UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ___

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	**94-2708455** (I.R.S. Employer Identification No.)
80 South Main Street, Hanover, New Hampshire (Address of principal executive offices)	**03755-2053** (Zip Code)

Registrant's telephone number, including area code: **(603) 640-2200**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value $1.00 per share	New York Stock Exchange Bermuda Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No ___

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2003, was $2,929,097,615.

As of February 27, 2004, 9,017,795 common shares, par value of $1.00 per share ("Common Shares"), were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Item 1. Business

GENERAL

White Mountains Insurance Group, Ltd. (the "Company" or the "Registrant") was originally formed as a Delaware corporation in 1980. In October 1999, the Company completed a corporate reorganization that changed its domicile from Delaware to Bermuda (the "Redomestication"). The Company's principal businesses are conducted through its subsidiaries and affiliates in the businesses of property and casualty insurance and reinsurance. Within this report, the consolidated organization is referred to as "White Mountains". The Company's headquarters are located at Crawford House, 23 Church Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11.

White Mountains' reportable segments are OneBeacon, Reinsurance and Other Operations. The OneBeacon Insurance Group LLC family of companies consists of several U.S.-based property and casualty insurance writers, substantially all of which operate in a multi-company pool (collectively "OneBeacon"). OneBeacon was acquired by White Mountains from Aviva plc ("Aviva", formerly CGNU plc) on June 1, 2001 (the "OneBeacon Acquisition").

White Mountains' reinsurance operations are conducted primarily through Folksamerica Holding Company Inc. (together with its reinsurance subsidiary, Folksamerica Reinsurance Company, "Folksamerica"). Folksamerica became a wholly-owned subsidiary of White Mountains in 1998. In connection with the OneBeacon Acquisition, Folksamerica was contributed to OneBeacon. OneBeacon and Folksamerica are run as separate entities, with distinct operations, management and business strategies. White Mountains' reinsurance operations also include its wholly owned subsidiaries, White Mountains Underwriting Limited (domiciled in Ireland), White Mountains Underwriting (Bermuda) Limited (collectively, "WMU") and Fund American Reinsurance Company Ltd. ("Fund American Re"), as well as its unconsolidated investment in Montpelier Re Holdings Ltd. ("Montpelier"), a Bermuda-domiciled reinsurance holding company. Fund American Re is domiciled in Bermuda but maintains its executive office and an operating branch in Stockholm, Sweden, and operates through an additional branch in Singapore. WMU is an underwriting advisory company specializing in international property and marine excess reinsurance.

On December 9, 2003, White Mountains entered into a definitive agreement with ABB Ltd. ("ABB") to acquire the Sirius Insurance Group, an insurance and reinsurance organization based in Sweden. The sale is expected to be completed in the second quarter of 2004. See **PENDING ACQUISITIONS - Sirius Insurance Group** for a detailed discussion.

White Mountains' other operations consist of the International American Group, Inc. (the "International American Group") and Esurance Inc. ("Esurance"), as well as the Company and the Company's intermediate holding companies ("Holding Companies"). The International American Group, which was acquired by White Mountains in 1999, consists of American Centennial Insurance Company ("American Centennial") and British Insurance Company of Cayman ("British Insurance Company") and, prior to its sale in January 2004, also included Peninsula Insurance Company ("Peninsula").

White Mountains' Operating Principles

White Mountains strives to operate within the spirit of four operating principles. These are:

Underwriting Comes First. An insurance enterprise must respect the fundamentals of insurance. There must be a realistic expectation of underwriting profit on all business written, and demonstrated fulfillment of that expectation over time, with focused attention to the loss ratio and to all the professional insurance disciplines of pricing, underwriting and claims management.

Maintain a Disciplined Balance Sheet. The first concern here is that insurance liabilities must always be fully recognized. Loss reserves and expense reserves must be solid before any other aspect of the business can be solid. Pricing, marketing and underwriting all depend on informed judgment of ultimate loss costs and that can be managed effectively only with a disciplined balance sheet.

Invest for Total Return. Historical insurance accounting has tended to hide unrealized gains and losses in the investment portfolio and over reward reported investment income (interest and dividends). Regardless of the accounting, White Mountains must invest for the best growth in after-tax value over time. In addition to investing our bond portfolios for total after-tax return, that will also mean prudent investment in equities consistent with leverage and insurance risk considerations.

Think Like Owners. Thinking like owners has a value all its own. There are stakeholders in a business enterprise and doing good work requires more than this quarter's profit. But thinking like an owner embraces all that without losing the touchstone of a capitalist enterprise.

ONEBEACON

Headquartered in Boston, Massachusetts, OneBeacon is one of the oldest property and casualty insurers in the United States, tracing its roots to 1831 and the Potomac Fire Insurance Company. OneBeacon's legacy includes being among the first to issue automobile policies, honoring claims arising from the great San Francisco earthquake and the sinking of the Titanic as well as insuring several U.S. presidents. During 1998, Commercial Union plc and General Accident plc, both U.K. corporations, were merged to form CGU plc. The U.S. operations of these companies, General Accident Corporation of America ("General Accident") and Commercial Union Corporation ("Commercial Union"), were merged to form CGU Corporation (the "CGU Merger"). White Mountains agreed to purchase CGU Corporation in September of 2000, with the transaction closing on June 1, 2001. The name OneBeacon was introduced at the time of the OneBeacon Acquisition. OneBeacon's principal operating insurance subsidiaries are rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best, a rating agency which specializes in the insurance and reinsurance industry.

In connection with the Acquisition, Aviva caused OneBeacon to purchase reinsurance contracts with two reinsurance companies rated "AAA" (Extremely Strong, which is the highest of twenty-one ratings) by Standard & Poor's Ratings Services ("S&P") and "A++" (Superior, which is the highest of fifteen ratings) by A.M. Best: a full risk-transfer cover from National Indemnity Company ("NICO") for up to $2.5 billion in old asbestos and environmental claims (the "NICO Cover") and an adverse development cover from General Reinsurance Corporation ("GRC") for up to $400.0 million on additional losses occurring in accident years 2000 and prior (the "GRC Cover").

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group ("Liberty Mutual") pursuant to a renewal rights agreement (the "Liberty Agreement"). This transfer amounted to approximately 45% of OneBeacon's total business at the time of transfer. The operating results and cash flows of policies renewed from November 1, 2001 through October 31, 2003 pursuant to the Liberty Agreement were shared between Liberty Mutual and OneBeacon. A reinsurance agreement pro-rated results so that OneBeacon assumed approximately two-thirds of the operating results from renewals through October 31, 2002 and approximately one-third of the operating results from renewals from November 1, 2002 to October 31, 2003. OneBeacon is focused on being a profitable independent agency property and casualty insurance company in the Northeast and for select specialty business on a national basis.

OneBeacon conducts its primary personal and commercial business through independent agents in two regional operations (New England and the New York/New Jersey area). Agents provide value to their customers through personal attention, coverage expertise and an understanding of local market conditions. The regional operations target personal and commercial customers, focusing on the family account and small to mid-sized businesses. OneBeacon's objective is to underwrite only profitable business without regard to market share, premium volume or growth. OneBeacon also conducts business through a New York limited assigned distribution servicing carrier (AutoOne Insurance) and an attorney-in-fact (New Jersey Skylands Management LLC), which provides management services for a fee to a reciprocal exchange (New Jersey Skylands Insurance Association). In addition to these regional operations, OneBeacon is also committed to nurturing its select specialty businesses that focus on providing custom coverages to certain niche markets, including ocean marine, agricultural, excess medical malpractice, directors & officers and professional liability and tuition reimbursement. Each specialty business has its own operations and appointed agents that target specific customer groups.

On December 4, 2003, OneBeacon entered into an agreement in principle to acquire the Atlantic Specialty Insurance Company, a subsidiary of Atlantic Mutual, and the renewal rights to Atlantic Mutual's commercial insurance business (the "Atlantic Mutual Transaction"). See **PENDING ACQUISITIONS - Atlantic Mutual.** Upon consummation of the acquisition of this segmented industry specific middle-market business, OneBeacon will start underwriting commercial business throughout the United States.

At December 31, 2003 and 2002, OneBeacon had $14.0 billion and $15.8 billion of total assets, respectively, and shareholder's equity of $3.3 billion and $3.1 billion, respectively. OneBeacon's total assets and shareholder's equity include Folksamerica and its subsidiaries and OneBeacon's investment in Montpelier, which are covered elsewhere in this report. Within the following discussion, references made to OneBeacon's operations relating to periods prior to the OneBeacon Acquisition have been made solely to illustrate significant trends and changes in OneBeacon's business that have occurred post-acquisition. White Mountains' reported results for periods prior to June 1, 2001 did not include the financial results of OneBeacon.

Property and Casualty Insurance Overview

As a property and casualty insurance company, OneBeacon writes insurance policies in exchange for premiums paid by its customers (the insured). An insurance policy is a contract between OneBeacon and the insured where OneBeacon agrees to pay for losses suffered by the insured that are covered under the contract. Such contracts often are subject to subsequent legal interpretation by courts, legislative action and arbitration. Property insurance generally covers the financial consequences of accidental losses to the insured's property, such as a home and the personal property in it, or a business' building, inventory and equipment. Casualty insurance (often referred to as liability insurance) generally covers the financial consequences of a legal liability of an individual or an organization resulting from negligent acts and omissions causing bodily injury and/or property damage to a third party. Claims on property coverage generally are reported and settled in a relatively short period of time, whereas those on casualty coverage can take years, even decades, to settle.

OneBeacon provides a variety of property and casualty insurance products to individuals (personal lines) and to businesses (commercial lines), including the following:

- Automobile: consists of physical damage and liability coverage. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft or other causes. Automobile liability insurance covers bodily injury of others, damage to their property and costs of legal defense resulting from a collision caused by the insured.
- Commercial property: covers losses to a business' premises, inventory and equipment as a result of weather, fire, theft and other causes.
- Homeowners: covers losses to an insured's home, including its contents, as a result of weather, fire, theft and other causes, and losses resulting from liability for acts of negligence by the insured or the insured's immediate family.
- General liability: covers businesses for any liability resulting from bodily injury and property damage arising from its general business operations, accidents on its premises and its products manufactured or sold.
- Umbrella: supplements existing insurance policies by covering losses from a broad range of insurance risks in excess of coverage provided by the primary insurance policy up to a specified limit.
- Workers compensation: covers an employer's liability for injuries, disability or death of employees, without regard to fault, as prescribed by state workers compensation law and other statutes.
- Multiple peril: a package policy sold to small to mid-sized insureds or to members of trade associations or other groups that includes general liability insurance and commercial property insurance.
- Inland marine: covers property that may be in transit or held by a bailee at a fixed location, movable goods that are often stored at different locations or property with an unusual antique or collector's value.

OneBeacon also provides various specialty insurance products, including the following:

- Ocean marine: covers losses to an insured's vessel and/or its cargo as a result of collision, fire, piracy and other perils. Ocean marine coverages include cargo, hull, protection and indemnity, primary and excess liability, marina package, comprehensive marina liability package and yacht products.
- Agricultural and rural marketplace products: policies providing property, liability, automobile and/or umbrella coverages for the farm and ranch marketplace, as well as farmowners and rural telephone companies.

- Medical malpractice: provides coverage for claims arising from direct patient treatment, such as making diagnoses, rendering opinions or providing advise or referral to another physician. Also provides coverage for professional committee activities as a member of an accredited hospital staff or any professional medical association or committee. OneBeacon only provides coverage for mid-sized hospitals and/or managed care organizations and does not insure individual practitioners.
- Directors and officers ("D&O") and professional liability: covers liability that may arise as a result of omissions, misstatements, negligence or misconduct related to business operations. OneBeacon focuses on providing small and middle market liability coverages with high attachment points and small limits of coverage.
- Tuition reimbursement: covers tuition payments due to schools and colleges when a student is unable to complete a semester as a result of an illness, accident or certain other causes.

OneBeacon derives substantially all of its revenues from earned premiums, investment income and net gains and losses from sales of investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time during which insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, investment income is generated, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities. Net realized investment gains and losses result from sales of securities from OneBeacon's investment portfolio.

OneBeacon incurs a significant amount of its total expenses from policyholder losses, which are commonly referred to as "claims". In settling policyholder losses, various loss adjustment expenses ("LAE") are incurred, such as insurance adjusters' fees and litigation expenses. In addition, OneBeacon incurs policy acquisition expenses such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including compensation and benefits for professional and clerical staff.

A key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company's combined ratio under accounting principles generally accepted in the United States ("GAAP") is calculated by adding the ratio of incurred loss and LAE to earned premiums (the "loss ratio") and the ratio of commissions, premium taxes and other underwriting expenses, including general and administrative expenses, to earned premiums (the "expense ratio"). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

Lines of Business

OneBeacon writes three "core" lines of business consisting of personal and commercial lines in the Northeast and certain specialty lines on a national basis. Upon consummation of the recently announced Atlantic Mutual Transaction, OneBeacon, through its acquired subsidiary, Atlantic Specialty Insurance Company, will start underwriting commercial business throughout the United States. "Non-core" lines of business include business assumed from Liberty Mutual in connection with the Liberty Agreement and certain other non-core and run-off operations.

For the twelve months ended December 31, 2003, 2002 and 2001, OneBeacon's net written premiums by line of business were as follows:

Net written premiums by line of business	Year Ended December 31,		
($ in millions)	2003	2002	2001
Personal	$ 942.2	$ 1,092.1	$ 857.0
Commercial	426.7	454.6	678.4
Specialty	499.9	449.7	390.6
Non-core lines	135.2	526.4	1,540.9
Total	$ 2,004.0	$ 2,522.8	$ 3,466.9

Core Operations

Personal Lines

OneBeacon's personal lines principally include automobile, homeowners and Custom-Pac products (Custom-Pac products are combination policies offering home and automobile coverage with optional umbrella, boatowners and other coverages). OneBeacon's mix of personal lines products between automobile and homeowners, including Custom-Pac products, was 75% and 22%, respectively, of personal lines net written premium during 2003, compared to 78% and 21%, respectively, during 2002 and 73% and 19%, respectively, during 2001. OneBeacon writes the majority of its personal business in New York, Massachusetts and Maine. Personal lines automobile includes AutoOne Insurance, OneBeacon's wholly owned LAD servicing carrier.

Commercial Lines

OneBeacon's commercial lines products principally include multiple peril, commercial automobile and workers compensation, which represented 55%, 23% and 8%, respectively, of commercial lines net written premium during 2003, compared to 52%, 29% and 14%, respectively, during 2002 and 46%, 22% and 20%, respectively, during 2001. Nearly 90% of OneBeacon's commercial accounts are comprised of policies with an annual premium of less than $50,000 and consist primarily of small, non-manufacturing accounts.

Specialty Lines

OneBeacon's specialty businesses focus on providing custom coverages to certain niche markets, including ocean marine (offered through International Marine Underwriters, "IMU"), agricultural ("Agri"), and rural and farm related markets (offered through National Farmers Union Property and Casualty Company, "NFU"), medical malpractice, D&O and professional liability (offered through OneBeacon Professional Partners, "OBPP") and other specialty products, such as tuition reimbursement. Each specialty business has its own operations and distribution channel that target specific customer groups. In 2003, IMU, Agri, NFU, OBPP and other specialty products represented 25%, 17%, 34% 14% and 10%, respectively, of specialty lines net written premium.

OneBeacon's IMU unit offers insurance products which specialize in the ocean marine marketplace. IMU's products include coverage for cargo, hull, yacht, marina and primary and excess liability.

OneBeacon's Agri unit offers insurance products which focus on the farm and ranch marketplace. Agri's products include coverage for property and liability related claims, excluding crop damage claims, on dairy farms, equine farms, farm equipment dealers, orchard and garden farms. Additionally, since most farm and ranch businesses are proprietor-owned, Agri also offers personal and umbrella coverages for the farm or ranch owner as a package with its farm and ranch property and liability coverage.

OneBeacon's NFU unit is similar to Agri in that it provides both personal property and liability coverages (including homeowners, automobile and umbrella policies) to farm and ranch owners. NFU also offers commercial products geared towards small rural businesses, including restaurants, motels and independent contractors.

OneBeacon entered the medical malpractice, D&O and professional liability insurance markets in 2002 under the name OneBeacon Professional Partners. OBPP offers excess medical professional liability for stand-alone hospitals, multi-hospital systems, integrated delivery systems, medical group practices, specialty hospitals and home health agencies. For D&O and professional liability insurance, OBPP selectively underwrites each policy and does not write Fortune 1000 accounts, foreign businesses or large hospitals or groups. Most D&O and professional liability policies attach coverage in excess of $20 million of existing insurance and/or a deductible and have small limits of coverage, usually less than $5 million. OBPP's coverages are issued on a "claims made" basis, which means insurance that covers losses reported to OBPP during the time period when a liability policy is in effect, regardless of when the event causing the claim actually occurred. As a result, the ability of an insured to report claims outside of the policy term is limited, thereby limiting the claims tail.

OneBeacon offers tuition reimbursement insurance through its subsidiary, A.W.G. Dewar, Inc. ("Dewar"). Dewar has offered tuition reimbursement insurance since 1930.

Non-Core Operations

Non-core operations are primarily from business assumed from Liberty Mutual in connection with the Liberty Agreement ($130.4 million in net written premiums for 2003 and $496.7 million for 2002). Premiums from non-core operations decreased from 21% of total premiums in 2002 to 7% of total premiums in 2003. The Liberty Agreement expired on October 31, 2003 and OneBeacon did not exercise its option to take a 10% quota share for the next three years. As a result, OneBeacon will earn premium in 2004 on policies written prior to the expiration, but OneBeacon will not write any new premiums in 2004 under the Liberty Agreement.

Geographic Concentration

OneBeacon's net written premiums are derived solely from business produced in the United States. The various specialty businesses within core operations generate premiums from risks written in markets across the country. Personal and commercial lines business from core operations was produced in the following states:

	Year Ended December 31,		
Personal and commercial net written premiums by state	2003	2002	2001 [1]
New York	47 %	48 %	39 %
Massachusetts	26	24	24
New Jersey	10	10	13
Maine	5	9	10
Connecticut	4	5	5
Other [2]	8	4	9
Total	100 %	100 %	100 %

(1) Adjusted to exclude premiums assumed in connection with the Liberty Agreement and premiums in territories subject to the Liberty Agreement written prior to November 1, 2001.

(2) Vermont, New Hampshire and Rhode Island, as well as business written nationwide through Esurance.

Marketing

OneBeacon sells its personal and commercial lines products through select independent insurance agents. OneBeacon believes that independent agents provide complete assessments of their clients' needs, which results in appropriate coverages and prudent risk management. OneBeacon believes that independent agents will continue to be a significant force in overall industry premium production.

OneBeacon conducts its business through 11 branch offices and approximately 1,000 appointed agencies. OneBeacon's operations are located close to its agent partners and customers throughout New England, New York and New Jersey.

OneBeacon's specialty businesses are located in separate locations, logistically appropriate to their target markets. IMU is headquartered in New York City and has nine branch locations located throughout the United States. Its products are distributed through a network of select agents that specialize in the ocean marine business. Agri has centralized operations in Lenexa, Kansas and distributes its products through independent agencies. NFU is headquartered in Aurora, Colorado. Its products are distributed through a network of exclusive agents as well as independent agents. These exclusive agents are under contract with NFU and the National Farmers Union, a non-profit organization founded in 1902 to advance the interests of family farmers. OBPP, which is located in Avon, Connecticut, distributes its products nationally through excess and surplus lines brokers. Through these specialty businesses, OneBeacon leverages its knowledge about these markets to provide products and services that are tailored to meet customer needs.

Underwriting and Pricing

OneBeacon believes that there must be a realistic expectation of underwriting profit on all business written and a demonstrated fulfillment of that expectation over time. Pricing pressures can be caused by many factors such as: (1) insurance companies selling their products at less than adequate rates, because they either underestimate ultimate claim costs or overestimate the amount of investment income and investment gains they will earn on premiums before the claims are paid; (2) lower distribution costs for insurance companies utilizing direct-response marketing methods versus marketing their products through independent agents; (3) insurance companies seeking to increase revenues and market share by reducing the price of their products beneath levels acceptable to OneBeacon; and (4) mutual insurance companies and other insurance companies who are willing to accept a lower return on equity on their insurance operations than White Mountains' management and its shareholders. Pricing levels can also be influenced by state regulation, legislation and judicial decisions.

As a result of the Liberty Agreement, OneBeacon has focused its efforts on improving the ongoing operations in the Northeast, where it believes its agency relationships are the strongest and its historical results have been better. Liberty Mutual has control over a variety of factors which could impact the underwriting performance of Liberty Agreement business, such as pricing adequacy, claims management, catastrophe exposures and other considerations.

Competition

Property and casualty insurance is highly competitive and extensively regulated by state insurance departments. OneBeacon competes in the United States with numerous regional and national insurance companies, most notably Travelers Insurance Group, Liberty Mutual, Selective Insurance Group, Zurich Insurance Group, Hanover Insurance Company and the Hartford Financial Services Group. It is often difficult for insurance companies to differentiate their products to consumers. The more significant competitive factors for most insurance products offered by OneBeacon are price, product terms and claims service. OneBeacon's underwriting principles and dedication to agency distribution are unlikely to make OneBeacon the "low cost" provider in most markets. However, as a property and casualty insurer that writes predominantly through independent agents, OneBeacon believes that most property and casualty insurance customers value the counsel of a professional independent agent and that OneBeacon's use of independent agents is a competitive advantage over direct-response writers.

Claims

Effective claims management is a critical factor in achieving satisfactory underwriting results. Claims service is the most important product differentiation that OneBeacon brings to its agents and insureds. In 2002, OneBeacon implemented a new claims workstation which provides management and claims adjusters with substantially more analysis and information to facilitate decision making and reduces overall claims costs.

Claims handling is located in various regional and local branch offices. OneBeacon maintains an experienced staff of appraisers, medical specialists, managers, attorneys and field adjusters strategically located throughout its operating territories. OneBeacon also maintains a special investigative unit designed to detect insurance fraud and abuse, and supports efforts by regulatory bodies and trade associations to curtail the cost of fraud.

Pursuant to the Liberty Agreement, Liberty Mutual assumed control of OneBeacon's claims offices in the regions subject to the Liberty Agreement and was responsible for servicing claims from the OneBeacon policies written prior to November 1, 2001, as well as policies which renewed in those regions since that date. Service agreements were put in place in connection with the Liberty Agreement, through which Liberty Mutual became a third party administrator ("TPA") for those claims. Upon review of claims information during the second half of 2002, OneBeacon's management determined that average paid claims in offices where Liberty was acting as a TPA were higher than expected. As a result, management began a process to directly handle more of those claims related to policies written prior to the Liberty Agreement. Effective July 11, 2003, the servicing agreement with Liberty Mutual was amended and OneBeacon took back substantially all remaining outstanding claims related to policies written prior to the Liberty Agreement. Through December 31, 2003, approximately 35,000 claims have been taken back and approximately 17,500 of those claims have been closed.

OneBeacon also uses TPAs for certain other claims, including National Accounts and National Programs business which is in run-off. Additionally, under a TPA agreement, NICO is handling the claims processing for claims ceded under the NICO Cover. See the **"Asbestos and Environmental Reserves"** section below for a description of the NICO Cover. OneBeacon's claims staff performs on-site claim audits of its TPAs to ensure the propriety of the controls and processes over claims serviced by the TPA on behalf of OneBeacon.

Loss and Loss Adjustment Expense Reserves

Non-Asbestos and Environmental Reserves

OneBeacon establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

Reserve estimates at OneBeacon are subject to additional uncertainty as a consequence of a number of factors that occurred prior to and since the OneBeacon Acquisition. As previously discussed, OneBeacon is the result of the merger of the U.S. operations of General Accident and Commercial Union. While relatively the same size, the legacy companies had different underwriting and claims management practices, which produced different business and underwriting results. The operational integration of the two companies was complex and included changes in underwriting and claims operations. Beginning in the mid-1990s, and continuing through the CGU Merger, the subsequent operational integration of the legacy companies and the OneBeacon Acquisition, OneBeacon experienced an environment of significant change, both in its business and operations. Generally accepted actuarial techniques used to estimate reserves rely in large degree on projecting historical trends, such as patterns of claim development (i.e., reported claims and paid losses), into the future. Accordingly, estimating reserves becomes more uncertain if business mix, coverage limits, case reserve adequacy, claims payment rates and other factors change over time. The breadth and depth of the business and operational changes that occurred at OneBeacon led to a wider range in the reserve estimates produced by a variety of actuarial loss reserving techniques, especially those that rely upon consistent claim development patterns, and introduced greater complexity to the judgments required to be made by management in determining the impact of the business and operational changes on the development patterns used to estimate reserves.

Reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as incurred but not reported ("IBNR") reserves, which include a provision for expected future development on case reserves. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and LAE. Actuaries estimate ultimate loss and LAE using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made.

Ultimate loss and LAE are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate loss and LAE with respect to any line of business, past experience with respect to that line of business is the primary resource, but cannot be relied upon in isolation. OneBeacon's own experience, particularly claims development experience, such as trends in case reserves, payments on and closings of claims, as well as changes in business mix and coverage limits, is the most important information for estimating its reserves. External data, available from organizations such as statistical bureaus, consulting firms and reinsurance companies, is sometimes used to supplement or corroborate OneBeacon's own experience, and can be especially useful for estimating costs of new business. For some lines of business, such as "long-tail" coverages discussed below, claims data reported in the most recent accident year is often too limited to provide a meaningful basis for analysis due to the typical delay in reporting of claims. For this type of business, OneBeacon uses a selected loss ratio method for the initial accident year or years. This is a standard and accepted actuarial reserve estimation method in these circumstances in which the loss ratio is selected based upon information used in pricing policies for that line of business, as well as any publicly available industry data, such as industry pricing, experience and trends, for that line of business.

In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause future experience and/or development patterns to vary from the past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment and is inherently uncertain.

Uncertainties in estimating ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled. This time lag is sometimes referred to as the "claim-tail". The claim-tail for most property coverages is typically short (usually a few days up to a few months). The claim-tail for liability/casualty coverages, such as automobile liability, general liability, products liability, multiple peril coverage, and workers compensation, can be especially long as claims are often reported and ultimately paid or settled years, even decades, after the related loss events occur. During the long claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about actual claims and trends may become known and, as a result, OneBeacon may adjust its reserves. If management determines that an adjustment is appropriate, the adjustment is booked in the accounting period in which such determination is made in accordance with GAAP. Accordingly, should reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted, respectively.

Management believes that OneBeacon's loss and LAE reserves as of December 31, 2003 are adequate; however, ultimate loss and LAE may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Adverse development, if any, would impact the Company's future results of operations. For a further description of the historical factors affecting OneBeacon's loss and LAE reserves prior to the OneBeacon Acquisition, see "Non-Asbestos and Environmental Reserves" under the caption "Loss and Loss Adjustment Expense Reserves" in the "OneBeacon" section of the business description contained within the Company's Amendment No. 6 to Form S-3 dated July 17, 2003 (the "Form S-3"). Such portion of the Form S-3 is incorporated by reference into this Form 10-K.

Asbestos and Environmental ("A&E") Reserves

OneBeacon's reserves include provisions made for claims that assert damages from A&E related exposures. Asbestos claims relate primarily to injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up cost obligations, particularly as mandated by federal and state environmental protection agencies. In addition to the factors described above under **"Non-Asbestos and Environmental Reserves"** regarding the reserving process, OneBeacon estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies.

OneBeacon's A&E losses resulted primarily from the operations of the Employers Group, an entity acquired by one of the legacy companies in 1971. These operations, including business of Employers Surplus Lines Insurance Company and Employers Liability Assurance Corporation, provided primary and excess liability insurance for commercial insureds, including Fortune 500-sized accounts, some of whom subsequently experienced claims for A&E losses. OneBeacon stopped writing such coverage in 1984.

OneBeacon's liabilities for A&E losses from business underwritten in the recent past are substantially limited by the application of exclusionary clauses in the policy language that eliminated coverage of such claims. After 1987 for pollution and 1992 for asbestos, most liability policies contained industry-standard absolute exclusions of such claims. In earlier years, various exclusions were also applied, but the wording of those exclusions was less strict and subsequent court rulings have reduced their effectiveness.

OneBeacon also incurred A&E losses via its participation in industry pools and associations. The most significant of these pools was the Excess Casualty Reinsurance Association ("ECRA"), which provided excess liability reinsurance to U.S. insurers from 1950 until the early 1980s. ECRA incurred significant liabilities for A&E, of which OneBeacon bears approximately a 4.7% share, or $65.9 million at December 31, 2003, which is fully reflected in OneBeacon's loss and LAE reserves.

More recently, since the 1990s, OneBeacon has experienced an influx of claims from commercial insureds, including many non-Fortune 500-sized accounts written during the 1970s and 1980s, who are named as defendants in asbestos lawsuits. As a number of large well-known manufacturers of asbestos and asbestos-containing products have gone into bankruptcy, plaintiffs have sought recoveries from peripheral defendants, such as installers, transporters or sellers of such products, or from owners of premises on which the plaintiffs' exposure to asbestos allegedly occurred. At December 31, 2003, 642 policyholders had asbestos related claims against OneBeacon. In 2003, 178 new insureds with such peripheral involvement presented asbestos claims under prior OneBeacon policies.

Historically, most asbestos claims have been asserted as product liability claims. Recently, insureds who have exhausted the available products liability limits of their insurance policies have sought payment for asbestos claims under the premises and operations coverage of their liability policies. It is more difficult for plaintiffs to establish losses as stemming from premises and operations exposures, which requires proof of the defendant's negligence, rather than products liability under which strict legal liability applies. Hence, there are fewer of such claims and there is a great deal of variation in damages awarded for the actual injuries. Additionally, several accounts that seek such coverage find that previously paid losses were subject to product liability and operations aggregate limits that were previously exhausted. In these situations there is no coverage for these claims. There are currently 97 active claims against OneBeacon without product liability coverage asserting operations or premises coverage.

Immediately prior to the OneBeacon Acquisition, Aviva caused OneBeacon to purchase the NICO Cover for a premium of $1.3 billion. The NICO Cover entitles OneBeacon to recover up to $2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising from business written by OneBeacon in 1987 and prior, and certain other exposures. Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon's third party reinsurers in existence at the time the NICO Cover was executed ("Third Party Recoverables"). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Third Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments in the past 11 years, approximately 65% of asbestos losses and 41% of environmental losses have been recovered under the historical third party reinsurance.

For purposes of determining available reinsurance, product liability and operations asbestos claims typically are aggregated as a single loss within each policy period. As a result, losses often exceed the retention level under the reinsurance agreement and reinsurance recoveries are obtained. However, for claims being asserted under premises and operations coverage, the losses are generally not aggregated for purposes of determining reinsurance recoveries, so OneBeacon expects that in the future a smaller percentage of these losses will be covered as Third Party Recoverables than has been true historically of products liability asbestos losses.

The large majority of OneBeacon's third party reinsurance has been obtained from top-rated, financially strong companies. Of the Third Party Recoverables presented for recovery to date, approximately 3% has been determined to be unrecoverable due either to inability of a reinsurer to pay or to disputes with the reinsurer over the amounts due. For asbestos losses, this unrecoverable percentage has been 4% and for environmental losses 2%. Amounts uncollectible from third party reinsurers due to dispute or the reinsurers' financial inability to pay are covered by NICO under its agreement with OneBeacon.

OneBeacon estimates that on an incurred basis it has exhausted approximately $1.7 billion of the coverage provided by NICO at December 31, 2003. Of this amount, net losses paid totaled approximately $489 million as of December 31, 2003, net of $97 million of third party reinsurance which has been billed but not yet collected, with $106 million paid in 2003, net of $61 million of third party reinsurance billed but not yet collected. Asbestos payments during 2003 reflect payments resulting from intensified efforts by claimants to resolve asbestos claims prior to enactment of potential Federal asbestos legislation. To the extent that actual experience differs from OneBeacon's estimate of ultimate A&E losses and Third Party Recoverable, the remaining protection under the NICO Cover may be more or less than the approximate $757 million that OneBeacon estimates remained at December 31, 2003.

OneBeacon's reserves for A&E losses, net of Third Party Recoverables but prior to NICO recoveries, are $1.1 billion at December 31, 2003. An industry benchmark of reserve adequacy is the "survival ratio", computed as a company's reserves divided by its historical average yearly loss payments. This ratio indicates approximately how many more years of payments the reserves can support, assuming future yearly payments are equal to historical levels. OneBeacon's survival ratio was approximately 19.4 at December 31, 2003, which was computed as the ratio of A&E reserves, net of Third Party Recoverables, of $1.1 billion plus the remaining unused portion of the NICO Cover of $757 million, to the average loss payments in the past three years. The average loss payments used to calculate OneBeacon's survival ratio were net of a large commutation ($64.0 million) in 2003 with a Third Party Reinsurer. White Mountains believes that as a result of the NICO Cover and its historical third party reinsurance programs, OneBeacon should not experience material financial loss from old A&E exposures under current coverage interpretations and that its survival ratio compares favorably to industry survival ratios. See Note 3 to the financial statements for more information regarding White Mountains' A&E reserves.

OneBeacon's reserves for A&E losses at December 31, 2003 represent management's best estimate of its ultimate liability based on information currently available. OneBeacon believes the NICO Cover will be adequate to cover all of its A&E obligations. However, as case law expands, medical and clean-up costs increase and industry settlement practices change, OneBeacon may be subject to asbestos and environmental losses beyond currently estimated amounts. Therefore, OneBeacon cannot guarantee that its A&E loss reserves, plus the remaining coverage under the NICO Cover, will be sufficient to cover additional liability arising from any such unfavorable developments.

Construction Defect Claims

OneBeacon's general liability and multiple peril lines of business have been significantly impacted by an increasing number of construction defect claims. Construction defect is a liability allegation relating to defective work performed in the construction of structures such as apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. Such claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. Much of the increase in claims activity has been generated by plaintiffs' lawyers who approach new homeowners, and in many cases homeowner associations with large numbers of homeowners in multi-residential complexes, about defects or other flaws in their homes. The increasing number of claims for construction defects began with claims relating to exposures in California. Then, as plaintiffs' lawyers organized suits in other states with high levels of multi-residential construction, construction defect claims were reported in nearby western states, such as Colorado and Nevada, and eventually throughout the country. The reporting of such claims can be quite delayed as the statute of limitations can be up to ten years. Court decisions have expanded insurers' exposure to construction defect claims as well. For example, in 1995 California courts adopted a "continuous trigger" theory in which all companies that had ever insured a property that was alleged to have been damaged by defective construction must respond to the claimant, even if evidence of the alleged damage did not appear until after the insurance period had expired. As a result, claims may be reported more than ten years after a project has been completed as litigation can proceed for several years before an insurance company is identified as a potential contributor. Recently, claims have also emerged from parties claiming additional insured status on policies issued to other parties (e.g., such as contractors seeking coverage on a sub-contractor's policy).

A large number of construction defect claims have been identified relating to coverages that OneBeacon had written in the past through Commercial Union and General Accident and their subsidiaries in California, Colorado, Nevada, Washington and Oregon. Management has sought to mitigate future construction defect risks in all states by no longer providing insurance to certain residential general contractors and sub-contractors involved in multi-habitational projects. Mitigating actions also included initiating the withdrawal from problematic sub-segments within OneBeacon's construction book of business, such as street and road construction, water, sewer and pipeline construction, and dam, waterway, railroad and subway construction. Management has undertaken actions to mitigate future risks related to construction defect claims and believes that the number of reported construction defect claims relating to coverages written in the past will peak in 2004 and then begin to decline. In addition, in reserving for these claims, there is additional uncertainty due to the potential for further unfavorable judicial rulings and regulatory actions.

During the third quarter of 2003, OneBeacon recorded prior accident year reserve development of $97.7 million related to construction defect claims which emerged from commercial multiple peril and general liability coverages written in the 1990s. See ***Management's Discussion and Analysis of Financial Condition and Results of Operations*** for a further discussion of OneBeacon's construction defect reserve development.

Additional Loss and Loss Adjustment Expense Information

The following information presents (1) OneBeacon's reserve development over the preceding ten years and (2) a reconciliation of reserves in accordance with accounting principles and practices prescribed or permitted by insurance authorities ("Statutory" basis) to such reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

Section I of the ten year table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid losses and LAE. The liability represents the estimated amount of losses and LAE for claims that were unpaid at the balance sheet date, including IBNR reserves. In accordance with GAAP, the liability for unpaid losses and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid losses and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid losses and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section III shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2003. Section IV shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2003. Section V shows the cumulative amount of net losses and LAE paid relating to recorded liabilities as of the end of each succeeding year.

OneBeacon Loss and LAE[1,3]
Years Ended December 31,

($ in millions)	1993	1994	1995	1996	1997	1998[2]	1999	2000	2001	2002	2003
I. Liability for unpaid losses and LAE:	$ 5,562.5	$ 5,535.4	$ 5,844.4	$ 5,804.4	$ 5,655.9	$ 6,944.0	$ 6,368.8	$ 6,982.7	$ 8,425.2	$ 7,630.5	$ 6,268.8
Less: reins. recoverables on unpaid losses and LAE	(1,191.6)	(1,069.8)	(1,307.4)	(1,260.4)	(1,159.2)	(1,651.9)	(1,285.6)	(1,276.4)	(3,609.7)	(3,560.6)	(3,004.0)
Net balance	$ 4,370.9	$ 4,465.6	$ 4,537.0	$ 4,544.0	$ 4,496.7	$ 5,292.1	$ 5,083.2	$ 5,706.3	$ 4,815.5	$ 4,069.9	$ 3,264.8
II. Net liability re-estimated as of:											
1 year later	4,411.5	4,494.1	4,584.7	4,627.8	5,370.1	5,305.3	5,901.2	4,815.8	4,872.9	4,216.7	–
2 years later	4,450.3	4,552.1	4,667.1	5,476.0	5,424.7	5,985.4	5,013.5	4,717.9	5,155.0		
3 years later	4,501.0	4,642.8	5,460.6	5,549.0	5,965.0	5,002.8	5,025.5	5,188.9			
4 years later	4,602.8	5,406.5	5,510.6	5,924.8	4,980.5	5,073.5	5,321.5				
5 years later	5,353.2	5,431.8	5,779.5	4,948.0	5,049.2	5,259.0					
6 years later	5,353.5	5,632.0	4,794.7	4,995.6	5,206.7						
7 years later	5,523.8	4,658.7	4,840.0	5,124.1							
8 years later	4,569.2	4,691.8	4,962.4								
9 years later	4,595.6	4,810.4									
10 years later	4,682.7										
III. Cumulative net (deficiency)/ redundancy	$ (311.8)	$ (344.8)	$ (425.4)	$ (580.1)	$ (710.0)	$ 33.1	$ (238.3)	$ 517.4	$ (339.5)	$ (146.9)	$ –
Percent (deficient)/ redundant	(7.1)%	(7.7)%	(9.4)%	(12.8)%	(15.8)%	.6%	(4.7)%	9.1 %	(7.0) %	(3.6) %	– %
IV. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see II. above):											
Gross re-estimated liability	11,070.6	11,398.8	11,281.8	11,314.2	11,300.8	11,412.7	11,380.8	11,611.3	11,070.6	9,127.7	–
Less: gross re-estimated reinsurance recoverable	(6,387.9)	(6,588.4)	(6,319.3)	(6,190.1)	(6,094.0)	(6,153.7)	(6,059.3)	(6,422.4)	(5,915.6)	(4,911.0)	–
Net re-estimated liability	$ 4,682.7	$ 4,810.4	$ 4,962.5	$ 5,124.1	$ 5,206.8	$ 5,259.0	$ 5,321.5	$ 5,188.9	$ 5,155.0	$ 4,216.7	$ –
V. Cumulative net amount of liability paid through:											
1 year later	1,367.3	1,390.1	1,476.6	1,591.9	1,687.3	1,815.2	1,966.5	2,007.9	1,819.7	1,656.7	–
2 years later	2,152.5	2,240.8	2,372.6	2,621.3	2,735.4	2,954.8	3,136.2	3,133.3	3,022.7		
3 years later	2,711.5	2,821.9	3,083.3	3,331.1	3,518.0	3,709.2	3,794.0	3,972.4			
4 years later	3,089.5	3,328.3	3,571.3	3,872.2	4,044.0	4,029.0	4,303.6				
5 years later	3,464.3	3,672.7	3,961.5	4,233.4	4,234.7	4,322.0					
6 years later	3,720.2	3,978.3	4,225.4	4,363.0	4,416.2						
7 years later	3,979.3	4,186.9	4,312.6	4,481.4							
8 years later	4,159.7	4,265.6	4,399.2								
9 years later	4,218.9	4,335.6									
10 years later	4,260.5										

(1) In 1998, OneBeacon was formed as a result of a pooling of interests between Commercial Union and General Accident. All historical balances have been restated as though the companies had been merged throughout the periods presented.

(2) In 1998, OneBeacon acquired Houston General Insurance Company and NFU. All liabilities related to these entities have been shown from the acquisition date forward in this table.

(3) This table reflects the effects of the NICO Cover and the GRC Cover as if they had been in effect for all periods presented.

The cumulative net (deficiency)/redundancy in the table above reflects reinsurance recoverables recorded in connection with the OneBeacon Acquisition under the NICO Cover and the GRC Cover. See the **"Reinsurance Protection"** section below for a description of the GRC Cover. These covers apply to losses incurred in 2000 and prior years. As a result, they have the effect of significantly increasing OneBeacon's reinsurance recoverables in 2001 and 2002 and reducing its reserve deficiency for each of the years presented prior to the OneBeacon Acquisition by the amount of the reserves ceded at the time these covers were purchased. See **"Asbestos and Environmental Reserves"** for a discussion of the impact of this reinsurance contract on OneBeacon's net loss and LAE reserve position. The table presented below represents OneBeacon's cumulative net deficiency without regard to the NICO Cover and the GRC Cover.

	Years Ended December 31,										
($ in millions)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Cumulative net deficiency adjusted for the NICO Cover and the GRC Cover	(1,268.6)	(1,315.0)	(1,412.6)	(1,585.9)	(1,756.6)	(1,093.1)	(1,532.5)	(969.4)	(339.5)	(146.9)	–
Percent deficient	(29.0%)	(29.4%)	(31.1%)	(34.9%)	(39.1%)	(20.7%)	(30.1%)	(17.0%)	(7.0%)	(3.6%)	–%

The following table reconciles loss and LAE reserves determined on a Statutory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

	Year Ended December 31,		
($ in millions)	2003	2002	2001
Statutory reserves	$ 5,093.1	$ 6,029.0	$ 6,795.8
Reinsurance recoverable on unpaid losses and LAE [1]	1,217.5	1,650.9	1,606.5
Purchase accounting adjustments [2]	(413.1) [3]	(481.0) [3]	(567.8) [4]
Other	(41.8)	(49.4)	22.9
GAAP reserves	$ 5,855.7	$ 7,149.5	$ 7,857.4

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under Statutory accounting.

(2) Represents fair value adjustment to reserves recorded in purchase accounting. See Note 3 to the Financial Statements.

(3) Represents long-term workers compensation loss and LAE reserve discount recorded of $38.0 million and $42.2 million in 2003 and 2002, partially offset by incremental guaranty fund assessments required to be recorded under GAAP.

(4) Represents incremental guaranty fund assessments required to be recorded under GAAP, partially offset by long-term workers compensation loss and LAE reserve discount of $42.2 million.

Terrorism

As a result of the terrorist attacks of September 11, 2001 (the "Attacks"), OneBeacon incurred approximately $75.0 million of pretax loss and LAE net of reinsurance, or approximately $248.0 million gross of reinsurance. The Attacks have had a profound impact on the U.S. property and casualty insurance marketplace. Prior to the Attacks, most U.S. insurance companies had not contemplated the risk of terrorist attacks when underwriting their policies. In light of the Attacks, OneBeacon has sought to mitigate the risk associated with any future terrorist attacks by reducing the insured value of policies written in geographic areas with a high concentration of exposure to losses from terrorist attacks or by seeking to exclude coverage for such losses from their policies.

On November 26, 2002, President Bush signed the Terrorism Risk Insurance Act (the "Terrorism Act") establishing a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. The Terrorism Act requires primary commercial insurers to make terrorism coverage available immediately and provides Federal protection above individual company retention and aggregate industry retention levels. OneBeacon estimates its individual

retention level for commercial policies subject to the Terrorism Act to be approximately $90 million in 2004. Aggregate industry retention levels are $12.5 billion for 2004 and $15.0 billion for 2005. The Federal government will pay 90% of covered terrorism losses that exceed either OneBeacon's or the industry's retention levels up to $100.0 billion. The Terrorism Act is in effect until December 31, 2004, at which time certain members of the U.S. government have the authority to renew it for another year. Should the Terrorism Act be renewed on December 31, 2004, it will expire on December 31, 2005. OneBeacon's current property and casualty catastrophe reinsurance programs provide coverage for "non-certified" events as defined under the Terrorism Act, provided such losses are not the result of a nuclear, biological or chemical attack. See the discussion in the **"Reinsurance Protection"** section below for a further description of OneBeacon's catastrophe program and see **"REGULATION"** for a further description of the Terrorism Act.

OneBeacon closely monitors its concentration of risk by geographic area and primarily writes small commercial and personal lines business, under which the insureds are unlikely to be direct targets of terrorism. During 2002, OneBeacon aggressively reduced its terrorism exposure in its commercial lines business in the largest metropolitan areas in which OneBeacon writes insurance. In the workers compensation line, total covered lives in the ten largest metropolitan areas were reduced 60% from May 31, 2002 (the first date for which OneBeacon accumulated such data) to December 31, 2002, and total insured property values were reduced 52% from December 31, 2001 to December 31, 2002. As a result, OneBeacon believes that it has taken appropriate actions to mitigate its exposure to losses from future terrorist attacks and will continue to monitor its terrorism exposure in the future. With the pending Atlantic Mutual Transaction, new terrorism exposures may evolve as a result of new business generated throughout the United States. OneBeacon will manage that exposure in the same manner that it has managed its existing book of business. Nonetheless, risks insured by OneBeacon, and those contemplated by the enacted Terrorism Act, remain exposed to future terrorist attacks and the possibility remains that any future terrorist losses could prove to be material to the Company's financial position and/or its cash flows.

Reinsurance Protection

In the ordinary course of its business, OneBeacon purchases reinsurance from high-quality, highly rated third party reinsurers in order to provide diversification of its business and minimize loss from large risks or catastrophic events. OneBeacon uses probable maximum loss ("PML") forecasting to quantify its exposure to catastrophic losses. PML is a statistical modeling technique that measures a company's catastrophic exposure as the maximum probable loss in a given time period.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon's operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is both a function of the amount and type of insured exposure in an area affected by the event and the severity of the event. OneBeacon continually assesses and implements programs to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas, such as coastal regions. OneBeacon's largest single natural catastrophe risk is Northeast windstorm. During 2003 and 2002, OneBeacon reduced its total insured property values in coastal regions that could be affected by Northeast windstorms by 4% and 14%, respectively. In addition, OneBeacon imposed wind deductibles on existing coastal windstorm exposures.

OneBeacon seeks to further reduce its exposure to catastrophe losses through the purchase of catastrophe reinsurance. When evaluating its catastrophe reinsurance program for 2003, OneBeacon determined that its exposure to risks resulting from a catastrophic Northeast windstorm are mitigated in the early part of calendar years due to the seasonality of such storms. Accordingly, during the first four months of 2003, OneBeacon was able to significantly reduce the cost of its reinsurance program by purchasing less property catastrophe reinsurance during ths period and postponing its annual renewal date to May 1. Effective May 1, 2003, OneBeacon purchased its normal property catastrophe reinsurance program to cover its full estimated PML (one-in-250 year) through April 30, 2004. Under that cover, the first $200.0 million of losses resulting from any single catastrophe are retained by OneBeacon and losses from a single event in excess of $200.0 million and up to $850.0 million are reinsured for 100% of the loss. OneBeacon also purchases reinsurance coverage for certain risks, including catastrophe losses, on either a facultative or treaty basis, where it deems appropriate.

OneBeacon's property catastrophe reinsurance program does not cover personal or commercial property losses resulting from nuclear, biological or chemical terrorist attacks or from "certified" events as defined under the Terrorism Act. The program covers personal property losses resulting from other types of terrorist attacks and commercial property losses from other types of domestic terrorist attacks. As a result, OneBeacon does not have reinsurance protection under either the Terrorism Act or its catastrophe reinsurance program for personal property or commercial losses resulting from a nuclear, biological or chemical attack. In the event of a catastrophe, OneBeacon can reinstate its property catastrophe reinsurance program for the remainder of the original contract term by paying a reinstatement premium which is based on the product of the percentage of coverage reinstated and its original property catastrophe coverage premium.

OneBeacon also maintains a casualty reinsurance program which provides protection for catastrophe losses involving workers compensation, general liability or automobile liability in excess of $5.0 million up to $60.0 million. This program provides one full $55.0 million limit for either "certified" or "non-certified" terrorism losses but does not provide for losses resulting from nuclear, biological or chemical attacks.

In connection with the OneBeacon Acquisition, OneBeacon obtained the NICO Cover under which OneBeacon is entitled to recover up to $2.5 billion in ultimate losses and LAE incurred related to asbestos claims arising from business written by OneBeacon prior to 1992, environmental claims arising from business written by OneBeacon prior to 1987 and certain other exposures. See the **"Asbestos and Environmental Reserves"** section above for a description of the NICO Cover.

Also in connection with the OneBeacon Acquisition, OneBeacon obtained the GRC Cover, an adverse development cover from GRC which provided up to $570.0 million of reinsurance protection, consisting of $400.0 million of adverse development coverage on losses occurring in years 2000 and prior, in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are paid by OneBeacon and subsequently reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon has recorded $531.7 million in recoverables due from GRC at December 31, 2003 and December 31, 2002. OneBeacon will only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be small.

At December 31, 2003, OneBeacon had $64.6 million of reinsurance currently recoverable on paid losses and $3,004.0 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders, the collectibility of balances due from OneBeacon's reinsurers is critical to OneBeacon's financial strength. OneBeacon is selective with regard to its reinsurers, placing reinsurance with only those reinsurers having strong financial strength ratings. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have not historically been significant. Excluding industry pools and associations of $232.2 million, which are not rated by A.M. Best, 95% of OneBeacon's total reinsurance recoverables at December 31, 2003 were with reinsurers that had an A.M. Best rating of "A-" (Excellent, the fourth highest of fifteen ratings) or better.

The following table provides a listing of OneBeacon's top reinsurers, excluding industry pools and associations, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurer's A.M. Best rating.

Top Reinsurers ($ in millions)	Balance at December 31, 2003	% of Total	A.M. Best Rating[3]
Subsidiaries of Berkshire Hathaway Inc. (NICO and GRC)	$2,224.8	73%	A++
Liberty Mutual and subsidiaries [1]	198.9	6%	A
Tokio Fire and Marine Insurance Company	53.7	2%	A++
American Re-Insurance Company	49.1	2%	A+
Aviva plc and its affiliates [2]	27.5	1%	not rated

(1) At December 31, 2003, OneBeacon had assumed balances payable and expenses payable of approximately $80.8 million under the Liberty Agreement. In the event of Liberty Mutual's insolvency, OneBeacon has the right to offset these balances against its reinsurance recoverable due from Liberty Mutual.

(2) Represents non-U.S. insurance entities whose balance is fully collateralized through funds held, letters of credit and/or trust agreements.

(3) A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of fifteen ratings), "A+" (Superior, which is the second highest of fifteen ratings) and "A" (Excellent, which is the third highest of fifteen ratings).

New York Assigned Risk Market

OneBeacon writes voluntary personal automobile insurance in the State of New York. As a condition to its license to write automobile business within that state, OneBeacon is obligated by statute to accept future assignments from the New York Automobile Insurance Plan ("NYAIP"), a residual insurance market that obtains personal automobile insurance for those individuals who cannot otherwise obtain it in the voluntary insurance market. The share of involuntary written premium for policies assigned by the NYAIP to a particular insurer in a given year is based, in general, on its proportion of the total voluntary writings in New York two years prior. Therefore, by voluntarily writing automobile policies in New York, an insurer has an obligation under New York State insurance laws to provide insurance two years later to individuals assigned to it from the NYAIP.

Alternatively, an insurance company can contractually satisfy its NYAIP obligation by (i) transferring its NYAIP assignments to another insurance company, or (ii) through utilization of various credits offered by New York to those insurers who voluntarily write policies for individuals in the NYAIP. The process of transferring NYAIP obligations is called Limited Assigned Distribution ("LAD"), and the companies that assume this obligation are called LAD servicing carriers. A LAD servicing carrier is paid fees to assume the insurance risk of NYAIP obligations in addition to the premiums it receives for writing the involuntary policy. The fees are typically a percentage of the total premiums the LAD servicing carrier must write to fulfill the NYAIP obligation of the transferor company. In return, the LAD servicing carrier is contractually obligated to pay all loss and loss adjustment and other underwriting expenses related to the NYAIP assigned premiums of the transferor company.

An insurance company that voluntarily writes policies for individuals in the NYAIP generates certain credits, the largest of which are referred to as "takeout credits", which can be used to reduce its own NYAIP assignments or can be sold to other insurance companies to reduce their NYAIP assignments. The NYAIP has recently revised the structure of its credit programs effective for NYAIP assignments written in 2003 to increase the economic benefits of these credit programs. Under the revised structure, writing a NYAIP assignment on a voluntary basis generates two dollars of credit for each dollar of applicable premium. Takeout credits may be applied to reduce NYAIP assignments in the quarter after the takeout policy is written.

At December 31, 2003, White Mountains' estimated liability for discharging its obligations associated with NYAIP assignments resulting from voluntary business written by OneBeacon in the preceding two-year period was $34.9 million.

AutoOne Insurance

During October of 2001, OneBeacon licensed one of its insurance companies, General Assurance Company, to act as a LAD servicing carrier in order to mitigate OneBeacon's exposure to the cost of future NYAIP assignments. This company, which does business as "AutoOne Insurance", wrote approximately $233.8 million of assigned

personal automobile written premium and LAD and takeout credit fees for unaffiliated companies in 2003. Additionally, AutoOne Insurance performed LAD services relating to OneBeacon's obligation to write $48.3 million in assigned premium in 2003, thereby fulfilling the obligation that arose from voluntary premium written by OneBeacon in 2001. OneBeacon believes that AutoOne Insurance's current business strategy will enable it to capitalize on continued demand for LAD services and takeout credits and also improve the results of OneBeacon's overall New York automobile business by reducing its cost of future NYAIP assignments. AutoOne Insurance is operated as a separate division of OneBeacon and its primary competitors are Robert Plan and Clarendon Insurance Group, a subsidiary of Hannover Re.

In January 2004, AutoOne Insurance began to handle New Jersey Personal Automobile Insurance Plan ("NJ PAIP") business as a LAD servicing carrier. New Jersey is now the second largest market in the U.S. for LAD servicing carriers, with nearly $300 million in NJ PAIP written premium over the last 12 months. Combined, the New York and New Jersey markets account for nearly 85 percent of personal automobile written premium serviced in the country through LAD servicing carriers. A number of companies have already signed on with AutoOne Insurance in New Jersey for 2004.

New Jersey Skylands

As part of a restructuring of its New Jersey personal lines, OneBeacon formed New Jersey Skylands Management LLC and the New Jersey Insurance Department approved the formation of New Jersey Skylands Insurance Association and its wholly owned subsidiary New Jersey Skylands Insurance Company (together, the "Association") during the third quarter of 2002. The lead company of the Association, New Jersey Skylands Insurance Association, is a not-for-profit, policyholder-owned reciprocal insurance carrier. The Association was capitalized by OneBeacon with a $31.3 million surplus note. Principal and interest on the surplus note are repayable upon regulatory approval. OneBeacon has no ownership interest in the Association. The Association began writing personal automobile coverage for new customers in August 2002.

Main Street America Holdings, Inc. ("MSA")

MSA is a subsidiary of National Grange Mutual Insurance Company ("NGM"), a New Hampshire-domiciled property and casualty insurance company, which insures risks located primarily in New York, Massachusetts, Connecticut, Pennsylvania, New Hampshire, Virginia and Florida. OneBeacon owns 50% of the outstanding common stock of MSA and accounts for this investment using the equity method. OneBeacon's investment in MSA was $142.8 million and $128.1 million at December 31, 2003 and December 31, 2002. MSA's net written premiums totalled $427.6 million, $357.3 million and $306.8 million and its net income (loss) was $29.3 million, ($13.2) million and $6.8 million in 2003, 2002 and 2001. MSA's total assets as of December 31, 2003 and 2002 were $869.9 million and $757.3 million and its shareholders' equity was $290.4 million and $253.8 million. The principal insurance operating subsidiaries of NGM and MSA are rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best.

REINSURANCE

Reinsurance Overview

Reinsurance is an arrangement in which a reinsurance company (the "reinsurer") agrees to indemnify an insurance company (the "ceding company") for all or a portion of the insurance risks underwritten by the ceding company under one or more insurance policies. Reinsurance can benefit a ceding company in a number of ways, including reducing exposure on individual risks, providing catastrophe protections from large or multiple losses, stabilizing financial results and assisting in maintaining acceptable operating leverage ratios. Reinsurance can also provide a ceding company with additional underwriting capacity by permitting it to accept larger risks and underwrite a greater number of risks without a corresponding increase in its capital or surplus. Reinsurers may also purchase reinsurance, known as retrocessional reinsurance, to cover their own risks assumed from primary ceding companies. Reinsurance companies often enter into retrocessional agreements for many of the same reasons that ceding companies enter into reinsurance agreements.

Reinsurance is generally written on a treaty or facultative basis. Treaty reinsurance is an agreement whereby the reinsurer assumes a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of the agreement, usually one year. In the underwriting of treaty reinsurance, the reinsurer does not evaluate each individual risk and generally accepts the original underwriting decisions made by the ceding insurer. Facultative reinsurance, on the other hand, is underwritten on a risk-by-risk basis, which allows the reinsurer to assess pricing on an individual exposure. Facultative reinsurance is normally purchased by insurance companies for individual risks not covered under reinsurance treaties or for amounts in excess of limits on risks covered under reinsurance treaties.

A significant period of time normally elapses between the receipt of reinsurance premiums and the payment of reinsurance claims. While premiums are generally paid to the reinsurer upon inception of coverage, the claims process is delayed and generally begins upon the occurrence of an event causing an insured loss followed by: (1) the reporting of the loss by the insured to the ceding company; (2) the reporting of the loss by the ceding company to the reinsurer; (3) the ceding company's adjustment and payment of the loss; and (4) the payment to the ceding company by the reinsurer. During this time, reinsurance companies generate investment income on premium receipts, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities. The period of time between the receipt of premiums and the payment of claims is typically longer for a reinsurer than for a primary insurer.

Folksamerica

Folksamerica, through its wholly owned subsidiary, Folksamerica Reinsurance Company (a New York-domiciled reinsurance company), is a multi-line reinsurer which provides reinsurance to insurers of property, casualty, accident and health and marine risks primarily in the United States, Canada, Continental Europe, Latin America, the Caribbean and Japan. During 2003, Folksamerica Reinsurance Company's rating was upgraded to "A" (Excellent, the third highest of fifteen ratings) by A.M. Best. At December 31, 2003 and December 31, 2002, Folksamerica had $3.6 billion and $3.4 billion of total assets and $991.6 million and $976.4 million of shareholder's equity, respectively. Folksamerica's total assets and shareholder's equity for December 31, 2002 included the International American Group and Esurance, which were then subsidiaries of Folksamerica. During 2003, with the exception of Peninsula, these companies were distributed or sold to Fund American Companies, Inc. ("Fund American"), a U.S.-domiciled subsidiary of the Company. Folksamerica's total assets and shareholder's equity for December 31, 2003 included Peninsula, which was sold in January 2004.

Folksamerica writes both treaty and facultative reinsurance. The majority of Folksamerica's premiums are derived from treaty reinsurance contracts both on a quota share and an excess of loss basis, which in 2003 amounted to 60.4% and 34.8% of its total gross earned premiums, respectively. A quota share reinsurance treaty is an arrangement whereby a reinsurer assumes a predetermined proportional share of the premiums and losses generated on specified business. An excess of loss treaty is an arrangement whereby a reinsurer assumes losses that exceed an agreed retention of loss by the ceding company.

Folksamerica derives its business from a broad spectrum of ceding insurers including national, regional, specialty and excess and surplus lines writers. Folksamerica determines which risks it accepts based on the anticipated underwriting results of the transaction, which are evaluated on a variety of factors including types of risk, the quality of the reinsured, the attractiveness of the reinsured's insurance rates and policy conditions and the adequacy of the proposed reinsurance terms.

Folksamerica commenced writing reinsurance coverage in 1980 as one of a host of newly formed, foreign-owned reinsurers capitalized with minimal surplus. In 1991, recognizing that surplus size would become an increasingly important business issue, Folksamerica launched an aggressive strategy to increase its resources and capacity through the acquisition of select property and casualty reinsurance and insurance companies. Since 1991, Folksamerica has acquired eight other reinsurance and insurance businesses. Most of these acquisitions have served to raise Folksamerica's surplus and asset base, broaden its skill set and contribute a number of important business relationships. Folksamerica's acquisition strategy is to seek fundamentally sound companies whose owners are no longer committed to the business. In these cases, the owner's lack of interest in its specific operations which are available for sale have had more to do with difficulties experienced by the owner in its core business rather than problems with the operations being sold. Folksamerica's more recent acquisitions included USF Re Insurance Co. ("USF Re") in 1999, PCA Property & Casualty Insurance Company ("PCA") in 2000, substantially all the reinsurance

operations of Risk Capital Reinsurance Company ("Risk Capital") in 2000, C-F Insurance Company ("C-F") in 2001 and Imperial Casualty and Indemnity Insurance Company ("Imperial") in 2002.

Effective October 1, 2003, Folksamerica acquired renewal rights to the property and casualty treaty reinsurance business of CNA Reinsurance ("CNA Re"), a division of CNA Financial Corporation (the "CNA Re Agreement"). Under the terms of the CNA Re Agreement, Folksamerica will pay CNA Re a renewal commission on the premiums renewed by Folksamerica over the next two contract renewals. The renewal commission is 3% for the initial renewal and 2% for the second renewal. No reserves or liabilities were transferred to Folksamerica. In connection with this transaction, Folksamerica has established an underwriting office in Chicago staffed with a number of CNA Re's reinsurance professionals. Folksamerica will continue to seek additional insurance and reinsurance acquisitions in the future.

In December 2001, Folksamerica received a $400.0 million cash capital contribution from OneBeacon that was provided to increase Folksamerica's capacity to capitalize on improved pricing trends that accelerated after the Attacks. As a result, Folksamerica is now among the largest U.S.-domiciled property and casualty reinsurers as measured by statutory surplus.

Classes of Business

Folksamerica writes three main classes of reinsurance: liability, property and accident and health. Folksamerica's net written premiums by class of business for the years ended December 31, 2003, 2002 and 2001 were as follows:

Business class	Year Ended December 31,		
(Millions)	2003	2002	2001
Liability	$ 515.3	$ 381.6	$ 310.6
Property	253.5	205.3	93.5
Accident and Health	88.4	68.1	25.1
Other	32.0	23.7	29.7
Total	$ 889.2	$ 678.7	$ 458.9

Geographic Concentration

Folksamerica's net written premiums by geographic region for the years ended December 31, 2003, 2002 and 2001 were as follows:

Geographic region	Year Ended December 31,		
(Millions)	2003	2002	2001
United States	$ 778.4	$ 579.9	$ 408.3
Latin America, the Caribbean, Japan and Europe	90.9	70.5	24.0
Canada	19.9	28.3	26.6
Total	$ 889.2	$ 678.7	$ 458.9

Marketing

Folksamerica obtains most of its reinsurance business either directly through reinsurance intermediaries that represent the ceding company or indirectly through placements recommended by WMU. Folksamerica considers both the intermediary and the ceding company its clients in any placement. Folksamerica has developed strong business relationships over a long period of time with the management of many of its ceding companies. The process of placing an intermediary reinsurance program typically begins when a ceding company enlists the aid of a reinsurance intermediary in structuring a reinsurance program. Often the ceding company and the broker will consult with one or more lead reinsurers as to the pricing and contract terms for the reinsurance protection being sought. Once the ceding company has approved the terms quoted by the lead reinsurer, the broker will offer participation to qualified reinsurers until the program is fully subscribed by reinsurers at terms agreed to by all parties.

Folksamerica pays ceding companies a ceding commission under most quota share reinsurance treaties and some excess of loss reinsurance treaties. The ceding commission is generally based on the ceding company's cost of acquiring the business being reinsured (commissions, premium taxes and certain miscellaneous expenses). During the years ended December 31, 2003, 2002 and 2001, Folksamerica received no more than 10% of its gross reinsurance premiums from any individual ceding company. Additionally, Folksamerica pays reinsurance intermediaries commissions based on negotiated percentages of the premium it writes. These commissions, which average approximately 5% of premium, constitute a significant portion of Folksamerica's total acquisition costs and are included in its underwriting expenses. During the years ended December 31, 2003, 2002 and 2001, Folksamerica received approximately 57.7%, 57.0% and 54.4%, respectively, of its gross reinsurance written premiums from three major, third-party reinsurance brokers as follows: (1) AON Re, Inc. - 24.9%, 28.2% and 21.3%, respectively; (2) Benfield Blanch -18.6%, 13.5% and 17.2%, respectively; and (3) Guy Carpenter -14.2%, 15.3% and 15.9%, respectively.

Underwriting and Pricing

Folksamerica's underwriters and pricing actuaries perform a comprehensive review of the underwriting, pricing, and general business controls of potential clients before quoting contract terms for its reinsurance products. Folksamerica prices its products by assessing the desired return on the expected capital needed to write a given contract and by estimating future loss and LAE costs. Folksamerica will only accept contracts with a high likelihood of generating acceptable returns on capital. Folksamerica's pricing indications are based on a number of underwriting factors including historical results, analysis of exposure and estimates of future loss costs, a review of other programs displaying similar exposure characteristics, the primary insurer's underwriting and claims experience and the primary insurer's financial condition. Folksamerica's underwriters and claims personnel perform regular audits to monitor the ceding company's pricing and claim handling discipline. Additionally, Folksamerica's finance staff reviews the financial stability and creditworthiness of current ceding companies. Such reviews provide important input to support renewal discussions.

Folksamerica and other reinsurance companies have sought to mitigate the risk associated with future terrorist attacks in a similar manner as primary insurers. Since the Attacks, reinsurers have attained significant price increases across all lines of reinsurance in response to greater perceived policy exposures. Reinsurers do not have the stringent regulations with respect to contract terms and policy exclusions which are generally imposed on primary writers. For example, the Terrorism Act is not applicable to reinsurers. As a result, exclusions are more often dictated by the marketplace than by regulation. Folksamerica evaluates terrorism exposure to its ceding company clients and applies exclusions as appropriate. For example, reinsurance written on commercial risks subsequent to the Attacks generally contain clauses that exclude terrorism exposure. Reinsurance on personal risks written subsequent to the Attacks generally contain exclusions related to nuclear, biological and chemical attacks.

Claims

Folksamerica maintains a staff of experienced reinsurance claim specialists that work closely with reinsurance intermediaries to obtain specific claims information from its customers. Folksamerica's claims staff also regularly perform on-site claim reviews to assess and suggest improvements regarding the reinsured's claim-handling ability and reserving techniques. In addition, Folksamerica's claims specialists review loss information provided by the reinsured for adequacy. The results of Folksamerica's on-site claim reviews are shared with its actuaries and underwriters to ensure that they are making the correct assumptions in pricing its products and that all relevant information is used in establishing loss reserves.

Competition

There are 20 U.S.-based reinsurance companies which Folksamerica views as its direct competition. These companies report operating data to the Reinsurance Association of America ("RAA"). Based on surplus size as of September 30, 2003 (the most recent data available as of the filing of this report), Folksamerica is the sixth largest of these companies.

In general, Folksamerica competes with all of the larger reinsurance companies. As reported by the RAA for the nine month period ending September 30, 2003, Folksamerica wrote approximately 5.8% of gross written premiums of all reinsurance companies that are viewed as direct competition. The reinsurance companies writing the largest portion of gross premiums in this period were: Everest Reinsurance Company (16.4%), XL Reinsurance America (15.3%) and Transatlantic Reinsurance Company (14.0%).

Folksamerica has a 20-year history of close relationships with ceding companies and maintains a disciplined underwriting strategy which, among other things, focuses on writing more business when market terms and conditions are favorable and reducing business volume during soft markets when terms and conditions become less favorable. Folksamerica also employs a multi-line approach, offering clients a wide range of reinsurance products to satisfy their risk management needs. Additionally, Folksamerica utilizes an acquisition-based growth strategy by seeking to acquire fundamentally sound competitors whose ownership structure or other factors limit their ability to compete effectively.

Loss and Loss Adjustment Expense Reserves

Folksamerica establishes reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. The process of estimating reserves for Folksamerica is similar to the process described in **"Loss and Loss Adjustment Expense Reserves"** in the **"ONEBEACON"** discussion and, as of any given date, is inherently uncertain. For Folksamerica, reserve estimates reflect the judgment of both the ceding company and Folksamerica, based on the experience and knowledge of their respective claims personnel, regarding the nature and value of the claim. The ceding company may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made. Upon notification of a loss from a ceding company, Folksamerica establishes case reserves, including LAE reserves, based upon Folksamerica's share of the amount of reserves established by the ceding company and Folksamerica's independent evaluation of the loss. In cases where available information indicates that reserves established by the ceding company are inadequate, Folksamerica establishes case reserves in excess of its share of the reserves established by the ceding company.

Folksamerica uses a combination of actuarial methods to determine its IBNR reserves. These methods fall into two general categories: (1) methods by which ultimate claims are estimated based upon historical patterns of paid and reported claim development experienced by Folksamerica, as supplemented by reported industry patterns, and (2) methods in which the level of Folksamerica's IBNR reserves are established based upon the application of expected loss ratios relative to earned premium by accident year, line of business and type of reinsurance written by Folksamerica.

As described previously, uncertainties in projecting estimates of ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled, i.e., the "claim-tail". During the long claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about claims and trends may become known and, as a result, Folksamerica may adjust its loss and LAE reserves. If management determines that an adjustment is appropriate, the adjustment is booked in the accounting period in which such determination is made in accordance with GAAP. Management believes that Folksamerica's loss and LAE reserves as of December 31, 2003 are reasonably stated; however, ultimate loss and LAE may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Adverse or favorable development, if any, would impact Folksamerica's future results of operations.

Reinsurance Protection

Folksamerica has exposure to losses caused by hurricanes, earthquakes, winter storms, windstorms, terrorist acts and other catastrophic events. In the normal course of business, Folksamerica seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance and reinsurance enterprises and by closely monitoring aggregate property exposures and related PMLs. To manage and analyze aggregate exposures and PML, Folksamerica utilizes a variety of tools and analyses, including catastrophe modeling software packages. Folksamerica regularly assesses its concentration of underwriting exposures in catastrophe prone areas and develops strategies to manage this exposure, primarily through limiting accumulation of exposure to acceptable levels and, if deemed necessary, the purchase of catastrophe reinsurance. Folksamerica's primary reinsurance protections are the quota share arrangements with Olympus Reinsurance Company Ltd. ("Olympus") discussed below. Through November 25, 2003, Folksamerica's catastrophe protection program included $35.0 million of protection in excess of a $60.0 million retention for a second loss. This reinsurance protection program was commuted effective November 25, 2003, however, Folksamerica does have various common account catastrophe covers purchased to protect individual proportional property contracts against a catastrophic event. In prior years, Folksamerica had purchased aggregate stop loss protection from London Life and General Reinsurance Company, Ltd. ("London Life"), which protected the Company's accident year results from the effects of a single large event or multiple small events. No

cessions were made to this contract in 2002 and prior ceded balances are fully collateralized by funds held and letters of credit. This contract was not renewed in 2003.

In 2000, Folksamerica purchased a reinsurance contract from Imagine Re (the "Imagine Cover") to reduce its statutory operating leverage and protect its surplus from adverse development relating to A&E exposures as well as the reserves assumed in several recent acquisitions. Specifically, the Imagine Cover provided an aggregate of $115.0 million in reinsurance protection on:

- adverse development on loss and LAE reserves as of December 31, 2000 from the USF Re acquisition and as of September 30, 2000 from the Risk Capital acquisition;
- adverse development on Folksamerica's A&E reserves as of December 31, 2000; and
- losses, LAE and acquisition expenses incurred in excess of premiums earned after September 30, 2000 on underwriting year 2000 and prior Risk Capital contracts.

At the inception of the Imagine Cover, Folksamerica transferred loss and LAE reserves of $250.0 million and unearned premium reserves of $65.0 million to Imagine Re for consideration of $315.0 million. As of December 31, 2003, the entire $115.0 million limit under the Imagine Cover was fully utilized.

Folksamerica has quota share retrocessional arrangements with Olympus that are designed to increase Folksamerica's capacity to capitalize on the improved pricing trends that accelerated after the Attacks and to reduce its potential loss exposure to any large, or series of smaller, property catastrophe events. Under the quota share agreements with Olympus, Folksamerica cedes up to 75% of substantially all of its short-tailed excess of loss business, mainly property and marine, and 50% of its proportional property business to Olympus and receives an override commission on the premiums ceded to Olympus. During 2003, Folksamerica received $18.0 million in override commissions from Olympus.

At December 31, 2003, Folksamerica had $41.5 million of reinsurance currently recoverable on paid losses and $741.1 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve Folksamerica of its obligation to its ceding companies, the collectibility of balances due from Folksamerica's reinsurers is critical to Folksamerica's financial strength. Folksamerica is selective with regard to its reinsurers, placing reinsurance with only those reinsurers having strong financial condition. Folksamerica monitors the financial strength of its reinsurers on an ongoing basis. Excluding industry pools, associations and state funds of $42.7 million, which are not rated by A.M. Best, 97% of Folksamerica's remaining reinsurance recoverables at December 31, 2003 were with reinsurers that had an A.M. Best rating of "A-" (Excellent, the fourth highest of fifteen ratings) or better. The following table provides a listing of Folksamerica's top reinsurers based upon recoverable amounts, the percentage of total recoverables and the reinsurer's A.M. Best Rating.

Top Reinsurers ($ in millions)	Balance at December 31, 2003	% of Total	A.M. Best Rating [2]
Imagine Re [1]	$312.4	40%	A-
London Life [1]	135.4	17%	A
Olympus [1]	124.9	16%	A-
GRC and affiliates	35.5	5%	A++
GE Reinsurance Corporation	14.8	2%	A

(1) Represents non-U.S. insurance entities whose balances are fully collateralized through funds held, letters of credit and/or trust agreements.

(2) A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of fifteen ratings), "A" (Excellent, which is the third highest of fifteen ratings) and "A-" (Excellent, which is the fourth highest of fifteen ratings).

Montpelier

In December 2001, White Mountains, the Benfield Group plc and several other private investors established Montpelier and its wholly owned subsidiary Montpelier Reinsurance Ltd. ("Montpelier Re"). Montpelier Re is a Bermuda-domiciled insurance and reinsurance company that was formed with approximately $1.0 billion in capital to respond to the then favorable underwriting and pricing environment in the reinsurance industry. Montpelier Re has initially focused on property reinsurance business. Montpelier Re is rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best. On October 15, 2002, Montpelier successfully completed an initial public offering and its

common shares are listed on the New York Stock Exchange. Through holdings of common shares and warrants, White Mountains owns approximately 21% of Montpelier on a fully converted basis. As of December 31, 2003, White Mountains' investment in Montpelier consisted of 10,800,000 common shares and warrants to acquire an additional 4,781,572 common shares at $16.67 per share that are exercisable until December, 2011 ("Montpelier Warrants").

Montpelier's net written premiums totaled $778.0 million and $565.9 million and its net income was $407.1 million and $152.0 million in 2003 and 2002, respectively. Montpelier's total assets as of December 31, 2003 and 2002 were $2.6 billion and $1.8 billion and its shareholders' equity was $1.7 billion and $1.3 billion..

White Mountains Underwriting Limited

In December 2001, White Mountains formed WMU, an underwriting advisory company domiciled in Ireland. In June 2003, WMU established a sister company in Bermuda to handle marine and energy business. WMU provides reinsurance underwriting advice and reinsurance portfolio analysis services to both Folksamerica and Olympus. WMU's Irish company, a specialist in handling non-marine property treaty excess of loss classes, has expanded Folksamerica's international profile, particularly in the United Kingdom, Continental Europe, Japan and Australia. WMU's Bermuda company will continue to develop the global marine and energy portfolio when it commences business in 2004.

WMU receives management fees and a profit commission on business placed with Olympus and Folksamerica. During 2003, WMU placed $173.6 million and $57.4 million of written premiums and recorded $66.0 million and $14.4 million of combined management fees and profit commissions from Olympus and Folksamerica, respectively.

Fund American Re

On December 20, 2001, Fund American Re acquired substantially all of the international reinsurance operations of the Folksam Group ("Folksam") of Stockholm, Sweden. Fund American Re is domiciled in Bermuda but maintains its executive office and an operating branch in Stockholm, Sweden, and operates through an additional branch in Singapore. Fund American Re principally writes property, liability and inland marine reinsurance for insurance companies based in the United States, Europe and Asia. Fund American Re, which is rated "A-" (Excellent, the fourth highest of fifteen ratings) by A.M. Best, wrote $81.4 million and $62.5 million in net premiums during the years ended December 31, 2003 and 2002, respectively. At December 31, 2003 and 2002, Fund American Re had $275.0 million and $149.9 million of total assets, respectively, and $152.0 million and $58.1 million of shareholder's equity, respectively. During 2003, White Mountains contributed its ownership interest in the Montpelier Warrants to Fund American Re, representing a $63.1 million contribution to Fund American Re's shareholder's equity.

Additional Loss and Loss Adjustment Expense Information

The following information presents (1) White Mountains' reinsurance segment's reserve development over the preceding ten years and (2) a reconciliation of reserves on a Statutory basis to reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

Section I of the ten year table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid losses and LAE. The liability represents the estimated amount of losses and LAE for claims that were unpaid at the balance sheet date, including IBNR reserves. In accordance with GAAP, the liability for unpaid losses and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid losses and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid losses and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section III shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2003. Section IV shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2003. Section V shows the cumulative amount of net losses and LAE paid relating to recorded liabilities as of the end of each succeeding year.

The following table includes the complete loss development history for all periods presented for all companies acquired by Folksamerica as if the companies had been combined from their inception. Therefore, reserve development for all years includes development on reserves established before those companies were acquired by White Mountains.

	Reinsurance Loss and LAE [1], [2], [3] Years Ended December 31,										
($ in millions)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
I. Liability for unpaid losses and LAE:											
Gross balance	$ 798.4	$ 856.2	$ 981.5	$ 1,578.7	$ 1,461.3	$ 1,437.6	$ 1,210.6	$ 1,500.7	$ 1,610.6	$ 1,664.3	$ 1,808.7
Less: reins. recoverables on unpaid losses and LAE	(154.4)	(182.4)	(201.0)	(390.2)	(352.0)	(398.0)	(324.0)	(702.8)	(879.5)	(815.0)	(749.5)
Net balance	$ 644.0	$ 673.8	$ 780.5	$ 1,188.5	$ 1,109.3	1,039.6	$ 886.6	$ 797.9	$ 731.1	$ 849.3	$ 1,059.2
II. Net liability re-estimated as of:											
1 year later	672.5	701.8	834.1	1,222.6	1,125.5	1,036.0	914.4	803.5	743.8	901.5	–
2 years later	706.0	748.6	855.4	1,224.6	1,108.5	1,047.8	917.4	788.5	798.3		
3 years later	746.3	763.7	862.7	1,206.4	1,114.5	1,032.3	919.3	836.5			
4 years later	761.3	767.0	874.9	1,214.2	1,088.7	1,027.9	956.8				
5 years later	764.1	778.8	874.2	1,188.9	1,071.6	1,053.6					
6 years later	772.8	779.2	844.9	1,164.9	1,089.8						
7 years later	774.2	755.8	817.6	1,179.7							
8 years later	756.4	736.5	830.9								
9 years later	747.4	755.6									
10 years later	770.4										
III. Cumulative net (deficiency)/ redundancy	$ (126.4)	$ (81.8)	$ (50.4)	$ 8.8	$ 19.5	$ (14.0)	$ (70.2)	$ (38.6)	$ (67.2)	$ (52.2)	$ –
Percent (deficient)/ redundant	(19.6)%	(12.1)%	(6.5)%	.7%	1.8%	(1.3)%	(7.9)%	(4.8)%	(9.2)%	(6.2)%	– %
IV. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see II. above):											
Gross re-estimated liability	985.9	992.6	1,045.6	1,606.0	1,487.7	1,454.8	1,355.4	1,655.9	1,762.4	1,728.5	–
Less: gross re-estimated reinsurance recoverable	(215.5)	(237.0)	(214.7)	(426.3)	(397.9)	(401.2)	(398.6)	(819.4)	(964.1)	(827.0)	
Net re-estimated liability	$ 770.4	$ 755.6	$ 830.9	$ 1,179.7	$ 1,089.8	$ 1,053.6	$ 956.8	$ 836.5	$ 798.3	$ 901.5	$ –
V. Cumulative net amount of liability paid through:											
1 year later	219.8	201.9	225.5	322.6	277.5	291.4	102.3	370.8	250.9	273.6	–
2 years later	337.3	323.4	363.6	506.7	472.0	390.6	348.9	512.9	414.0		
3 years later	418.2	412.8	457.0	656.6	582.4	552.9	452.8	617.7			
4 years later	481.2	474.3	542.8	774.0	680.9	626.9	552.4				
5 years later	521.4	530.8	608.2	843.1	733.3	698.0					
6 years later	565.8	572.7	644.1	883.1	786.5						
7 years later	596.3	598.3	672.8	923.7							
8 years later	618.2	616.8	704.0								
9 years later	636.0	640.8									
10 years later	654.8										

(1) The table consists of reserve information for Folksamerica and for Fund American Re.

(2) The table includes the complete loss development history for all periods presented for all companies acquired by Folksamerica through an instrument of transfer and assumption approved by the appropriate insurance regulators. Under the instrument, insurance regulators require that Folksamerica report reserve development as if the companies had been combined from their inception.

(3) Folksamerica became a wholly owned subsidiary of White Mountains during 1998. Reserve development for the years ended 1993 through 1997 reflects development on reserves established before White Mountains consolidated Folksamerica's results.

The following table reconciles loss and LAE reserves determined on a Statutory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

	Year Ended December 31,		
(Millions)	2003	2002	2001
Statutory reserves	$ 1,325.9	$ 1,148.8	$ 1,002.7
Reinsurance recoverable on unpaid losses and LAE [1]	480.5	513.2	586.7
Other [2]	2.3	2.3	21.2
GAAP reserves	$ 1,808.7	$ 1,664.3	$ 1,610.6

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under Statutory accounting.
(2) Primarily represents purchase accounting adjustments made in connection with Folksamerica acquisition of PCA.

OTHER OPERATIONS

International American Group

In October 1999, White Mountains completed its acquisition of International American Group, a collection of insurance and reinsurance companies, for $86.7 million in cash. White Mountains acquired Peninsula, American Centennial and British Insurance Company through its acquisition of International American Group.

In January 2004, Folksamerica sold Peninsula, which is a Maryland-domiciled property and casualty insurer, for $23.3 million. At December 31, 2003 and 2002 Peninsula had $60.6 million and $57.1 million of total assets and $21.7 million and $21.2 million of shareholder's equity, respectively. For the years ended December 31, 2003, 2002 and 2001, Peninsula had $34.1 million, $29.5 million and $28.3 million net written premiums.

Delaware-domiciled American Centennial and Cayman Island-domiciled British Insurance Company are property and casualty insurance and reinsurance companies in run-off. At December 31, 2003 and 2002, American Centennial had $61.1 million and $60.9 million of total assets and $22.6 million and $26.7 million of shareholder's equity, respectively. At December 31, 2003 and 2002, British Insurance Company had $25.7 million and $24.7 million of total assets and $5.6 million and $4.3 million of shareholder's equity, respectively.

Esurance

Esurance, which is headquartered in San Francisco, has been a subsidiary of White Mountains since October 2000. Esurance markets personal auto insurance directly to customers and through select online agents. Most customer interaction with the company takes place through Esurance's website, www.esurance.com. Through the website, customers can get real-time quotes, compare quotes from other companies, purchase their policies, report claims and manage their accounts.

By interacting with customers through the Internet, Esurance is able to collect detailed underwriting information real-time. This real-time access to customer information allows Esurance to continually develop and refine its own highly segmented, tiered pricing models. Esurance's paperless, web-enabled systems also allow the company to significantly reduce the costs typically associated with processing and verification activities.

During 2003, Esurance increased its direct written premium volume to $116.4 million, up from $52.6 million in 2002. Substantially all of the business generated by Esurance was directly written or assumed by insurance and reinsurance subsidiaries of White Mountains. The premium and associated losses relating to business written through Esurance are included within the results of the underwriting unit that ultimately retains the risk under the policy contracts. Expenses associated with acquiring and servicing policy contracts are included within Esurance's results.

In the fourth quarter of 2003, ownership of Esurance was distributed to Fund American. Prior to that, Esurance had operated as an independent subsidiary of Folksamerica since October 2000, when Folksamerica purchased 90% of the company for $9.0 million. During the fourth quarter of 2001, Folksamerica purchased the remaining outstanding stock for $1.4 million.

The Company and its Intermediate Holding Companies

The Company's intermediate holding companies include Fund American and Fund American Enterprises Holdings, Inc. ("FAEH"), both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in Barbados, Luxembourg and Bermuda. During the fourth quarter of 2003, the Company also established new intermediate holding companies in Luxembourg and Sweden in preparation for the closing of the Sirius Insurance Group acquisition.

Fund American acquired OneBeacon on June 1, 2001. In connection with the OneBeacon Acquisition, Fund American and FAEH entered into the following financing arrangements:

- Fund American borrowed $825.0 million in June 2001 from a banking syndicate arranged by Lehman Brothers, Inc. (the "Old Bank Facility"), which has subsequently been repaid and terminated.
- Fund American issued $300.0 million in face value of cumulative non-voting preferred stock to Berkshire Hathaway, Inc. ("Berkshire") (the "Berkshire Preferred Stock") for $225.0 million.
- FAEH issued a $260.0 million seller note to Aviva (the "Seller Note"), which has subsequently been repaid.
- FAEH issued $20.0 million in face value of cumulative non-voting preferred stock to Zenith Insurance Company ("Zenith") (the "Zenith Preferred Stock").

PENDING ACQUISITIONS

Sirius Insurance Group

On December 9, 2003, White Mountains entered into a definitive agreement with ABB to acquire the Sirius Insurance Group, an insurance and reinsurance organization based in Sweden. The principal Sirius Insurance Group companies are Sirius International Insurance Corporation ("Sirius International"), Sirius America Insurance Company ("Sirius America") and Scandinavian Reinsurance Company Ltd. ("Scandinavian Re"), a Bermuda-based finite reinsurer that is in runoff. Sirius International, a Stockholm-based insurance and reinsurance company, is the largest reinsurance company in Scandinavia and has offices in Stockholm, London, Hamburg, Zurich, Belgium, and Singapore. Sirius America, which will become a subsidiary of Folksamerica, is a U.S. insurer focused on primary insurance programs since 2000. Sirius International and Sirius America wrote approximately $400 million and $96 million of net premiums in 2002.

The purchase price of SEK3.22 billion (approximately U.S.$445 million as of February 19, 2004) is subject to a kronor-for-kronor adjustment to the extent that the total GAAP shareholders' equity value less intangible assets of the acquired companies as of December 31, 2003 is greater or less than SEK3.566 billion (approximately U.S.$490 million as of February 19, 2004). The Sirius Insurance Group also has a large untaxed reserve that is considered Swedish regulatory capital (approximately $1.0 billion at December 31, 2003) upon which a deferred tax liability is required to be established under GAAP at the effective Swedish tax rate of 28%.

White Mountains expects the transaction to close in the second quarter of 2004, subject to regulatory approvals and other customary closing conditions.

Sierra Group

In December 2003, Folksamerica entered into a definitive agreement to acquire the Sierra Insurance Group companies (the "Sierra Group"), consisting of California Indemnity Insurance Company and its three subsidiaries, from Nevada-based Sierra Health Services, Inc. Under the terms of the agreement, Folksamerica will pay $74.3 million, which includes $12.3 million in cash and a $62 million purchase note, of which $58 million will be adjusted over its six-year term to reflect favorable or adverse loss reserve development on the acquired reserve portfolio and runoff of remaining policies in force as well as certain other balance sheet protections. The acquired companies' historical net assets at December 31, 2003 were approximately $88.6 million. White Mountains expects the transaction to close in the first or second quarter of 2004, subject to receipt of regulatory approvals and satisfaction of other customary closing conditions.

Atlantic Mutual

On December 4, 2003, OneBeacon entered into an agreement in principle to acquire the Atlantic Specialty Insurance Company, a subsidiary of Atlantic Mutual, and the renewal rights to Atlantic Mutual's segmented commercial insurance business, including the unearned premiums on the acquired book. The overall gross written premium for this book of business totals approximately $450 million. Under the terms of the agreement, OneBeacon will pay Atlantic Mutual a renewal commission of approximately 5% on the premiums renewed by OneBeacon. With the acquisition of this segmented middle-market business, White Mountains will start generating commercial business throughout the United States. Consummation of the transaction is anticipated to take place in the first quarter of 2004, subject to receipt of regulatory approval and satisfaction of other conditions.

INVESTMENTS

The investment portfolios of White Mountains' insurance and reinsurance operations consist primarily of fixed maturity investments but also consist, in part, of short-term investments, common equity securities and other investments. White Mountains' management believes that prudent levels of investments in common equity securities and other investments within its investment portfolio are likely to enhance after-tax total returns without significantly increasing the risk profile of the portfolio when considered over long periods of time when balanced with leverage and insurance risk considerations. White Mountains seeks to maximize risk-adjusted returns over the long term.

The fixed maturity portfolios of White Mountains are comprised primarily of investment grade corporate debt securities, U.S. government and agency securities and mortgage-backed securities (greater than 99% of such securities received a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2). Nearly all the fixed maturity securities currently held by White Mountains are publicly traded. White Mountains expects to continue to invest primarily in high quality, fixed maturity investments.

At December 31, 2003, White Mountains' consolidated investment portfolio consisted of $6,248.1 million (73%) of fixed maturity investments, $1,546.6 million (18%) of short-term investments and $752.8 million (9%) of common equity securities and other investments. White Mountains' fixed maturity portfolio at December 31, 2003 consisted principally of corporate debt securities (47%), U.S. government and agency securities (34%), mortgage-backed securities (15%) and preferred equity securities, foreign government obligations and municipal bonds (4%).

White Mountains' investment philosophy is to invest all assets with a view towards maximizing its after-tax total return over extended periods of time. Under this approach, each dollar of after-tax investment income, realized and unrealized gains and losses is valued equally. White Mountains' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to perceived credit risks. White Mountains generally manages the interest rate risk associated with holding fixed maturity investments by actively monitoring and maintaining the average duration of the portfolio with a view towards achieving an adequate after-tax total return without subjecting the portfolio to an unreasonable level of interest rate risk. At December 31, 2003, the duration of White Mountains' fixed maturity portfolio and short-term investments was approximately 2.8 years.

REGULATION

White Mountains' insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. White Mountains believes that it is in compliance with all applicable laws and regulations pertaining to its business that would have a material effect on its financial position in the event of non-compliance.

Over the last several years most states have implemented laws that establish standards for current, as well as continued, state accreditation. In addition, the NAIC has adopted risk-based capital ("RBC") standards for property and casualty companies as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. The current RBC ratios of White Mountains' active insurance and reinsurance subsidiaries are satisfactory and such ratios are not expected to result in any adverse regulatory action. White Mountains is not aware of any current recommendations by regulatory authorities that would be expected to have a material effect on its results of operations or liquidity.

As a condition of its license to do business in certain states, White Mountains' insurance operations are required to participate in mandatory shared market mechanisms. Each state dictates the types of insurance and the level of coverage that must be provided. The most common type of shared market mechanism in which White Mountains is required to participate is an assigned risk plan. Many states operate assigned risk plans. The NYAIP and New Jersey commercial automobile insurance plans are two such shared market mechanisms in which OneBeacon is required to participate. These plans require insurers licensed within the applicable state to accept the applications for insurance policies of individuals who are unable to obtain insurance in the voluntary market. The total number of such policies an insurer is required to accept is based on its market share of voluntary business in the state. Underwriting results related to assigned risk plans are typically adverse. Accordingly, OneBeacon may be required to underwrite policies with a higher risk of loss than it would otherwise accept.

Reinsurance facilities are another type of shared market mechanism. Reinsurance facilities require an insurance company to accept all applications submitted by certain state designated agents. The reinsurance facility then allows the insurer to cede some of its business to the reinsurance facility so that the facility will reimburse the insurer for claims paid on ceded business. Typically, however, reinsurance facilities operate at a deficit, which is funded through assessments against the same insurers. The Massachusetts Commonwealth Automobile Reinsurers is one such reinsurance facility in which OneBeacon is compelled to participate. As a result, OneBeacon could be required to underwrite policies with a higher risk of loss than it would otherwise accept.

The insurance laws of many states generally provide that property and casualty insurers doing business in those states belong to a statutory property and casualty guaranty association. The purpose of these guaranty associations is to protect policyholders by requiring that solvent property and casualty insurers pay certain insurance claims of insolvent insurers. These guaranty associations generally pay these claims by assessing solvent insurers proportionately based on the insurer's share of voluntary written premiums in the state. While most guaranty associations provide for recovery of assessments through rate increases, surcharges or premium tax credits, there is no assurance that insurers will ultimately recover these assessments. At December 31, 2003, the reserve for such assessments at OneBeacon totaled $23.9 million, of which $5.7 million related to the insolvency of Reliance Insurance Company.

Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit a private passenger automobile insurer's ability to cancel and non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing from one or more lines of insurance business in the state, unless the state regulators approve the company's withdrawal plans. State regulators may refuse to approve such plans on the grounds that they could lead to market disruption. Such laws and regulations may restrict White Mountains' ability to exit unprofitable markets.

Nearly all states have insurance laws requiring personal property and casualty insurers to file price schedules, policy or coverage forms, and other information with the state's regulatory authority. In most cases, such price schedules and/or policy forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that prices are adequate, not excessive and not discriminatory. For example, Massachusetts, a state where OneBeacon has a sizable presence, sets virtually all aspects of automobile insurance rates, including agent commissions. Such regulations often challenge an insurers ability to adequately price its product, which often leads to unsatisfactory underwriting results.

White Mountains' U.S. insurance subsidiaries are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. White Mountains investment portfolio at December 31, 2003 complied with such laws and regulations in all material respects.

One of the primary sources of cash inflows for the Company and certain of its intermediary holding companies is dividends received from its operating subsidiaries. Under the insurance laws of the jurisdictions under which White Mountains' insurance subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities. In a given calendar year, the insurance subsidiaries can generally dividend up to the greater of 10% of their statutory surplus at the beginning of the year or the prior year's statutory net income without prior regulatory approval, subject to the availability of unassigned funds (the statutory accounting equivalent of retained earnings). Larger dividends generally can be paid only upon regulatory approval. Accordingly, there is no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future. During 2003, OneBeacon's first-tier insurance subsidiaries declared and paid $279 million in cash and non-cash dividends to Fund American. OneBeacon's first-tier insurance subsidiaries have the ability to pay dividends of approximately $330 million to Fund American in 2004 without approval of regulatory authorities.

White Mountains is subject to regulation under certain state insurance holding company acts. These regulations contain reporting requirements relating to the capital structure, ownership, financial condition and general business operations of White Mountains' insurance and reinsurance subsidiaries. These regulations also contain special reporting and prior approval requirements with respect to certain transactions among affiliates. Since the Company is an insurance holding company, the domiciliary states of its insurance subsidiaries impose regulatory application and approval requirements on acquisitions of Common Shares which may be deemed to confer control over those subsidiaries, as that concept is defined under the applicable state laws. Acquisition of as little as 10% of White Mountains' Common Shares may be deemed to confer control under the insurance laws of some jurisdictions, and the application process for approval can be extensive and time consuming.

While the federal government does not directly regulate the insurance business, federal legislation and administrative policies affect the insurance industry. In addition, legislation has been introduced from time to time in recent years that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry. A federal law enacted in 2002, the Terrorism Act, provides a "back-stop" to property and casualty insurers in the event of future terrorist acts perpetrated by foreign agents or interests. The law limits the industry's aggregate liability by requiring the federal government to share 90 percent of certified losses once a company meets a specific retention or deductible as determined by its prior year's direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at $100 billion. In exchange for this "back-stop", primary insurers are required to make coverage available to commercial insureds for losses from acts of non-domestic terrorism as specified in the Terrorism Act. OneBeacon is actively complying with the requirements of the Terrorism Act in order to ensure its ability to be reimbursed by the federal government for any losses it may incur as a result of future terrorist acts. A number of additional enacted and pending legislative measures could lead to increased consolidation and increased competition for business and for capital in the financial services industry. White Mountains cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect such measures may have on its insurance and reinsurance operations.

Environmental cleanup of polluted waste sites is subject to both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes govern the cleanup and restoration of waste sites by potentially responsible parties ("PRPs"). These laws can impose liability for the entire cost of clean-up upon any responsible party, regardless of fault. The insurance industry in general is involved in extensive litigation regarding coverage issues arising out of the cleanup of waste sites by insured PRPs and as a result has disputed many such claims. From time to time, comprehensive Superfund reform proposals are introduced in Congress, but none has yet been enacted. At this time, it remains unclear as to whether Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims. The NICO Cover includes coverage for such exposures at OneBeacon; however, there can be no assurance that the coverage provided under the NICO Cover will ultimately prove to be adequate.

RATINGS

Insurance and reinsurance companies are evaluated by various rating agencies in order to measure each company's financial strength. Higher ratings generally indicate financial stability and a stronger ability to pay claims. A.M. Best currently rates OneBeacon's and Folksamerica's principal operating insurance subsidiaries "A" (Excellent, the third highest of fifteen ratings) and NFU and Fund American Re "A-" (Excellent, the fourth highest of fifteen ratings). White Mountains believes that strong ratings are important factors in the marketing of insurance and reinsurance products to agents and consumers and ceding companies.

EMPLOYEES

As of December 31, 2003, White Mountains employed 5,055 persons (consisting of 53 persons at the Company and its holding companies, 4,263 persons at OneBeacon, 250 persons at Folksamerica, 11 persons at WMU, 59 persons at Fund American Re, 331 persons at Esurance and 13 persons at the International American Group companies). Management believes that White Mountains has satisfactory relations with its employees.

AVAILABLE INFORMATION

The Company is subject to the informational reporting requirements of the Exchange Act. In accordance therewith, the Company files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These documents are available at www.whitemountains.com shortly after such material is electronically filed with or furnished to the SEC. In addition, the Company's code of business conduct and ethics as well as the various charters governing the actions of certain of the Company's Committees of its Board of Directors, including its Audit Committee, Compensation Committee and its Nominating and Governance Committee, are immediately available at www.whitemountains.com.

The Company will provide to any shareholder, upon request and without charge, copies of these documents (excluding any applicable exhibits unless specifically requested). Written or telephone requests should be directed to the Corporate Secretary, White Mountains Insurance Group, Ltd., 80 South Main Street, Hanover, New Hampshire 03755, telephone number (603) 640-2200. Additionally, all such documents are physically available at the Company's registered office at Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda.

Item 2. Properties

The Company maintains two professional offices in Hamilton, Bermuda which serve as its headquarters and its registered office. Fund American Re maintains branch offices in Stockholm, Sweden and in Singapore. WMU maintains offices in Dublin, Ireland and Bermuda. The home offices of OneBeacon and Folksamerica are located in Boston, Massachusetts and New York, New York, respectively, with branch offices in various cities throughout the United States. In addition, the Company maintains a professional office in Hanover, New Hampshire which serves as its principal executive office, and an office in Guilford, Connecticut, which houses its investment and corporate finance functions.

The Company's headquarters, registered office, principal executive office and investment and corporate finance office are leased. Fund American Re's branch offices in Sweden and Singapore and WMU's offices in Ireland and Bermuda are leased. The home offices of OneBeacon and Folksamerica and most of its branch offices are leased with the exception of branch offices located in New York, which are owned by OneBeacon. Certain leased and owned OneBeacon office locations have been leased or subleased to Liberty Mutual in connection with the Liberty Agreement for a period of no more than three years. Management considers its office facilities suitable and adequate for its current level of operations.

Item 3. Legal Proceedings

White Mountains, and the insurance and reinsurance industry in general, are subject to litigation and arbitration in the normal course of business. Other than those items listed below, White Mountains was not a party to any material litigation or arbitration other than as routinely encountered in claims activity, none of which is expected by management to have a material adverse effect on its financial condition and/or cash flows.

On May 15, 2002, The Robert Plan Corporation and several of its subsidiaries filed a lawsuit against the Company, certain of its subsidiaries and several individuals employed by the subsidiaries. The suit alleges that the defendants misappropriated confidential information of the plaintiffs and used such information to enter into the New York automobile assigned risk business in direct competition with the plaintiffs. The plaintiffs seek approximately $120 million in damages which they allege represents three years of their lost profits in the subject business. White Mountains, its named subsidiaries and employees do not believe they engaged in any improper or actionable conduct. At present, White Mountains and its subsidiaries have no reason to believe they have any liability to The Robert Plan Corporation and intend to vigorously defend the lawsuit. In addition, OneBeacon has brought a counterclaim against the plaintiffs that it believes to be meritorious. OneBeacon is seeking compensatory damages of $8.8 million as a result of the breach by the plaintiffs of the LAD servicing contract that OneBeacon had entered into with them.

In December 2001, American Centennial filed for arbitration against Gerling Global International Reinsurance Company ("Gerling"), a reinsurer of American Centennial, based on Gerling's failure to pay American Centennial amounts due under a reinsurance contract. Gerling had requested the arbitration panel to rescind the contract as of December 31, 2000 based upon, among other things, White Mountains' acquisition of American Centennial in 1999. A preliminary judgment was handed down in December 2003 in which the arbitrator ruled that Gerling had been harmed and they are entitled to a discount on certain amounts that it owes American Centennial under the contract. The impact of this discount is immaterial to White Mountains' financial condition. A final judgment handed down in January 2004 confirmed that the reinsurance contract will remain in-force. At December 31, 2003, American Centennial had recorded $22.7 million in recoverables from Gerling under this reinsurance contract, of which $9.8 million was for losses paid by American Centennial. Gerling has subsequently reimbursed American Centennial early in 2004 for the $9.8 million in paid recoverables. The remaining obligation on unpaid recoverables is fully collateralized.

On January 30, 2001, an action was filed in Los Angeles on behalf of Sierra National Life Insurance Holdings, Inc. ("Sierra Holdings", which is not related to the Sierra Group, as previously defined), a dissolved corporation in which White Mountains holds an interest, against Credit Lyonnais, S.A. and other parties who were the successful bidders for the assets of Executive Life Insurance Company ("ELIC"), a California insurer, in the 1991 sale of those assets conducted by the California Commissioner of Insurance. Sierra Holdings alleges that defendants' acquisition violated both federal and state law and that, but for defendants' wrongful acts, it would have been chosen to purchase ELIC's assets. Credit Lyonnais, S.A. and certain of the other defendants plead guilty to criminal charges associated with their acquisition of ELIC. The case is currently in active discovery but no trial date has yet been set.

In August 2000, Aramarine Brokerage, Inc. ("Aramarine"), a former insurance broker of OneBeacon's, filed a lawsuit alleging that OneBeacon had wrongfully terminated its business relationship with Aramarine. The suit originally claimed $410 million in compensatory damages for lost commissions, although Aramarine has recently reduced its demand to $158 million. OneBeacon does not believe it has engaged in any actionable conduct, has filed a motion for summary judgment and intends to vigorously defend the lawsuit.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the Company's shareholders during the fourth quarter of 2003.

PART II

Item 5. Market for the Company's Common Equity and Related Shareholder Matters

As of February 27, 2004, there were 425 registered holders of Common Shares of the Company, par value $1.00 per share.

During each of 2003 and 2002 the Company declared and paid cash dividends on Common Shares of $1.00 per Common Share. The Company's dividend payment policy provides for an annual dividend payable in the first quarter of each year, dependent on the Company's financial position and the regularity of its cash flows.

Common Shares are listed on the New York Stock Exchange (symbol WTM) and the Bermuda Stock Exchange (symbol WTM-BH). The quarterly range of the daily closing price for Common Shares during 2003 and 2002 is presented below:

	2003		2002	
	High	Low	High	Low
Quarter ended:				
December 31	$ 461.00	$ 413.00	$ 334.50	$ 284.50
September 30	416.75	362.00	340.00	285.00
June 30	420.50	340.00	378.00	316.50
March 31	340.00	311.70	352.98	326.50

Item 6. Selected Financial Data

Selected consolidated income statement data and ending balance sheet data for each of the five years ended December 31, 2003, follows:

$ in millions, except share and per share amounts	Year Ended December 31, 2003	2002	2001 [a]	2000 [b]	1999 [c]
Income Statement Data:					
Revenues	$ 3,806	$ 4,212	$ 3,234	$ 851	$ 548
Expenses	3,434	4,093	3,662	493	418
Pretax earnings (loss)	372	119	(428)	358	130
Income tax (provision) benefit	(127)	(11)	179	(43)	(42)
Accretion and dividends on preferred stock of subsidiaries	(21) [l]	(41)	(23)	–	–
Equity in earnings (loss) of unconsolidated affiliates	57	14	1	(2)	20
Net income (loss) from continuing operations	281	81	(271)	313	108
Net income from discontinued operations	–	–	–	95	13
Cumulative effect of changes in accounting principles	–	660 [k]	–	–	–
Extraordinary gains	–	7	12	–	–
Net income (loss)	$ 281	$ 748	$ (259)	$ 408	$ 121
Net income (loss) from continuing operations per share:					
Basic	$ 26.48	$ 7.47	$ (86.52)	$ 53.08	$ 19.25
Diluted	$ 23.63	$ 6.80	$ (86.52)	$ 52.84	$ 17.66
Balance Sheet Data:					
Total assets	$ 14,971	$ 16,034	$ 16,610	$ 3,545	$ 2,049
Short-term debt	–	33	358	–	4
Long-term debt	743	760	767	96 [d]	203
Deferred credits	–	– [k]	683 [e]	92	101 [f]
Convertible preference shares	–	219	–	–	–
Mandatorily redeemable preferred stock of subsidiaries	195 [l]	181	170	–	–
Common shareholders' equity [g]	2,979	2,408	1,445	1,046	614
Book value per share [h]	$ 293.15	$ 254.52	$ 160.36	$ 177.07	$ 103.32
Fully converted tangible book value per share [i]	$ 291.27	$ 258.82	$ 225.81	$ 187.85	$ 120.23
Share Data:					
Cash dividends paid per Common Share	$ 1.00	$ 1.00	$ 1.00	$ 1.20	$ 1.60
Ending Common Shares (000's)	9,007	8,351	8,245	5,880	5,946
Ending equivalent Common Shares (000's) [j]	1,775	2,455	1,803	81	–
Ending Common and equivalent Common Shares (000's)	10,782	10,806	10,048	5,961	5,946

(a) Includes the acquisition of OneBeacon on June 1, 2001 and its results of operations from that date through December 31, 2001. In connection with the OneBeacon Acquisition, White Mountains issued $1,085 million in debt. White Mountains also issued preferred stock of subsidiaries, warrants to acquire Common Shares and Convertible Preference Shares for total proceeds of $758 million.

(b) Includes the acquisitions of PCA and Risk Capital as well as the gain on the sale of White Mountains Holdings, Inc., which controlled a substantial portion of White Mountains' holdings in Financial Security Holdings, Ltd. ("FSA"), to Dexia S.A.

(c) Includes gains resulting from the sale of Valley Group, Inc. ("VGI") and the sale of substantially all the mortgage banking assets of White Mountains Services Corporation.

(d) Reflects a significant repayment of debt by Folksamerica during 2000.

(e) Deferred credits added during 2001 resulted from the purchase of OneBeacon. See Note 2.

(f) Deferred credits added during 1999 resulted principally from the purchase of the International American Group.

(g) Reflects an increase in common shareholders' equity in 2001 resulting from capital raising activities undertaken in connection with the OneBeacon Acquisition. See Note 2. Also reflects an increase in shareholders' equity in 2002 resulting from the recognition of $660 million in net deferred credits as a result of a change in accounting principles. See Note 1.

(h) Includes the dilutive effects of outstanding options and warrants to acquire Common Shares.

(i) Book value per share plus unamortized deferred credits less goodwill per Common and equivalent Common Share. The 2002 fully converted tangible book value per share assumes outstanding convertible preference shares to be equivalent Common Shares.

(j) Includes outstanding convertible preference shares, options and warrants to acquire Common Shares.

(k) In accordance with its adoption of Statement of Financial Accounting Standard No. 141, the Company recognized all of its outstanding deferred credits on January 1, 2002. See Note 1.

(l) In accordance with its adoption of the presentation provisions of Statement of Financial Accounting Standard No. 150, on July 1, 2003, the Company reclassified its outstanding mandatorily redeemable preferred stock from mezzanine equity to liabilities on its balance sheet and, beginning in the third quarter of 2003, White Mountains began presenting all accretion and dividends on its mandatorily redeemable preferred stock as interest expense. See Note 1.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Within the following discussion, references made to OneBeacon's operations relating to periods prior to the OneBeacon Acquisition have been made solely to illustrate significant trends and changes in OneBeacon's business that have occurred post-acquisition. White Mountains' reported results for periods prior to June 1, 2001 did not include the financial results of OneBeacon.

The following discussion contains "forward-looking statements". White Mountains intends statements which are not historical in nature, and are hereby identified as forward-looking statements, to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. White Mountains cannot promise that its expectations in such forward-looking statements will turn out to be correct. White Mountains' actual results could be materially different from and worse than its expectations. See **"FORWARD-LOOKING STATEMENTS"** *for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.*

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 and 2001

White Mountains ended 2003 with a fully converted tangible book value per Common Share of $291.27. This represents an increase of 13% (including dividends) over the fully converted tangible book value per Common Share of $258.82 as of December 31, 2002, which represented an increase of 15% over the fully converted tangible book value per Common Share of $225.81 as of December 31, 2001. White Mountains' management believes that the growth in fully converted tangible book value per common share represents a measure of value created at the Company over time that is more relevant than traditional GAAP measurements. A table showing the details of White Mountains' fully converted tangible book value per common and equivalent share can be found on page 53.

Review of Consolidated Results

White Mountains reported pre-tax income of $372.3 million for 2003, which represents a $252.9 million increase over the result for 2002 of $119.4 million. This was primarily due to the strong underwriting performance at OneBeacon and Folksamerica, as the GAAP combined ratios for 2003 of these businesses have improved by 9 and 5 points, respectively, over 2002. The following items impacted White Mountains' pre-tax results for 2003:

- $98 million net reserve increase for construction defect claims as part of the review of all claims recalled from Liberty Mutual by OneBeacon;
- $30 million release of a liability for New York assigned risks at OneBeacon as future assignments have been mitigated by OneBeacon's successful LAD operation, AutoOne Insurance;
- $50 million in gains (included in other revenue) in 2003 on the sale of several real estate properties previously written-off under purchase accounting for OneBeacon, compared to $16.6 million in 2002;

A tabular summary of White Mountains' consolidated financial results for the years ended December 31, 2003, 2002 and 2001 follows:

Millions	Year Ended December 31, 2003	2002	2001
Gross written premiums	$ 3,899.0	$ 4,421.6	$ 2,955.0
Net written premiums	$ 3,007.7	$ 3,293.5	$ 2,365.4
Revenues			
Earned insurance and reinsurance premiums	$ 3,137.7	$ 3,576.4	$ 2,656.1
Net investment income	290.9	366.0	284.5
Net realized investment gains	162.6	156.0	173.1
Amortization of deferred credits and other benefits	—	—	91.6
Other revenue	215.4	113.7	29.1
Total revenues	3,806.6	4,212.1	3,234.4
Expenses			
Losses and LAE	2,138.1	2,638.2	2,493.9
Insurance and reinsurance acquisition expenses	611.6	806.3	531.0
Other underwriting expenses	363.3	403.9	436.3
General and administrative expenses	201.8	92.7	40.2
Accretion of fair value adjustment to loss and LAE reserves	48.6	79.8	56.0
Interest expense - debt	48.6	71.8	45.7
Interest expense - dividends and accretion on preferred stock subject to mandatory redemption	22.3	—	—
Share appreciation expense for Series B Warrants	—	—	58.8
Total expenses	3,434.3	4,092.7	3,661.9
Pretax income (loss)	372.3	119.4	(427.5)
Tax benefit (provision)	(127.6)	(11.7)	179.2
Accretion and dividends on mandatorily redeemable preferred stock of subsidiaries	(21.5)	(40.9)	(23.2)
Equity in earnings of unconsolidated affiliates	57.4	14.0	.4
Net income (loss) before accounting changes and extraordinary items	280.6	80.8	(271.1)
Cumulative effect of changes in accounting principles	—	660.2	—
Excess of fair value of acquired net assets over cost	—	7.1	16.6
Loss on early extinguishment of debt	—	—	(4.8)
Net income (loss)	280.6	748.1	(259.3)
Other comprehensive income (loss)	79.0	202.3	(42.5)
Comprehensive net income (loss)	$ 359.6	$ 950.4	$ (301.8)

White Mountains' total revenues decreased by 10% in 2003 compared to 2002, as an increase in earned reinsurance premiums at Folksamerica was more than offset by a decrease in earned insurance premiums at OneBeacon as a result of the business transferred to Liberty Mutual under the Liberty Agreement. The residual effects of the Liberty Agreement will continue to decrease OneBeacon's earned insurance premiums in 2004. However, this decrease is expected to be more than offset by new premiums generated as a result of the Atlantic Mutual Transaction. Total revenues in 2003 were also impacted by decreased net investment income due to the runoff of loss reserves from OneBeacon's non-core business as well as the reduced interest rate environment. The decline in total revenues in 2003 was partially offset by an increase in other revenues, primarily as a result of $50 million in gains recorded during 2003 related to the sale of several real estate properties previously written-off under purchase accounting for OneBeacon and a $30 million increase in 2003 over 2002 in fees and commissions for business placed by WMU. The large increase in total revenues from 2001 to 2002 resulted primarily from the OneBeacon Acquisition, which contributed $2,870.9 million in earned premiums for the year ended December 31, 2002 and $2,208.2 million for the seven months ended December 31, 2001.

Total expenses decreased by 16% in 2003 as compared to 2002, as loss and LAE, as well as insurance acquisition and other underwriting expenses, continued to decrease at OneBeacon as a result of improved underwriting performance on its core businesses and as the non-core business runs-off through the Liberty Agreement. In addition, interest expense on debt decreased to $48.6 million in 2003 from $71.8 million in 2002 as a result of the repayment of the $260.0 million Seller Note in November 2002 and the issuance of the $700.0 million Senior Notes in May 2003 at a rate of 5.9% interest, which replaced the Old Bank Facility that had an interest rate of 7.0%, after giving effect to a series of interest rate swap agreements. Also contributing to the decrease in expenses was a decrease in the accretion of the fair value adjustment to the reserves acquired as part of the OneBeacon Acquisition. This accretion will continue to decrease as those acquired reserves are paid over time. Partially offsetting these expense decreases was an increase in general and administrative expense of $109.1 million in 2003 over 2002. This increase in general and administrative expenses was primarily related to share-based compensation expense at the holding company level, as a result of the run-up in the market price of Common Shares over the year resulting from the above-target performance of White Mountains in 2003. White Mountains expenses its full cost of all incentive compensation programs. This expense in spread amongst loss and lae, other underwriting expense and general and administrative expense for White Mountains insurance' and reinsurance operating subsidiaries, depending upon the function of the employees being compensated, and it is entirely included in general and administrative expenses in Other Operations.

I. Summary of Operations By Segment

White Mountains conducts its operations through three segments: (i) "OneBeacon" (consisting solely of the operations of OneBeacon), (ii) "Reinsurance" (consisting of Folksamerica, WMU, Fund American Re and White Mountains' investment in Montpelier) and (iii) "Other Operations" (consisting of the International American Group and the operations of the holding companies). White Mountains manages all of its investments through its wholly owned subsidiary, White Mountains Advisors LLC ("WM Advisors"), therefore, a discussion of White Mountains' consolidated investment operations is included after the discussion of operations by segment. White Mountains' segment information is presented in Note 13 to the Consolidated Financial Statements.

OneBeacon

A tabular summary of White Mountains' financial results from its OneBeacon segment for the twelve months ended December 31, 2003 and 2002 and the seven months ended December 31, 2001 follows:

	Year Ended December 31,		
Millions	2003	2002	2001
Gross written premiums	$ 2,358.0	$ 3,351.6	$ 2,279.3
Net written premiums	$ 2,004.0	$ 2,522.8	$ 1,878.2
Earned insurance and reinsurance premiums	$ 2,183.4	$ 2,870.9	$ 2,208.2
Net investment income	233.9	314.0	228.4
Net realized investment gains	127.1	113.0	183.1
Other revenue	90.5	14.4	–
Total revenues	2,634.9	3,312.3	2,619.7
Losses and LAE	1,493.8	2,131.3	2,073.8
Insurance and reinsurance acquisition expenses	394.9	629.1	403.2
Other underwriting expenses	258.7	329.2	377.9
General and administrative expenses	67.6	22.4	30.6
Interest expense on debt	.3	–	–
Total expenses	2,215.3	3,112.0	2,885.5
Pretax earnings (loss)	$ 419.6	$ 200.3	$ (265.8)

The following tables provide GAAP ratios, net written premiums and earned insurance premiums for OneBeacon's core underwriting units and in total for the years ended December 31, 2003, 2002, and 2001:

Twelve Months Ended December 31, 2003	Personal	Commercial	Specialty	Total Core	Total
GAAP Ratios [1]:					
Loss and LAE	61%	61%	59%	60%	68%
Expense	26%	34%	32%	30%	30%
Total Combined	87%	95%	91%	90%	98%
Dollars in millions					
Net written premiums	$ 942.2	$ 426.7	$ 499.9	$ 1,868.8	$ 2,004.0
Earned insurance premiums	$ 975.4	$ 432.0	$ 487.4	$ 1,894.8	$ 2,183.4

Twelve Months Ended December 31, 2002	Personal	Commercial	Specialty	Total Core	Total
GAAP Ratios [1]:					
Loss and LAE	70%	67%	62%	68%	74%
Expense	26%	33%	32%	29%	33%
Total Combined	96%	100%	94%	97%	107%
Dollars in millions					
Net written premiums	$ 1,092.1	$ 454.6	$ 449.7	$ 1,996.4	$ 2,522.8
Earned insurance premiums	$ 1,015.5	$ 527.4	$ 420.1	$ 1,963.0	$ 2,870.9

Twelve Months Ended December 31, 2001	Personal	Commercial	Specialty	Total Core	Total
GAAP Ratios [1]:					
Loss and LAE	84%	92%	68%	85%	88%
Expense	27%	37%	34%	32%	35%
Total Combined	111%	129%	102%	117%	123%
Dollars in millions					
Net written premiums	$ 857.0	$ 678.4	$ 390.6	$ 1,926.0	$ 3,466.9
Earned insurance premiums	$ 893.0	$ 756.7	$ 377.0	$ 2,026.7	$ 3,945.0

(1) A key measure of relative performance for an insurance company is the combined ratio. A GAAP combined ratio is calculated by adding (i) the ratio of incurred loss and LAE to earned premiums (the "loss and LAE ratio") and (ii) the ratio of acquisition and other underwriting expenses to earned premiums (the "expense ratio").

OneBeacon Results - Year Ended December 31, 2003 versus Year Ended December 31, 2002

Overview

OneBeacon's pre-tax income for 2003 was $419.6 million, compared to pre-tax income of $200.3 million for 2002, and its GAAP combined ratio was 98% for 2003 compared to 107% for 2002. All of OneBeacon's ongoing businesses, its "core" operations of personal, commercial, and specialty businesses, delivered combined ratios below 100% in 2003 and, in the second half of 2003, its core premiums grew for the first time since the OneBeacon Acquisition. OneBeacon's run-off business, its "non-core" operations, continued to shrink as the Liberty Agreement expired on October 31, 2003 and OneBeacon did not exercise its option to take a 10% quota share for the next three years.

OneBeacon's total revenues for 2003 declined by 20% compared to 2002, due principally to a 24% decline in earned premiums. The decline in earned premiums was due primarily to a reduction in premiums assumed under the Liberty Agreement. Total revenues for 2003 were also impacted by a 26% decrease in net investment income due to the runoff of loss reserves from OneBeacon's non-core business as well as the reduced interest rate environment.

Other revenues increased significantly in 2003 due mainly to fee revenue generated by New Jersey Skylands Management LLC and certain consolidated limited partnerships.

OneBeacon's total expenses for 2003 declined by 29% compared to 2002, primarily as a result of reduced premium writings and improved underwriting performance. Total expenses in 2003 include a net $145.2 million reserve increase in OneBeacon's non-core operations, primarily related to prior year construction defect claims, that was partially offset by an approximate $30 million release of the New York assigned risk liability. General and administrative expenses increased significantly in 2003 due mainly to expenses generated by New Jersey Skylands Management LLC and certain consolidated limited partnerships.

During the fourth quarter of 2003, OneBeacon sold one of its subsidiaries, National Farmers Union Standard Insurance Company ("NFU Standard"), for $22.4 million and recognized a $8.7 million gain on the sale though other revenues.

Core Underwriting Results

Core operations consist of personal and commercial lines sold through agents in the Northeast, and specialty businesses underwritten in various geographic areas throughout the United States. Core operations do not include business transferred to Liberty Mutual through the Liberty Agreement and certain other operations in run-off.

OneBeacon's GAAP combined ratio for core operations improved to 90% in 2003 from 97% in 2002, primarily from improved loss ratios. Expense ratios for 2003 were relatively consistent with 2002. The 2003 expense ratio was favorably impacted by the release of $30.0 million of the New York assigned risk liability, while the 2002 expense ratio was favorably impacted by a pre-tax gain of $35.1 million from the curtailment of OneBeacon's pension and retiree medical plan. Net written premiums and earned premiums for core operations were down 6% and 3% in 2003 as compared to 2002, primarily as a result of continued efforts to re-underwrite the Massachusetts automobile and New York commercial lines books, offset in part by price increases and new business generated by OBPP.

Personal Lines. Throughout its personal lines business, OneBeacon has focused on improving its underwriting and pricing. During 2003, OneBeacon continued to improve premium adequacy through rate increases approved by regulators, re-underwriting efforts, aggressive rate pursuit actions and continued improvement in insurance-to-value programs in its homeowners line. As a result, OneBeacon achieved average price increases of 2% and 16% in automobile and homeowners, respectively, in 2003.

OneBeacon's core personal lines written premium volume for 2003 decreased 14% from 2002, primarily due to re-underwriting efforts such as actions to reduce exposure to windstorms on total insured property values located in coastal areas. Also contributing to the decrease were declines in written premium relating to the transfer of OneBeacon's private passenger automobile business in New Jersey to New Jersey Skylands Insurance Association in 2002 and lower premiums at AutoOne Insurance, offset partially by increased writings from Esurance. AutoOne Insurance's written premium volume was lower in 2003 primarily as a result of lower assignments from the NYAIP, partially offset by the sale of takeout credits under the NYAIP's credit programs.

OneBeacon's core personal lines expenses for 2003 include the impact of a $30.0 million reduction in a liability for New York assigned risks, which reduced the core personal lines combined ratio by 3 points for 2003. The release of this liability resulted from changes in the New York assigned risk market, including a depopulation of the assigned risk pool and favorable revisions to the structure of credit programs. Additionally, during 2003, AutoOne Insurance's prior year reserves developed favorably by $17.2 million, representing a reduction of 2 points in the personal lines combined ratio for 2003.

Commercial Lines. Commercial lines results improved during 2003 due to the positive impact of underwriting and pricing initiatives. Re-underwriting the commercial book has resulted in average price increases of 11% for business written during 2003. Commercial lines results were also improved by changes in business mix away from historically less profitable business lines such as workers compensation. Additionally, OneBeacon continued to shift away from certain classes of risks within its business lines that have historically been less profitable, such as contractors, transportation and non-durable wholesalers, to more profitable industry segments, such as service providers, retailers and light manufacturers. The improvement was mitigated by adverse development on prior year

reserves of $13.1 million in connection with the run-off of old workers compensation and contractor business, which added 3 points to the commercial lines combined ratio for 2003.

OneBeacon's core commercial lines written premium volume for 2003 decreased 6% from 2002, primarily due to the continued effects of actions taken to reduce the concentration of risks subject to terrorism, such as reducing total insured values in 11 major cities, and reductions in workers compensation writings.

Management has been pleased with the changes that it has implemented in OneBeacon's commercial lines business since the OneBeacon Acquisition and is now beginning to shift its focus from shrinking the business to profitable growth. Consequentially, on December 4, 2003, OneBeacon entered into an agreement in principle to acquire the Atlantic Specialty Insurance Company, a subsidiary of Atlantic Mutual, and the renewal rights to Atlantic Mutual's commercial insurance business. Upon consummation of the acquisition of this segmented middle-market business, OneBeacon will start underwriting commercial business throughout the United States, bringing the best of Atlantic Mutual's and OneBeacon's commercial products, services and people to the market.

Specialty Lines. Overall results for specialty businesses continue to be good. During 2003, OneBeacon wrote specialty lines premiums of $499.9 million, representing an 11% increase as compared to $449.7 million written during 2002. Written premiums for 2003 included $125.7 million from IMU, representing an increase of 15% over 2002. Written premiums from Agri declined to $84.0 million in 2003, a decrease of 18% as compared to 2002, resulting from an exit from several states. Specialty lines written premium also included $169.0 million from NFU in 2003, representing an increase of 2% compared to 2002. Written premiums for 2003 included $68.7 million from OBPP, which were primarily for excess errors and omissions liability coverages for mid-size hospitals and managed care companies and excess directors and officers liability coverages for middle market public companies. Written premiums from other specialty products were relatively flat in 2003 as compared to 2002.

Non-core Operations

Non-core operations include the business subject to the reinsurance provisions of the Liberty Agreement. Written premiums for Non-core operations were $135.2 million in 2003, a decrease of 74% compared to 2002, as written premiums on business subject to the Liberty Agreement decreased to $130.4 million in 2003 from $496.7 million in 2002. This decrease was due primarily to the change in OneBeacon's share of the underwriting results under the Liberty Agreement from two-thirds to one-third and also a decline in renewals of policies subject to the Liberty Agreement. As further described below, non-core results also included prior accident year reserve development of $145.2 million during 2003, of which $97.7 million related to construction defect claims which emerged from commercial multiple peril and general liability coverages written in the 1990s and $12.0 million related to a significant 1995 property claim from a pool in which OneBeacon had participated (the Industrial Risk Insurers pool) that was settled through an arbitration decision during 2003.

Pursuant to the Liberty Agreement, Liberty Mutual assumed control of OneBeacon's claims offices in the regions subject to the Liberty Agreement and was responsible for servicing claims from the OneBeacon policies written prior to November 1, 2001, as well as policies which renewed in those regions since that date. As previously discussed, effective July 11, 2003, the servicing agreement with Liberty Mutual was amended and OneBeacon took back substantially all remaining outstanding claims related to policies written prior to the Liberty Agreement. During the second quarter of 2003, OneBeacon claims and actuarial personnel noticed an unusual spike in case reserves related to the policies taken back from Liberty Mutual. As a result, OneBeacon claims and actuarial personnel undertook a study to determine the cause of the increase. This study, which was completed in the third quarter of 2003, indicated that most of the increase in activity was due to differences in case reserving philosophies between OneBeacon's and Liberty's claims adjusters, such as the identification and coding of construction defect claims. However, the study also indicated that some of the increase in activity related to an increase in the severity of construction defect claims stemming from increased litigation and resulting adverse court decisions. As a result, OneBeacon recorded an increase for construction defect claim reserves of $97.7 million in the third quarter of 2003. See page 11 for further background on construction defect claims.

OneBeacon Results - Year Ended December 31, 2002 versus Seven Months Ended December 31, 2001

Overview

OneBeacon's pre-tax income for 2002 was $200.3 million, compared to pre-tax loss of $265.8 million for the seven months ended December 31, 2001. OneBeacon's results for the year ended December 31, 2002 improved from those for the seven months after the date of the OneBeacon Acquisition, mainly due to improved pricing and other market conditions, mild weather and actions taken post-acquisition to improve the business. The results for the seven months ended December 31, 2001 included $75.0 million in losses from the Attacks. Total revenues and total expenses for 2002 increased by 26% and 8% over 2001, primarily as a result of the inclusion of a full year of OneBeacon's results in 2002, versus the seven months in 2001 after the OneBeacon Acquisition. A full year over year comparison of OneBeacon's total revenues and total expenses showed a 33% and 36% decrease in 2002 from all of 2001, which is principally due to the decrease in business volume resulting from the Liberty Agreement.

OneBeacon's total GAAP combined ratio, including non-core business, was 107% for the year ended December 31, 2002 compared to 123% for all of 2001 (which included approximately 3 points as a result of the Attacks). Net written premiums and earned premiums on OneBeacon's total business were down to $2.5 billion and $2.9 billion, respectively, in 2002 from $3.5 billion and $3.9 billion, respectively, for all of 2001, as premiums from non-core operations continued to run-off.

Core Underwriting Results

OneBeacon's GAAP combined ratio for core operations improved to 97% for 2002, compared to 117% for all of 2001. Net written premiums and earned premiums for core operations were both $2.0 billion for the year ended 2002 and $1.9 billion and $2.0 billion, respectively, for all of 2001, as price increases were offset by reductions in volume necessary to re-underwrite the book and reduce exposure to catastrophe claims.

Personal Lines. OneBeacon improved premium adequacy in 2002 through rate increases approved by regulators, re-underwriting efforts, aggressive rate pursuit actions and continued improvement in insurance-to-value programs in its homeowners line. As a result, OneBeacon achieved price increases of 19% and 22% in automobile and homeowners, respectively, during 2002, compared with increases of 4% and 7% in 2001. OneBeacon's personal lines written premium volume from core operations for 2002 increased 27% as compared to all of 2001 due primarily to new business produced by AutoOne Insurance. Excluding AutoOne Insurance written premium and LAD servicing fees, written premium volume decreased 1% from written premium for all of 2001. This decrease was due to actions to reduce exposure to windstorms on property located in coastal areas, a decision to reduce exposure to the private passenger automobile business in Massachusetts due to unfavorable market conditions and the formation of a reciprocal insurance carrier in New Jersey.

Commercial Lines. Commercial lines results significantly improved in 2002 due to the positive impact of underwriting and pricing initiatives as well as good weather. However, they fell short of OneBeacon's target due to the effects of large losses and a significant decrease in OneBeacon's premium base. Premium written for 2002 decreased 33% from all of 2001 primarily due to actions to reduce the concentration of risks subject to terrorism exposure, as well as continued efforts to re-underwrite the commercial book, terminate underperforming accounts and agencies and tighten credit terms toward market standards. The GAAP combined ratio for 2001 includes approximately 13 points of losses attributable to the Attacks. Price increases of 21% were achieved for business written during 2002 as compared to 16% for all of 2001.

Specialty Lines. Overall results for specialty businesses in 2002 were excellent as compared to 2001, as written premiums grew due to rate increases, favorable weather conditions, high renewal retentions and new business. During 2002, OneBeacon wrote Specialty lines premiums of $449.7 million, a 15% increase as compared to $390.6 million written during all of 2001. The 2002 written premium included $109.0 million from IMU and $103.0 million from Agri, representing 18% and 11% increases in written premium, respectively, as compared to all of 2001. 2002 written premium also included $165.5 million from NFU, representing a 2% decrease in written premium compared to all of 2001. Specialty lines written premium also included $28.7 million of new written premiums during 2002 from OBPP, which commenced operations in February 2002.

Non-core Operations

Results for OneBeacon's non-core businesses during 2002 were worse than expected. Written premiums decreased to $526.4 million in 2002, from $1.6 billion for all of 2001. For 2002, written premiums on business subject to the Liberty Agreement decreased to $496.7 million from $1.4 billion for all of 2001. In 2002, OneBeacon also recognized a $22.8 million pretax write-off of deferred acquisition costs associated with its business subject to the Liberty Agreement.

Reinsurance

White Mountains' Reinsurance segment consists of Folksamerica, WMU, Fund American Re and White Mountains' investment in Montpelier. Pre-tax income for White Mountains' Reinsurance segment was $192.6 million in 2003, compared to $165.5 million in 2002 and a pre-tax loss of $46.1 million in 2001. Pre-tax income included net realized investment gains of $40.3 million in 2003, versus $88.3 million in 2002 and $23.9 million in 2001. Net realized investment gains in 2003 and 2002 included $32.5 million and $58.0 million, respectively, from the Montpelier Warrants. A tabular summary of White Mountains' financial results from its Reinsurance segment for the years ended December 31, 2003, 2002 and 2001 follows:

Millions	Folksamerica	WMU	Fund American Re[1]	Montpelier Warrants[1]	Total
Year ended December 31, 2003					
Gross written premiums	$ 1,411.0	$ –	$ 88.8	$ –	$ 1,499.8
Net written premiums	$ 889.2	$ –	$ 81.4	$ –	$ 970.6
Earned insurance and reinsurance premiums	$ 844.3	$ –	$ 78.3	$ –	$ 922.6
Net investment income	50.9	.1	3.2	–	54.2
Net realized investment gains (losses)	11.0	(2.0)	(1.2)	32.5	40.3
Other revenue	2.9	66.3	6.3	–	75.5
Total revenues	909.1	64.4	86.6	32.5	1,092.6
Losses and LAE	567.6	–	52.8	–	620.4
Insurance and reinsurance acquisition expenses	180.1	–	16.9	–	197.0
Other underwriting expenses	56.4	–	4.6	–	61.0
General and administrative expenses	9.8	4.9	4.9	–	19.6
Interest expense on debt	2.0	–	–	–	2.0
Total expenses	815.9	4.9	79.2	–	900.0
Pretax income	$ 93.2	$ 59.5	$ 7.4	$ 32.5	$ 192.6