Millions	Folksamerica	WMU	Fund American Re[1]	Montpelier Warrants[1]	Total
Year ended December 31, 2002					
Gross written premiums	$ 965.3	$ –	$ 69.7	$ –	$ 1,035.0
Net written premiums	$ 678.7	$ –	$ 62.5	$ –	$ 741.2
Earned insurance and reinsurance premiums	$ 620.5	$ –	$ 55.3	$ –	$ 675.8
Net investment income	50.8	–	1.9	–	52.7
Net realized investment gains (losses)	29.3	(.6)	1.6	58.0	88.3
Other revenue	11.7	35.7	6.2	–	53.6
Total revenues	712.3	35.1	65.0	58.0	870.4
Losses and LAE	431.9	–	46.9	–	478.8
Insurance and reinsurance acquisition expenses	147.5	–	13.6	–	161.1
Other underwriting expenses	40.2	–	2.2	–	42.4
General and administrative expenses	12.0	4.0	4.6	–	20.6
Interest expense on debt	2.0	–	–	–	2.0
Total expenses	633.6	4.0	67.3	–	704.9
Pretax income (loss)	$ 78.7	$ 31.1	$ (2.3)	$ 58.0	$ 165.5
Year ended December 31, 2001					
Gross written premiums	$ 641.8	$ –	$ –	$ –	$ 642.4
Net written premiums	$ 458.9	$ –	$ –	$ –	$ 458.9
Earned insurance and reinsurance premiums	$ 421.5	$ –	$ –	$ –	$ 421.5
Net investment income	45.6	–	.5	–	46.1
Net realized investment gains	23.9	–	–	–	23.9
Amortization of deferred revenue and other benefits	14.1	–	–	–	14.1
Other revenue	3.2	–	–	–	3.2
Total revenues	508.3	–	.5	–	508.8
Losses and LAE	385.0	–	.4	–	385.4
Insurance and reinsurance acquisition expenses	124.6	–	–	–	124.6
Other underwriting expenses	31.4	–	–	–	31.4
General and administrative expenses	12.6	.3	.2	–	13.1
Interest expense	.4	–	–	–	.4
Total expenses	554.0	.3	.6	–	554.9
Pretax loss	$ (45.7)	$ (.3)	$ (.1)	$ –	$ (46.1)

(1) The Montpelier Warrants were contributed to Fund American Re by one of the Company's intermediate holding companies on October 1, 2003. During the fourth quarter of 2003, Fund American Re recognized a $27.4 million realized gain on the Montpelier Warrants, which for purposes of this presentation has been excluded from its results and presented in the Montpelier Warrants column. Fund American Re's actual reported pretax income, including the Montpelier Warrants, was $34.8 million for the year ended December 31, 2003.

Folksamerica. The following table provides GAAP combined ratios for Folksamerica for the years ended December 31, 2003, 2002 and 2001:

	Years Ended December 31,		
	2003	2002	2001
GAAP ratios:			
Loss and LAE	67%	70%	91%
Expense	28%	30%	37%
Total Combined	95%	100%	128%

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

Folksamerica's GAAP combined ratio improved to 95% for 2003, from 100% for 2002. The improvement in Folksamerica's combined ratio resulted primarily from more favorable terms and conditions in the reinsurance marketplace, and fewer catastrophe losses affecting Folksamerica in 2003 as compared to 2002. The GAAP combined ratio for 2002 included three points of catastrophe losses, mainly due to $9.7 million of additional losses related to the Attacks and $6.6 million of net incurred losses related to European floods during 2002.

Folksamerica's gross written premiums increased 46% from 2002 to 2003, while net written premiums increased 31% and earned premiums increased 36%. The increases in net written and earned premiums were due to increased pricing on Folksamerica's expiring and renewed contracts, increased shares on renewed contacts and new contracts resulting from the increased demand of reinsurance buyers for placing reinsurance with responsible, well-capitalized reinsurers. Folksamerica expects that favorable terms and conditions will continue in most classes of business, however, increasing competition may begin to adversely impact the current favorable environment. Also contributing to the increase in net written premiums was Folksamerica's relationship with WMU, which began in 2002 and has resulted in referrals of international reinsurance placements to Folksamerica. Additionally, under quota share agreements, Folksamerica cedes up to 75% of substantially all underwritten business referred to it by WMU and 75% of substantially all of its short-tailed, non-casualty excess of loss business, as well as 50% of its property proportional business, to Olympus. During 2003, Folksamerica ceded $449.1 million in written premiums and $107.0 million in losses and LAE to Olympus. The additional capacity provided by the quota share relationship with Olympus and the $400.0 million cash contribution Folksamerica received from OneBeacon in December 2001 enhanced Folksamerica's ability to provide significant reinsurance capacity, resulting in the increases described above.

Folksamerica experienced approximately $46 million of unfavorable loss reserve development during 2003, primarily due to strengthening of A&E reserves and reserves on Risk Capital casualty lines. Folksamerica's 2003 loss development for A&E exposures was due to the completion of a detailed A&E market share study. This study compared Folksamerica's share of industry paid losses to estimated industry carried reserves and resulted in Folksamerica increasing its IBNR by approximately $25 million.

Folksamerica's loss and LAE also included income from the amortization of deferred gains on retroactive reinsurance provided by the Imagine Cover of $8.2 million and $8.5 million during 2003 and 2002. The reinsurance benefits for adverse development on prior years' reserves are deferred and recognized into income over the expected settlement period of the underlying claims. The amounts ceded and deferred under the retroactive portion of this contract totaled $5.0 million and $21.7 million during 2003 and 2002. As of December 31, 2003, the entire $115.0 million limit on this contract was fully utilized.

As a result of the renewal rights agreement with CNA Re, Folksamerica entered into reinsurance contracts that resulted in written premiums of approximately $95 million through January 1, 2004. These premiums will be recorded as revenue as they are earned.

Folksamerica Results - Year Ended December 31, 2002 versus Year Ended December 31, 2001

Folksamerica's GAAP combined ratio improved to 100% for 2002, from 128% for 2001 (which included twelve points of catastrophe losses, including approximately six points as a result of the Attacks). The GAAP combined ratio for 2002 included three points of catastrophe losses, mainly due to $9.7 million of additional losses related to the Attacks and $6.6 million of net incurred losses related to European floods during the third quarter of 2002.

Aside from the lower level of incurred catastrophe losses, the improvement in Folksamerica's 2002 results was attributable to the continuing positive trends in reinsurance pricing, terms and conditions that began before, and became more dramatic after, the Attacks.

Folksamerica's net written and earned premiums were $678.7 million and $620.5 million for 2002, respectively, representing an approximately 48% and 47% increase over 2001. The reasons for the increase in net written and earned premiums in 2002 were similar to those described above for the corresponding increases in 2003. Additionally, during 2002 Folksamerica recorded $11.7 million of other revenues, of which $7.3 million related to PCA.

Folksamerica's 2002 losses and LAE include $6.6 million, net of reinstatement premiums, related to European Floods during the third quarter of 2002 as well as $9.7 million of additional losses related to the Attacks. These catastrophe losses accounted for 3 points of Folksamerica's GAAP combined ratio of 100% for 2002. Folksamerica's losses and LAE for 2002 included $17.0 million related to prior accident years. This prior year development consisted primarily of (i) additional losses of $9.7 million relating to the Attacks, (ii) additional losses of $7.3 million from aviation insurance coverage, in relation to the Risk Capital business, (iii) reserve additions relating to asbestos and environmental losses of $11.4 million, (iv) $3.5 million of adverse development relating to the remaining business from the USF Re acquisition, offset by (v) $17.0 million of net income recorded during the first quarter from the reversal of an allowance for doubtful reinsurance recoveries related to PCA. These losses, with exception of the those relating to the Attacks, were covered under the Imagine Cover, and were partially offset by amortization of the deferred gain related to retroactive reinsurance (see below).

During 2001, Folksamerica recorded gross losses from the Attacks of approximately $104.0 million, or approximately $25.0 million net of reinsurance recoverables and reinstatement costs. This loss represented approximately six points of its 2001 GAAP combined ratio. Folksamerica also established a reserve of $5.0 million for Enron-related surety exposures in 2001.

Folksamerica's 2001 losses and LAE included $25.0 million in losses related to prior accident years representing (i) higher than expected reported losses in Folksamerica's property excess line and (ii) an increase in reserves related to losses arising from the portfolios acquired from the USF Re and Risk Capital. Folksamerica's losses and LAE for 2000 included $22.9 million related principally to prior accident years representing losses arising from the portfolios acquired with USF Re and Risk Capital, nearly all of which was covered under the Imagine Cover described below.

Folksamerica's results do not take into account the full favorable impact of the retroactive coverage provided by the Imagine Cover or the indemnification of losses associated with certain of Folksamerica's acquisitions in recent years. The reinsurance benefit recorded on recoverables for adverse development on prior years' reserves are deferred and recognized into income over the expected settlement period of the underlying claims. The reinsurance benefits obtained from this contract totaled $21.7 million and $22.2 million for 2002 and 2001, respectively. The adverse loss development ceded under the retroactive reinsurance agreement in 2002 included A&E losses of $11.4 million and losses relating to the business acquired with Risk Capital of $7.3 million.

WMU. WMU receives advisory fees on reinsurance placements referred to Olympus and is entitled to a profit commission on net profits on referred business. WMU placed $173.6 million of written premiums and recorded $20.8 million of advisory fees during 2003, as compared to $120.2 million and $14.4 million, respectively, in 2002. WMU also recorded $45.2 million of profit commissions during 2003, as compared to $21.3 million for 2002.

WMU also receives management fees and a profit commission on business placed with Folksamerica. However, the revenues earned by WMU on business underwritten by Folksamerica has been eliminated from WMU's results provided above, as have the offsetting commission expenses been eliminated from Folksamerica's results. Such intercompany revenue at WMU totaled $14.2 million for 2003 and $7.9 million for 2002.

Fund American Re. Fund American Re reported pretax earnings of $7.4 million for 2003, versus pretax losses of $2.3 million and $.1 million in 2002 and 2001, respectively. The improved results in 2003 were mainly due to income from a termination fee related to Fund American Re's management of the remaining business of Folksam International (the company from which Fund American Re purchased its international reinsurance business in 2001). Fund American Re also experienced improved underwriting results in 2003 as its GAAP combined ratio improved to 95%, compared to 113% in 2002.

Fund American Re's 2003 results reported in the table on page 42 do not include $27.4 million of realized gains recognized under SFAS 133 (as defined below) related to changes in the fair value of the Montpelier Warrants, which were contributed to Fund American Re by one of the Company's intermediate holding companies on October 1, 2003. A discussion of White Mountains' investment in Montpelier on a consolidated basis follows below.

Montpelier. As of December 31, 2003, White Mountains' investment in Montpelier consists of common shares, which are accounted for under the equity method, and warrants to acquire additional common shares at a fixed price, which are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). Through its holdings of common shares and warrants, White Mountains owned approximately 21% of Montpelier on a fully-converted basis as of December 31, 2003.

Pre-tax amounts recorded by White Mountains relating to its investment in Montpelier as of and for the periods ended December 31, 2003, 2002 and 2001 follow:

Millions	Common shares	Warrants	Total
Original cost of White Mountains' investment in Montpelier as of December 6, 2001	$ 180.0	$ –	$ 180.0
Equity in loss from Montpelier common shares [1]	(3.0)	–	(3.0)
Equity in net unrealized investment gains from Montpelier's investment portfolio	.4	–	.4
White Mountains' investment in Montpelier as of December 31, 2001	$ 177.4	$ –	$ 177.4
Realized gains from Montpelier Warrants	$ –	$ 58.0	$ 58.0
Equity in earnings from Montpelier common shares [1]	30.7	–	30.7
Equity in net unrealized investment gains from Montpelier's investment portfolio	5.7	–	5.7
White Mountains' investment in Montpelier as of December 31, 2002	$ 213.8	$ 58.0	$ 271.8
Realized gains from Montpelier Warrants [2]	$ –	$ 32.5	$ 32.5
Equity in earnings from Montpelier common shares [1]	69.5	–	69.5
Dividends declared on Montpelier common shares	(3.7)	–	(3.7)
Equity in net unrealized investment gains from Montpelier's investment portfolio	3.1	–	3.1
White Mountains' investment in Montpelier as of December 31, 2003	$ 282.7	$ 90.5	$ 373.2
Fair value of White Mountains' investment in Montpelier as of December 31, 2003	$ 396.3	$ 90.5	$ 486.8

[1] After-tax equity in earnings/(losses) from Montpelier common shares were $45.2 million, $19.9 million and $(2.0) million for the years ended December 31, 2003, 2002 and 2001, respectively.

[2] The Montpelier Warrants were contributed to Fund American Re by one of the Company's intermediate holding companies on October 1, 2003. $27.4 million of the $32.5 million realized gain in 2003 was recorded by Fund American Re during the fourth quarter. However, for purposes of this presentation, this realized gain is not included in Fund American Re's pretax earnings, but is included in this consolidated presentation of White Mountains' investment in Montpelier.

As of December 31, 2003, Montpelier's shareholders' equity totalled approximately $1.7 billion versus $1.3 billion as of December 31, 2002. Montpelier wrote net premiums of $778.0 million and had total earned premiums of $705.4 million in 2003, compared to $565.9 million and $329.9 million, respectively, for 2002. During 2003, Montpelier reported net income of $407.1 million, with comprehensive net income of $425.3 million, compared to $152.0 million and $185.7 million, respectively, for 2002. Montpelier's 2003 reported return on equity on a diluted basis was 30% and its GAAP combined ratio was 50%, compared to 18% and 67%, respectively, for 2002.

A large portion of Montpelier's business is global specialty property reinsurance which has large aggregate exposures to natural and man-made disasters. As such, management expects that Montpelier's claim experience from this business will be the result of relatively few claims of high magnitude. The occurrence of claims from catastrophic events is likely to result in substantial volatility in, and could have a material adverse effect on, Montpelier's financial condition and results and their ability to write new business.

Other Operations

White Mountains' Other Operations segment consists of the International American Group and Esurance ("Other Insurance Operations"), as well as the operations of the Holding Companies. A tabular summary of White Mountains' financial results from its Other Operations segment for the years ended December 31, 2003, 2002 and 2001 follows:

Millions	Other Insurance Operations	Holding Companies	Total Other Operations
Year ended December 31, 2003			
Gross written premiums	$ 41.2	$ –	$ 41.2
Net written premiums	$ 33.1	$ –	$ 33.1
Earned insurance and reinsurance premiums	$ 31.7	$ –	$ 31.7
Net investment income (losses)	4.0	(1.2)	2.8
Net realized investment gains (losses)	.9	(5.7)	(4.8)
Other revenue	13.8	35.6	49.4
Total revenues	50.4	28.7	79.1
Losses and LAE	23.9	–	23.9
Insurance and reinsurance acquisition expenses	19.7	–	19.7
Other underwriting expenses	43.6	–	43.6
General and administrative expenses (including all incentive compensation)	–	114.6	114.6
Accretion of loss and LAE reserves	–	48.6	48.6
Interest expense on debt	–	46.3	46.3
Interest expense on shares subject to mandatory redemption	–	22.3	22.3
Total expenses	87.2	231.8	319.0
Pretax loss	(36.8)	(203.1)	(239.9)
Year ended December 31, 2002			
Gross written premiums	$ 35.0	$ –	$ 35.0
Net written premiums	$ 29.5	$ –	$ 29.5
Earned insurance and reinsurance premiums	$ 29.7	$ –	$ 29.7
Net investment income (losses)	4.9	(5.6)	(.7)
Net realized investment losses	(.2)	(45.1)	(45.3)
Other revenue	6.5	39.2	45.7
Total revenues	40.9	(11.5)	29.4
Losses and LAE	28.1	–	28.1
Insurance and reinsurance acquisition expenses	16.1	–	16.1
Other underwriting expenses	32.3	–	32.3
General and administrative expenses (including all incentive compensation)	–	49.7	49.7
Accretion of loss and LAE reserves	–	79.8	79.8
Interest expense on debt	–	69.8	69.8
Total expenses	76.5	199.3	275.8
Pretax loss	$ (35.6)	$ (210.8)	$ (246.4)

Millions	Other Insurance Operations	Holding Companies	Total Other Operations
Year ended December 31, 2001			
Gross written premiums	$ 33.3	$ –	$ 33.3
Net written premiums	$ 28.3	$ –	$ 28.3
Earned insurance and reinsurance premiums	$ 26.4	$ –	$ 26.4
Net investment income	5.6	4.4	10.0
Net realized investment gains (losses)	1.1	(35.0)	(33.9)
Amortization of deferred revenue and other benefits	–	77.5	77.5
Other revenue	.3	25.6	25.9
Total revenues	33.4	72.5	105.9
Losses and LAE	34.7	–	34.7
Insurance and reinsurance acquisition expenses	3.2	–	3.2
Other underwriting expenses	27.0	–	27.0
General and administrative expenses (including all incentive compensation)	–	(3.5)	(3.5)
Accretion of loss and LAE reserves	–	56.0	56.0
Interest expense on debt	–	45.3	45.3
Share appreciation expense for Series B Warrants	–	58.8	58.8
Total expenses	64.9	156.6	221.5
Pretax loss	$ (31.5)	$ (84.1)	$ (115.6)

Other Insurance Operations Esurance reported $35.9 million of pretax losses during 2003, compared to $29.7 million and $21.2 million in 2002 and 2001, respectively. Substantially all of the business generated by Esurance was directly written or assumed by subsidiaries of White Mountains. Premium and loss and LAE are included in the underwriting unit that ultimately retains the risk under the policy written through Esurance. Commission and management fee revenues earned by Esurance on business retained by other White Mountains insurance subsidiaries have been eliminated from Esurance's segment results provided above, as have the offsetting commission expenses been eliminated from the insurance subsidiaries' results. Such intercompany revenue at Esurance totaled $20.8 million in 2003 and $5.1 million in 2002. In addition, interest on intercompany loans from Folksamerica to Esurance has also been eliminated from the results of both companies.

The International American Group contributed $.9 million of pretax losses for 2003, compared to $5.9 million and $10.3 million in 2002 and 2001. During the periods presented, Peninsula was the only active company in the group, and therefore it accounts for all of the premiums reported in the tables above. During January of 2004, White Mountains sold Peninsula for $23.3 million. The operations of American Centennial and British Insurance Company are not significant to White Mountains, as those companies have been in run-off since they were acquired in 1999.

Holding company and financing activities. White Mountains' capital raising and capital allocation activities are principally conducted through the Holding Companies. In this regard, the results of its Holding Companies primarily relate to financing activities, purchase accounting adjustments relating to the OneBeacon Acquisition, gains and losses recognized from the purchase and sale of certain of the Company's subsidiaries and other assets and general and administrative expenses incurred at the holding company level.

White Mountains' Holding Companies reported a pretax loss of $203.1 million for 2003, compared to pretax losses of $210.8 million and $84.1 million in 2002 and 2001. The loss in 2003 was net of $43 million in gains that were included as other revenue in this segment related to the sale of several real estate properties at OneBeacon previously written-off under purchase accounting. White Mountains' Holding Companies recorded $39.2 million of other revenues during 2002, which consisted primarily of (i) gains from sales of certain real estate assets that had previously been written-off as part of purchase accounting for the OneBeacon Acquisition and (ii) interest income recorded on amounts due resulting from Internal Revenue Service examinations which were finalized during the

period. White Mountains' Holding Companies recorded other revenues of $25.6 million during 2001, which consisted primarily of net gains on the sales of certain insurance subsidiaries (mainly Waterford Insurance Company) and net gains on sales of certain real estate assets that had previously been written-off as part of purchase accounting for the OneBeacon Acquisition. Total revenues at the Holding Companies for 2003, 2002 and 2001 were net of $4.2 million, $47.4 million and $4.8 million, respectively, in realized investment losses related to White Mountains' interest rate swap agreements.

General and administrative expenses at the Holding Companies consist primarily of compensation expenses of holding company employees, including share-based expense related to outstanding performance shares, Options and Restricted Shares (See Note 9). Compensation expense at the Holding Companies increased to $116.7 million in 2003, from $43.4 million in 2002 and $(.7) million in 2001. The majority of this increase is due to $89.1 million of performance share expense recognized at the Holding Companies in 2003, as compared to $17.8 million in 2002 and $(16.2) million in 2001. The increase in performance share expense in 2003 was due to many factors, including (i) the increase in the per share market value of Common Shares ($459.95 at December 31, 2003, compared to $323.00 and $348.00 at December 31, 2002 and 2001), (ii) the exceptional performance of the Company and its operating subsidiaries in relation to performance targets in 2003, (iii) the inclusion of the expenses of WM Advisors in the Holding Companies in 2003 (previously White Mountains' investment advisory services had been performed through OneBeacon) and (iv) the accelerated recognition of expense related to the early termination of performance shares previously issued to certain non-management directors in light of the proposed independence standards for directors.

The $23.5 million decrease in interest expense at the Holding Companies from 2002 to 2003 resulted primarily from the absence in 2003 of the $260.0 million Seller Note, which was fully repaid by White Mountains in November 2002, as well as a reduced level of bank debt outstanding (and at a reduced rate) as a result of issuing the Senior Notes to repay the Old Bank Facility. Through the issuance of the Senior Notes, White Mountains reduced the interest rate on the majority of its outstanding debt to 5.9% from approximately 7.0% on the Old Bank Facility (after giving effect to interest rate swaps). During 2003, White Mountains recorded $25.8 million of interest expense on the Senior Notes. Interest expense on the Old Bank Facility was $20.3 million in 2003, versus $57.1 million and $32.4 million for 2002 and 2001. Interest expense from the Seller Note increased from $10.3 million in 2001 to $12.3 million in 2002 as declining interest rates partially offset the effect of four additional months of interest in 2002.

During 2003, White Mountains adopted the presentation provisions of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). As a result, White Mountains reclassified its mandatorily redeemable preferred stock from mezzanine equity to liabilities on its balance sheet. Also under SFAS 150, beginning in the third quarter of 2003, White Mountains began presenting all accretion and dividends on its mandatorily redeemable preferred stock as interest expense. White Mountains recorded $22.3 million of such interest expense for the six months ended December 31, 2003 in addition to recording $21.5 million of dividends and accretion for the six months ending June 30, 2003 prior to its adoption of SFAS 150.

In connection with purchase accounting for the OneBeacon Acquisition, White Mountains was required to adjust to fair value OneBeacon's loss and LAE reserves and the related reinsurance recoverables by $646.9 million and $346.9 million, respectively, on OneBeacon's balance sheet at June 1, 2001. This net reduction to loss and LAE reserves of $300.0 million is being accreted through an income statement charge ratably with and over the period that the claims are expected to be settled. As a result, White Mountains recognized $48.6 million, $79.8 million and $56.0 million of accretion to loss and LAE reserves during 2003, 2002 and 2001, respectively. White Mountains will accrete the remaining $115.6 million over the future periods in which the claims are settled, which is expected to be seven or eight years from the OneBeacon Acquisition.

II. Summary of Investment Operations

Overview

White Mountains manages all of its consolidated investments through its wholly-owned subsidiary, WM Advisors. White Mountains' investment philosophy is to invest its 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 and realized and unrealized gains and losses is valued equally. White Mountains seeks to maximize risk-adjusted returns over the long term.

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 the goal of achieving an adequate after-tax total return without subjecting the portfolio to an unreasonable level of interest rate risk. White Mountains' investment portfolio mix as of December 31, 2003 was focused on capital preservation and consisted in large part of high-quality, fixed maturity investments and short-term investments.

Results

White Mountains was pleased with its overall investment results during 2003, as its fixed maturity portfolios achieved positive returns while generally avoiding credit problems and its equity portfolio generated strong returns in 2003, despite its conservative value approach and use of convertibles. In addition, "one off" investments (Montpelier, etc.) that round out White Mountains' equity investment exposure moved sharply higher in 2003.

Positive results generated by White Mountains equity portfolios in 2003 reflected the strong stock market. Convertible securities, which are part of the equity portfolios, also provided good returns although considerably below the common equities. As often happens when equity markets soar, convertibles are retired. White Mountains' portfolio lost a number of large positions this way in 2003, although replacements are currently being sought.

White Mountains' corporate bond portfolio posted strong results in 2003, reflecting successful credit work and portfolio management. This portfolio's duration was reduced from 4.8 to 4.2 years during 2003, while total fixed-income portfolio duration went from 3.5 to 2.8 years. While shrinking both the corporate bond portfolio's size and duration, WM Advisors sought to upgrade the potential return of holdings relative to their default and downgrade risk.

White Mountains reduced the mortgage and asset-backed securities portfolio in size, duration and convexity risk (a measure of exposure to changes in value from interest rate movements) in 2003. Positive returns this past year were earned with a lower risk profile than the overall securitized market, a market WM Advisors considers generally unattractive since it contains both material extension risk and prepayment risk.

White Mountains' total return on its investment portfolio for the years ended December 31, 2003, 2002 and 2001 appear below. The amount of pretax investment return included in net income (loss) follows:

	Year Ended December 31,		
Millions	2003	2002	2001
Net investment income, pre-tax	$ 290.9	$ 366.0	$ 284.5
Net realized investment gains, pre-tax	162.6	156.0	173.1
Total pretax investment return included in net income (loss)	$ 453.5	$ 522.0	$ 457.6

White Mountains' total return also includes changes in net unrealized gains, which are reported net of tax as a separate component of common shareholders' equity and included in comprehensive net income (loss). The amount of investment return, after tax, resulting from changes in net unrealized gains follows:

	Year Ended December 31,		
Millions	2003	2002	2001
Change in net unrealized investment gains, after-tax	$ 75.8	$ 203.7	$ (41.1)

White Mountains' net investment income is comprised primarily of interest income associated with its substantial portfolio of fixed maturity investments and dividend income from its equity investments. The decrease in investment income in 2003 from 2002 was due primarily to lower interest rates throughout the financial markets and lower average net invested assets in OneBeacon's investment portfolio as it gradually shrunk with the run-off of OneBeacon's non-core book. The significant increase in investment income from 2001 to 2002 was due primarily to the inclusion of a full year of investment income generated by OneBeacon's assets in the 2002 results as compared to the seven months of OneBeacon's post-acquisition investment activity included in the 2001 results.

White Mountains' realized investment gains and losses result principally from sales of fixed maturity investments and to a lesser extent common equity securities. The investment gains realized in 2003 reflect sales of mortgage backed securities to reduce the duration of the bond portfolio. Also included in net realized investment gains are amounts recognized under SFAS 133 related to changes in the fair value of the Montpelier Warrants (gain of $32.5 million for 2003 versus a gain of $58.0 million in 2002) and Fund American's interest rate swap agreements (loss of $4.2 million for 2003 versus losses of $47.4 million and $4.9 million during 2002 and 2001).

During 2003, White Mountains' net increase in after-tax unrealized investment gains was principally the result of significant gains in the equity market. During 2002, White Mountains' net increase in after-tax unrealized investment gains was principally the result of significant decreases in market interest rates. During 2001, the net decrease in after-tax net unrealized gains for investments resulted principally from the realization of gains as a result of White Mountains' sale of a large portion of its fixed maturity investment portfolio.

Impairment

Temporary losses on investment securities are recorded as unrealized losses. Temporary losses do not impact net income and earnings per common share but serve to reduce comprehensive net income, shareholders' equity and tangible book value. Unrealized losses subsequently identified as other-than-temporary impairments are recorded as realized losses. Other-than-temporary impairments previously recorded as unrealized losses do not impact comprehensive net income, shareholders' equity and tangible book value but serve to reduce net income and earnings per common share.

White Mountains' methodology of assessing other-than-temporary impairments is based on security-specific facts and circumstances as of the balance sheet date. As a result, subsequent adverse changes in an issuers' credit quality or subsequent weakening of market conditions that differ from expectations could result in additional other-than-temporary impairments. In addition, the sale of a fixed maturity security with a previously recorded unrealized loss would result in a realized loss. Either of these situations would adversely impact net income and earnings per common share but would not impact comprehensive net income, shareholders' equity or tangible book value.

The following table presents an analysis of the continuous periods during which White Mountains has held investment positions which were carried at an unrealized loss as of December 31, 2003 (excluding short-term investments):

$ in millions	December 31, 2003			
	0-6 Months	6-12 Months	>12 Months	Total
Fixed maturity investments:				
Number of positions	32	15	4	51
Market value	$ 638.2	$ 316.0	$ 4.6	$ 958.8
Amortized cost	$ 640.0	$ 320.4	$ 4.7	$ 965.1
Unrealized loss	$ (1.8)	$ (4.4)	$ (.1)	$ (6.3)
Common equity securities:				
Number of positions	5	1	–	6
Market value	$ 5.0	$ 1.4	$ –	$ 6.4
Amortized cost	$ 5.2	$ 1.6	$ –	$ 6.8
Unrealized loss	$ (.2)	$ (.2)	$ –	$ (.4)
Other investments:				
Number of positions	1	3	3	7
Market value	$ 2.5	$ 1.6	$ 5.2	$ 9.3
Amortized cost	$ 2.6	$ 1.9	$ 5.4	$ 9.9
Unrealized loss	$ (.1)	$ (.3)	$ (.2)	$ (.6)
Total:				
Number of positions	38	19	7	64
Market value	$ 645.7	$ 319.0	$ 9.8	$ 974.5
Amortized cost	$ 647.8	$ 323.9	$ 10.1	$ 981.8
Unrealized loss	$ (2.1)	$ (4.9)	$ (.3)	$ (7.3)
% of total gross unrealized losses	29.1%	66.7%	4.2%	100.0%

During the year ended December 31, 2003, White Mountains experienced $20.4 million in pre-tax, other-than-temporary impairment charges, comprised of $13.9 million taken on equity securities, $1.7 million on preferred stocks and $4.8 million on several limited partnership investments included in other long term investments. Of the charge taken on equity securities, $8.1 million was related to White Mountains' investment in the common stock of Octel Corp ("Octel") and the remaining $5.8 million related to three other equity positions, none of which were individually significant. White Mountains recorded the other-than-temporary impairments primarily due to the fact that the unrealized loss position on these securities was greater than 20% of White Mountains' cost over the previous six-month period and also that certain factors have been reported by those companies which affect the likelihood that White Mountains will recover the original cost of its investment. During 2002, White Mountains experienced $9.6 million in pretax other-than-temporary impairment charges. Of the charge recorded in 2002, $4.9 million related to White Mountains' investment in Insurance Partners and $3.5 million was related to its investment in the Conning Connecticut Insurance Fund. Both of these investments are limited partnerships that are carried in other investments in White Mountains' consolidated balance sheet. White Mountains did not experience any other material impairment charges relating to any other individual investment security during the three years ended December 31, 2003.

White Mountains believes that the gross unrealized losses relating to its fixed maturity investments at December 31, 2003 resulted primarily from increases in market interest rates from the dates that certain investments within that portfolio were acquired as opposed to fundamental changes in the credit quality of the issuers of such securities. Therefore, these decreases in value are viewed as being temporary because White Mountains has the intent and ability to retain such investments for a period of time sufficient to allow for any anticipated recovery in market value. White Mountains also believes that the gross unrealized losses recorded on its common equity securities and its other investments at December 31, 2003 resulted primarily from decreases in quoted market values from the dates that certain investments securities within that portfolio were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. Therefore, these decreases are also viewed as being temporary. However, due to the inherent risk involved in investing in the equity markets, it is possible that the

decrease in market value of these investments may ultimately prove to be other than temporary. As of December 31, 2003, White Mountains' investment portfolio did not include any investment securities with an after-tax unrealized loss of more than $3.0 million.

Fully Converted Tangible Book Value Per Share

Set forth below is a reconciliation of White Mountains' fully converted tangible book value per common and equivalent share, supporting the references to fully converted tangible book value per share on page 35:

	December 31, 2003	December 31, 2002	December 31, 2001
Book value per share numerators (in millions):			
Common shareholders' equity	$ 2,979.2	$ 2,407.9	$ 1,444.6
Proceeds from assumed exercise of outstanding Warrants	300.0	300.0	300.0
Benefits to be received from share obligations under employee benefit plans	7.0	8.8	16.5
Remaining accretion of subsidiary preferred stock to face value	(125.5)	(139.1)	(149.7)
Book value per share numerator	3,160.7	2,577.6	1,611.4
Assumed conversion of convertible preference shares to Common Shares	–	219.0	–
Unamortized deferred credits and goodwill	(20.3)	–	657.7
Fully converted tangible book value per common and equivalent share numerator	$ 3,140.4	$ 2,796.6	$ 2,269.1
Book value per share denominators (in thousands):			
Common Shares outstanding	9,007.2	8,351.4	8,264.7
Common Shares issuable upon exercise of outstanding Warrants	1,724.2	1,714.3	1,714.3
Share obligations under employee benefit plans	50.6	61.9	69.2
Book value per share denominator	10,782.0	10,127.6	10,048.2
Assumed conversion of convertible preference shares to Common Shares	–	678.0	–
Fully converted tangible book value per common and equivalent share denominator	10,782.0	10,805.6	10,048.2
Book value per share	$ 293.15	$ 254.52	$ 160.36
Fully converted tangible book value per common and equivalent share	291.27	258.82	225.81

Book value per share is derived by dividing the Company's total GAAP shareholders' equity as of a given date by the number of Common Shares outstanding as of that date, including the dilutive effects of outstanding Options and Warrants, as well as the unamortized accretion of preferred stock. Fully converted tangible book value per share is derived by expanding the book value per share calculation to include (i) the effects of assumed conversion of all convertible securities and (ii) any remaining unamortized goodwill or deferred credits as of the applicable date.

LIQUIDITY AND CAPITAL RESOURCES

Operating cash, short-term investments and insurance float

White Mountains' consolidated sources of cash consist primarily of premium collections, net investment income, financing activities and proceeds from sales and maturities of investment securities. White Mountains' consolidated uses of cash are primarily claim payments, operating expenses, financing costs and the purchase of investment securities.

The primary sources of cash inflows for the Company and certain of its intermediate holding companies are dividends and tax sharing payments received from the operating subsidiaries. Under the insurance laws of the states and jurisdictions under which White Mountains' domestic 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. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future. In 2004, OneBeacon's first tier insurance subsidiaries have the ability to pay dividends of approximately $330.0 million to Fund American without approval of regulatory authorities.

As a result of the Liberty Agreement, premium collections and claim payments at OneBeacon have been declining steadily over the past two years as 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 will continue to run-off the claims on business transferred to Liberty Mutual but will no longer participate in future policy renewals. Therefore, OneBeacon will need to periodically liquidate invested assets to fund the payment of these claims and will manage its short-term liquidity needs accordingly.

Both internal and external forces influence White Mountains' financial condition, results of operations and cash flows. Claim settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, ranging up to several years or more, may lapse between the occurrence of an insured loss, the reporting of the loss to White Mountains and the settlement of the liability for that loss. Management believes that White Mountains' cash balances, cash flows from operations, routine sales of investments and the liquidity provided by the New Bank Facility are adequate to meet expected cash requirements for the foreseeable future.

Insurance float is an important dynamic of White Mountains' operations that must be managed effectively. Float is money that an insurance company holds for a limited time. In an insurance operation, float arises because premiums are collected before losses are paid. This interval can extend over many years. During that time, the insurer invests the money. When the premiums that an insurer collects do not cover the losses and expenses it eventually must pay the result is an underwriting loss, which is considered to be the cost of float. The amount and cost of float for White Mountains is affected by underlying market conditions, as well as acquisitions or dispositions of insurance and reinsurance businesses. Although insurance float can be calculated using numbers determined under GAAP, insurance float is not a GAAP concept and therefore there is no comparable GAAP measure.

For each of the years in the three-year period ending December 31, 2003, the Company has had negative cash flows from operations but has generated significant float from its insurance and reinsurance operations. The Company's cash flow from operations does not include float generated by the acquisition of insurance and reinsurance businesses in recent years. Post-acquisition, such companies are often placed into partial or complete run-off, thereby resulting in negative cash flows from operations as the investment portfolios acquired are liquidated over time to pay claims. White Mountains expects that it will continue to have negative cash flows from operations for the foreseeable future but expects float to increase, particularly in light of the pending Sirius Insurance Group and Sierra Group acquisitions.

One of the means by which White Mountains calculates its insurance float is by taking its net investment assets and subtracting its total capital. The following table illustrates White Mountains' consolidated insurance float position for the past four years:

	Year Ended December 31,			
($ in millions)	2003	2002	2001	2000
Total investments	$ 8,547.5	$ 8,899.4	$ 9,005.7	$ 2,102.2
Cash	89.9	121.5	67.4	4.4
Investments in unconsolidated insurance affiliates	515.9	399.9	311.1	130.6
Accounts receivable on unsettled investment sales	9.1	160.8	75.2	–
Accounts payable on unsettled investment purchases	(371.6)	(495.2)	(311.2)	(.2)
Net investment assets	$ 8,790.8	$ 9,086.4	$ 9,148.2	$ 2,237.0
Total common shareholders' equity	$ 2,979.2	$ 2,407.9	$ 1,444.6	$ 1,046.5
Debt	743.0	793.2	1,125.4	96.0
Preferred stock subject to mandatory redemption	194.5	180.9	170.3	–
Convertible preference shares	–	219.0	–	–
Deferred credits	–	–	682.5	92.2
Total capital	$ 3,916.7	$ 3,601.0	$ 3,422.8	$ 1,234.7
Insurance float	$ 4,874.1	$ 5,485.4	$ 5,725.4	$ 1,002.3
Insurance float as a multiple of total capital	1.2x	1.5x	1.7x	0.8x
Net investment assets as a multiple of total capital	2.2x	2.5x	2.7x	1.8x
Insurance float as a multiple of shareholders' equity	1.6x	2.3x	4.0x	1.0x
Net investment assets as a multiple of shareholders' equity	3.0x	3.8x	6.3x	2.1x

White Mountains has historically obtained its float primarily through acquisitions, as opposed to organic growth. In the case of OneBeacon, the substantial amount of float initially acquired with the OneBeacon Acquisition has shrunk as a result of OneBeacon's re-underwriting efforts and the effects of the Liberty Agreement. OneBeacon's float is expected to continue to shrink over the next few years as older, long-tailed loss reserves are paid and are not replaced with the same level of new writings as those written in the past. In the case of Folksamerica, its float is expected to gradually increase in the next few years as a result of higher premium writings as a result of its increase in capital base over the past two years. It is White Mountains' intention to generate low-cost float over time through a combination of acquisitions and/or by organic growth in its existing insurance and reinsurance operations, but only when market conditions indicate a high likelihood of generating underwriting profits.

Financing

The following table summarizes White Mountains' capital structure as of December 31, 2003 and 2002:

Millions	December 31, 2003	December 31, 2002
Senior Notes, carrying value	$ 698.1	$ –
New Bank Facility [1]	–	–
Old Bank Facility	–	746.4
Other debt	44.9	46.8
Total debt	$ 743.0	$ 793.2
Preferred stock subject to mandatory redemption	194.5	180.9
Convertible preference shares	–	219.0
Common shareholders' equity	2,979.2	2,407.9
Total capitalization	$ 3,916.7	$ 3,601.0
Debt to total capitalization	19%	22%

[1] Undrawn $300.0 million revolving facility.

Management believes that White Mountains' strong financial position provides it with the flexibility and capacity to obtain funds externally as needed through debt or equity financing on both a short-term and long-term basis. White Mountains has recently enhanced its access to the capital markets by having a shelf registration declared effective by the SEC in July 2003 for offerings of up to $2.0 billion in debt and/or equity securities.

Contractual Obligations and Commitments

Below is a schedule of White Mountains' material contractual obligations and commitments as of December 31, 2003:

Millions	Due in One Year or Less	Due in Two to Three Years	Due in Four to Five Years	Due After Five Years	Total
Debt	$ –	$ 29.9	$ 15.0	$ 700.0	$ 744.9
Mandatorily redeemable preferred stock	–	–	–	320.0	320.0
Operating leases	33.5	58.9	61.5	–	153.9
Total contractual obligations	$ 33.5	$ 88.8	$ 76.5	$ 1,020.0	$ 1,218.8

White Mountains also has future binding commitments to fund certain limited partnership investments. These commitments, which total approximately $18.6 million, do not have fixed funding dates and are therefore excluded from the table above.

In May 2003, White Mountains reduced its cost of capital and significantly reduced its near-term obligations by fully prepaying its $739.9 million amortizing Old Bank Facility principally through the net proceeds from the issuance of $700.0 million face value of 10-year, fixed-rate Senior Notes, which were issued by Fund American in a public offering. The Senior Notes, which are fully and unconditionally guaranteed as to the payment of principal and interest by the Company, bear a fixed interest rate of 5.9%. The interest rate on $700.0 million of the previous Old Bank Facility was 7.0%, after giving effect to a series of interest rate swap agreements. Fund American unwound these swap agreements immediately following the Old Bank Facility prepayment by paying consideration of $56.4 million in cash.

Fund American's Senior Notes are currently rated "Baa2" (Adequate, the 9th highest of 21 ratings) by Moody's Investor Services ("Moody's") and "BBB-" (Adequate, the 10th highest of 24 ratings) by S&P. Both Moody's and S&P affirmed their senior debt ratings for Fund American following the Company's announcement of its plans to acquire the Sirius Insurance Group and both agencies reported that the outlook for their ratings remain stable. It is possible that, in the future, one or more of the rating agencies may reduce White Mountains' existing ratings. If one or more of its ratings were downgraded, White Mountains could incur higher borrowing costs and its ability to access the capital markets could be impacted. In addition, White Mountains' insurance and reinsurance operations could be adversely impacted by a downgrade in its financial strength ratings, including a possible reduction in demand for its products in certain markets.

The Senior Notes were issued under an indenture which contains restrictive covenants that, among other things, limit the ability of the Company, Fund American and their respective subsidiaries to create liens and enter into sale and leaseback transactions and substantially limits the ability of Fund American and its respective subsidiaries to consolidate, merge or transfer its properties and assets. The indenture does not contain any financial ratios or specified levels of net worth or liquidity to which the Company or Fund American must adhere.

In September 2003, Fund American terminated the Old Bank Facility, which then consisted solely of an undrawn $175.0 million revolving credit line, and replaced it with a new $300.0 million revolving credit facility, which matures in September 2006 and under which both Fund American and the Company are permitted borrowers. Under the New Credit Facility, the Company guarantees all obligations of Fund American, and Fund American guarantees all borrowings of the Company subject to certain limitations imposed by the terms of the Berkshire Preferred Stock. As of December 31, 2003, the New Bank Facility was undrawn.

The New Bank Facility contains various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings and include maintaining certain minimum net worth and maximum debt to capitalization standards for White Mountains. Failure to meet one or more of these covenants could result in an event of default, which ultimately could result in acceleration of principal repayment. At December 31, 2003, White Mountains was in compliance with all of the covenants under the New Bank Facility, and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

On December 8, 2003, White Mountains entered into a definitive agreement with ABB to acquire the Sirius Insurance Group at a purchase price of SEK3.22 billion (approximately US$445 million), subject to a kronor-for-kronor adjustment to the extent that the total tangible shareholders' equity value of the acquired companies as of December 31, 2003 is greater or less than SEK3.566 billion (approximately US$490 million). White Mountains has the existing capital to finance this acquisition through either cash on hand or availability under the New Credit Facility. Because the ultimate purchase price is payable in Swedish kronor, White Mountains purchased SEK2.2 billion for USD$300 million on December 10, 2003 (subsequently invested in short-term Swedish Treasury Bills) to ensure that it held enough Swedish currency in the proper holding company to close the transaction, which White Mountains expects to occur in the second quarter of 2004.

In December 2003, Folksamerica entered into a definitive agreement to acquire 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. The transaction is subject to regulatory approvals and other customary closing conditions.

In June 1999, White Mountains sold VGI to Unitrin, Inc. ("Unitrin") (the "VGI Sale"). As part of the VGI Sale, White Mountains has provided Unitrin with adverse loss development protection of up to $50.0 million on loss reserves sold to Unitrin. Unitrin has made a demand for the full $50.0 million.

Detailed information concerning White Mountains' liquidity and capital resource activities during 2003, 2002 and 2001 follows:

For the year ended December 31, 2003

On May 19, 2003, Fund American issued the Senior Notes for net proceeds of $693.4 million. Using proceeds from the Senior Notes, Fund American repaid the entire $614.9 million of term loans outstanding under the Old Bank Facility. In addition, on May 27, 2003, using the remaining $78.5 million in proceeds from the Senior Notes and cash on hand, Fund American repaid the entire $125.0 million of revolving loans outstanding under the Old Bank Facility. In connection with the repayment of the Old Bank Facility, on May 20, 2003, Fund American paid an aggregate $56.4 million to unwind all of its existing interest rate swap agreements.

In September 2003, Fund American terminated the Old Bank Facility, which then consisted solely of an undrawn $175.0 million revolving credit line, and replaced it with a new $300.0 million revolving credit facility.

During 2003, Fund American made scheduled principal amortization payments of $6.5 million on the Old Bank Facility prior to the repayment and paid a total of $22.5 million in interest under the Old Bank Facility, including $10.6 million paid under the interest rate swap agreements.

During 2003, White Mountains filed a shelf registration statement, which was declared effective by the SEC in July 2003, for offerings of up to $2.0 billion in debt and/or equity securities.

During 2003, White Mountains declared and paid a total of $30.3 million in dividends to holders of preferred stock with a face value of $320.0 million.

In March 2003, the Company declared and paid an annual dividend of $8.3 million to its common shareholders.

During 2003, OneBeacon declared and paid a total of $235.3 million in cash dividends to Fund American, its immediate parent company. Also during 2003, WMU paid a total of $35.0 million of dividends to its immediate parent, WM Investment Management (Bermuda) Ltd, and WM Advisors paid a total of $10.0 million in dividends to Fund American.

During 2003, the Company issued a total of 11,116 Common Shares to its employees through the exercise of Options and, as a result, the Company received cash proceeds of $1.5 million in connection with these Option exercises.

During the fourth quarter of 2003, OneBeacon sold one of its subsidiaries, NFU Standard, to Quanta U.S. Holdings, Inc., an indirect subsidiary of Quanta Capital Holdings Ltd, for $22.4 million.

During the first quarter of 2003, White Mountains made payments amounting to $25.7 million with respect to performance shares relating to the 2000-2002 performance period in cash or by deferral into certain non-qualified compensation plans of the Company or its subsidiaries. In the second quarter of 2003, White Mountains made performance share payments amounting to $13.1 million in cash or by deferral into certain non-qualified compensation plans of the Company. The payments on these additional performance shares in the second quarter represented accelerated payments to certain non-employee directors of the Company for performance periods originally scheduled to end on December 31, 2003, 2004 and 2005.

For the year ended December 31, 2002

In December 2002, OBPP borrowed $8.0 million from a related third party.

In October 2002, White Mountains sold $225.0 million of its equity securities in a private transaction. Investment funds managed by Franklin Mutual Advisers, LLC purchased 677,966 convertible preference shares of the Company at a price of $200.0 million ($295.00 per share) and investment funds managed by Highfields Capital Management LP ("Highfields") purchased 84,745 Common Shares for $25.0 million ($295.00 per Common Share). Upon shareholder approval at the Company's Annual Meeting held on May 19, 2003, the convertible preference shares were repurchased and cancelled in consideration of the issuance of 677,966 Common Shares. Because the redemption value of the convertible preference shares was in excess of the cash received upon their issuance, they were required to be marked-to-market until the date they were converted to shareholders' equity, resulting in a $68.5 million charge to retained earnings ($49.5 million of which was recorded during 2003), with an offsetting increase to paid-in surplus.

On November 29, 2002, White Mountains repaid in full the $260.0 million Seller Note to Aviva, along with approximately $22.6 million of related accrued interest.

On December 31, 2002, September 30, 2002, June 28, 2002 and March 29, 2002, White Mountains made scheduled principal amortization payments of $1.4 million, $14.2 million, $14.1 million and $49.0 million, respectively, on the Old Bank Facility. During 2002, White Mountains paid a total of $55.3 million in interest under the Old Bank Facility, including $18.0 million paid under related interest rate swap agreements.

During 2002, OneBeacon declared and paid a total of $172.6 million in cash dividends to Fund American, its immediate parent company.

During 2002, White Mountains declared and paid a total of $30.7 million in dividends on the Berkshire Preferred Stock, the Zenith Preferred Stock and the Convertible Preference Shares.

In July and August of 2002, White Mountains received federal tax refunds totalling $166.7 million representing accelerated recoveries of carryback losses from 2001 under the Job Creation and Worker Assistance Act of 2002 (the "Economic Stimulus Bill").

On April 25, 2002, Folksamerica acquired Imperial for $4.2 million including related expenses ($.5 million net of cash acquired). Significant assets and liabilities acquired included investments of $22.8 million and loss and LAE reserves of $11.9 million.

In March 2002, the Company declared and paid an annual dividend of $8.3 million to its common shareholders.

During 2002, White Mountains paid a total of 31,300 performance shares (relating to the 1999-2001 performance period) at a 200% value, amounting to $20.7 million, to its participants in cash, Common Shares or by deferral into certain non-qualified compensation plans of the Company or its subsidiaries.

During 2002, the Company issued a total of 23,200 Common Shares to its employees in satisfaction of performance share and Option obligations under White Mountains' Long-Term Incentive Plan (the "Incentive Plan"). The Company received proceeds of $1.3 million as a result of exercises of Options to acquire 11,500 Common Shares during the period.

For the year ended December 31, 2001

In December 2001, White Mountains filed a "shelf" registration statement with the SEC for offerings of up to $1.0 billion of various types of debt and preferred equity securities. In May 2003, White Mountains issued $700.0 million face value of 10-year, fixed-rate Senior Notes under this shelf registration - See "**Financing**" above for a detailed discussion.

In December 2001, OneBeacon invested $180.0 million in Montpelier consisting of 10,800,000 common shares of Montpelier valued at $16.67 per share and the Company received warrants to acquire an additional 4,781,572 common shares of Montpelier at $16.67 per share, which are exercisable until December 2011.

In December 2001, White Mountains acquired the net assets of the international reinsurance operations of Folksam International, which were valued at approximately $66.9 million on the date of purchase. The purchase price including related expenses consisted of approximately $30.9 million in cash, $3.0 million in a note payable to the seller and 86,385 Common Shares (valued at approximately $30.0 million).

In December 2001, OneBeacon contributed $400.0 million in cash to Folksamerica.

In December 2001, Folksamerica borrowed $7.0 million from a related third party.

In October 2001, OneBeacon sold 2,025,680 shares of the common stock of United Fire & Casualty Company to a third party for $54.7 million.

In September 2001, OneBeacon repaid all its outstanding long-term debt of $3.2 million.

In September 2001, Folksamerica acquired C-F, an inactive insurance company in run-off, for total consideration of $49.2 million plus related expenses. The purchase consideration included the issuance of a $25.0 million, four-year note by Folksamerica which may be reduced by adverse loss development experienced by C-F post-acquisition.

In June 2001, White Mountains acquired OneBeacon for cash and the Seller Note. The total consideration paid for OneBeacon was $2,114.3 million, including related expenses, and the net book value of the assets acquired was $2,796.3 billion. Significant assets and liabilities acquired through OneBeacon included $7,442.6 million of cash and investments, $2,448.9 million of reinsurance recoverable on paid and unpaid losses, $1,267.3 million of insurance balances receivable, $6,364.2 million of loss and LAE and $1,897.7 million of unearned insurance premiums.

In connection with the OneBeacon Acquisition, the Company issued convertible preference shares for $437.6 million (which were retired and converted to Common Shares in August 2001) and issued the warrants to Berkshire for $75.0 million (the "Warrants"). The Warrants have a term of seven years from the date of issuance although the Company has the right to call the Warrants for $60.0 million in cash commencing on the fourth anniversary of their issuance.

In connection with the OneBeacon Acquisition, White Mountains issued two separate classes of subsidiary preferred stock. Berkshire purchased $300.0 million in face value of cumulative non-voting subsidiary preferred stock for $225.0 million in cash. The Berkshire Preferred Stock is entitled to a dividend of no less than 2.35% per quarter and is mandatorily redeemable after seven years. Zenith purchased $20.0 million in cumulative non-voting subsidiary preferred stock. The Zenith Preferred Stock is entitled to a dividend of no less than 2.5% per quarter through June 30, 2007 and a dividend of no less than 3.5% thereafter and is mandatorily redeemable after ten years.

In connection with the OneBeacon Acquisition, White Mountains borrowed $825.0 million under the Old Bank Facility. The Old Bank Facility, which was comprised of two term loan facilities and a revolving credit facility, was terminated during 2003 - See "**Financing**" above for a detailed discussion.

In connection with the OneBeacon Acquisition, White Mountains issued the Seller Note to Aviva. The Seller Note had an eighteen-month term and bore interest at a rate equal to 50 basis points over the rate on White Mountains' revolving loan facility described above. The Seller Note was repaid in full on November 29, 2002.

In April 2001, the Company paid $100.8 million in cash to complete the Debt Tender and to establish the Debt Escrow. Completion of the Debt Tender permitted the Company to effect an amendment to the indenture governing the Notes which facilitated the OneBeacon Acquisition.

In March 2001, the Company declared and paid an annual dividend of $5.9 million to its common shareholders.

In January 2001, the Company completed the sale of Waterford Insurance Company ("Waterford") to a third party for consideration of $23.6 million in cash, net of transaction related expenses.

During 2001, the Company issued a total of 2,390,566 Common Shares which consisted of 2,184,583 Common Shares issued in connection with the retirement and conversion of convertible preference shares, 86,385 Common Shares issued in connection the purchase of the Folksam net assets, 94,500 Restricted Shares issued to key employees and 25,098 Common Shares issued to employees in connection with various White Mountains employee benefit plans.

During 2001, OneBeacon declared and paid a total of $153.5 million in dividends to Fund American, its immediate parent company.

During 2001, the Company repurchased and retired 6,000 Common Shares for $1.9 million in cash.

During 2001, White Mountains paid a total of $18.4 million in dividends to holders of the Convertible Preference Shares, the Berkshire Preferred Stock and the Zenith Preferred Stock. During 2001, White Mountains paid a total of $29.2 million in interest under the Old Bank Facility including $2.9 million paid under related interest rate swap agreements.

RELATED PARTY TRANSACTIONS

Berkshire

NICO and GRC, which have provided the NICO Cover and the GRC Cover to subsidiaries of White Mountains, are wholly-owned subsidiaries of Berkshire (see **"Reinsurance Protection"** within the **"ONEBEACON"** section of Item 1 of this report). Through the Warrants, at December 31, 2003, Berkshire has the right to acquire 1,724,200 Common Shares at an exercise price of $173.99 per Common Share, which represented approximately 16.0% of the total outstanding Common Shares on a fully-converted basis. Reinsurance recoverable from, and preferred stock of White Mountains' subsidiaries owned by, Berkshire are shown as separate line items in White Mountains' consolidated balance sheet.

Olympus

In 2003 and 2002, Folksamerica entered into quota share retrocessional arrangements with Olympus. Under these arrangements, 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 and 2002, Folksamerica ceded $449.1 million and $229.7 million, respectively, in written premiums and $107.0 million and $54.4 million, respectively, in losses and LAE to Olympus. White Mountains, through either Folksamerica or WMU, receives fee income on reinsurance placements referred to Olympus and is entitled to additional fees based on net underwriting profits on referred business. During 2003 and 2002, White Mountains earned $98.4 million and $48.9 million of fee income from Olympus. Certain directors, officers and affiliates of White Mountains own approximately 5% of the common shares of Olympus Re Holdings, Ltd. ("Olympus Holdings"). Mr. Joseph S. Steinberg, a director of the Company, is Chairman of Olympus Holdings and is President of Leucadia National Corporation ("Leucadia"). Leucadia owned approximately 16% of common shares of Olympus Holdings at December 31, 2003.

Montpelier

As of December 31, 2003, White Mountains' investment in Montpelier consisted of 10,800,000 common shares and warrants to acquire 4,781,572 common shares at $16.67 per share that are exercisable until December 6, 2011. Through its holdings of common shares and warrants, White Mountains owns approximately 21% of Montpelier on a fully-converted basis.

Four of White Mountains' directors serve on Montpelier's eleven member board of directors. Raymond Barrette serves as Montpelier's Lead Director, and John J. Byrne, John Gillespie and K. Thomas Kemp serve as Directors of Montpelier. In addition, Mr. Kemp is the Chief Financial Officer of Montpelier. Certain directors, officers and affiliates of White Mountains own approximately 3% of the common shares of Montpelier.

Other relationships

See **Item 13. Certain Relationships and Related Transactions.**

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with GAAP. The financial statements presented herein include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

In the current year presentation of financial information, certain amounts in the prior period financial statements have been reclassified to conform with the current presentation. White Mountains has completed numerous significant transactions during the periods presented that have affected the comparability of the financial statement information presented herein.

On an ongoing basis, management evaluates its estimates, including those related to loss and LAE reserves, purchase accounting and related deferred credits and goodwill, reinsurance transactions and its pension benefit obligations. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

Management believes that its critical accounting policies affect its more significant estimates used in the preparation of its consolidated financial statements. The descriptions below are summarized and have been simplified for clarity.

Loss and Loss Adjustment Expenses

Insurance

White Mountains' insurance subsidiaries establish loss and LAE that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. Reinsurance is an arrangement in which a reinsurance company (a "reinsurer") contractually agrees to indemnify an insurance company for all or a portion of the insurance risks underwritten by the insurance company. White Mountains establishes estimates of amounts recoverable from its reinsurers in a manner consistent with the claim liability covered by the reinsurance contracts, net of an allowance for uncollectible amounts. Net insurance loss reserves represent loss and LAE reserves reduced by reinsurance recoverable on unpaid losses.

In a broad sense, loss and LAE reserves have two components: (i) case reserves, which are reserves established within the claims function for claims that have been reported to White Mountains and (ii) IBNR. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim. White Mountains' claims staff periodically adjusts case reserves as additional information becomes known or payments are made. Generally accepted actuarial methods are used to project estimates of IBNR. Actuaries use a variety of statistical and analytical methods to determine estimates of IBNR, which are based, in part, on historical claim reporting and payment patterns. In estimating IBNR, actuaries consider all available information, including historical experience, changes in business mix, coverage limits, changes in claims handling practices, pricing, reinsurance protections, inflation and the effects of legal, social and legislative trends on future claim payments. Management exercises judgment based upon its knowledge of its business, review of the outcome of actuarial studies, historical experience and other factors to record an estimate it believes reflects White Mountains' expected ultimate unpaid loss and LAE and related reinsurance recoverables.

Regardless of the techniques used, estimation is inherent in the process of establishing unpaid loss reserves and related reinsurance recoverables as of any given date. Uncertainties in projecting ultimate claim amounts are magnified by the time lag between when a claim actually occurs and when it becomes reported and settled. This time lag is sometimes referred to as the "claim-tail". The claim-tail for most property coverages is typically short. The claim-tail for liability coverages, such as general and product liability, directors and officers liability, medical malpractice and workers' compensation, can be especially long as claims are often reported or settled years after the related occurrences. During the claims reporting and settlement period, additional facts regarding claims and trends become known which may cause White Mountains to adjust its estimate of its ultimate net loss and LAE liability.

Loss and LAE reserve estimates at OneBeacon are subject to additional uncertainty as a consequence of numerous factors that occurred prior to White Mountains' acquisition of OneBeacon on June 1, 2001. As previously discussed, OneBeacon is the result of the 1998 merger of the U.S. operations of General Accident and Commercial Union, two companies with different underwriting and claims management philosophies and practices. Beginning in the mid-1990s, and continuing through the CGU Merger, the subsequent operational integration of General Accident plc and Commercial Union plc 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, case reserve adequacy, claims payment rates, coverage limits and other factors change over time. The breadth and depth of the business and operational changes that occurred at OneBeacon (1) 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 (2) 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.

OneBeacon's net loss and LAE reserves by line of business at December 31, 2003 and 2002 were as follows:

OneBeacon net loss and LAE reserves by line of business ($ in millions)	December 31, 2003	December 31, 2002
Workers compensation	$ 777.4	$ 977.3
Personal automobile liability	738.9	909.4
Multiple peril	700.6	802.7
Commercial automobile liability	422.3	567.9
General liability	331.5	493.8
Homeowners/Farmowners	170.1	191.4
Other	124.0	127.4
Total	$ 3,264.8	$ 4,069.9

OneBeacon's actuaries use several generally accepted actuarial methods to evaluate its loss reserves, each of which has its own strengths and weaknesses. OneBeacon places more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- Historical paid loss development methods: These methods use historical loss payments over discrete periods of time to estimate future losses. Historical paid loss development methods assume that the ratio of losses paid in one period to losses paid in an earlier period will remain constant. These methods necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use case reserves to estimate ultimate losses, they can be more reliable than the other methods discussed below that look to case reserves (such as actuarial methods that use incurred losses) in situations where there are significant changes in how case reserves are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged (meaning that small changes in payments have a larger impact on estimates of ultimate losses) than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative incurred amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.

- Historical incurred loss development methods: These methods, like historical paid loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. However, instead of using paid losses, these methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods can be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses can be less reliable than other methods.

- Expected loss ratio methods: These methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums written to calculate ultimate losses. Expected loss ratio methods are particularly useful for estimating ultimate losses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available.

- Adjusted historical paid and incurred loss development methods: These methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes.

For OneBeacon, the range of reserve estimates at December 31, 2003 was evaluated to consider the strengths and weaknesses of the actuarial methods applied against OneBeacon's historical claims experience data. The following table shows the recorded reserves and the high and low ends of OneBeacon's range of reasonable loss reserve estimates at December 31, 2003. The high and low ends of OneBeacon's range of reserve estimates in the table below are based on the results of various actuarial methods described above. The recorded reserve for each line is the result of the actuarial method that management believes to be most appropriate based on known facts and trends.

OneBeacon net loss and LAE reserves by line of business Range and recorded reserves ($ in millions)	December 31, 2003		
	Low	Recorded	High
Workers compensation	$ 720	$ 777.4	$ 840
Personal automobile liability	630	738.9	750
Multiple peril	680	700.6	920
Commercial automobile liability	390	422.3	460
General liability	330	331.5	390
Homeowners/Farmowners	150	170.1	180
Other	90	124.0	130
Total	$ 2,990	$ 3,264.8	$ 3,670

The probability that ultimate losses will fall outside of the ranges of estimates by line of business is higher for each line of business individually than it is for the sum of the estimates for all lines taken together due to the effects of diversification. Although management believes OneBeacon's reserves are reasonably stated, ultimate losses may deviate, perhaps materially, from the recorded reserve amounts and could be above the high end of the range of actuarial projections. Further adverse development, if any, would impact OneBeacon's future results of operations. For further discussion of OneBeacon's loss and LAE, see "**Loss and Loss Adjustment Expense Reserves**" within the "**ONEBEACON**" section of Item 1 and "**I. Summary of Operations By Segment**" in Item 7 of this report.

Management believes that the recorded reserves represent its best estimate of unpaid loss and LAE by line of business. In its selection of recorded reserves, management has generally given greater weight to adjusted paid loss development methods, which are not dependent on the consistency of case reserving practices, rather than methods that rely on incurred losses, because of the increased adequacy of case reserving by OneBeacon's claim staff in the recent past. In particular, for multiple peril and general liability, this resulted in OneBeacon recording reserves at or near the low end of the range. For some types of claims, such as workers compensation and construction defect, management also considered special purpose forecasting models that its claims and actuarial staff have created that consider the unique loss development characteristics of these types of claims.

OneBeacon A&E Reserves

Immediately prior to White Mountains' acquisition of OneBeacon, OneBeacon purchased a reinsurance contract with NICO under which OneBeacon is entitled to recover from NICO 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 Third Party Recoverables in existence at the time the NICO Cover was executed. As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Any 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. Due to the inherent difficulties in estimating ultimate A&E exposures, OneBeacon does not estimate a range for these incurred losses. Approximately $586 million of the estimated $1.7 billion of incurred losses have been paid by NICO through December 31, 2003, with $167 million paid in 2003. The estimate of incurred losses represents management's best estimate, based on information currently available, of its ultimate liabilities that it is entitled to recover under the NICO Cover. Accordingly, 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 remaining coverage under the NICO Cover will be sufficient to cover additional liability arising from any such unfavorable developments.

OneBeacon's A&E liabilities have resulted primarily from the operations of the Employers Group, an entity acquired by one of the legacy companies in 1971. These operations provided primary and excess liability insurance for commercial insureds, including Fortune 500-sized accounts, some of whom subsequently experienced claims for A&E losses. Employers Group 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 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 (compared to $68.0 million at December 31, 2002), 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 exposure to asbestos allegedly occurred.

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 for which there is a great deal of variation in payments for 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. There are currently 97 active claims against OneBeacon without product liability coverage asserting operations or premises coverage.

For purposes of determining available Third Party Recoverables, product liability asbestos claims typically are aggregated as a single loss within each policy period. As a result, losses often exceed the threshold 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 cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

For more information regarding OneBeacon's A&E reserves, see Note 3 to the financial statements and **"Loss and Loss Adjustment Expense Reserves"** within the **"ONEBEACON"** section of Item 1 and **"I. Summary of Operations By Segment"** in Item 7 of this report.

OneBeacon A&E Claims Activity

OneBeacon's A&E claim activity for the last two years is illustrated in the table below.

	Year Ended December 31,	
A&E Claims Activity	2003	2002
Asbestos		
Accounts with asbestos claims at the beginning of the year	615	574
Accounts reporting asbestos claims during the year	178	118
Accounts on which asbestos claims were closed during the year	(151)	(77)
Accounts with asbestos claims at the end of the year	642	615
Environmental		
Accounts with environmental claims at the beginning of the year	596	725
Accounts reporting environmental claims during the year	175	174
Accounts on which environmental claims were closed during the year	(97)	(303)
Accounts with environmental claims at the end of the year	674	596
Total		
Total accounts with A&E claims at the beginning of the year	1,211	1,299
Accounts reporting A&E claims during the year	353	292
Accounts on which A&E claims were closed during the year	(248)	(380)
Total accounts with A&E claims at the end of the year	1,316	1,211

Reinsurance

White Mountains' reinsurance subsidiaries establish loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for reinsured events that have already occurred. White Mountains' reinsurance subsidiaries also obtain reinsurance whereby another reinsurer contractually agrees to indemnify White Mountains for all or a portion of the reinsurance risks underwritten by White Mountains. Such arrangements, where one reinsurer provides reinsurance to another reinsurer, are usually referred to as "retrocessional reinsurance" arrangements. White Mountains establishes estimates of amounts recoverable from retrocessional reinsurance in a manner consistent with the loss and LAE liability associated with reinsurance contracts offered to its customers (the "ceding companies"), net of an allowance for uncollectible amounts. Net reinsurance loss reserves represent loss and LAE reserves reduced by retrocessional reinsurance recoverable on unpaid losses.

Reinsurance loss and LAE reserve estimates reflect the judgment of both the ceding companies and White Mountains, based on the experience and knowledge of their respective claims personnel, regarding the nature and value of the claims. The ceding companies 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, White Mountains establishes case reserves, including LAE reserves, based upon White Mountains' share of the amount of reserves established by the ceding company and White Mountains' independent evaluation of the loss. In cases where available information indicates that reserves established by the ceding company are inadequate, White Mountains establishes reserves in excess of its share of the reserves established by the ceding company.

The estimation of net reinsurance loss and LAE reserves is subject to the same factors as the estimation of insurance loss and LAE reserves. In addition to those factors which give rise to inherent uncertainties in establishing insurance loss and LAE reserves, the claim-tail for reinsurers is further extended because claims are first reported through one or more intermediary insurers or reinsurers.

White Mountains' net loss and LAE reserves for its Reinsurance segment by class of business at December 31, 2003 and 2002 were as follows:

Net loss and LAE reserves by class of business	December 31,	
($ in millions)	2003	2002
Liability (excluding A&E)	$ 666.7	$ 528.4
Property	164.0	131.6
A&E	75.9	55.6
Accident & Health and Other	82.8	77.5
Fund American Re	69.8	56.2
Total	$ 1,059.2	$ 849.3

White Mountains establishes loss reserves for its Reinsurance segment based on a single point estimate, which is management's best estimate of ultimate losses and loss expenses. This "best estimate" is derived from a combination of methods. For current accident year business the estimate is based on an expected loss ratio method. The parameters underlying this method are developed during the underwriting and pricing process. Loss ratio expectations are derived for each contract and these are aggregated by class of business and type of contract. These loss ratios are then applied to the actual earned premiums by class and type of business to estimate ultimate losses. Paid losses are deducted to determine loss and loss expense reserves.

For prior accident years, White Mountains' Reinsurance segment gradually replaces this expected loss ratio approach with estimates based on historical loss reporting patterns. For both current and prior accident years estimates change when new information becomes available, such as changing loss emergence patterns, or claim and underwriting audits.

Once a point estimate is established, in the case of Folksamerica, actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated using similar methods to the point estimate calculation, but with different expected loss ratio and loss reporting pattern assumptions. For the low estimate, more optimistic loss ratios and faster reporting patterns are assumed, while the high estimate uses more conservative loss ratios and slower reporting patterns. These variable assumptions are derived from historic variations in loss ratios and reporting patterns by class and type of business. Due to the inherent difficulties in estimating ultimate A&E exposures, Folksamerica does not estimate ranges of these reserves. In addition, Fund American Re does not estimate a range for its reserves.

The following table illustrates White Mountains' recorded net loss and loss adjustment expense reserves for its Reinsurance segment, and high and low estimates for those classes of business for which a range is calculated, at December 31, 2003.

Net loss and LAE reserves by class of business	December 31, 2003		
($ in millions)	Low	Recorded	High
Liability (excluding A&E)	$ 580	$ 666.7	$ 770
Property	140	164.0	190
Accident & Health and Other	70	82.8	90
Sub-total	$ 790	$ 913.5	$ 1,050
A&E		75.9	
Fund American Re		69.8	
Total		$ 1,059.2	

The probability that ultimate losses will fall outside of the ranges of estimates by class of business is higher for each class of business individually than it is for the sum of the estimates for all classes taken together due to the effects of diversification. Although management believes reserves for White Mountains' Reinsurance segment are reasonably stated, ultimate losses may deviate, perhaps materially, from the recorded reserve amounts and could be above the high end of the range of actuarial projections. Further adverse development, if any, would impact future results of operations of the Reinsurance segment. For more information regarding the loss and LAE reserves of the Reinsurance segment, see **"Loss and Loss Adjustment Expense Reserves"** within the **"REINSURANCE"** section of Item 1 and **"I. Summary of Operations By Segment"** in Item 7 of this report.

Reinsurance Segment A&E Reserves

Folksamerica has a specialized unit that handles claims emanating from A&E exposures. The issues presented by these types of claims require specialization, expertise and an awareness of the various trends and jurisdictional developments.

Folksamerica's A&E exposure is primarily from reinsurance contracts written between 1974 through 1985 by predecessor companies (MONY Reinsurance and Christiania General). The exposures are predominately higher layer excess of loss treaty and facultative coverages with relatively low limits exposed for each claim. Net incurred loss activity for asbestos and environmental in the last two years was as follows:

Net incurred loss and LAE activity	December 31,	
($ in millions)	2003	2002
Asbestos	$ 32.0	$ 6.5
Environmental	3.7	4.0
Total	$ 35.7	$ 10.5

In recent years, most of Folksamerica's reported activity in the asbestos area has related to (1) higher layer excess policies that are being reached by larger target defendants, (2) new notices for smaller regional defendants that are now exposed because of the larger defendant bankruptcies, and (3) new notices on "premises" and "non-products" cases, where coverage is being sought by insureds against the non-aggregating portion of the underlying policy. Concerning this third point, many of these types of claims will not impact Folksamerica's layers of coverage due to high attachment points and the contractual requirement of multiple retentions for these type of claims.

Approximately $25.0 million of Folksamerica's 2003 loss development for asbestos exposures was a bulk increase in IBNR resulting from the completion of a detailed A&E market share study. This study compared Folksamerica's share of industry paid losses to estimated industry carried reserves.

Folksamerica sets up claim files for each reported claim by each cedent for each individual insured. In many instances, a single claim notification from a cedent could involve several years and layers of coverage resulting in a file being set up for each involvement. Precautionary claim notices are submitted by the ceding companies in order to preserve their right to pursue coverage under the reinsurance contract. Such notices do not contain an incurred loss amount to Folksamerica, accordingly, an open claim file is not established. As of December 31, 2003, Folksamerica had approximately 1,185 open claim files for asbestos and 743 open claim files for environmental exposures.

The costs associated with administering the underlying A&E claims by Folksamerica's clients tend to be higher than non-A&E claims due to generally higher legal costs incurred by ceding companies in connection with A&E claims that are passed on to Folksamerica under the reinsurance contracts.

Management believes that Fund American Re does not have exposure to A&E claims.

Reinsurance Segment A&E Claims Activity

Folksamerica's A&E claim activity for the last two years is illustrated in the table below.

	Year ended December 31,	
A&E Claims Activity	2003	2002
Asbestos		
Total asbestos claims at the beginning of the year	1,069	965
Asbestos claims reported during the year	224	186
Asbestos claims closed during the year	(108)	(82)
Total asbestos claims at the end of the year	1,185	1,069
Environmental		
Total environmental claims at the beginning of the year	768	731
Environmental claims reported during the year	47	93
Environmental claims closed during the year	(72)	(56)
Total environmental claims at the end of the year	743	768
Total		
Total A&E claims at the beginning of the year	1,837	1,696
A&E claims reported during the year	271	279
A&E claims closed during the year	(180)	(138)
Total A&E claims at the end of the year	1,928	1,837

Reinsurance Transactions

White Mountains' insurance and reinsurance subsidiaries enter into ceded reinsurance contracts from time to time to protect their businesses from losses due to exposure aggregation, to manage their operating leverage ratios and to limit ultimate losses arising from catastrophic events. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts related to reinsurance contracts are recorded in accordance with SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" ("SFAS 113").

The collectibility of reinsurance recoverables is subject to the solvency and willingness to pay of the reinsurers. The Company is selective in regard to its reinsurers, placing reinsurance principally with those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis. See **"Reinsurance Protection"** within the **"ONEBEACON"** and **"REINSURANCE"** sections of Item 1 of this report for additional information on White Mountains' reinsurance programs.

Pension and Post-Retirement Medical Plans

White Mountains accounts for its pension plans in accordance with SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS 87") and accounts for its retiree medical plan in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). SFAS 87 and SFAS 106 require that the cost of pension/retiree medical benefits be accrued over the period during which an employee provides service.

The majority of OneBeacon's pension and retiree medical plans were curtailed in the fourth quarter of 2002. The OneBeacon Pension Plan no longer adds new participants or increases benefits for existing participants. Non-vested participants already in the plan continue to vest during their employment with OneBeacon. Retirees are also eligible for medical benefits if they meet certain age and service requirements. However, due to the curtailment, the plan will no longer accepts new participants. The majority of retiree medical costs are capped at defined dollar amounts, with retirees contributing the remainder.

The projected benefit obligation as of a particular date represents the actuarial present value of all benefits attributed by the plan's benefit formula to employee service rendered prior to that date. Therefore, future cash payments from pension and retiree medical plans are discounted using a discount rate based on published investment grade, long-term corporate bond yields. Many of the factors which are used to determine a plan's projected benefit obligation as of a particular date and the cost of pension/retiree medical benefits for a particular period are dependent upon future events, such as how long the employee and any survivors live, how many years of service the employee is expected to render and the employee's compensation in the years immediately before retirement or termination. Accordingly, the effects of such future factors are estimated. Further, since the projected benefit obligation and the periodic cost of pension/retiree medical benefits are based on actuarial present values, they are also sensitive to changes in the discount rate used to determine such amounts.

A hypothetical 1% increase in the discount rate would result in a decrease in pension and retiree medical projected benefit obligations of approximately $55.0 million and $4.6 million, respectively, and would result in a decrease in OneBeacon's total pretax pension/post-retirement expense of approximately $0.3 million. A hypothetical 1% decrease in the discount rate would result in an increase in pension and retiree medical projected benefit obligations of approximately $65.0 million and $5.1 million, respectively, and would result in an increase in OneBeacon's total pretax pension/post-retirement expense of approximately $0.6 million.

Additionally, the rate of return that is assumed on plan assets affects OneBeacon's pension expense during a particular period. Since the retiree medical plan is unfunded, it is not affected by changes in the rate of return assumption. OneBeacon performed an analysis of expected long-term rates of return based on the allocation of its pension plan assets as of both December 31, 2002 and December 31, 2003 to develop expected rates of return for each significant asset class or economic indicator. A range of returns was developed based both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. Although the expected investment return assumption is long-term in nature, the range of reasonable returns has dropped over the past few years as a consequence of lower inflation and lower bond yields. As a result of the most recent review, for 2004 OneBeacon elected to keep the expected return on its pension assets at 7.0%, as was used in 2003. At December 31, 2003, 38% of plan assets were invested in fixed maturity securities, 45% in equities and the remainder in cash, cash equivalents and convertible securities. A hypothetical 1% increase or decrease in the assumed rate of return would result in a pretax change in OneBeacon's pension expense (or income as the case may be) for 2004 of approximately $4.3 million.

The health care cost trend rate was adjusted at December 31, 2003 to 10% from 9% to reflect current market conditions. The rate will decrease 0.50% each year over ten years to an ultimate rate of 5%. Assumed health care cost trend rates typically have a significant effect on the amounts reported for the health care plans. However, a hypothetical one-percentage-point change in assumed health care cost trend rates has a minimal impact on the projected benefit obligation and no impact on the expense. This is due to the significant changes in plan design related to cost-sharing arrangements between OneBeacon and the retirees. Since more cost has shifted to the retirees, the health care cost trend rate has less of an impact on White Mountains' financial statements.

During 2003, OneBeacon recognized pension income of $1.6 million related to settlements and recognized pension expense of $11.7 million comprising of net periodic benefit cost of $1.9 million, special termination benefits of $9.7 million, and consulting fees of $0.1 million. Included in the net periodic benefit cost is $30.5 million of expected return on pension plan assets. OneBeacon contributed $0.3 million to the pension plan in 2003. No unrecognized losses on pension assets were recorded since the Company uses the market value method to value plan assets.

Purchase Accounting and Related Deferred Credits and Goodwill

As of December 31, 2001, White Mountains had unamortized deferred credits and goodwill of $682.5 million and $22.3 million, respectively. Deferred credits represent the excess of the fair value of the net assets over the purchase price paid. Goodwill represents the excess of the purchase price over the fair value of the net assets of companies acquired. These deferred credits and goodwill resulted from White Mountains' pre-July 1, 2001 acquisition activities which were accounted for in accordance with the treatment of a purchase business combination under Accounting Principles Board ("APB") No. 16, "Business Combinations" ("APB 16"). APB 16 calls for the net assets of the operations acquired to be recorded by White Mountains at their fair values on the date of acquisition.

All acquisitions occurring subsequent to July 1, 2001 were accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). Under this newly-issued accounting standard, White Mountains recognized a $16.6 million extraordinary gain during 2001 relating to two acquisitions and fully recognized its existing unamortized deferred credit balance of $682.5 million on January 1, 2002 as a change in accounting principle.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), White Mountains will amortize its existing and prospective goodwill only when the asset acquired is deemed to have been impaired rather than systematically over a perceived period of benefit.

FORWARD-LOOKING STATEMENTS

The information contained in this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or referenced in this report which address activities, events or developments which White Mountains expects or anticipates will or may occur in the future are forward-looking statements. The words "will", "believe," "intend," "expect," "anticipate," "project," "estimate," "predict" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements include, among others, statements with respect to White Mountains':

- growth in book value per share or return on equity;
- business strategy;
- financial and operating targets or plans;
- incurred losses and the adequacy of its loss and LAE reserves;
- projections of revenues, income (or loss), earnings (or loss) per share, dividends, market share or other financial forecasts;
- expansion and growth of its business and operations; and
- future capital expenditures.

These statements are based on certain assumptions and analyses made by White Mountains in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform with its expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from expectations, including:

- the failure of White Mountains to complete any or all of its recently announced acquisitions or, if White Mountains completes any such acquisition, the failure of any or all of such completed acquisitions to add value or enhance White Mountains' business;
- claims arising from catastrophic events, such as hurricanes, earthquakes, floods or terrorist attacks;
- the continued availability of capital and financing;
- general economic, market or business conditions;
- competitive forces, including the conduct of other property and casualty insurers and reinsurers;
- changes in domestic or foreign laws or regulations applicable to White Mountains, its competitors or its clients;
- an economic downturn or other economic conditions, such as changes in foreign currency exchange rates, adversely affecting its financial position;
- loss reserves established subsequently proving to have been inadequate; and
- other factors, most of which are beyond White Mountains' control.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by White Mountains will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, White Mountains or its business or operations. White Mountains assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

White Mountains' consolidated balance sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risk. The term market risk refers to the risk of loss arising from adverse changes in interest rates and other relevant market rates and prices. Due to White Mountains' sizable balances of interest rate sensitive instruments, market risk can have a significant effect on White Mountains' consolidated financial position.

Interest Rate Risk

Fixed Maturity Portfolio. In connection with the Company's consolidated insurance and reinsurance subsidiaries, White Mountains invests in interest rate sensitive securities, primarily debt securities. White Mountains' strategy is to purchase fixed maturity investments that are attractively priced in relation to perceived credit risks. White Mountains' fixed maturity investments are held as available for sale in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), whereby these investments are carried at fair value on the balance sheet with net unrealized gains or losses reported net of tax in a separate component of common shareholders' equity. White Mountains generally manages its interest rate risk associated with its portfolio of fixed maturity investments by monitoring the average duration of the portfolio, which allows White Mountains to achieve an adequate yield without subjecting the portfolio to an unreasonable level of interest rate risk. White Mountains' fixed maturity portfolio is comprised of primarily investment grade corporate securities, U.S. government and agency securities, municipal obligations and mortgage-backed securities (e.g., those receiving a rating from the National Association of Insurance Commissioners of 1 or 2).

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

The table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on White Mountains' fixed maturity portfolio and the interest rate swaps.

$ in millions	Fair Value at December 31, 2003	Assumed Change in Relevant Interest Rate	Estimated Fair Value After Change in Interest Rate	After-Tax Increase (Decrease) in Carrying Value
Fixed maturity investments	$ 6,248.1	100 bp decrease	$ 6,446.4	$ 128.9
		50 bp decrease	6,349.7	66.0
		50 bp increase	6,142.0	(69.0)
		100 bp increase	6,039.8	(135.4)
Pension fixed maturity investments	$ 245.2	100 bp decrease	$ 253.8	$ 5.6
		50 bp decrease	248.7	2.3
		50 bp increase	239.1	(4.0)
		100 bp increase	233.4	(7.7)

Indebtedness. As of December 31, 2003, White Mountains' indebtedness consisted primarily of the Senior Notes which have a fixed interest rate. As a result, White Mountains exposure to interest rate risk resulting from variable interest rate obligations is insignificant.

The Senior Notes were issued in 2003 and White Mountains currently has no intention of redeeming this obligation prior to its maturity of May 15, 2013. At December 31, 2003, the fair value of White Mountains' Senior Notes was $723.6 million, which compared to a carrying value of $698.1 million. The fair value of the Senior Notes was estimated by discounting future cash flows using incremental borrowing rates for similar types of borrowing arrangements or quoted market prices.

Equity Price Risk

The carrying values of White Mountains' common equity securities and its other investments are based on quoted market prices or management's estimates of fair value (which is based, in part, on quoted market prices) as of the balance sheet date. Market prices of common equity securities, in general, are subject to fluctuations which could cause the amount to be realized upon sale or exercise of the instruments to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, general market conditions and supply and demand imbalances for a particular security.

Foreign Currency Exchange Rates

Some of White Mountains' assets, liabilities, revenues and expenses are denominated in foreign currencies. White Mountains foreign assets and liabilities are valued using year-end exchange rates and its foreign revenues and expenses are valued using average exchange rates. Foreign currency exchange rate risk is the risk that White Mountains will incur economic losses due to adverse changes in foreign currency exchange rates. This risk arises specifically from White Mountains' foreign investment securities, the net assets and operations of Fund American Re, WMU, certain of Folksamerica's and British Insurance Company's operations. White Mountains believes that the impact of any changes in foreign currency exchange rates would have an insignificant effect on its financial statements as White Mountains' current net assets and operations denominated in foreign currencies are not material.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 89 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Principal Executive Officer ("PEO") and the Principal Financial Officer ("PFO") of White Mountains have evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the PEO and PFO have concluded that White Mountains' disclosure controls and procedures are adequate and effective.

There have been no significant changes in White Mountains' internal controls, or in factors that could significantly affect internal controls, subsequent to their most recent evaluation of such controls.

PART III

Item 10. Directors and Executive Officers

a. Directors (as of March 1, 2004)

Name	Age	Director since
Class I - Term Ending in 2004		
Steven E. Fass	58	2000
K. Thomas Kemp	63	1994
Gordon S. Macklin	75	1987
Joseph S. Steinberg	60	2001
Allan L. Waters	46	2003
Class II - Term Ending in 2005		
John J. ("Jack") Byrne	71	1985
George J. Gillespie, III	73	1986
John D. Gillespie	45	1999
Frank A. Olson	71	1996
Class III - Term Ending in 2006		
Raymond Barrette	53	2000
Howard L. Clark, Jr.	60	1986
Robert P. Cochran	54	1994
Lowndes A. Smith	64	2003
Arthur Zankel	72	1992

Information with respect to the principal occupation, business experience, recent business activities involving White Mountains and other affiliations of the directors follows:

Raymond Barrette was appointed President and CEO of the Company on January 1, 2003 and has been a director since 2000. Mr. Barrette was CEO of OneBeacon from June 2001 to December 2002 and remains its Chairman. Mr. Barrette joined White Mountains Insurance Group in November 1997 as Executive Vice President and Chief Financial Officer. He was President from January 2000 to June 2001. Prior to joining White Mountains, Mr. Barrette had 23 years of experience in the insurance business, mostly at Fireman's Fund Insurance Company. He is also Chairman of Folksamerica, Lead Director of Montpelier and a director of several White Mountains subsidiaries.

Jack Byrne has been a director of the Company since 1985. Mr. Byrne formerly served as Chairman of the Company from 1985 to November 2003, as CEO of the Company from February 2002 to December 2002, as Chairman of the Board of Managers of OneBeacon from June 2001 to December 2001, as CEO of the Company from January 2000 to June 2001, as President and CEO of the Company from 1990 to 1997 and as CEO from 1985 to 1990. Mr. Byrne also serves as a director of Montpelier.

Howard L. Clark, Jr. has been a director or advisor to the Board since 1986. He is currently Vice Chairman of Lehman and was Chairman and CEO of Shearson Lehman Brothers Inc. from 1990 to 1993. Prior to joining Shearson Lehman Brothers Inc., Mr. Clark was Executive Vice President and Chief Financial Officer of American Express. He is also a director of Lehman Brothers, Maytag Corporation and Walter Industries, Inc.

Robert P. Cochran has been a director of the Company since 1994. Mr. Cochran was a founding principal of Financial Security Assurance Holdings Ltd. ("FSA") and has served FSA in various capacities since 1985. He has been President and CEO and a director of FSA since 1990 and became Chairman in 1997. He is also Chairman of Financial Security Assurance Inc. and Financial Security Assurance (U.K.) Ltd.

Steven E. Fass has been a director of the Company since 2000. Mr. Fass has served as President and Chief Executive Officer of Folksamerica and its subsidiaries including Folksamerica Reinsurance Company since 1984. He joined Folksamerica as its Vice President, Treasurer and Chief Financial Officer in 1980. Mr. Fass also serves as Chairman of Fund American Re, Chairman of Esurance and is a director of other White Mountains subsidiaries.

George J. Gillespie, III was appointed Chairman of the Company in November 2003 and has been a director of the Company since 1986. Mr. Gillespie has been a Partner in the law firm of Cravath, Swaine & Moore LLP ("CS&M") since 1963. He is also a director of The Washington Post Company. Mr. Gillespie's son, John Gillespie, is Deputy Chairman and a director of the Company and is Chairman and President of WM Advisors.

John D. Gillespie has served as a Deputy Chairman of the Company since January 2003 and serves as Chairman and President of WM Advisors. Mr. Gillespie served as Managing Director of OneBeacon from June 2001 to March 2003 and has been a director of the Company since 1999. He is also the founder and Managing Partner of Prospector. Prior to forming Prospector, Mr. Gillespie was President of the T. Rowe Price Growth Stock Fund and the New Age Media Fund, Inc. Mr. Gillespie serves as a director of Montpelier and other White Mountains subsidiaries. Mr. Gillespie's father, George Gillespie, is Chairman of the Company.

K. Thomas Kemp has been a director since 1994. Mr. Kemp currently serves as a director and Chief Financial Officer of Montpelier. Mr. Kemp formerly served as an advisor to the Company from December 2002 to December 2003, as the Company's President from June 2001 to December 2002, as its Deputy Chairman from January 2000 to June 2001 and its President and CEO from 1997 to 2000 and has been with White Mountains since 1991. Mr. Kemp is also a director of MSA, Amlin plc. and other White Mountains subsidiaries.

Gordon S. Macklin has been a director of the Company since 1987 and served as a Deputy Chairman of the Company from June 2001 to May 2003. Mr. Macklin formerly served as Chairman of White River Corporation, an information services company, from 1993 to 1998, as Chairman of Hambrecht and Quist Group, a venture capital and investment banking company, from 1987 until 1992, and as President of the National Association of Securities Dealers, Inc. from 1970 until 1987. He is a director of Martek Biosciences Corporation, MedImmune Inc., Overstock.com and Spacehab, Inc., and is a trustee, director or managing general partner (as the case may be) of 48 of the investment companies in the Franklin Templeton Group of Funds.

Frank A. Olson has been a director of the Company since 1996. Mr. Olson is Chairman Emeritus of The Hertz Corporation ("Hertz"). Mr. Olson served as the CEO of Hertz from 1977 to 1999 and has been with that company since 1964. He is also a director of Franklin Templeton Investments Corp., Amerada Hess Corporation and Becton, Dickinson and Company.

Lowndes A. Smith was appointed a director of the Company in November 2003. Mr. Smith formerly served as Vice Chairman of The Hartford Financial Services Group and President and CEO of Hartford Life Insurance Company. He joined the Hartford in 1968. Mr. Smith is also a director of Hartford Mutual Fund and is Chairman of the Connecticut Children's Medical Center.

Joseph S. Steinberg has been a director of the Company since June 2001. Mr. Steinberg has served as the President of Leucadia National Corporation ("Leucadia") since 1978. Mr. Steinberg is also a director of MK Gold Company, Finova Group, Inc. and Jordan Industries, Inc. In addition, Mr. Steinberg is Chairman of Olympus Re Holdings, Ltd., Olympus Reinsurance Ltd. and HomeFed Corporation.

Allan L. Waters was appointed a director of the Company in November 2003. Mr. Waters is Managing Member of Mulherrin Capital Advisors, LLC, a financial services consulting firm he founded in 1998. Mr. Waters formerly served as the Company's Chief Financial Officer from 1993 to 1997, as its Vice President and Controller from 1990 to 1993 and as its Vice President Finance from 1987 to 1990.

Arthur Zankel has been a director or advisor to the board since 1992. He served as a General Partner of First Manhattan Co. from 1965 to 1999 and was Co-Managing Partner of First Manhattan from 1979 to 1997. Mr. Zankel is currently Senior Managing Member of High Rise Capital Advisors LLC. Mr. Zankel is also a director of Citigroup, Inc.

b. Executive Officers (as of March 1, 2004)

Name	Position	Age	Executive officer since
Raymond Barrette	President and CEO	53	1997
John P. Cavoores	Managing Director, President and CEO of OneBeacon	46	2002
Charles B. Chokel	Managing Director of White Mountains Capital, Inc.	50	2002
Steven E. Fass	President and CEO of Folksamerica	58	2002
David T. Foy	Executive Vice President and Chief Financial Officer	37	2003
John D. Gillespie	President of WM Advisors	44	2001
J. Brian Palmer	Chief Accounting Officer	31	2001
Robert L. Seelig	Vice President and General Counsel	35	2002

All executive officers of the Company and its subsidiaries are elected by the Board for a term of one-year or until their successors have been elected and have duly qualified. Information with respect to the principal occupation and relevant business experience of the Executive Officers (excluding information concerning Messrs. Barrette, Gillespie and Fass which has been previously supplied under this Item) follows:

Mr. Cavoores was appointed Managing Director and President OneBeacon in December 2001 and was appointed CEO of OneBeacon in September 2003. Mr. Cavoores formerly served as a Managing Director of Fund American from 2000 to June 2001 and as a Managing Director of OneBeacon from June 2001 to December 2001. Prior to joining White Mountains in 2001, Mr. Cavoores served as Chief Underwriting Officer of worldwide specialty business at Chubb Corporation. Mr. Cavoores was with Chubb since 1981.

Mr. Chokel has served as Managing Director of White Mountains Capital, Inc. since September 2003. Prior to that he served as has served as Managing Director and Chief Administrative Officer of OneBeacon since January 2003 and as Managing Director since March 2002. Prior to joining OneBeacon, Mr. Chokel served as Executive Vice President and Chief Financial Officer of Conseco, Inc. from March 2001 to March 2002 and as Co-CEO of The Progressive Corporation from January 1999 to January 2001. Mr. Chokel was with Progressive since 1978.

Mr. Foy was appointed Executive Vice President and Chief Financial Officer of the Company in April 2003. Prior to joining White Mountains in 2003, Mr. Foy served as Senior Vice President and Chief Financial Officer of Hartford Life Inc. and joined that company in 1993. Prior to joining Hartford Life, Mr. Foy was with Milliman and Robertson, an actuarial consulting firm.

Mr. Palmer has served as Chief Accounting Officer since June 2001 and previously served as Controller of a subsidiary of White Mountains from 1999 to 2001. Prior to joining White Mountains in 1999, Mr. Palmer was with PricewaterhouseCoopers LLP.

Mr. Seelig is Vice President and General Counsel of the Company. Prior to joining White Mountains in September 2002, Mr. Seelig was with the law firm of CS&M.

c. Audit Committee Financial Expert

On February 25, 2004, the Board reconstituted its Audit Committee in response to newly proposed independence standards for directors. The Audit Committee now consists of Messrs. Smith (as Chairman), Olson and Steinberg.

The Board has determined that, of the persons on the Audit Committee, at a minimum Mr. Smith meets the requirements of being an Audit Committee Financial Expert as defined in Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended.

d. Code of Business Conduct and Ethics

The Company has adopted a code of business conduct and ethics which governs the conduct of all White Mountains employees. This document is available at www.whitemountains.com.

e. Compliance with Section 16(a) of the Exchange Act

Pursuant to SEC rules relating to the reporting of changes in beneficial ownership of Common Shares, the Executive Officers, Directors and greater than 10% Members are believed to have filed all reports required under Section 16 on a timely basis during 2003, except for Mr. Cavoores who was late in filing a Form 4 relating to his purchase of 100 Common Shares on June 5, 2003.

Item 11. Executive Compensation

COMPENSATION OF EXECUTIVE OFFICERS

The following tables set forth certain information regarding the salary, incentive compensation and benefits paid by White Mountains with respect to 2003 to its CEO and its four most highly compensated Executive Officers (collectively, the "Named Executive Officers").

		Annual Compensation			Long-Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Share Awards ($) (a)	Securities Underlying Options (#)	LTIP Payouts ($) (b)	All Other Compensation ($) (c) (d)
Raymond Barrette	2003	400,000	250,000	0	0	0	10,273,313	56,539
President and CEO	2002	400,000	260,000	0	0	0	6,510,000	149,090
	2001	400,000	0	0	7,044,500	0	3,960,000	41,016
John D. Gillespie	2003	400,000	305,000	0	0	0	10,273,313	62,317
President of	2002	400,000	330,000	0	0	0	0	66,037
WM Advisors	2001	400,000	110,000	0	1,384,000	0	0	3,219
Steven E. Fass	2003	466,000	700,000	0	0	0	2,222,162	16,019
President and CEO of	2002	466,000	700,000	0	0	0	1,726,440	31,062
Folksamerica	2001	466,000	0	0	865,000	0	244,845	26,310
David T. Foy (e)	2003	307,692	700,000	0	1,023,000	0	0	0
Executive Vice President and Chief Financial Officer								
John P. Cavoores	2003	400,000	200,000	0	0	0	4,109,325	70,524
President and CEO of	2002	400,000	320,000	0	0	0	0	46,292
OneBeacon	2001	400,000	200,000	0	519,000	0	0	33,818

(a) Represents the value of Restricted Share awards under the Incentive Plan as of their respective award dates. Restricted Shares vest over a fixed term from the date of grant based on continuous service by the employee throughout such period. Restricted Shares are considered outstanding Common Shares when awarded and are therefore entitled to Common Share dividends when declared and paid. The Company awarded Mr. Foy 3,000 Restricted Shares in April 2003 which are scheduled to vest in April 2006. The market value of Mr. Foy's unvested Restricted Shares totalled $1,379,850 as of December 31, 2003. The Company awarded Messrs. Barrette, Gillespie, Fass and Cavoores 17,000; 4,000; 2,500 and 1,500 Restricted Shares in June 2001, respectively, which were scheduled to vest in June 2003 and awarded Mr. Barrette 3,750 Restricted Shares in February 2001 which were scheduled to vest in December 2002 (see note (d) below).

(b) Represents Performance Shares earned under the Incentive Plan and, for Mr. Fass, cash awards earned under the Folksamerica Holding Company, Inc. Long-term Incentive Plan.

(c) Amounts include, when applicable, 401(k) Savings Plan employer matching contributions (which did not exceed $12,000 per individual), director fees and retainers paid by companies in which White Mountains is entitled to board representation and imputed income items relating primarily to corporate-provided housing, personal use of White Mountains' aircraft and the value of life insurance provided in excess of $50,000 of coverage. The amounts for 2003 relating to such imputed income items for Messrs. Barrette, Gillespie, Fass, Foy and Cavoores were $12,789; $567; $4,019; $0 and $70,524, respectively. The amounts for 2003, 2002 and 2001 relating to director fees and retainers of affiliates include $31,750; $51,500 and $9,685 for Mr. Barrette and $57,750; $57,000 and $0 for Mr. Gillespie.

(d) During 2003, the Company repurchased from Messrs. Barrette, Gillespie and Fass 17,000; 4,000 and 2,500 Restricted Shares, respectively, and in December 2002 repurchased from Mr. Barrette 3,750 Restricted Shares, in each case for $.01 per share. Each were granted an amount equivalent to the market value of such Restricted Shares (2003: $6,987,000 for Mr. Barrette, $1,644,000 for Mr. Gillespie and $1,027,500 for Mr. Fass; 2002: $1,218,750 for Mr. Barrette) in various non-qualified deferred compensation plans of the Company and its subsidiaries. The Company concluded that these transactions created no additional compensation for the aforementioned Named Executive Officers.

(e) Mr. Foy joined the Company during 2003. Mr. Foy's annual bonus compensation includes a one-time $500,000 sign-on bonus.

Option Grants in Last Fiscal Year

The Company did not grant any Options during 2003.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table summarizes, for the applicable Named Executive Officers, Options exercised during the Company's latest fiscal year, and the number and in-the-money value of Options outstanding as of December 31, 2003.

			As of December 31, 2003			
	Year ended December 31, 2003		Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options at Fiscal Year-End ($)	
Name	Common Shares Acquired	Value Realized ($)	Exercisable	Unexercisable	Exercisable	Unexercisable
Raymond Barrette	0	$ 0	2,265	5,400	$ 740,921	$ 1,766,434
Steven E. Fass	0	0	3,600	5,400	1,177,622	1,766,434

Long-Term Incentive Plans - Awards in Last Fiscal Year

Performance Shares. The following table summarizes the performance share awards made to the applicable Named Executive Officers during 2003.

			Estimated Future Payouts (a)		
Name	Number of Common Shares (#)	Performance period for payout	Threshold (#)	Target (#)	Maximum (#)
Raymond Barrette	13,000	3 yrs.	0	13,000	26,000
David T. Foy	10,000	3 yrs.	0	10,000	20,000
Steven E. Fass	5,000	3 yrs.	0	5,000	10,000
John D. Gillespie	13,000	3 yrs.	0	13,000	26,000
John P. Cavoores	3,000	3 yrs.	0	3,000	6,000

(a) Performance shares are payable upon completion of pre-defined business goals and are valued based on the market value of Common Shares at the time awards are earned. Performance shares are paid in cash but can be paid in Common Shares if the Board so determines. With respect to the 2003 performance shares awarded to Messrs. Barrette, Foy, Fass and Cavoores, "Target" performance is the attainment of a corporate annualized return on equity ("ROE") of 11.0% after tax as measured by the Company's growth in its intrinsic business value. At an ROE of 4% or less ("Threshold") the percentage of performance shares payable will be 0% and at an ROE of 21% or more ("Maximum") the percentage of performance shares will become 200% of target. With respect to 50% of the 2003 performance shares awarded to Mr. Gillespie, "Target" performance is the attainment of a 11% ROE, as described above, and 50% is the attainment of a return on invested assets of 150 basis points over the applicable return on the ten-year United States treasury rate. At a return on invested assets equal to the applicable return on the ten-year United States treasury rate ("Threshold") the percentage of performance shares payable will be 0% and at a return on invested assets of 325 basis points over the applicable return on the ten-year United States treasury rate ("Maximum") the percentage of performance shares will become 200% of target.

Other awards. Mr. Fass was also granted a contingent cash award under the Folksamerica Holding Company, Inc. Long-Term Incentive Plan during 2003. The "Target" amount of this award was initially determined as 100% of Mr. Fass' eligible base salary (or $466,000) which is subsequently increased or decreased by Folksamerica's ROE during the performance period. With respect to this award, "Target" performance is the attainment of an 18% ROE, as measured by Folksamerica's pretax return on standard capital.

Mr. Cavoores was also granted a contingent cash award under the OneBeacon Performance Unit Plan during 2003. The "Target" amount of this award was initially determined as 10,000 Performance Units (which are initially valued at $100 per unit) which value is subsequently increased or decreased by OneBeacon's pretax ROE during the performance period. With respect to this award, "Target" performance is the attainment of a combined ratio (as computed under generally accepted accounting principles or "GAAP") of 96%.

COMPENSATION OF DIRECTORS

Standard Arrangements

Messrs. Byrne, Clark, Cochran, George Gillespie, Kemp, Macklin, Olson, Steinberg and Zankel each received a retainer of $60,000 (with Messrs. Smith and Waters receiving a partial-year retainer of $30,000) as a director during 2003 and fees of no more than $4,000 for each Board meeting and committee meeting attended. In addition, Messrs. Byrne, Clark, Cochran and George Gillespie also received additional retainers of $50,000, $25,000, $25,000 and $200,000 for their roles as Chairman of the Board (through November 2003), Chairman of the Audit Committee, Chairman of the Compensation and Human Resources Committees and Chairman of the Board (effective November 2003), respectively. Each of the retainers mentioned above relate to the twelve month period from May 2003 to May 2004. Further, Mr. Kemp retired as President of the Company on December 31, 2002 and received an additional retainer of $20,000 for his services as a non-employee director for the period from January 2003 to May 2003. Messrs. Barrette, Fass and John Gillespie did not receive compensation for their role as a director during 2003.

Other Arrangements

During 2003 Mr. Kemp received $57,000 in cash compensation for his role as Senior Advisor to the Company. This arrangement was terminated on December 31, 2003.

Messrs. Byrne and Kemp were previously awarded 25,000 and 1,000 Restricted Shares, respectively, which were scheduled to vest in June 2003. Mr. Byrne's Restricted Shares fully vested in June 2003 and Mr. Kemp's Restricted Shares were repurchased for $.01 per share in June 2003 at which time Mr. Kemp was granted an amount equivalent to the market value of such repurchased Restricted Shares in a non-qualified deferred compensation plan of the Company. The value earned by Messrs. Byrne and Kemp with respect to these transactions totalled $10,275,000 and $411,000, respectively.

In May 2003 all outstanding performance shares previously issued to Messrs. Byrne, Kemp, Macklin and Waters were terminated early in light of newly proposed independence standards for directors and were paid in cash or by deferral. The value of the performance shares deemed earned in May 2003 for Messrs. Byrne, Kemp, Macklin and Waters totalled $10,206,900, $1,188,000, $514,800 and $1,188,000, respectively.

Messrs. Byrne and Kemp received their awards of Restricted Shares and performance shares earned during 2003 while serving as Executive Officers of the Company. Mr. Macklin received his award of performance shares earned during 2003 while serving as Deputy Chairman of the Company. Mr. Waters received his award of performance shares earned during 2003 while serving as an advisor to the Company, particularly with respect to his role in evaluating the acquisition of OneBeacon.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Principal Holders of Common Shares

To the knowledge of the Company, there was no person or entity beneficially owning more than 5% of the Common Shares outstanding as of February 27, 2004, except as shown below. Common Shares are the only class of the Company's securities that are eligible to vote.

Name and address of beneficial owner	Number of Common Shares beneficially owned (a)	Percent of Class (b)
Franklin Mutual Advisers LLC 51 JFK Parkway, Short Hills, NJ 07078 (c)	1,970,933	21.8%
Berkshire Hathaway Inc. 1440 Kiewit Plaza, Omaha, NE 68131	1,724,200	16.0%
Jack Byrne 80 South Main Street, Hanover, NH 03755 (d)	1,037,377	11.5%

(a) The Common Shares shown as beneficially owned by Berkshire Hathaway Inc. ("Berkshire") represent Common Shares issuable upon the exercise of warrants to acquire Common Shares. Berkshire cannot vote the Common Shares underlying the warrants until they are exercised. The warrants are currently exercisable.

(b) Based upon the total Common Shares outstanding at February 27, 2004 for all holders shown above except for Berkshire. For Berkshire, this figure represents Berkshire's percentage of all Common Shares outstanding assuming the exercise of its warrants to acquire 1,724,200 Common Shares.

(c) The Common Shares beneficially owned by Franklin Mutual Advisers LLC ("Franklin") were acquired for investment purposes on behalf of client investment advisory accounts.

(d) Includes 631,334 Common Shares owned directly by several Grantor Retained Annuity Trusts established by Mr. Byrne which are deemed to be indirectly beneficially owned. Includes 1,150 Common Shares owned and voted by Mr. Byrne's spouse which he is deemed to indirectly beneficially own. Does not include 72,775 Common Shares contributed to trusts and charitable foundations for which Mr. Byrne disclaims beneficial ownership, but for which his spouse retains voting power.

Beneficial Stock Ownership of Directors and Executive Officers

The following table sets forth, as of February 27, 2004, beneficial ownership of Common Shares by each director of the Company, by certain named Executive Officers, and by all Directors and Executive Officers as a group.

	Number of Common Shares owned	
Directors and Executive Officers	Beneficially (a)(b)	Economically (c)
Raymond Barrette	25,985	114,104
Jack Byrne (d)	1,037,377	1,037,377
John P. Cavoores	1,460	17,608
Howard L. Clark, Jr.	1,000	1,000
Robert P. Cochran	25,000	25,000
Steven E. Fass	7,377	37,777
David T. Foy	0	21,000
George J. Gillespie, III	1,000	1,000
John D. Gillespie (e)	63,698	105,706
K. Thomas Kemp	84,943	95,997
Gordon S. Macklin	15,000	15,000
Frank A. Olson	3,000	3,000
Lowndes A. Smith	0	0
Joseph S. Steinberg (f)	0	0
Allan L. Waters	3,792	3,792
Arthur Zankel	8,600	8,600
All Directors and Executive Officers as a group (19 persons)	1,278,686	1,511,936

(a) The Common Shares beneficially owned by Messrs. Byrne and all Directors and Executive Officers as a group represent 11.5% and 14.2% of the total Common Shares outstanding at February 27, 2004, respectively. No other Director or Executive Officer beneficially owned 1% or more of the total Common Shares outstanding at that date. Beneficial ownership has been determined in accordance with Rule 13d-3(d)(1) of the Securities Exchange Act of 1934.

(b) Includes vested and unexercised options ("Options") to acquire 2,265 and 3,600 Common Shares for Messrs. Barrette and Fass, respectively. Excludes 3,000 unearned Restricted Shares held by Mr. Foy.

(c) Incremental Common Shares shown as economically owned by Directors and Executive Officers represent unearned performance share awards, unvested Option awards, unearned Restricted Shares and earned phantom shares on compensation deferred.

(d) Includes 631,334 Common Shares owned directly by several Grantor Retained Annuity Trusts established by Mr. Byrne which are deemed to be indirectly beneficially owned. Includes 1,150 Common Shares owned and voted by Mr. Byrne's spouse which he is deemed to indirectly beneficially own. Does not include 72,775 Common Shares contributed to trusts and charitable foundations for which Mr. Byrne disclaims beneficial ownership, but for which his spouse retains voting power.

(e) Includes 62,000 Common Shares owned by various funds of Prospector in which Mr. Gillespie is either general manager or investment manager. Mr. Gillespie disclaims beneficial ownership of such Common Shares except to the extent of his pecuniary interest in such funds.

(f) Does not include any interest in 375,000 Common Shares (approximately 4.2% of the total Common Shares outstanding on February 27, 2004) beneficially owned by Leucadia. Mr. Steinberg is the President and a Director of Leucadia and, together with certain family members, Mr. Steinberg currently beneficially owns approximately 13% of the common shares of Leucadia. By virtue of his beneficial ownership of and relationship with Leucadia, Mr. Steinberg may be deemed to be an indirect beneficial owner of the Common Shares owned by Leucadia.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2003 with respect to Common Shares that may be issued under White Mountains' existing incentive compensation plans. Performance shares awarded under the Incentive Plan and the OneBeacon's Performance Plan (the "OB Performance Plan") are typically paid in cash, though they may be paid in Common Shares at the election of the Compensation Committee. For that reason, these plans are listed in the Equity Compensation Plan Table below. The Folksamerica Holding Company, Inc. Long-Term Incentive Plan and the Folksamerica Holding Company, Inc./White Mountains Performance Share Plan are cash-based plans which do not provide for the issuance of Common Shares and are therefore excluded from this table.

Plan category	(a) Number of securities to be issued upon exercise or vesting of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders - Incentive Plan:			144,800
Performance shares	197,800	$ 0	
Restricted Shares (1)	6,000	0	
Options (2)	50,565	132.83	
Equity compensation plans not approved by security holders - OB Performance Plan (3):			
Performance shares	199,874	$ 0	198,423

(1) The outstanding restricted shares, which were granted in 2003, are currently outstanding but have not been earned. Restricted Shares vest over a fixed term from the date of grant based on continuous service by the employee throughout such period.

(2) The outstanding Options were granted in 2000 at an exercise price equal to the underlying market value of Common Shares on the date of grant. The exercise price escalates on a straight-line basis by 6% per annum over the ten-year life of the Options. The weighted average shown above represents the effective exercise price per Option at December 31, 2003.

(3) The OB Performance Plan is a long-term incentive plan of OneBeacon which provides for granting of performance shares to certain of its key employees. The performance goals for full payment of performance shares issued under the OB Performance Plan are similar to those of the Incentive Plan. At the time of its adoption, the OB Performance Plan was not required to be approved by Members under applicable rules and regulations.

Item 13. Certain Relationships and Related Transactions

Mr. Howard Clark, a director of the Company, is Vice Chairman of Lehman Brothers Inc. ("Lehman"). Lehman has, from time to time, provided various services to White Mountains including investment banking services, brokerage services, underwriting of debt and equity securities and financial consulting services. Lehman was lead underwriter Fund American's $700.0 million Senior Notes, for which White Mountains paid Lehman $3.5 million in underwriting discounts and fees during 2003. Lehman was also the arranger, the administrative agent and a lender under the Old Bank Facility that the Company prepaid in 2003 and is a lender under the New Bank Facility. See Note 6.

Mr. George Gillespie, a Director of the Company, is a Partner at CS&M, which has been retained by White Mountains from time to time to perform legal services. During 2003, White Mountains paid CS&M approximately $1.0 million for legal services provided.

Pursuant to an employment agreement with White Mountains, Mr. John Gillespie, a Director and Deputy Chairman of the Company and President of WM Advisors, may continue his active involvement with Prospector Partners, LLC ("Prospector"), so long as Mr. Gillespie devotes the requisite time required to fulfill his responsibilities to WM Advisors. The agreement specifies procedures pursuant to which Prospector's funds have the ability to invest first in opportunities appropriate for both White Mountains and such funds. Pursuant to revenue sharing agreements, Mr. Gillespie has agreed to pay White Mountains a portion of the revenues and distributions allocable to him in connection with Prospector, in return for White Mountains agreeing to pay the operational expenses of his investment management companies. At December 31, 2003, White Mountains had $99.8 million invested in funds managed by Prospector.

In September 2001, White Mountains entered into a five-year lease at a market-based rate for a building partially owned by Mr. John Gillespie and the Gillespie Trusts. For 2003, the rental payments attributable to Mr. Gillespie's ownership in the building totalled approximately $15,000 and the rental payments attributable to the Gillespie Trusts' ownership in the building totalled approximately $124,000.

Mr. John Gillespie indirectly through general and limited partnership interests holds a 44% interest in Dowling & Partners Connecticut Fund III, LP ("Fund III"). OBPP and Folksamerica Specialty Underwriting, Inc. ("FSUI") have borrowed approximately $8 million and $7 million, respectively, from Fund III in connection with an incentive program sponsored by the State of Connecticut known as the Connecticut Insurance Reinvestment Act (the "CIR Act"). The CIR Act provides for Connecticut income tax credits to be granted for qualifying investments made by approved fund managers. The loans made by Fund III to OBPP and FSUI are qualifying investments and, together, have the potential to generate up to $15 million of tax credits that would be shared equally between Fund III on the one hand and OBPP and FSUI on the other. As a result of his interest in Fund III, Mr. Gillespie could realize up to $3.3 million from the tax credits, although any such amount would be subject to the revenue sharing agreements with White Mountains described above.

Mr. Zankel is Senior Managing Member of the General Partner of High Rise Capital Advisors LLC, which is the General Partner of High Rise Partners, L.P and Cedar Bridge Realty Fund, L.P. At December 31, 2003, White Mountains had $6.6 million in limited partnership investment interests in High Rise Partners, L.P. and $3.6 million in limited partnership investment interests in Cedar Bridge Realty Fund, L.P. In addition, at December 31, 2003 White Mountains owned $48.9 million in investments that are managed by High Rise Capital Advisors LLC.

WM Advisors provides investment advisory and management services to Montpelier Re and Olympus. Montpelier Re and Olympus pay investment management fees based on month-end market values of investments held under custody to WM Advisors. The fees, which vary depending on the amount of assets under management, are between 0.15% and 0.30%. This agreement may be terminated by either party upon 30 days written notice. At December 31, 2003, WM Advisors had $2,074.8 million and $805.5 million of assets under management from Montpelier Re and Olympus, respectively. During 2003, WM Advisors had received $2.9 million and $1.3 million in fees from Montpelier Re and Olympus, respectively.

Item 14. Principal Accountant Fees and Services

The Audit Committee, pursuant to its policy, pre-approves the scope and fees for all services performed by the independent auditors. Annually, the Audit Committee receives and pre-approves a written report from its independent auditor describing the elements expected to be performed in the course of its audit of the Company's financials. All other audit, audit-related and non audit-related services rendered by the independent auditors also require pre-approval, which may be granted in accordance with the provisions of the policy either (a) at a meeting of the full Audit Committee, (b) on an interim basis by the Chairman of the Audit Committee, provided that the requested services are not expressly prohibited and are communicated to the Audit Committee at its next regularly scheduled meeting, or (c) on a per-project basis through specific compliance with pre-approved definitions of services that do not exceed per-project limits established by the Committee, provided that the Company's General Auditor makes a full report of all services pre-approved by the policy at the next regularly scheduled meeting of the Committee.

It is the intent of the policy to assure that the independent auditor's performance of audit, audit-related and non audit-related services are consistent with all applicable rules on auditor independence. As such, services expressly prohibited by the Audit Committee under its policy include bookkeeping or other services related to the accounting records or financial statements of the Company or its subsidiaries; financial information systems design and implementation; appraisal and valuation services, fairness opinions; contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions; human resources; broker-dealer, investment advisor or investment banking services; legal services; and expert services unrelated to the audit.

All services performed by the Company's independent auditor, PricewaterhouseCoopers LLP ("PwC") in 2003 were pre-approved by the Audit Committee pursuant to the policy described above.