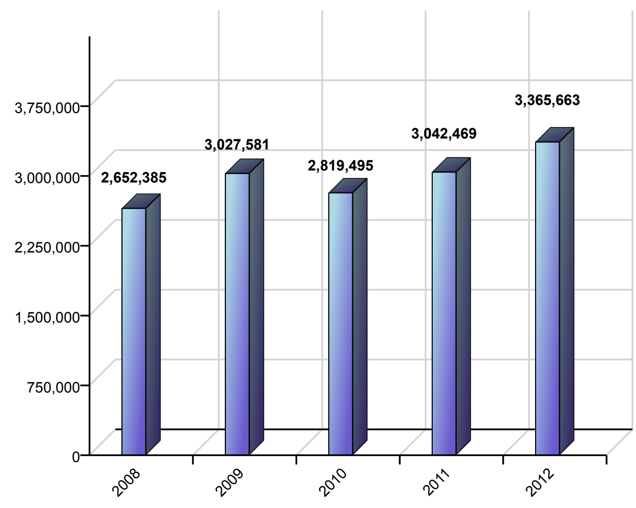
Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention %
	($000)	(%)	($000)	(%)	($000)	(%)	($000)	(%)	
Allied Lines	1,205,556	34.1	84,195	21.3	149,271	26.4	1,140,480	33.9	88.4
Inland Marine	1,048,622	29.7	76,532	19.4	300,221	53.1	824,933	24.5	73.3
Fire	792,408	22.4	43,340	11.0	76,145	13.5	759,603	22.6	90.9
Boiler & Mach	388,016	11.0	190,783	48.3	24,549	4.3	554,250	16.5	95.8
All Other	101,100	2.9	425	0.1	15,127	2.7	86,397	2.6	85.1
Total	3,535,702	100.0	395,275	100.0	565,314	100.0	3,365,663	100.0	85.6

Business Trends (Continued ...)

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Allied Lines	231,802	361,040	202,007	201,465	301,543
Inland Marine	861,408	957,330	687,054	482,312	475,803
Fire	561,029	584,954	405,403	408,651	597,509
Boiler & Mach	310,146	274,358	254,502	282,981	427,170
All Other	756,392	799,813	829,251	911,999	764,695
Total	2,720,777	2,977,494	2,378,217	2,287,407	2,566,721

Market Share / Market Presence

Market Share / Market Presence (Continued ...)

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
California	498,225	422,121	396,868	405,974	344,865
Canada	383,411	369,610	344,473	369,517	331,626
Texas	256,152	216,934	199,055	211,076	177,186
New York	192,451	163,302	145,627	156,939	141,207
Florida	166,807	142,124	150,705	147,150	121,337
Pennsylvania	127,001	111,414	97,659	110,518	100,989
Illinois	122,279	108,957	89,580	101,403	92,505
Washington	105,440	103,938	100,543	114,482	99,572
Ohio	88,202	96,696	75,234	91,010	76,271
Massachusetts	86,375	92,564	82,044	84,910	74,979
All Other	1,509,358	1,350,321	1,270,035	1,406,876	1,240,030
Total	3,535,702	3,177,979	2,951,824	3,199,857	2,800,566

Risk Management

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

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

Business continuity plans have been developed for all major sites, and incident command team leaders have been appointed for each of these sites. As part of the group recovery/action planning efforts, the group has documented the response to three broad scenarios: 1.) lack of access to the IT infrastructure; 2.) lack of access to the building; and 3.) lack of employees to staff a facility, and periodically tests the planned responses to ensure continuity of availability and responsiveness to customer needs.

Catastrophe Exposure & Management: The group's 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 captive reinsurers, such recoveries are backed by letters of credit or other forms of collateral. Further, its remaining reinsurance recoveries are from highly rated reinsurers, and approximate total recoverables are a reasonable 30% of surplus.

Operating Performance

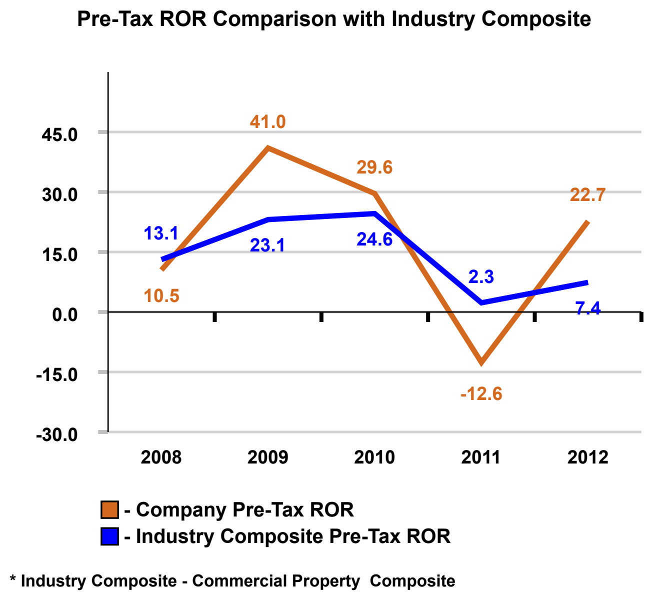
Operating Results: Historically, FM Global has produced solid operating returns, driven by underwriting earnings along with solid and steady investment income. Strong underwriting earnings have resulted from the group's persistent loss control procedures, low expense ratio and (particularly in prior years) favorable market conditions. As market conditions have softened, operating profits have remained strong due to the group's adherence to conservative risk management and pricing strategies. The group generated significant underwriting profits in three of the past five years and achieved a modest underwriting profit in 2008, with favorable (albeit diminished) operating results in those years. An increased number of large natural hazard losses in 2011 drove the increased loss ratio in that year, bringing underwriting and operating results to a ten-year low. In 2012, the group produced strong operating earnings despite being impacted by Superstorm Sandy, its single largest aggregated net loss.

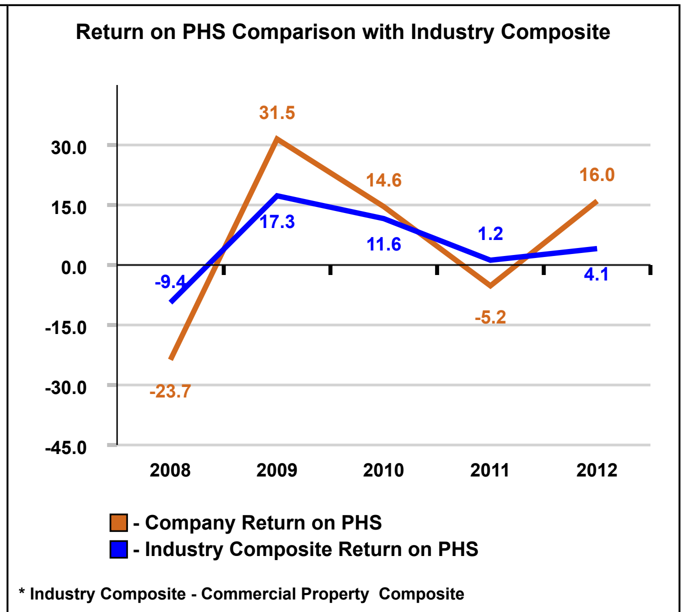
While the group's income benefits from its consistent generation of investment income, investment yield lags the average of its peer group. This is primarily the result of FM Global's above-average investment allocation to common equities, which have a lower dividend yield than the average yield on the bonds that comprise a larger percentage of the portfolios of its industry peers. While FM Global's elevated investment leverage 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

	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	751,222	566,608	712,258	1,118,554	22.7	16.0	76.7	7.4	4.1	93.6
2011	-369,293	-188,757	-32,075	-350,148	-12.6	-5.2	111.7	2.3	1.2	96.7
2010	827,591	686,802	767,289	961,534	29.6	14.6	69.4	24.6	11.6	75.6
2009	1,239,599	1,020,902	1,037,050	1,722,227	41.0	31.5	59.2	23.1	17.3	76.3
2008	283,152	-32,291	-558,845	-1,247,319	10.5	-23.7	89.9	13.1	-9.4	87.8
5-Yr Avg/Tot	2,732,271	2,053,265	1,925,677	2,204,848	18.5	7.1	81.1	13.7	5.0	86.4
06/2013	752,326	499,618	576,340	873,064	44.9	20.2	52.3	XX	XX	XX
06/2012	259,288	209,035	279,556	454,169	15.9	5.3	81.1	XX	XX	XX

Operating Performance (Continued ...)





Underwriting Results

Underwriting Results: FM Global has generally produced strong underwriting results, reflective of adequate rates and tightening terms and conditions. Overall favorable underwriting results since 2001 have led the company to provide membership credits totaling approximately $1.6 billion, including approximately $390 million in membership credit that was issued between June 30, 2010, and June 29, 2011.

In 2011, underwriting results declined significantly as the group posted a number of large natural hazard losses which added nearly 53 points to its combined ratio. Nonetheless, A.M. Best expects FM Global's historically strong underwriting results to continue over the near term despite the soft but improving market conditions and the potential variability in operating results that comes with writing a large property-exposed book of business. This assumption is based on the group's historically strong risk management culture. In 2008, the group's underwriting results were negatively impacted by a number of large natural hazard (catastrophe) and risk losses (non-catastrophic) that led to a rise in the loss ratio. Further impacting results in 2008 were $360 million in membership credits issued to existing policyholders (added 11 points to the combined ratio) nevertheless underwriting results remained profitable in 2008.

In 2012, the group's underwriting performance was strong despite the impact of Superstorm Sandy, which added nearly 13.5 points to the group's combined ratio. The improved results were driven by a decrease in loss frequency and severity even with Sandy-related losses.

The group's underwriting performance remains exposed to future acts of terrorism. Under the TRIPRA extension, FM Global's retention (deductible) is $606 million for 2013, plus another 15% of all certified losses in excess of this deductible. Somewhat more than 57% of FM Global's policyholders have accepted the terrorism coverage offered by the group under TRIPRA. However, a vast majority of these exposures are represented by horizontal or campus-like risks that are generally not exposed to a total loss. The group purchases no additional terrorism reinsurance outside of TRIPRA. However, should TRIPRA expire, management has devised a plan to minimize the potential impact from a terrorist event.

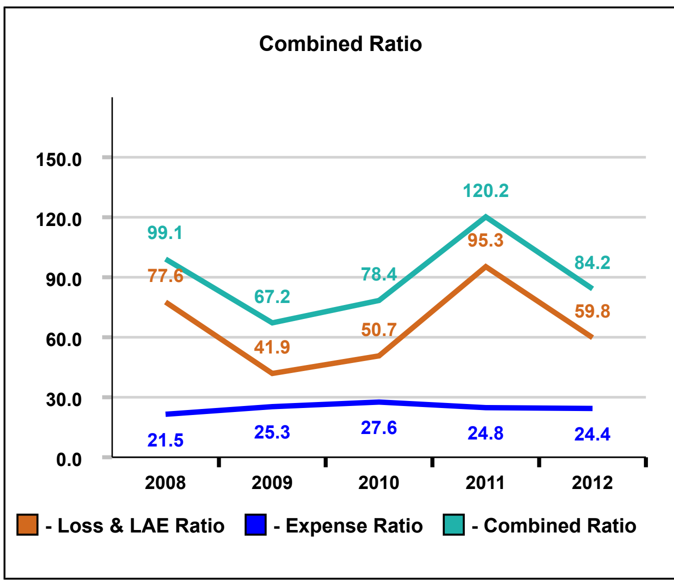
Underwriting Results (Continued ...)

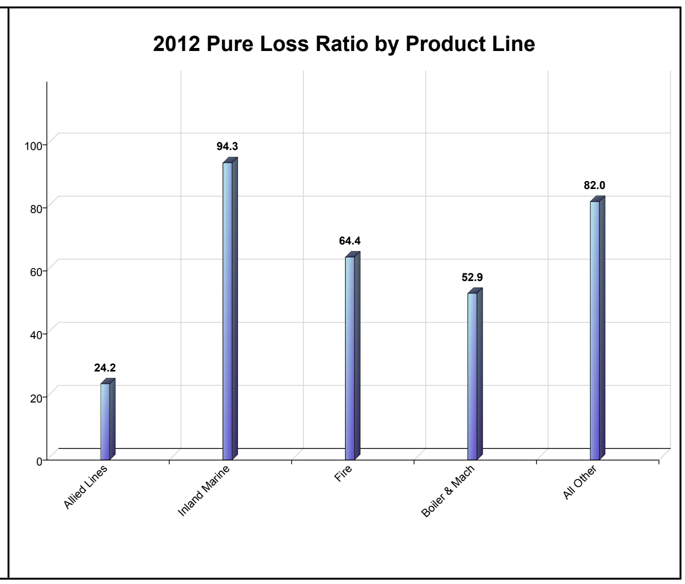
Underwriting Experience

Year	Net Undrw Income ($000)	Loss Ratios: Pure Loss	LAE	Loss & LAE	Expense Ratios: Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
2012	507,998	56.8	3.0	59.8	2.9	21.6	24.4	...	84.2
2011	-618,323	91.8	3.5	95.3	3.0	21.8	24.8	...	120.2
2010	597,381	47.1	3.7	50.7	2.6	25.0	27.6	...	78.4
2009	993,280	37.8	4.1	41.9	2.4	22.9	25.3	...	67.2
2008	36,217	72.1	5.5	77.6	1.7	19.8	21.5	...	99.1
5-Yr Avg	1,516,554	60.8	3.9	64.7	2.5	22.2	24.8	...	89.5
06/2013	629,315	36.1	3.4	39.5	XX	XX	20.2	...	59.7
06/2012	138,142	65.2	3.2	68.4	XX	XX	20.3	...	88.7

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Allied Lines	24.2	67.8	16.7	11.3	41.3	31.9
Inland Marine	94.3	153.2	104.6	58.0	82.9	98.5
Fire	64.4	94.4	45.9	34.6	92.2	66.0
Boiler & Mach	52.9	55.1	38.5	39.9	110.1	57.7
All Other	82.0	76.1	27.7	224.0	9.2	84.4
Total	56.8	91.8	47.1	37.8	72.1	60.8





Underwriting Results (Continued ...)

Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
California	34.3	36.6	34.4	7.6	130.2	46.4
Canada	64.9	50.5	57.8	26.3	92.9	58.2
Texas	45.1	91.7	34.4	28.8	250.5	85.8
New York	297.3	147.3	39.1	59.3	103.8	136.7
Florida	24.0	14.3	13.9	6.6	14.3	14.9
Pennsylvania	32.3	42.7	31.6	1.0	58.8	32.7
Illinois	45.3	45.5	48.9	42.8	75.0	51.1
Washington	14.2	7.8	20.3	9.6	39.6	18.1
Ohio	42.6	23.9	34.4	22.0	19.5	28.9
Massachusetts	138.6	40.3	7.5	22.7	60.6	55.3
All Other	67.1	137.7	52.4	43.6	63.7	72.2
Total	68.3	88.8	43.2	31.4	85.4	63.1

Investment Results

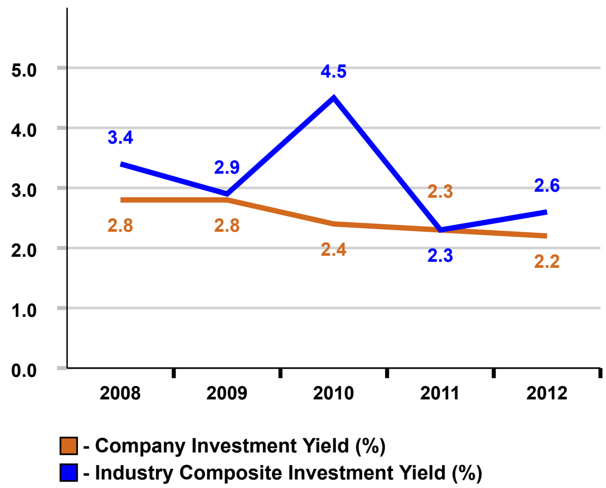
Investment Results: FM Global's investment yields have declined over the current five-year period and are typically low, reflecting the group's elevated level of common equity holdings. Total investment returns also lag the group's peer composite with volatility caused by capital gains and losses on the group's substantial equity portfolio, rising and falling with shifts in the equity market. Net investment income has remained relatively flat over the current five-year period. Impacting the growth of the group's investment earnings 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 portion of the group's 2010 invested asset purchases were in real estate investments that did not yield significant 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 minimal income on the year.

Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	249,194	145,650	406,297	-0.2	2.2	3.5	7.3	11.4	2.6
2011	249,610	156,682	-318,074	-0.4	2.3	3.7	0.8	-46.1	2.3
2010	250,647	80,487	194,245	3.5	2.4	3.2	5.2	63.7	4.5
2009	242,170	16,148	685,177	-1.8	2.8	2.9	11.2	-14.3	2.9
2008	246,552	-526,554	-688,474	2.0	2.8	-3.1	-10.3	-7.5	3.4
5-Yr Avg/Tot	1,238,174	-127,588	279,172	0.6	2.5	2.2	2.8	-4.7	3.1
06/2013	123,418	76,723	296,723	0.5	2.1	3.4	8.0	XX	XX
06/2012	122,767	70,521	174,613	-4.4	2.1	3.1	2.3	XX	XX

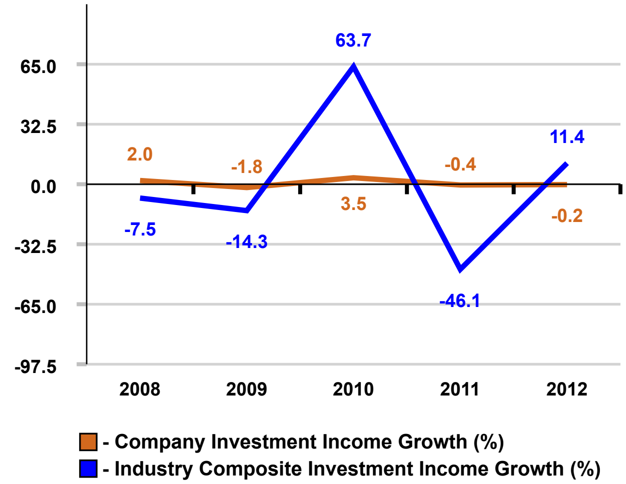
Investment Results (Continued ...)

Investment Yield vs Industry



* Industry Composite - Commercial Property Composite

Investment Income Growth vs Industry



* Industry Composite - Commercial Property Composite

Balance Sheet Strength

Capitalization

Capitalization: FM Global continues to maintain an excellent level of risk-adjusted 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.

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 strong underwriting earnings along with steady investment income. However, in 2011 the group's policyholders' surplus declined by nearly 8% primarily driven by the group's large underwriting loss and unrealized capital losses. However, the group's surplus rebounded in 2012 driven by strong operating earnings coupled with realized and unrealized capital gains. Based on the group's history, the expectation is that underwriting profits will continue to favorably impact surplus over the medium term with results dipping in select years under heightened loss experience. Barring any unusual events, 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.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	751,222	145,650	184,614	406,297	-333	-24,711	1,093,511	17.0
2011	-369,293	156,682	-180,537	-318,074	-333	-179,817	-530,298	-7.6
2010	827,591	80,487	140,789	194,245	-333	-202,938	758,263	12.2
2009	1,239,599	16,148	218,697	685,177	-333	-252,460	1,469,435	31.0
2008	283,152	-526,554	315,443	-688,474	-333	211,355	-1,036,297	-18.0
5-Yr Total	2,732,271	-127,588	679,006	279,172	-1,663	-448,571	1,754,614	5.5
06/2013	752,326	76,723	252,708	296,723	...	-39,544	833,519	11.1
06/2012	259,288	70,521	50,253	174,613	...	-34,667	419,502	6.5

Quality of Surplus ($000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	1,250	7,523,872	7,525,122	31,530	7,556,652
2011	...	...	1,250	6,430,362	6,431,612	40,400	6,472,012
2010	...	...	1,250	6,960,659	6,961,909	38,678	7,000,587
2009	...	...	1,250	6,202,396	6,203,646	32,484	6,236,130
2008	...	...	1,250	4,732,961	4,734,211	24,494	4,758,705
06/2013	...	...	1,250	8,357,391	8,358,641	31,530	8,390,172
06/2012	...	...	1,250	6,849,864	6,851,114	40,400	6,891,514

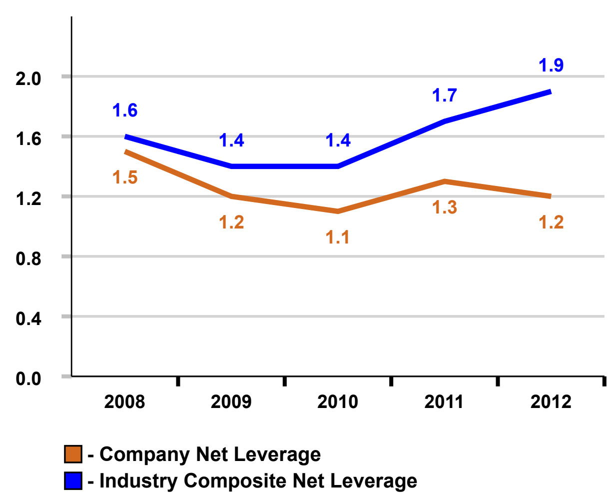
Underwriting Leverage

Leverage Analysis

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	0.4	0.4	1.2	1.7	0.6	0.5	1.9	3.0
2011	0.5	0.5	1.3	1.8	0.5	0.4	1.7	2.7
2010	0.4	0.3	1.1	1.4	0.5	0.4	1.4	2.1
2009	0.5	0.4	1.2	1.6	0.5	0.4	1.4	2.2
2008	0.6	0.5	1.5	2.0	0.5	0.5	1.6	2.6
06/2013	0.4	0.3	1.1	XX	XX	XX	XX	XX
06/2012	0.5	0.5	1.4	XX	XX	XX	XX	XX

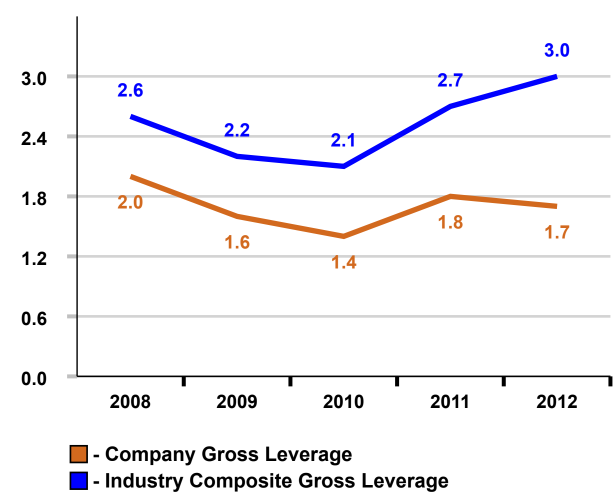
Current BCAR: 324.7

Net Leverage vs Industry



* Industry Composite - Commercial Property Composite

Gross Leverage vs Industry



* Industry Composite - Commercial Property Composite

Underwriting Leverage (Continued ...)

Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	3,196,438	85.6	27.8	42.5	50.6	62.4	108.5
2011	2,977,344	85.6	30.3	46.3	48.9	49.5	94.9
2010	2,167,368	86.8	18.4	31.1	57.0	37.1	69.2
2009	2,223,577	87.8	21.5	35.8	53.6	42.5	77.2
2008	2,227,890	87.3	30.5	47.1	46.2	58.3	99.5

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	282,467	...	...	...	282,467
Foreign Affiliates	11,036	...	4,429	...	15,465
US Insurers	491,365	140,158	261,995	-4,570	888,948
Pools/Associations	101,876	281,659	246	-2,904	380,877
Other Non-Us	575,884	74,618	163,007	-3,851	809,658
Total(ex Us Affils)	1,180,161	496,435	429,677	-11,325	2,094,948
Grand Total	1,462,628	496,435	429,677	-11,325	2,377,415

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: The group has reported favorable loss reserve development in six straight calendar years and nine straight accident years driven by the recognition of redundancies in property lines of business.

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 $518 million in net A&E reserves at year-end 2012, approximately 85% of this amount pertaining to asbestos liabilities. The group's net A&E reserves represent approximately 19% of its overall loss reserve base and roughly 7% of consolidated surplus. A considerable portion of the group's potential A&E liability stems from its discontinued assumed reinsurance business, which poses more uncertainty than primary business due to its reliance on ceding companies for claims information. Also, claim payments tend to develop more slowly than for primary insurers. The group maintains a centralized claims unit that continues to evaluate, monitor and process claims.

Loss Reserves (Continued ...)

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	2,569,691	2,569,691	...	...	77.7	2,569,691	100.0
2011	2,817,077	2,753,483	-2.3	-1.0	93.7	1,280,377	46.5
2010	2,215,835	1,949,815	-12.0	-3.8	69.8	749,413	38.4
2009	2,153,340	1,710,293	-20.6	-7.1	56.5	663,035	38.8
2008	2,446,708	2,329,345	-4.8	-2.5	86.2	637,746	27.4
2007	2,141,205	1,768,654	-17.4	-6.5	64.5	608,476	34.4

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	1,289,314	1,289,314	...	1,289,314	62.3	86.7
2011	1,764,472	1,754,050	-0.6	530,964	102.8	127.7
2010	1,051,786	910,221	-13.5	86,378	55.8	83.4
2009	848,716	538,791	-36.5	25,289	30.9	56.2
2008	1,493,776	1,309,766	-12.3	29,270	85.9	107.4
2007	902,997	669,902	-25.8	-1,399	38.9	64.0

Asbestos And Environmental Reserves Analysis

	Company						Industry Composite		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net Incurred But Not Reported (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)
2012	518,439	48.5	71.9	9.9	-0.2	0.1	9.1	0.6	0.6
2011	576,950	49.1	71.3	10.1	-0.3	2.6	9.1	0.5	0.6
2010	630,926	51.9	72.1	11.2	0.8	2.1	7.2	0.7	0.5
2009	667,145	50.6	70.7	...	7.1	...	...	0.6	...
2008	521,577	46.5	58.6	...	-2.1	...	...	0.3	...

Liquidity

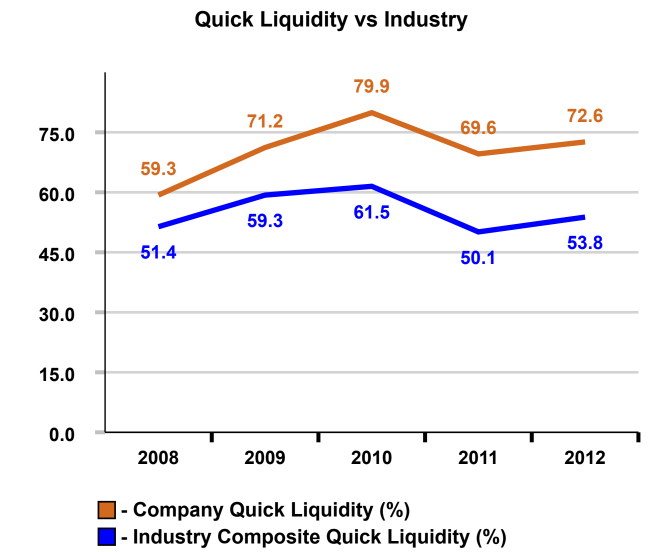
Liquidity: FM Global's balance sheet is sound, with invested assets exceeding liabilities by comfortable margins. Current and quick liquidity measures compare favorably to industry composite norms and are enhanced by strong underwriting and operating cash flows. With the implementation of higher deductibles and attachment points, as well as ongoing rate adequacy, and engineering and loss control initiatives, cash flows from underwriting and operations have remained strong over a five-year period. Given the group's historically strong cash flows and solid risk-based level of capitalization, FM Global is largely

Liquidity (Continued ...)

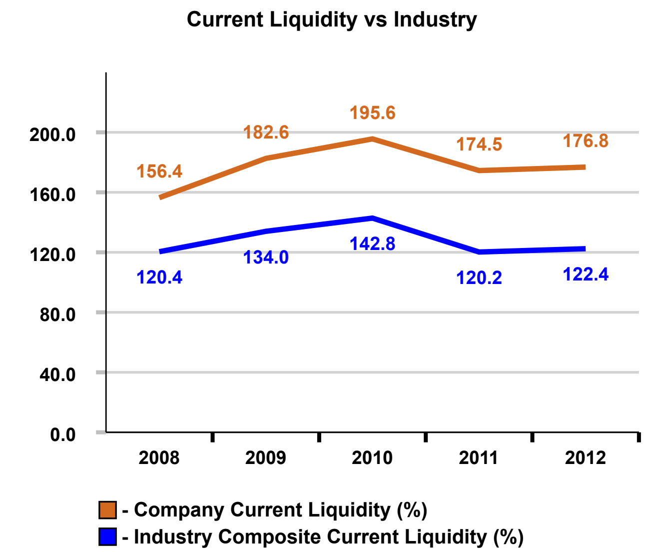
protected against the need to liquidate any investments at a loss in order to meet its cash needs. A.M. Best expects cash flows from operations to remain strong in the medium term.

Liquidity Analysis

	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	72.6	176.8	225.6	7.6	53.8	122.4	174.4	24.2
2011	69.6	174.5	216.4	8.5	50.1	120.2	184.6	21.6
2010	79.9	195.6	237.3	7.1	61.5	142.8	204.4	15.6
2009	71.2	182.6	234.1	9.0	59.3	134.0	205.4	18.6
2008	59.3	156.4	201.6	9.1	51.4	120.4	193.1	22.3
06/2013	XX	191.0	243.7	10.7	XX	XX	XX	XX
06/2012	XX	166.1	212.9	11.9	XX	XX	XX	XX



* Industry Composite - Commercial Property Composite



* Industry Composite - Commercial Property Composite

Liquidity (Continued ...)

Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	207,679	335,774	-18,551	106.5	110.2	102.0	106.5
2011	36,925	240,355	123,390	101.2	107.9	101.3	105.8
2010	825,233	1,028,226	100,167	139.4	147.9	121.0	132.2
2009	756,335	627,273	-171,205	135.4	125.4	114.8	118.9
2008	334,545	523,440	476,054	114.1	121.0	101.2	106.6
5-Yr Total	2,160,717	2,755,068	509,854	...	...	...	...
06/2013	372,545	303,247	-169,012	128.4	119.6	XX	XX
06/2012	312,023	343,482	208,750	123.5	124.1	XX	XX

Investments

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	3.2	...	9.8	59.6	72.5	20.6	1.7	34.4
2011	3.1	...	10.7	59.5	73.3	20.6	1.4	27.4
2010	2.6	...	9.5	61.3	73.3	20.0	1.4	29.9
2009	2.6	...	5.4	55.3	63.4	23.2	1.0	26.9
2008	2.3	...	5.5	55.3	63.1	19.8	0.9	23.3

Investments - Bond Portfolio

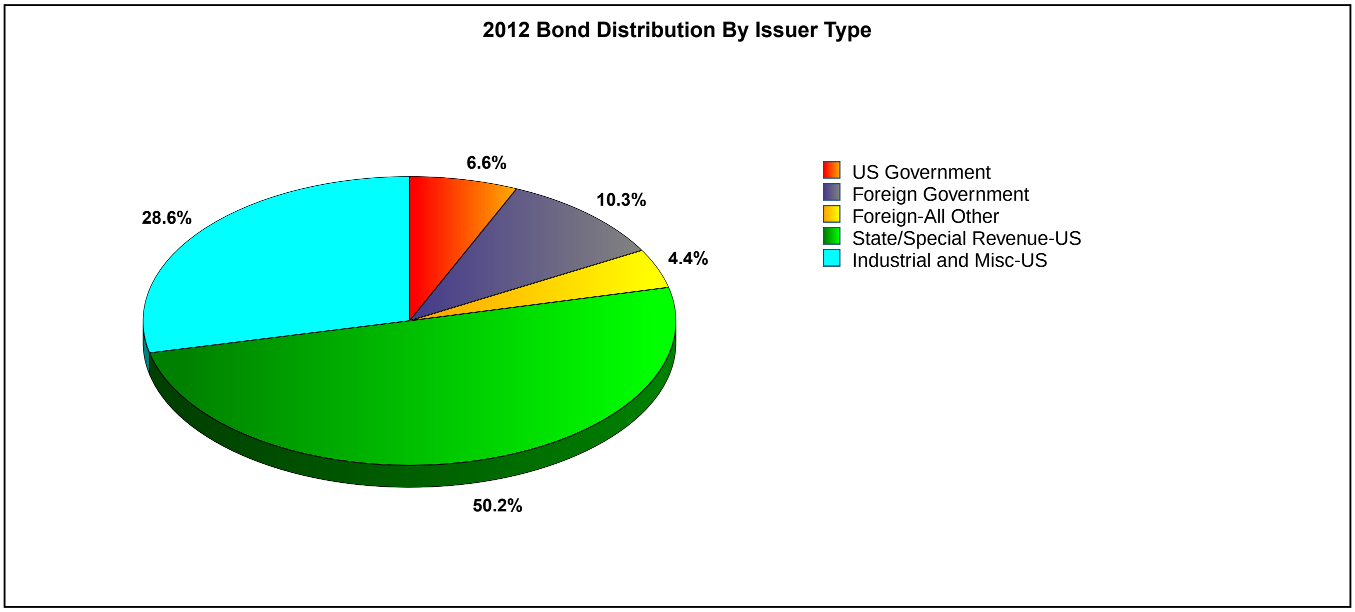
2012 Distribution By Maturity

	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	0.4	4.2	8.6	1.3	1.8	8.7
Government Agencies & Muni.	0.3	13.5	14.8	4.2	15.0	12.3
Industrial & Misc.	5.2	13.0	12.9	0.5	4.2	7.0
Total	6.0	30.7	36.3	6.0	21.0	9.8

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	4,486,648	4,293,044	4,353,780	4,008,946	3,733,506
US Government	6.6	6.3	7.4	10.6	5.6
Foreign Government	10.3	10.6	10.9	9.6	4.8
Foreign-All Other	4.4	3.7	3.1	4.0	9.0
State/Special Revenue-US	50.2	50.1	49.9	46.7	48.5
Industrial and Misc-US	28.6	29.3	28.7	29.2	32.1



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	5.0	4.6	3.4	4.0	2.4
Public Issues	95.0	95.4	96.6	96.0	97.6

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	86.8	87.8	87.5	85.5	86.5
Class 2	8.1	7.9	8.7	10.7	11.0
Class 3	1.4	1.4	1.2	1.4	1.0
Class 4	2.3	2.0	1.5	1.3	1.0
Class 5	1.3	0.9	1.1	1.0	0.5
Class 6	...	...	0.1	0.1	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	5,223,893	4,422,709	4,951,971	4,735,019	3,550,209
Unaffiliated Common	85.8	86.5	86.2	72.4	73.7
Affiliated Common	14.2	13.5	13.8	27.5	26.3
Unaffiliated Preferred	...	...	...	0.1	...

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	11,927	1,498	1,533	140,213	2,455
Mortgage Loans	...	...	...	...	...
Property Occupied by Company	100.0	100.0	100.0	100.0	100.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	2,154,497	2,083,358	1,869,079	745,347	831,995
Cash	18.3	17.2	9.3	15.4	16.7
Short-Term	9.7	12.6	17.4	38.0	51.8
Schedule BA Assets	65.1	61.3	61.2	45.3	31.5
All Other	6.9	8.8	12.1	1.3	0.1

History

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

Management

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

Reinsurance

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

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

Consolidated Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	4,486,648	4,293,044	33.1	35.7
Preferred Stock	...	...	...	...
Common Stock	4,481,791	3,827,793	33.0	31.8
Cash & Short-Term Invest	603,236	621,788	4.4	5.2
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	758,827	731,251	5.6	6.1
Investments in Affiliates	1,534,536	1,325,235	11.3	11.0
Real Estate, Offices	11,927	1,498	0.1	...
Total Invested Assets	11,876,965	10,800,608	87.5	89.8
Premium Balances	574,921	546,676	4.2	4.5
Accrued Interest	55,864	53,168	0.4	0.4
Life department	...	...	...	...
All Other Assets	1,064,124	629,467	7.8	5.2
Total Assets	13,571,874	12,029,919	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	2,720,777	2,977,494	20.0	24.8
Unearned Premiums	1,616,410	1,557,133	11.9	12.9
Conditional Reserve Funds	31,530	40,400	0.2	0.3
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	1,678,035	1,023,280	12.4	8.5
Total Liabilities	6,046,752	5,598,308	44.6	46.5
Surplus notes	...	...	...	...
Capital & Assigned Surplus	1,250	1,250	...	...
Unassigned Surplus	7,523,872	6,430,362	55.4	53.5
Total Policyholders' Surplus	7,525,122	6,431,612	55.4	53.5
Total Liabilities & Surplus	13,571,874	12,029,919	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	4,460,483	4,532,145
Preferred Stock	...	...
Common Stock	5,595,649	6,028,469
Cash & Short-Term Invest	587,858	434,225
Other Investments	1,600,394	1,696,793
Total Invested Assets	12,244,384	12,691,632
Premium Balances	804,888	890,581
Accrued Interest	53,934	53,129
Reinsurance Funds	253,749	251,640
All Other Assets	344,470	340,535
Total Assets	13,701,424	14,227,517

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	2,479,206	2,326,793
Unearned Premiums	1,657,851	1,846,849
Conditional Reserve Funds	31,530	31,530
All Other Liabilities	1,479,101	1,663,703
Total Liabilities	5,647,689	5,868,876
Capital & Assigned Surp	1,250	1,250
Unassigned Surplus	8,052,485	8,357,391
Total Policyholders' Surplus	8,053,735	8,358,641
Total Liabilities & Surplus	13,701,424	14,227,517

Consolidated Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	3,306,387	Premiums collected	3,388,403
Losses incurred	1,876,470	Benefit & loss-related pmts	2,306,633
LAE incurred	99,497		
Undwr expenses incurred	822,043	LAE & undwr expenses paid	873,721
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	379	Dividends to policyholders	370
Net underwriting income	507,998	Underwriting cash flow	207,679
		Net transfer	...
Net investment income	249,194	Investment income	253,321
Other income/expense	-5,970	Other income/expense	-5,967
Pre-tax operating income	751,222	Pre-tax cash operations	455,033
Realized capital gains	145,650		
Income taxes incurred	184,614	Income taxes pd (recov)	119,259
Net income	712,258	Net oper cash flow	335,774

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	1,675,981	1,627,302	48,680
Losses incurred	604,324	1,060,647	-456,323
LAE incurred	57,626	52,428	5,198
Undwr expenses incurred	384,520	375,900	8,620
Other expenses incurred	...	...	...
Dividends to policyholders	197	185	12
Net underwriting income	629,315	138,142	491,173
Net investment income	123,418	122,767	651
Other income/expense	-408	-1,622	1,214
Pre-tax operating income	752,326	259,288	493,038
Realized capital gains	76,723	70,521	6,202
Income taxes incurred	252,708	50,253	202,455
Net income	576,340	279,556	296,784

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	1,683,829	1,638,274	45,555
Benefit & loss-related pmts	875,128	880,884	-5,756
LAE & undwr expenses paid	435,971	445,192	-9,221
Dividends to policyholders	185	174	11
Underwriting cash flow	372,545	312,023	60,522
Net transfer	...	...	...
Investment income	165,025	133,533	31,491
Other income/expense	-408	-1,622	1,214
Pre-tax cash operations	537,162	443,935	93,228
Income taxes pd (recov)	233,916	100,453	133,463
Net oper cash flow	303,247	343,482	-40,236

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

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