The services performed by PwC in 2003 and 2002 are described below. PwC does not provide any services to the Company prohibited under applicable laws and regulations, such as financial information systems design and implementation. From time to time, PwC may perform permissible consulting services for the Company, provided they have been pre-approved in accordance with the policy described above. To the extent consulting services are provided by PwC, they are closely monitored and controlled by both management and the Audit Committee to ensure that their nature and extent do not interfere with PwC's independence. The independence of PwC also is considered annually by the Audit Committee.

The following table sets forth the approximate aggregate fees billed by the Company's independent auditor for professional services provided in 2003 and 2002:

	2003	2002
Audit Fees (1)	$ 2,629,400	$2,739,200
Audit-Related Fees (2)	1,711,900	915,000
Tax Fees (3)	1,067,100	635,200
All Other Fees (4)	-	2,390,100

(1) The fees in this category were for professional services rendered in connection with (i) the audit of the Company's annual financial statements set forth in the Company's Annual Report on Form 10-K, (ii) the review of the Company's quarterly financial statements set forth in the Company s Quarterly Reports on Form 10-Q, (iii) audits of the Company's subsidiaries that are required by statute or regulation, and (iv) services that generally only the Company's independent auditors reasonably can provide, such as comfort letters, consents and agreed upon procedures reports.

(2) The fees in this category were for professional services rendered in connection with (i) consultations concerning financial accounting and reporting standards of transactions or events, (ii) internal control reviews, (iii) employee benefit plan audits and (iv) due diligence services.

(3) The fees in this category were for professional services rendered in connection with tax strategy assistance and tax compliance services.

(4) The fees in this category were for non-financial information systems technology consulting. Of these fees, $1,658,400 related to services provided by PwC Consulting prior to the sale of this division to IBM on October 1, 2002. The services provided by PwC Consulting related to various non-financial information systems consulting projects.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

a. Documents Filed as Part of the Report

The financial statements and financial statement schedules and reports of independent auditors have been filed as 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. A listing of exhibits filed as part of the report appear on pages 86 through 87 of this report.

b. Reports on Form 8-K

On November 3, 2003 the Company filed a Form 8-K (Item 12) which served to furnish information regarding its press release announcing its results for the three and nine month periods ended September 30, 2003.

On December 9, 2003, the Company filed a Form 8-K (Item 5) and announced that, through a subsidiary, it entered into a definitive agreement with a subsidiary of ABB Ltd to acquire the Sirius Insurance Group, an insurance and reinsurance organization based in Sweden.

c. Exhibits

Exhibit number	Name
2	Plan of Reorganization (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3.1	Memorandum of Continuance of the Company (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3.2	Bye-Laws of the Company (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
10.1	Purchase Agreement between ABB Holding AG, as Seller, and Fund American Holdings AB, as Purchaser, dated December 8, 2003 (incorporated by reference herein to Exhibit 99(a) of the Company's Report on Form 8-K dated December 8, 2003)
10.2	$300,000,000 Credit Agreement, dated as of September 24, 2003, among The Company and Fund American, as the borrowers, the several lenders from time to time parties hereto, Bank One, NA, as Syndication Agent, and Fleet National Bank, as Administrative Agent. (incorporated by reference herein to Exhibit 10 of the Company's Report on Form 10-Q dated November 4, 2003)
10.3	Amended and Restated Credit Agreement dated as of October 20, 2002, among Fund American Enterprises Holdings, Inc. and Fund American Companies, Inc. (as borrowers), Lehman Brothers, Inc. (as arranger), Fleet National Bank (as syndication agent), Bank of America, N.A. and Bank One, N.A. (as co-documentation agent), Lehman Commercial Paper Inc. (as administration agent) and the several lenders as parties thereto (incorporated by reference herein to Exhibit 99(a) of the Company's Report on Form 8-K dated October 31, 2002)
10.4	Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance Company and GRC dated April 13, 2001 (incorporated by reference herein to Exhibit 99(m) of the Company's Report on Form 8-K dated June 1, 2001)
10.5	Adverse Development Agreement of Reinsurance between NICO (and certain of its affiliates) and Potomac Insurance Company dated April 13, 2001 and related documents (incorporated by reference herein to Exhibits 99(n), 99(o), 99(p) and 99(q) of the Company's Report on Form 8-K dated June 1, 2001)
10.6	Warrant Agreement among the Registrant and Berkshire dated May 30, 2001 (incorporated by reference herein to Exhibits 99(s) of the Company's Report on Form 8-K dated June 1, 2001)
10.7	Subscription Agreement among Berkshire, Fund American Companies, Inc. and the Registrant dated May 30, 2001 (incorporated by reference herein to Exhibits 99(t) of the Company's Report on Form 8-K dated June 1, 2001)
10.8	Master Agreement by and among the Company, OneBeacon and Liberty Mutual including the Liberty RRA and related documents (incorporated by reference herein to Exhibits 99(d), 99(e), 99(f), 99(g) and 99(h) of the Company's Report on Form 8-K dated November 1, 2001)
10.9	VGI Stock Acquisition Agreement dated February 10, 1999 between Unitrin, Inc. and the Company (incorporated by reference herein to Exhibit 10(n) of the Company's 1998 Annual Report on Form 10-K)
10.10	Subscription Agreement for the purchase of Convertible Preference Shares of the Company and the related terms and conditions thereto, each dated as of October 23, 2002, among the investment funds managed by Franklin Mutual Advisors, LLC and the Company (incorporated by reference herein to Exhibits 99(a) and 99(b) of the Company's Report on Form 8-K dated October 24, 2002)
10.11	Folksamerica Holding Company, Inc. Long-Term Incentive Plan (incorporated by reference herein to Exhibit 10(r) of the Company's 2002 Annual Report on Form 10-K) (**)
10.12	Folksamerica Holding Company, Inc. White Mountains Performance Share Plan (incorporated by reference herein to Exhibit 10(s) of the Company's 2002 Annual Report on Form 10-K) (**)

10.13 White Mountains Long-Term Incentive Plan, as amended; (incorporated by reference to Appendix I of the Company's Notice of 2001 Annual General Meeting of Shareholders and Proxy Statement dated July 5, 2001) (**)

10.14 White Mountains Insurance Group Deferred Compensation Plan (*) (**)

10.15 Fund American Deferred Compensation Plan (*) (**)

10.16 OneBeacon Insurance Performance Unit Plan (*) (**)

10.17 OneBeacon Insurance Supplemental Plan (incorporated by reference herein to Exhibit 4(c) of the Company's Report on Form S-8 dated August 27, 2001) (**)

10.18 OneBeacon Insurance Deferred Compensation Plan (*) (**)

10.19 Employment Agreement dated January 1, 2001 among John D. Gillespie and Fund American Companies, Inc. (incorporated by reference herein to Exhibit 10(y) of the Company's 2001 Annual Report on Form 10-K) (**)

10.20 Revenue Sharing Agreement among John D. Gillespie, Fund American Companies, Inc. and Folksamerica Reinsurance Company (incorporated by reference herein to Exhibit 10(z) of the Company's 2001 Annual Report on Form 10-K) (**)

11 Statement Re Computation of Per Share Earnings (***)

12 Statement Re Computation of Ratio of Earnings to Fixed Charges (*)

21 Subsidiaries of the Registrant (*)

23 Consent of PricewaterhouseCoopers LLP dated March 1, 2004 (*)

24 Powers of Attorney (*)

31.1 Principal Executive Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as Amended (*)

31.2 Principal Financial Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as Amended (*)

32.1 Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)

32.2 Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)

99 Text entitled "Non-Asbestos and Environmental Reserves" under the caption "Loss and Loss Adjustment Expense Reserves" (incorporated by reference herein to pages 31 through 43 of the Company's Form S-3 dated March 14, 2003)

(*) Included herein.

(**) Management contracts or compensation plans/arrangements required to be filed as an exhibit pursuant to Item 15c of Form 10-K.

(***) Not included herein as the information is contained elsewhere within report. See Note 1 of the Notes to Consolidated Financial Statements.

d. Financial Statement Schedules

The financial statement schedules and report of independent auditors have been filed as 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Date: March 1, 2004

By: /s/ J. BRIAN PALMER
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RAYMOND BARRETTE Raymond Barrette	Director, President and CEO (Principal Executive Officer)	March 1, 2004
JOHN J. BYRNE* John J. Byrne	Director	March 1, 2004
HOWARD L. CLARK, JR.* Howard L. Clark, Jr.	Director	March 1, 2004
ROBERT P. COCHRAN* Robert P. Cochran	Director	March 1, 2004
STEVEN E. FASS* Steven E. Fass	Director	March 1, 2004
/s/ DAVID T. FOY David T. Foy	Executive Vice President and CFO (Principal Financial Officer)	March 1, 2004
GEORGE J. GILLESPIE, III* George J. Gillespie, III	Chairman	March 1, 2004
JOHN D. GILLESPIE* John D. Gillespie	Director	March 1, 2004
K. THOMAS KEMP* K. Thomas Kemp	Director	March 1, 2004
GORDON S. MACKLIN* Gordon S. Macklin	Director	March 1, 2004
FRANK A. OLSON* Frank A. Olson	Director	March 1, 2004
/s/ J. BRIAN PALMER J. Brian Palmer	Chief Accounting Officer (Principal Accounting Officer)	March 1, 2004
LOWNDES A. SMITH* Lowndes A. Smith	Director	March 1, 2004
JOSEPH S. STEINBERG* Joseph S. Steinberg	Director	March 1, 2004
ALLAN L. WATERS* Allan L. Waters	Director	March 1, 2004
ARTHUR ZANKEL* Arthur Zankel	Director	March 1, 2004

*By: /s/ RAYMOND BARRETTE
Raymond Barrette, Attorney-in-Fact

WHITE MOUNTAINS INSURANCE GROUP, LTD.
Index to Consolidated Financial Statements and Financial Statement Schedules

	Form 10-K page(s)
Consolidated financial statements:	
Consolidated balance sheets as of December 31, 2003 and 2002	F-1
Consolidated statements of income and comprehensive income for each of the years ended December 31, 2003, 2002 and 2001	F-2
Consolidated statements of common shareholders' equity for each of the years ended December 31, 2003, 2002 and 2001	F-3
Consolidated statements of cash flows for each of the years ended December 31, 2003, 2002 and 2001	F-4
Notes to consolidated financial statements	F-5
Other financial information:	
Report on management's responsibilities	F-59
Report of independent auditors	F-60
Selected quarterly financial data (unaudited)	F-61
Financial statement schedules:	
I. Summary of investments - other than investments in related parties	FS-1
II. Condensed financial information of the Registrant	FS-2
III. Supplementary insurance information	FS-4
IV. Reinsurance	FS-5
V. Valuation and qualifying accounts	FS-6
VI. Supplemental information for property and casualty insurance underwriters	FS-7

CONSOLIDATED BALANCE SHEETS

in millions, except share amounts	December 31, 2003	2002
Assets		
Fixed maturity investments, at fair value (cost $6,010.2 and $6,407.5)	$ 6,248.1	$ 6,669.1
Short-term investments, at amortized cost (which approximates fair value)	1,546.6	1,790.6
Common equity securities, at fair value (cost $396.2 and $252.3)	513.6	275.0
Other investments (cost $184.0 and $142.3)	239.2	164.7
Total investments	8,547.5	8,899.4
Cash	89.9	121.5
Reinsurance recoverable on unpaid losses	1,213.5	1,445.2
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	2,260.3	2,626.7
Reinsurance recoverable on paid losses	121.7	159.8
Accounts receivable on unsettled investment sales	9.1	160.8
Insurance and reinsurance premiums receivable	779.0	830.5
Investments in unconsolidated insurance affiliates	515.9	399.9
Deferred tax asset	260.0	430.0
Deferred acquisition costs	233.6	244.9
Ceded unearned premiums	185.3	163.9
Investment income accrued	73.0	91.4
Other assets	682.2	459.6
Total assets	$ 14,971.0	$ 16,033.6
Liabilities		
Loss and loss adjustment expense reserves	$ 7,728.2	$ 8,875.3
Unearned insurance and reinsurance premiums	1,409.4	1,514.4
Debt	743.0	793.2
Accounts payable on unsettled investment purchases	371.6	495.2
Funds held under reinsurance treaties	211.9	262.4
Other liabilities	1,333.2	1,285.3
Preferred stock subject to mandatory redemption:		
Held by Berkshire Hathaway Inc. (redemption value $300.0)	174.5	–
Held by others (redemption value $20.0)	20.0	–
Total liabilities	11,991.8	13,225.8
Convertible Preference Shares	–	219.0
Minority interest - mandatorily redeemable preferred stock of subsidiaries	–	180.9
Common shareholders' equity		
Common Shares at $1 par per share – authorized 50,000,000 shares; issued and outstanding 9,007,195 and 8,351,387 shares	9.0	8.4
Paid-in surplus	1,399.6	1,126.2
Retained earnings	1,286.4	1,071.9
Accumulated other comprehensive income, after-tax:		
Unrealized gains on investments	286.0	210.2
Unrealized foreign currency translation losses	(.3)	(3.5)
Unearned compensation - restricted Common Share awards	(1.5)	(5.3)
Total common shareholders' equity	2,979.2	2,407.9
Total liabilities, Convertible Preference Shares, minority interest and common shareholders' equity	$ 14,971.0	$ 16,033.6

See Notes to Consolidated Financial Statements including Note 17 for Commitments and Contingencies.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Millions, except per share amounts	Year Ended December 31, 2003	2002	2001
Revenues			
Earned insurance and reinsurance premiums	$ 3,137.7	$ 3,576.4	$ 2,656.1
Net investment income	290.9	366.0	284.5
Net realized investment gains	162.6	156.0	173.1
Amortization of deferred credits and other benefits	–	–	91.6
Other revenue	215.4	113.7	29.1
Total revenues	3,806.6	4,212.1	3,234.4
Expenses			
Losses and loss adjustment expenses	2,138.1	2,638.2	2,493.9
Insurance and reinsurance acquisition expenses	611.6	806.3	531.0
Other underwriting expenses	363.3	403.9	436.3
General and administrative expenses	201.8	92.7	40.2
Accretion of fair value adjustment to loss and loss adjustment expense reserves	48.6	79.8	56.0
Interest expense on debt	48.6	71.8	45.7
Interest expense - dividends and accretion on preferred stock subject to mandatory redemption	22.3	–	–
Share appreciation expense for Series B Warrants	–	–	58.8
Total expenses	3,434.3	4,092.7	3,661.9
Pretax income (loss)	372.3	119.4	(427.5)
Income tax (provision) benefit	(127.6)	(11.7)	179.2
Net income (loss) before minority interest, equity in earnings of affiliates, accounting changes and extraordinary items	244.7	107.7	(248.3)
Dividends on mandatorily redeemable preferred stock of subsidiaries	(15.1)	(30.3)	(18.1)
Accretion of preferred stock of subsidiaries to face value	(6.4)	(10.6)	(5.1)
Equity in earnings of unconsolidated affiliates	57.4	14.0	.4
Net income (loss) before accounting changes and extraordinary items	280.6	80.8	(271.1)
Cumulative effect of changes in accounting principles	–	660.2	–
Excess of fair value of acquired net assets over cost	–	7.1	16.6
Loss on early extinguishment of debt	–	–	(4.8)
Net income (loss)	280.6	748.1	(259.3)
Net change in unrealized gains and losses for investments held	163.1	298.7	(4.5)
Net change in foreign currency translation	3.2	(1.4)	(2.0)
Recognition of unrealized gains and losses for investments sold	(87.3)	(95.0)	(36.0)
Comprehensive net income (loss)	$ 359.6	$ 950.4	$ (301.8)
Computation of net income (loss) available to common shareholders			
Net income (loss)	$ 280.6	$ 748.1	$ (259.3)
Redemption value adjustment - Convertible Preference Shares	(49.5)	(19.0)	(305.1)
Dividends declared on Convertible Preference Shares	–	(.4)	(.3)
Net income (loss) available to common shareholders	$ 231.1	$ 728.7	$ (564.7)
Basic earnings per Common Share			
Net income (loss) before accounting changes and extraordinary items	$ 26.48	$ 7.47	$ (86.52)
Net income (loss)	26.48	88.61	(84.75)
Diluted earnings per Common Share			
Net income (loss) before accounting changes and extraordinary items	$ 23.63	$ 6.80	$ (86.52)
Net income (loss)	23.63	80.75	(84.75)
Dividends declared and paid per Common Share	$ 1.00	$ 1.00	$ 1.00

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

Millions	Total	Common Shares and paid-in surplus	Retained earnings	Accumulated other comprehensive income	Unearned compensation
Balances at January 1, 2001	$ 1,046.5	$ 72.1	$ 927.5	$ 46.9	$ –
Net loss	(259.3)	–	(259.3)	–	–
Net change in unrealized investment gains	(41.1)	–	–	(41.1)	–
Net change in foreign currency translation	(1.4)	–	–	(1.4)	–
Dividends declared on Convertible Preference Shares	(.3)	–	(.3)	–	–
Dividends declared on Common Shares	(5.9)	–	(5.9)	–	–
Issuances of Common Shares	779.6	779.6	–	–	–
Redemption value adjustment - Convertible Preference Shares	(305.1)	–	(305.1)	–	–
Repurchases and retirements of Common Shares	(1.9)	(.1)	(1.8)	–	–
Issuance of Warrants	213.6	213.6	–	–	–
Issuance of Restricted Shares	–	31.9	–	–	(31.9)
Amortization of Restricted Share awards	10.4	–	–	–	10.4
Accrued Option expense	9.5	9.5	–	–	–
Balances at December 31, 2001	1,444.6	1,106.6	355.1	4.4	(21.5)
Net income	748.1	–	748.1	–	–
Net change in unrealized investment gains	203.7	–	–	203.7	–
Net change in foreign currency translation	(1.4)	–	–	(1.4)	–
Dividends declared on Convertible Preference Shares	(.4)	–	(.4)	–	–
Dividends declared on Common Shares	(8.3)	–	(8.3)	–	–
Issuances of Common Shares	30.2	30.2	–	–	–
Redemption value adjustment - Convertible Preference Shares	(19.0)	–	(19.0)	–	–
Repurchases and retirements of Common Shares	(6.5)	(2.9)	(3.6)	–	–
Amortization of Restricted Share awards	16.2	–	–	–	16.2
Accrued Option expense	.7	.7	–	–	–
Balances at December 31, 2002	2,407.9	1,134.6	1,071.9	206.7	(5.3)
Net income	280.6	–	280.6	–	–
Net change in unrealized investment gains	75.8	–	–	75.8	–
Net change in foreign currency translation	3.2	–	–	3.2	–
Dividends declared on Common Shares	(8.3)	–	(8.3)	–	–
Issuances of Common Shares	270.1	270.1	–	–	–
Repurchases and retirements of Common Shares	(13.8)	(5.5)	(8.3)	–	–
Issuance of Restricted Shares	–	2.0	–	–	(2.0)
Amortization of Restricted Share awards	5.8	–	–	–	5.8
Redemption value adjustment - Convertible Preference Shares	(49.5)	–	(49.5)	–	–
Accrued Option expense	7.4	7.4	–	–	–
Balances at December 31, 2003	**$ 2,979.2**	**$ 1,408.6**	**$ 1,286.4**	**$ 285.7**	**$ (1.5)**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 2003	2002	2001
Net income (loss)	$ 280.6	$ 748.1	$ (259.3)
Charges (credits) to reconcile net income to cash flows from operations:			
Cumulative effect of changes in accounting principles	–	(660.2)	–
Excess of fair value of acquired net assets over cost	–	(7.1)	(16.6)
Loss on early extinguishment of debt	–	–	4.8
Dividends on preferred stock subject to mandatory redemption	30.3	30.3	18.1
Net realized investment gains	(162.6)	(156.0)	(173.1)
Share appreciation expense for Series B Warrants	–	–	58.8
Amortization of deferred credits and other benefits	–	–	(91.6)
Undistributed equity in earnings from unconsolidated insurance affiliates, after tax	(57.4)	(14.0)	(.4)
Deferred income tax provision	105.0	163.9	(190.9)
Other operating items:			
Net income tax receipts (payments)	16.6	189.6	(8.4)
Net change in insurance and reinsurance balances receivable	51.5	273.0	261.3
Net change in reinsurance recoverable on paid and unpaid losses	636.2	110.3	(1,410.1)
Net change in deferred acquisition costs	11.3	68.4	58.3
Net change in loss and LAE reserves	(1,147.1)	(652.3)	1,500.4
Net change in unearned insurance and reinsurance premiums	(105.0)	(300.1)	(247.0)
Net change in other assets and liabilities, net	(139.8)	(69.6)	195.0
Net cash used for operating activities	(480.4)	(275.7)	(300.7)
Cash flows from investing activities:			
Net decrease (increase) in short-term investments	244.0	755.2	(979.2)
Sales of fixed maturity investments	17,290.5	13,531.9	7,603.6
Maturities of fixed maturity investments	1,372.0	411.9	1,121.1
Sales of common equity securities and other investments	160.1	98.4	246.9
Proceeds from sales of subsidiaries and affiliates, net of cash acquired	25.0	–	23.6
Purchases of fixed maturity investments	(18,248.2)	(14,066.6)	(6,897.3)
Purchases of common equity securities and other investments	(354.4)	(244.5)	(233.8)
Purchases of consolidated and unconsolidated affiliates	–	(.5)	(1,979.8)
Net dispositions (acquisitions) of property and equipment	43.4	(12.8)	(7.7)
Net cash provided from (used for) investing activities	532.4	473.0	(1,102.6)
Cash flows from financing activities:			
Proceeds from issuances of Common Shares and Convertible Preference Shares	1.5	226.4	444.4
Proceeds from issuances of debt	693.4	8.0	832.0
Proceeds from issuances of preferred stock of subsidiaries	–	–	245.0
Proceeds from the issuance of Warrants	–	–	75.0
Repayments of debt	(739.9)	(338.6)	(103.9)
Dividends paid on mandatorily redeemable preferred stock of subsidiaries	(30.3)	(30.3)	(18.1)
Dividends paid on Common Shares	(8.3)	(8.3)	(5.9)
Dividends paid on Convertible Preference Shares	–	(.4)	(.3)
Common Shares repurchased and retired	–	–	(1.9)
Net cash (used for) provided from financing activities	(83.6)	(143.2)	1,466.3
Net (decrease) increase in cash during year	(31.6)	54.1	63.0
Cash balance at beginning of year	121.5	67.4	4.4
Cash balance at end of year	$ 89.9	$ 121.5	$ 67.4

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with GAAP in the United States. Previously defined terms used within these financial statements have the same meaning as they appear elsewhere within this report. The Company is a Bermuda limited liability company with its headquarters located at Crawford House, 23 Church Street, Hamilton, Bermuda HM 11. The Company's principal executive office is located at 80 South Main Street, Hanover, New Hampshire, 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11.

White Mountains' consolidated property and casualty insurance operations are conducted primarily through OneBeacon, which was acquired by White Mountains on June 1, 2001. Therefore, White Mountains' 2001 consolidated financial results only include OneBeacon's results for the seven months ended December 31, 2001. In connection with the acquisition of OneBeacon, the insurance and reinsurance operations of Folksamerica, Peninsula, American Centennial, British Insurance Company and Esurance were contributed by the Company to OneBeacon. OneBeacon and Folksamerica are run as separate entities, with distinct operations, management and business strategies.

White Mountains' internationally-based reinsurance operations are conducted primarily through its wholly-owned subsidiary Fund American Re, which is domiciled in Bermuda, maintains its executive office and an operating branch in Stockholm, Sweden, and operates through an additional branch in Singapore. In December 2001, White Mountains formed WMU, an Ireland-domiciled consulting services provider specializing in international property excess reinsurance. In addition, through its holdings of common shares and warrants, White Mountains owns approximately 21%, on a fully-converted basis, of Montpelier, a Bermuda-domiciled insurance and reinsurance holding company.

All significant intercompany transactions have been eliminated in consolidation. The financial statements include all adjustments considered necessary by management to fairly present the Company's financial position, its results of operations and its cash flows.

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. Actual results could differ from those estimates. 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.

Investment securities

White Mountains' portfolio of fixed maturity investments and common equity securities are classified as available for sale and are reported at fair value as of the balance sheet date as determined by quoted market values. Other investments principally include investments in limited partnership interests which are recorded using the equity method of accounting. Net unrealized investment gains and losses, after-tax, associated with such investments are reported as a net amount as a separate component of shareholders' equity. Changes in net unrealized investment gains and losses, after-tax, are reported as a component of other comprehensive income. Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, the financial health of and specific prospects for the issuer and the ability and intent to hold the investment to maturity. Investment losses that are other than temporary are recognized in earnings. Realized gains and losses resulting from sales of investment securities are accounted for using the weighted average method.

Premiums and discounts on fixed maturity investments are accreted to income over the anticipated life of the investment.

Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 2003 and 2002.

OneBeacon participates in a securities lending program whereby certain of its fixed maturity investments are loaned to other institutions for short periods of time through a lending agent. OneBeacon maintains control over the securities it lends, retains the earnings and cash flows associated with the loaned securities and receives a fee from the borrower for the temporary use of the asset. Collateral, in the form of cash and United States government securities, is required at a rate of 102% of the fair value of the loaned securities and is monitored and maintained by the lending agent. An indemnification agreement with the lending agent protects OneBeacon in the event a borrower becomes insolvent or fails to return any of the securities on loan.

Cash

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company's consolidated subsidiaries.

Insurance and reinsurance operations

White Mountains accounts for insurance and reinsurance policies which it writes in accordance with SFAS No. 60, "Accounting and Reporting by Insurance Enterprises" ("SFAS 60"). Premiums written are recognized as revenues and are earned ratably over the term of the related policy or reinsurance treaty. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force. AutoOne Insurance, which acts as a limited assigned distribution ("LAD") servicing carrier, enters into contractual arrangements with insurance companies to assume private passenger automobile assigned risk exposures in the state of New York. AutoOne Insurance receives LAD servicing fees for assuming these risks. LAD servicing fees are typically a percentage of the total premiums that AutoOne Insurance must write to fulfill the obligation of the transferor company. LAD servicing carriers may choose to write certain policies voluntarily by taking risks out of the NYAIP. These policies generate takeout credits which can be "sold" for fees to the transferor company ("takeout fees"). These fees are also typically a percentage of the transferor company's NYAIP premium assignments. AutoOne Insurance's LAD servicing and takeout fees are recorded as written premium when billed and are earned ratably over the term of the related policy to which the fee relates.

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs which are directly attributable to and vary with the production of new business. These costs are deferred and amortized over the applicable premium recognition period as insurance and reinsurance acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. This limitation is referred to as a premium deficiency. A premium deficiency is recognized if the sum of expected loss and LAE, expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums. A premium deficiency is recognized by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency.

Losses and LAE are charged against income as incurred. Unpaid insurance losses and LAE are based on estimates (generally determined by claims adjusters, legal counsel and actuarial staff) of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance losses and LAE are based primarily on reports received from ceding companies and actuarial projections. Unpaid loss and LAE reserves represent management's best estimate of ultimate losses and LAE, net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any adjustments resulting therefrom are reflected in current operations. The process of estimating loss and LAE involves a considerable degree of judgment by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

OneBeacon discounts certain of its long-term workers compensation loss and LAE reserves when such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual claim basis. OneBeacon discounts these reserves using a discount rate which is determined based on the facts and circumstances applicable at the time the claims are settled (4.7% at December 31, 2003 and 2002). As of December 31, 2003 and 2002, the discount on OneBeacon's workers compensation loss and LAE reserves amounted to $294.5 million and $299.5 million, respectively.

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 acquired balance sheet as of June 1, 2001. This net reduction to loss and LAE reserves of $300.0 million is being accreted through an income statement charge over the period that the claims to which such reserves relate are expected to be settled. See Note 3.

White Mountains' insurance and reinsurance subsidiaries enter into ceded reinsurance contracts from time to time to protect their businesses from losses due to concentration of risk, to manage their operating leverage ratios and to limit losses arising from catastrophic events. The majority of such reinsurance contracts are executed through excess of loss treaties and catastrophe contracts under which the reinsurer indemnifies for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. White Mountains has entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are covered on a pro-rata basis. The amount of each risk ceded by White Mountains is subject to maximum limits which vary by line of business and type of coverage. Amounts related to reinsurance contracts are recorded in accordance with SFAS 113 and Emerging Issues Task Force Topic No. D-54, as applicable.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The collectibility of reinsurance recoverables is subject to the solvency of the reinsurers. White Mountains is selective in regard to its reinsurers, principally placing reinsurance 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.

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly. Funds held under reinsurance treaties represent contractual payments due to the reinsurer that White Mountains has retained to secure obligations of the reinsurer. Such amounts are recorded as liabilities in the consolidated financial statements.

Accounting for Mandatory Shared Market Mechanisms

As a condition to its licenses to do business in certain states, White Mountains' insurance operations must participate in various mandatory shared market mechanisms commonly referred to as "residual" or "involuntary" markets. These markets generally consist of risks considered to be undesirable from a standard or routine underwriting perspective. Each state dictates the levels of insurance coverage that is mandatorily assigned to participating insurers within these markets. The total amount of such business an insurer must accept in a particular state is generally based on that insurer's market share of voluntary business written within that state. In certain cases, White Mountains is obligated to write business from shared market mechanisms at a future date based on its historical market share of all voluntary policies written within that state. Involuntary business generated from mandatory shared market mechanisms is accounted for in accordance with SFAS 60 or as assumed reinsurance under SFAS 113, depending upon the structure of the mechanism.

OneBeacon's market assignments are typically required to be written in the current period, however, in certain cases OneBeacon is required to accept policy assignments at a future date. OneBeacon's residual market assignments to be written in the future primarily relate to private passenger automobile assigned risk exposures within the State of New York where several of OneBeacon's insurance subsidiaries write voluntary automobile insurance. The share of involuntary written premium for policies assigned by the NYAIP to a particular insurer in a given year is based on the proportion of the total voluntary writings in New York two years prior. Anticipated losses associated with future market assignments are recognized in accordance with SFAS No. 5, "Accounting for Contingencies", when the amount of such anticipated losses is determined to be probable and can be reasonably estimated.

Accounting for Insurance-Related Assessments

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. In accordance with Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments" ("SOP 97-3"), White Mountains' insurance subsidiaries record guaranty fund assessments when such assessments are billed by the respective guaranty funds. In addition, each insurance subsidiary's policy is to accrue for any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated.

Deferred Software Costs

White Mountains capitalizes costs related to computer software developed for internal use during the application development stage of software development projects in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". These costs generally consist of certain external, payroll and payroll-related costs. White Mountains begins amortization of these costs once the project is completed and ready for its intended use. Amortization is on a straight-line basis and over a useful life of three to five years.

Federal and foreign income taxes

The majority of White Mountains' subsidiaries file a consolidated tax return in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective tax rate lower than that imposed by the United States.

Deferred tax assets and liabilities are recorded when a difference between an asset or liability's financial statement value and its tax reporting value exists, and for other temporary differences as defined by SFAS No. 109, "Accounting for Income Taxes". The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses.

Foreign currency exchange

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. Net foreign exchange gains and losses on translation are generally reported in shareholders' equity, in accumulated other comprehensive income or loss, net of tax. Net foreign transaction gains and losses are reported as a component of net income in the period in which they arise. White Mountains is subject to foreign currency fluctuations associated with its foreign investment securities, the net assets and operations of Fund American Re, WMU, certain of Folksamerica's and British Insurance Company's operations. As of December 31, 2003 and 2002, White Mountains had after tax unrealized foreign currency translation losses of $.3 million and $3.5 million, respectively, recorded on its consolidated balance sheet. For the years ended December 31, 2003, 2002 and 2001, White Mountains' transaction gains and losses reported on its consolidated income statements were insignificant for all periods presented.

Earnings (loss) per share

Basic earnings (loss) per share amounts are based on the weighted average number of Common Shares outstanding. Diluted earnings per share amounts are based on the weighted average number of Common Shares and the net effect of potentially dilutive Common Shares outstanding, based on the treasury stock method. The following table outlines the Company's computation of earnings (loss) per share for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
	2003	2002	2001
Basic earnings (loss) per share numerators (in millions):			
Net income (loss) before accounting changes and extraordinary items	$ 280.6	$ 80.8	$ (271.1)
Redemption value adjustment and dividends on Convertible Preference Shares	(49.5)	(19.4)	(305.4)
Net income (loss) before accounting changes and extraordinary items available to common shareholders	$ 231.1	$ 61.4	$ (576.5)
Cumulative effect of changes in accounting principles	–	660.2	–
Extraordinary income items	–	7.1	11.8
Net income (loss) available to common shareholders	$ 231.1	$ 728.7	$ (564.7)
Diluted earnings (loss) per share numerators (in millions):			
Net income (loss) before accounting changes and extraordinary items available to common shareholders	$ 231.1	$ 61.4	$ (576.5)
Other effects on diluted earnings [1]	(2.6)	(.1)	–
Net income (loss) before accounting changes and extraordinary items available to common shareholders	$ 228.5	$ 61.3	$ (576.5)
Cumulative effect of changes in accounting principles	–	660.2	–
Extraordinary income items	–	7.1	11.8
Adjusted net income (loss) available to common shareholders	$ 228.5	$ 728.6	$ (564.7)
Earnings (loss) per share denominators (in thousands):			
Basic earnings (loss) per share denominator (average Common Shares outstanding)	8,725	8,225	6,663
Average outstanding dilutive Options and warrants to acquire Common Shares [2]	944	799	–
Diluted earnings (loss) per share denominator	9,669	9,024	6,663
Basic earnings (loss) per share (in dollars):			
Net income (loss) before accounting changes and extraordinary items	$ 26.48	$ 7.47	$ (86.52)
Cumulative effect of changes in accounting principles	–	80.27	–
Extraordinary income items	–	.87	1.77
Net income (loss)	$ 26.48	$ 88.61	$ (84.75)
Diluted earnings (loss) per share (in dollars):			
Net income (loss) before accounting changes and extraordinary items	$ 23.63	$ 6.80	$ (86.52)
Cumulative effect of changes in accounting principles	–	73.16	–
Extraordinary income items	–	.79	1.77
Net income (loss)	$ 23.63	$ 80.75	$ (84.75)

(1) Includes an adjustment to White Mountains' equity in earnings recorded on its investment in the common shares of Montpelier, which is reflective of dilution in Montpelier's earnings brought about by outstanding options and warrants to acquire common shares of Montpelier that are currently in-the-money.

(2) The following potentially dilutive Common Share equivalents are not included in the dilutive share calculation as the impact of their inclusion would be anti-dilutive: (i) in 2003, 2002 and 2001, average Options to acquire 55,905, 69,005 and 81,000 Common Shares, respectively, at an average exercise price of $129.03, $121.73 and $114.83, respectively, per Common Share; (ii) in 2001, warrants to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share; (iii) in 2003, 2002 and 2001, 34,821, 94,205 and 60,669 average restricted Common Shares outstanding, respectively. See Note 9 for detailed information concerning restricted Common Shares outstanding and potentially dilutive Options and warrants to acquire Common Shares.

Recently Adopted Changes in Accounting Principles

Mandatorily Redeemable Preferred Stock

In July 2003, White Mountains adopted the provisions of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150") and it subsequently adopted FASB Staff Position No. 150-3 ("FSP 150-3") in November 2003. SFAS 150, among other things, required an issuer of mandatorily redeemable financial instruments to classify such instruments as a liability and to initially measure the liability at its fair value. Subsequently, these instruments are to be measured at their present value, using the interest rate implicit at the inception of the contract. In addition, all future dividends paid to holders of those instruments, as well as any accretion related to those instruments, are to be reflected as interest cost. FSP 150-3 was released by the FASB in November 2003 and it indefinitely deferred the fair value measurement provisions of SFAS 150 for certain mandatorily redeemable noncontrolling interests. However, the presentation provisions of SFAS 150 are still applicable to those instruments.

White Mountains has two classes of mandatorily redeemable preferred stock of subsidiaries, which were previously classified as minority interests, that fell within the scope of SFAS 150 and are considered noncontrolling interests under FSP 150-3. Upon adoption of SFAS 150 in 2003, White Mountains reclassified these instruments from mezzanine equity to liabilities at their historical carrying values. In addition, beginning in the third quarter of 2003, all dividends and accretion on White Mountains' mandatorily redeemable preferred stock have been recorded as interest expense. See Note 10.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148"), an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Among other things, SFAS 148 amends the disclosure provisions of SFAS 123 to require prominent annual disclosure about the effects on reported net income in the Summary of Significant Accounting Policies and also requires disclosure about these effects in interim financial statements. Accordingly, the Company has adopted the applicable disclosure requirements of this statement for year-end and interim reporting.

White Mountains expenses the full cost of all its share-based compensation, including its outstanding Options. White Mountains' share-based compensation plans, consisting primarily of performance shares, are designed to maximize shareholder value over long periods of time by aligning the financial interests of its management with those of its owners. See Note 9. White Mountains accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", and related interpretations, including FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans ("FIN 28"). The accounting treatment for White Mountains' Restricted Share awards under APB 25 is identical to the method prescribed by SFAS 123, whereby the Restricted Shares are valued based upon fair value at the date of issuance and charged to compensation expense ratably over the vesting period. Compensation expense charged to earnings for Restricted Shares was $5.8 million, $16.2 million and $10.4 million for the years ended December 31, 2003, 2002 and 2001, respectively. The accounting treatment for White Mountains' performance share awards under APB 25 is also identical to the method prescribed by SFAS 123, whereby the liability for performance share awards is measured each period based upon the current market price of the underlying Common Shares. During 2003, 2002 and 2001, White Mountains recorded compensation charges of $206.6 million, $63.5 million and $31.6 million, respectively, for outstanding performance shares.

In 2000, the Company issued a one-time award of 81,000 Options. The Options were issued at an exercise price equal to the market value of the underlying Common Shares on February 27, 2000 (the grant date). The exercise price escalates on a straight-line basis by 6% per annum over the ten-year life of the Options. As a result, the Company's outstanding Options are accounted for as variable options under FIN 28, with compensation expense charged to earnings over the service period based on the intrinsic value of the underlying Common Shares. Compensation expense charged to earnings for Options was $7.4 million, $.7 million and $9.5 million for the years ended December 31, 2003, 2002 and 2001, respectively.

White Mountains has adopted the disclosure-only provisions of SFAS 123 with respect to its outstanding Options and Restricted Shares. The following table illustrates the pro forma effect on net income (loss) and earnings per share for each period indicated as if the Company applied the fair value recognition provisions of SFAS 123 to its employee Option incentive compensation program. The effects of Restricted Share and performance share expense are not included below because the accounting treatment that the Company follows under APB 25 is identical to the fair value accounting prescribed by SFAS 123 for these instruments.

	Year Ended December 31,		
Millions, except per share amounts	2003	2002	2001
Net income (loss), as reported	$ 280.6	$ 748.1	$(259.3)
Add: Option expense included in reported net income (loss)	7.4	.7	9.5
Deduct: Option expense determined under fair value based method	(.1)	(.1)	(.1)
Net income (loss), pro forma	$ 287.9	$ 748.7	$(249.9)
Earnings (loss) per share:			
Basic - as reported	$ 26.48	$ 88.61	$(84.75)
Basic - pro forma	27.32	88.67	(83.34)
Diluted - as reported	23.63	80.75	(84.75)
Diluted - pro forma	24.39	80.81	(83.34)

Business Combinations

In 2001, White Mountains adopted the provisions of SFAS No. 141, "Business Combinations", which required the recognition of all existing deferred credits (defined as the excess of fair value of acquired assets over cost) arising from business combinations prior to July 1, 2001 through the income statement as a change in accounting principle on the first day of the fiscal year beginning after December 15, 2001. In accordance with SFAS 141, White Mountains recognized its entire December 31, 2001 unamortized deferred credit balance of $682.5 million on January 1, 2002 as a cumulative effect of a change in accounting principle. SFAS 141 also requires deferred credits arising from business combinations on or after July 1, 2001 to be immediately recognized through the income statement as an extraordinary gain. In accordance with SFAS 141, White Mountains recognized an extraordinary gain of $7.1 million during the second quarter of 2002 in connection with Folksamerica's acquisition of Imperial in April 2002 and recognized extraordinary gains of $13.6 million and $3.0 million during 2001 in connection with Folksamerica's acquisition of C-F and the acquisition of certain net assets of Folksam.

On January 1, 2002, White Mountains adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", which calls for the amortization of existing and prospective goodwill (defined as the excess of cost over the fair value of acquired assets) only when the assets acquired are deemed to have been impaired rather than systematically over a perceived period of benefit. SFAS 142 specifically defines impairment as the condition that exists when the carrying amount of goodwill exceeds its implied fair value and requires goodwill to be evaluated for impairment periodically. Prior to the issuance of SFAS 142, little guidance existed as to how to determine and measure goodwill impairment. As a result of the issuance of SFAS 142, White Mountains performed a discounted cash flow analysis to determine the fair value of the net assets supporting its unamortized goodwill relating primarily to its 2000 acquisition of substantially all the reinsurance operations of Risk Capital and recognized a transitional impairment loss of $22.3 million on January 1, 2002 as a cumulative effect of a change in accounting principle.

Net income (loss) from continuing operations, net income (loss) and earnings (loss) per Common Share amounts for the year ended December 31, 2001, adjusted to exclude charges from goodwill amortization and revenues from deferred credit amortization, are as follows:

Millions, except per share amounts	Year Ended December 31, 2001	
	Net loss before extraordinary items	Net loss
Net income (loss)		
Reported net loss	$ (271.1)	$ (259.2)
Amortization of deferred credits	(91.6)	(91.6)
Amortization of goodwill	3.1	3.1
Adjusted net loss	$ (359.6)	$ (347.7)
Basic earnings (loss) per share		
Reported net loss per share	$ (86.52)	$ (84.75)
Amortization of deferred credits	(13.75)	(13.75)
Amortization of goodwill	.47	.47
Adjusted net loss per share	$ (99.80)	$ (98.03)
Diluted earnings (loss) per share		
Reported net loss per share	$ (86.52)	$ (84.75)
Amortization of deferred credits	(13.75)	(13.75)
Amortization of goodwill	.47	.47
Adjusted net loss per share	$ (99.80)	$ (98.03)

Employer's Disclosures about Pensions and Other Post Retirement Benefits

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employer's Disclosures about Pensions and Other Post Retirement Benefits," ("SFAS 132(R)"). This statement retains the disclosure requirements contained in SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which it replaces. Additionally, SFAS 132(R) requires more detailed disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and related information. White Mountains has included the disclosures required by SFAS 132(R) for the year ended December 31, 2003. See Note 8.

Other-Than-Temporary Impairment Disclosures

In December of 2003, White Mountains adopted FASB Emerging Issues Task Force ("EITF") Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-01"). EITF 03-01 provides new disclosure requirements for other-than-temporary impairments on debt and equity investments. Investors are required to disclose quantitative information about: (i) the aggregate amount of unrealized losses, and (ii) the aggregate related fair values of investments with unrealized losses, segregated into time periods during which the investment has been in an unrealized loss position of less than 12 months and greater than 12 months. In addition, investors are required to disclose the qualitative information that supports their conclusion that the impairments noted in the quantitative disclosures are not other-than temporary. See Note 5.

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which addresses consolidation issues surrounding special purpose entities and certain other entities, collectively termed variable interest entities ("VIE"), to which the usual condition for consolidation does not apply. A VIE is an entity in which the equity investors do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Under FIN 46, the primary beneficiary of a VIE is required to consolidate the VIE in its financial statements. The primary beneficiary is the entity that has a variable interest that will absorb the majority of the VIE's expected losses or receive a majority of the entity's expected residual returns or both. FIN 46 was effective immediately for new VIEs established or purchased subsequent to January 31, 2003. For VIEs entered into prior to February 1, 2003, additional

disclosure requirements were effective for financial statements issued after January 31, 2003. White Mountains did not identify any material VIEs created subsequent to January 31, 2003 which required consolidation. White Mountains adopted the disclosure provisions of FIN 46 beginning with its December 31, 2002 Form 10-K/A.

On December 24, 2003, the FASB published a revision to FIN-46, ("FIN 46R") deferring the effective date for applying the provisions of FIN 46 for interests held by public entities in VIEs or potential VIEs, created before February 1, 2003, that are not special-purpose entities. According to FIN 46R, a public entity need not apply the provisions of FIN 46 to an interest held in a VIE or potential VIE that is not a special-purpose entity until the end of the first interim or annual period ending after March 15, 2004 (as of March 31, 2004, for an entity with a calendar year-end or quarter-end of March 31).

During the first quarter of 2004, White Mountains will adopt the consolidation provisions of FIN 46. For purposes of FIN 46, New Jersey Skylands Insurance Association is considered to be a VIE, for which White Mountains is the primary beneficiary. As a result, the balance sheet accounts of the Association will be consolidated in White Mountains' financial statements once FIN 46 is adopted.

Upon its adoption of FIN 46, White Mountains' future economic income derived from the New Jersey automobile insurance market will differ from the operating results that it will record on a consolidated GAAP basis. On an economic basis, OneBeacon will realize income from management and service fees charged by New Jersey Skylands Management LLC to the Association and interest on the surplus note. On a consolidated GAAP basis, White Mountains will recognize profits and losses from the insurance operations of the Association until such time that the Association's earned surplus exceeds OneBeacon's $31.3 million surplus note investment. At December 31, 2003, the Association had total assets of $124.2 million and during 2003 the Association had total revenues of $107.5 million.

In addition, at December 31, 2003, White Mountains held certain limited partnerships investments which are currently accounted for under the equity method (with a $79.5 million carrying value at December 31, 2003) that, for purposes of FIN 46, are being evaluated to determine whether they should be consolidated or disclosed as VIEs in the Company's future financial statements.

NOTE 2. Significant Transactions

Equity and Debt Issuances and Refinancing

In September 2003, Fund American terminated its 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 (the "New Bank Facility"), under which both Fund American and the Company are permitted borrowers. See Note 6.

On May 19, 2003, Fund American issued $700.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.7% (the "Senior Notes"). The net proceeds from the issuance of the Senior Notes were used to repay all of the term loans and a portion of the revolving loan (with the remainder repaid with cash on hand) under Fund American's Old Bank Facility. See Note 6.

On October 24, 2002, White Mountains sold $225.0 million of its equity securities in private transactions. Investment funds managed by Franklin Mutual, which were existing shareholders of White Mountains, purchased $200.0 million of convertible preference shares, which were subsequently converted to Common Shares, based on a value of $295.00 per common share. See Note 10. In addition, Highfields purchased 84,745 Common Shares for $25.0 million ($295.00 per Common Share).

Sirius Insurance Group

On December 8, 2003, White Mountains entered into a definitive agreement with ABB to acquire the Sirius Insurance Group, an insurance and reinsurance organization based in Sweden, at a purchase price of SEK 3.22 billion. The purchase price is subject to a kronor-for-kronor adjustment to the extent that the total tangible shareholders' equity value, determined in accordance with US GAAP, of the acquired companies as of December 31, 2003 is greater or less than SEK 3.566 billion. The sale is expected to be completed in the second quarter of 2004 subject to, among other matters, the receipt of regulatory approvals and the satisfaction of other customary conditions.

OneBeacon

On June 1, 2001, White Mountains acquired OneBeacon from Aviva for $2,114.3 million, of which $260.0 million consisted of the Seller Note with the balance paid in cash. Also, as part of the financing of the OneBeacon Acquisition, White Mountains issued $437.6 million of a new class of non-voting convertible preference shares of the Company, which were subsequently converted into Common Shares upon shareholder approval on August 23, 2001, and issued the Warrants to Berkshire to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share. See Note 11. Of the total Warrants purchased by Berkshire, the Series A Warrants to purchase 1,170,000 Common Shares were immediately exercisable and the Series B Warrants to purchase 544,285 Common Shares became exercisable upon shareholder approval at the 2001 Annual Meeting.

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual pursuant to the Liberty Agreement. This transfer amounted to approximately $1.5 billion in net written premiums, or approximately 45% of OneBeacon's total business at the time the agreement was put in place. A reinsurance agreement between OneBeacon and Liberty Mutual pro-rates results so that OneBeacon shares in approximately two-thirds and one-third of the operating results of the transferred business corresponding to renewal premiums written in the first and second years following the execution of the Liberty Agreement, respectively.

Purchase Accounting Associated with the OneBeacon Acquisition

The OneBeacon Acquisition was accounted for by the purchase method of accounting in accordance with the treatment of a purchase business combination under APB No. 16, "Business Combinations" and, therefore, the assets and liabilities of OneBeacon were recorded by White Mountains at their fair values on June 1, 2001. The process of determining the fair value of such assets and liabilities acquired, as required under purchase accounting, was undertaken as follows: (i) the purchase price of OneBeacon was preliminarily allocated to the acquired assets and liabilities, based on their respective estimated fair values at June 1, 2001; (ii) the excess of the fair value of acquired net assets over the purchase price was used to reduce the estimated fair values of all non-current, non-financial assets acquired to zero; and (iii) the remaining $682.0 million excess of the estimated fair value of net assets over the purchase price was recorded as a deferred credit.

In accordance with the purchase method of accounting, on June 1, 2001, White Mountains increased the net assets of OneBeacon by $134.0 million ($87.1 million after-tax) representing adjustments to reflect the estimated fair value of OneBeacon's assets and liabilities assumed. This increase was primarily comprised of a pretax adjustment of $300.0 million resulting from fair value adjustments made to OneBeacon's loss and LAE reserves and related reinsurance recoverables, offset by (i) $28.0 million of liabilities associated with the fair value of obligations under National Accounts and National Programs contracts, (ii) $15.3 million in liabilities associated with the expected costs to exit certain business activities of OneBeacon and (iii) $86.0 million to recognize the fair value of employee benefit obligations. White Mountains also decreased the net assets of OneBeacon by an additional $246.5 million ($175.0 million after-tax) representing an allocation of the excess of acquired net assets over the purchase price to OneBeacon's non-current, non-financial assets existing at the time of the OneBeacon Acquisition, primarily its property, plant and equipment.

The fair value of assets and liabilities acquired on June 1, 2001 were as follows (millions):

Fair value of assets acquired	$ 11,895.1
Fair value of liabilities acquired	9,098.8
Fair value of net assets acquired	2,796.3
Total purchase price, including expenses	(2,114.3)
Resulting deferred credit	$ 682.0

Significant assets and liabilities acquired through OneBeacon included $34.0 million of cash, $7,408.6 million of investments, $2,448.9 million of reinsurance recoverable on paid and unpaid losses, $1,267.3 million of insurance premiums receivable, $6,364.2 million of loss and LAE reserves and $1,897.7 million of unearned insurance premiums.

In conjunction with its adoption of SFAS 141, White Mountains recognized its entire unamortized deferred credit balance on January 1, 2002, including its unamortized deferred credit balance relating to OneBeacon of $625.1 million at December 31, 2001, as a change in accounting principle. Had the OneBeacon Acquisition occurred on or after July 1, 2001, White Mountains would have immediately recognized this deferred credit on its income statement as an extraordinary gain as with its acquisitions of C-F and the Folksam net assets.

Pro Forma Financial Information for the OneBeacon Acquisition - Year Ended December 31, 2001

Supplemental unaudited pro forma condensed combined income statement information for the year ended December 31, 2001, which gives effect to the OneBeacon Acquisition as if it had occurred on January 1, 2001 follows:

(Unaudited) Millions, except per share amounts	Pro Forma Year Ended December 31, 2001
Total revenues as reported	$ 3,234.4
Pro forma effect of the OneBeacon Acquisition	2,494.2
Total pro forma revenues	$ 5,728.6
Pro forma net loss from continuing operations	$ (254.4)
Basic and diluted loss per share numerator:	
Pro forma net loss from continuing operations available to common shareholders	$ (564.6)
Basic and diluted loss per share:	
Pro forma net loss from continuing operations	$ (84.29)

The unaudited pro forma information presented above for the year ended December 31, 2001 has been supplied for comparative purposes only and does not purport to reflect the actual results that would have been reported had the OneBeacon Acquisition been consummated at January 1, 2001. Additionally, such pro forma financial information is not expected to be reflective of results that may occur in the future, particularly in light of significant non-recurring transactions such as the NICO Cover and the GRC Cover, which are not included therein. The NICO Cover and the GRC Cover would have reduced revenues by $1.5 billion and increased the net loss from continuing operations by $306.9 million during the pro forma period presented. In addition, the pro forma results presented above do not reflect the effects of the Liberty Agreement, which would have reduced revenues by $277.5 million and reduced expenses by $322.9 million during the 2001 pro forma period presented.

Other Acquisitions and Dispositions

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

In December 2003, Folksamerica entered into a definitive agreement to acquire the Sierra, 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.

Effective October 1, 2003, Folksamerica acquired renewal rights to the property and casualty treaty reinsurance business of CNA Reinsurance ("CNA Re"), a division of CNA Financial Corporation. Under the terms of the transaction, Folksamerica will compensate CNA Re based upon the amount of premiums renewed by Folksamerica over the next two contract renewals. No reserves or liabilities are being transferred. In connection with this transaction, Folksamerica has established an underwriting office in Chicago staffed with a number of CNA Re's reinsurance professionals.

In December 2003, OneBeacon sold one of its wholly-owned subsidiaries, NFU Standard, to Quanta U.S. Holdings, Inc., an indirect subsidiary of Quanta Capital Holdings Ltd. OneBeacon received total proceeds of $22.4 million and recorded an $8.7 million gain on the sale, which is included in other revenues. Concurrently, OneBeacon entered into an assumption reinsurance agreement to assume all in-force insurance contracts of NFU Standard, subject to regulatory and other approvals.

In October 2003, Folksamerica reached an agreement to sell Peninsula to the Donegal Group for 107.5% of its GAAP book value. The sale closed in early January 2004 and White Mountains received $23.3 million in proceeds from Donegal.

In April 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 gross loss and LAE reserves of $11.9 million. In accordance with SFAS 141, White Mountains recognized a $7.1 million extraordinary gain during 2002 representing the excess of the fair value of Imperial's net assets over its cost.

In December 2001, White Mountains, through OneBeacon, invested $180.0 million in Montpelier. See Note 14.

In December 2001, Fund American Re acquired substantially all of the international reinsurance operations of Folksam. The $64.0 million purchase price was paid in a combination of cash, a note and Common Shares. Additionally, in August 2002, $24.2 million of total assets and total liabilities of Folksam's Singapore-based reinsurance operations were transferred to Fund American Re. At December 31, 2002, Fund American Re had $149.9 million of total assets and $58.1 million of shareholder's equity. In accordance with SFAS 141, White Mountains recognized a $3.0 million extraordinary gain during 2001 representing the excess of the fair value of Folksam's net assets over its cost.

In September 2001, Folksamerica acquired C-F 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 accordance with SFAS 141, White Mountains recognized a $13.6 million extraordinary gain during 2001 representing the excess of the fair value of C-F's net assets over its cost.

In January 2001, the Company sold Waterford to a third party for consideration of $23.6 million in cash, net of transaction related expenses. White Mountains recognized a $12.4 million pretax gain on the sale of Waterford in 2001.

In October 2000, Folksamerica purchased 80% of Esurance for $9.0 million. During the fourth quarter of 2001, Folksamerica purchased the remaining outstanding stock for $1.4 million.

NOTE 3. Reserves for Unpaid Losses and Loss Adjustment Expenses

Insurance

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

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

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

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

In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and

legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. Often the factors influencing changes in claim costs are difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause future experience and/or development patterns to vary from past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment.

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

Reinsurance

White Mountains' reinsurance subsidiaries establish reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. The process of estimating reserves for White Mountains' reinsurance subsidiaries is similar to the process described above for White Mountains' insurance subsidiaries and, as of any given date, is inherently uncertain. Reserve estimates reflect the judgment of both the ceding company and White Mountains, based on the experience and knowledge of their respective claims personnel, regarding the nature and value of the claim. The ceding company may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made. Upon notification of a loss from a ceding company, 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 case reserves in excess of its share of the reserves established by the ceding company.

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

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

Loss and loss adjustment expense reserve summary

The following table summarizes the loss and LAE reserve activities of White Mountains' insurance and reinsurance subsidiaries for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
Millions	2003	2002	2001
Gross beginning balance	$ 8,875.3	$ 9,527.6	$ 1,556.3
Less beginning reinsurance recoverable on unpaid losses	(4,071.9)	(4,203.5)	(726.5)
Net loss and LAE reserves	4,803.4	5,324.1	829.8
Loss and LAE reserves acquired - Imperial	–	11.0	–
Loss and LAE reserves acquired - Fund American Re	–	17.5	4.4
Loss and LAE reserves acquired - OneBeacon [1]	–	–	4,394.4
Loss and LAE reserves acquired - C-F	–	–	2.3
Loss and LAE reserves transferred [2]	(5.0)	(22.4)	(22.2)
Losses and LAE incurred relating to:			
Current year losses	1,948.7	2,548.2	2,390.6
Prior year losses	189.4	90.0	103.3
Total incurred losses and LAE	2,138.1	2,638.2	2,493.9
Accretion of fair value adjustment to loss and LAE reserves	48.6	79.8	56.0
Loss and LAE paid relating to:			
Current year losses	(825.3)	(1,072.9)	(1,093.4)
Prior year losses	(1,905.4)	(2,171.9)	(1,341.1)
Total loss and LAE payments	(2,730.7)	(3,244.8)	(2,434.5)
Net ending balance	4,254.4	4,803.4	5,324.1
Plus ending reinsurance recoverable on unpaid losses	3,473.8	4,071.9	4,203.5
Gross ending balance	$ 7,728.2	$ 8,875.3	$ 9,527.6

(1) Reinsurance recoverables on unpaid losses acquired in the OneBeacon Acquisition were $1,969.8 million.
(2) Represents loss reserves ceded to Imagine Re. See Note 4.

Loss and LAE development - 2003

White Mountains recorded $189.4 million of net unfavorable loss reserve development on prior accident year loss and LAE reserves during 2003, of which approximately $147 million was experienced by OneBeacon and $46 million was experienced by Folksamerica.

The majority of the net unfavorable development at OneBeacon in 2003 was due to $97.7 million, related to construction defect claims in its non-core operations. The development at OneBeacon in 2003 also included approximately $12.0 million for a significant 1995 property claim from a pool in which OneBeacon had participated (the Industrial Risk Insurers pool) which was settled through an arbitration decision during 2003.

Folksamerica experienced approximately $46.0 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 was based on Folksamerica's share of industry paid losses to estimated industry carried reserves.

Loss and LAE development - 2002

Prior accident year losses of $90.0 million incurred in 2002 consisted primarily of $57.4 million recorded during the fourth quarter of 2002 at OneBeacon, $17.0 million recorded at Folksamerica, $10.5 million recorded at Fund American Re and $5.1 million recorded at White Mountains' other insurance subsidiaries.

OneBeacon's prior year development recorded in 2002 was comprised of a $97.4 million increase related to accident years 2000 and prior, while reserves for accident year 2001 were reduced by $40.0 million. Reserve increases for 2000 and prior accident years primarily relate to increases in reserves for workers compensation coverages reduced by decreases in reserves for unallocated LAE. Workers compensation reserves for accident years 2000 and prior increased $155.3 million (on reserves as of December 31, 2001 of $1.2 billion). These reserve increases related primarily to a continuing unfavorable trend of increases in workers compensation medical claims and indemnity costs. Based on a study provided by the NCCI, workers compensation medical claims costs rose an average of 14% during 2002, compared with an average of 12% during 2001. Average workers compensation indemnity costs rose 11% during 2002 compared with an increase of 9% during 2001. Decreases in reserves for unallocated LAE resulted from completion of an activity-based-cost study which indicated future claim servicing costs were less than originally projected. This decrease primarily related to multiple peril and general liability coverages. The reduction in reserves for accident year 2001 was due in large part to favorable development on property losses from the Attacks.

The prior year development recorded in 2002 at Folksamerica 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 relating to the reversal of an allowance for doubtful reinsurance recoveries related to PCA. These losses, with exception of the those relating to the Attacks, are covered under the Imagine Cover, and were partially offset by amortization of the deferred gain related to retroactive reinsurance.

Loss and LAE development - 2001

Included in the prior accident year losses of $103.3 million incurred in 2001 was $64.6 million recorded at OneBeacon. OneBeacon's increases in net reserves related to long-tail lines of business, primarily for accident years 1998 through 2000. Reserve increases before recoveries under the GRC Cover were $205.4 million for workers compensation (on reserves as of December 31, 2000 of $998.2 million), $34.0 million for general liability (on reserves as of December 31, 2000 of $1.2 billion), $152.2 million for multiple peril (on reserves as of December 31, 2000 of $1.3 billion) and $58.9 million for commercial automobile liability (on reserves as of December 31, 2000 of $676.1 million).

Prior accident year losses reported in 2001 also included $22.2 million in reserve increases recorded by Folksamerica on business ceded under the Imagine Cover during the 2000 fourth quarter - See Note 4 for details of this agreement. Because the Imagine Cover was retroactive, the offsetting benefit (reinsurance recoverable) of $22.2 million has been deferred and is being recognized into underwriting income over the expected settlement period of the underlying claims. An additional $16.5 million in prior accident year losses incurred in 2001 were primarily due to higher than expected reported losses in Folksamerica's property excess line.

Fair value adjustment

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 acquired balance sheet. This reduction to net loss and LAE reserves of $300.0 million is being accreted through an income statement charge 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.

The fair values of OneBeacon's loss and LAE reserves and related reinsurance recoverables acquired on June 1, 2001 were based on the present value of their expected cash flows with consideration for the uncertainty inherent in both the timing of, and the ultimate amount of, future payments for losses and receipts of amounts recoverable from reinsurers. In estimating fair value, management adjusted OneBeacon's nominal loss reserves (net of the effects of reinsurance obtained from the NICO Cover and the GRC Cover) and discounted them to their present value using an applicable risk-free discount rate. The series of future cash flows related to such loss payments and reinsurance recoveries were developed using OneBeacon's historical loss data. The resulting discount was reduced by the "price"

for bearing the uncertainty inherent in OneBeacon's net loss reserves in order to estimate fair value. This was assumed to be approximately 11% of the present value of the expected underlying cash flows of the loss reserves and reinsurance recoverables, which is believed to be reflective of the cost OneBeacon would incur if it had attempted to reinsure the full amount of its net loss and LAE reserves with a third party reinsurer.

Asbestos and environmental loss and loss adjustment expense reserve activity

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

Immediately prior to the OneBeacon Acquisition, Aviva caused OneBeacon to purchase a reinsurance contract with NICO for a premium of $1.3 billion 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 reinsurance recoverables from certain of OneBeacon's third party reinsurers in existence at the time the NICO Cover was executed ("Third Party Recoverables"). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Third Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments in the past 11 years, approximately 58% of asbestos losses and 40% of environmental losses have been recovered under the historical third party reinsurance.

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

White Mountains' reserves for A&E losses at December 31, 2003 represent management's best estimate of its ultimate liability based on information currently available. 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. White Mountains cannot reasonably estimate at the present time loss reserve additions arising from any such future unfavorable developments and cannot be sure that allocated loss reserves, plus the remaining capacity under the NICO Cover, will be sufficient to cover additional liability arising from any such unfavorable developments.

The following tables summarize reported asbestos and environmental loss and LAE reserve activities (gross and net of reinsurance) for OneBeacon, the Reinsurance Segment and White Mountains' other operations, consisting of American Centennial and British Insurance Company, for the years ended December 31, 2003, 2002 and 2001, respectively. OneBeacon's loss and LAE activity has been presented for the periods subsequent to the OneBeacon Acquisition.

OneBeacon

Net Asbestos and Environmental Loss Reserve Activity (in millions)	Period Ended December 31,					
	2003		2002		2001	
	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Beginning balance	$ 1,137.0	$ 4.9	$ 1,194.8	$ 5.8	$ 222.0	$ 6.9
Incurred losses and LAE	(.6)	–	–	–	1,050.0	–
Paid losses and LAE	(166.9)	(.7)	(57.8)	(.9)	(77.2)	(1.1)
Ending balance	969.5	4.2	1,137.0	4.9	1,194.8	5.8
Environmental:						
Beginning balance	701.3	17.1	749.8	18.4	779.7	25.4
Incurred losses and LAE	(11.1)	–	–	–	–	–
Paid losses and LAE	(130.4)	(8.5)	(48.5)	(1.3)	(29.9)	(7.0)
Ending balance	559.8	8.6	701.3	17.1	749.8	18.4
Total asbestos and environmental:						
Beginning balance	1,838.3	22.0	1,944.6	24.2	1,001.7	32.3
Incurred losses and LAE	(11.7)	–	–	–	1,050.0	–
Paid losses and LAE	(297.3)	(9.2)	(106.3)	(2.2)	(107.1)	(8.1)
Ending balance	$ 1,529.3	$ 12.8	$ 1,838.3	$ 22.0	$ 1,944.6	$ 24.2

Reinsurance Segment

Net Asbestos and Environmental Loss Reserve Activity (in millions)	Year Ended December 31,					
	2003		2002		2001	
	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Beginning balance	$ 52.7	$ 36.7	$ 48.9	$ 34.7	$ 53.4	$ 36.4
Incurred losses and LAE	27.5	32.0	9.7	6.5	6.0	5.0
Paid losses and LAE	(10.7)	(7.4)	(5.9)	(4.5)	(10.5)	(6.7)
Ending balance	69.5	61.3	52.7	36.7	48.9	34.7
Environmental:						
Beginning balance	14.5	12.0	13.9	10.9	14.3	11.6
Incurred losses and LAE	4.9	3.7	3.8	4.0	1.5	0.9
Paid losses and LAE	(1.7)	(1.1)	(3.2)	(2.9)	(1.9)	(1.6)
Ending balance	17.7	14.6	14.5	12.0	13.9	10.9
Total asbestos and environmental:						
Beginning balance	67.2	48.7	62.8	45.6	67.7	48.0
Incurred losses and LAE	32.4	35.7	13.5	10.5	7.5	5.9
Paid losses and LAE	(12.4)	(8.5)	(9.1)	(7.4)	(12.4)	(8.3)
Ending balance	$ 87.2	$ 75.9	$ 67.2	$ 48.7	$ 62.8	$ 45.6

Other operations

Net Asbestos and Environmental Loss Reserve Activity[1] (in millions)	Year Ended December 31,					
	2003		2002		2001	
	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Beginning balance	$ 29.4	$ 28.4	$ 23.0	$ 21.9	$ 17.4	$ 16.2
Incurred losses and LAE	1.3	(2.1)	10.2	10.1	8.5	7.9
Paid losses and LAE	(3.7)	(.6)	(3.8)	(3.6)	(2.9)	(2.2)
Ending balance	27.0	25.7	29.4	28.4	23.0	21.9
Environmental:						
Beginning balance	6.0	5.8	8.2	7.8	9.7	9.0
Incurred losses and LAE	(.5)	(.1)	(1.5)	(1.3)	(1.1)	(.9)
Paid losses and LAE	.2	(.2)	(.7)	(.7)	(.4)	(.3)
Ending balance	5.7	5.5	6.0	5.8	8.2	7.8
Total asbestos and environmental:						
Beginning balance	35.4	34.2	31.2	29.7	27.1	25.2
Incurred losses and LAE	.8	(2.2)	8.7	8.8	7.4	7.0
Paid losses and LAE	(3.5)	(.8)	(4.5)	(4.3)	(3.3)	(2.5)
Ending balance	$ 32.7	$ 31.2	$ 35.4	$ 34.2	$ 31.2	$ 29.7

[1] The asbestos and environmental reserve activity for White Mountains' other operations is comprised of American Centennial and British Insurance Company, two insurance subsidiaries that have been in run-off since 1985. The majority of the A&E reserves from other operations are recorded at American Centennial. At December 31, 2003, American Centennial had 38 open asbestos and environmental claims of which 20 were asbestos related claims and 18 were environmental related claims.

NOTE 4. Third Party Reinsurance

In the normal course of business, White Mountains' insurance and reinsurance subsidiaries seek to limit losses that may arise from catastrophes or other events by reinsuring with third party reinsurers. White Mountains remains liable for risks reinsured even if the reinsurer does not honor its obligations under reinsurance contracts. The effects of reinsurance on White Mountains' insurance and reinsurance subsidiaries' written and earned premiums and on loss and LAE were as follows:

Year ended December 31, 2003 Millions	OneBeacon[1]	Folksamerica	Other Insurance Operations	Total
Gross written premiums:				
Direct	$ 2,103.6	$ 5.9	$ 41.2	$ 2,150.7
Assumed	254.4	1,405.1	88.8	1,748.3
Ceded	(354.0)	(521.8)	(15.5)	(891.3)
Net written premiums	$ 2,004.0	$ 889.2	$ 114.5	$ 3,007.7
Gross earned premiums:				
Direct	$ 2,313.2	$ 6.5	$ 39.2	$ 2,358.9
Assumed	388.8	1,292.4	86.2	1,767.4
Ceded	(518.6)	(454.6)	(15.4)	(988.6)
Net earned premiums	$ 2,183.4	$ 844.3	$ 110.0	$ 3,137.7
Losses and LAE:				
Direct	$ 1,545.1	$ 15.6	$ 30.4	$ 1,591.1
Assumed	116.9	694.1	60.4	871.4
Ceded	(168.2)	(142.1)	(14.1)	(324.4)
Net losses and LAE	$ 1,493.8	$ 567.6	$ 76.7	$ 2,138.1

Year ended December 31, 2002 Millions	OneBeacon[1]	Folksamerica	Other Insurance Operations	Total
Gross written premiums:				
Direct	$ 2,782.6	$ 7.2	$ 34.9	$ 2,824.7
Assumed	569.0	958.1	69.8	1,596.9
Ceded	(828.8)	(286.6)	(12.7)	(1,128.1)
Net written premiums	$ 2,522.8	$ 678.7	$ 92.0	$ 3,293.5
Gross earned premiums:				
Direct	$ 3,181.8	$ 7.2	$ 34.8	$ 3,223.8
Assumed	504.6	901.1	62.0	1,467.7
Ceded	(815.5)	(287.8)	(11.8)	(1,115.1)
Net earned premiums	$ 2,870.9	$ 620.5	$ 85.0	$ 3,576.4
Losses and LAE:				
Direct	$ 2,405.5	$ (27.7)	$ 31.1	$ 2,408.9
Assumed	389.0	589.5	51.2	1,029.7
Ceded	(663.2)	(129.9)	(7.3)	(800.4)
Net losses and LAE	$ 2,131.3	$ 431.9	$ 75.0	$ 2,638.2

Year ended December 31, 2001 Millions	OneBeacon[1]	Folksamerica	Other Insurance Operations	Total
Gross written premiums:				
Direct	$ 2,104.6	$ 6.0	$ 32.0	$ 2,142.6
Assumed	174.7	636.4	1.3	812.4
Ceded	(401.1)	(183.5)	(5.0)	(589.6)
Net written premiums	$ 1,878.2	$ 458.9	$ 28.3	$ 2,365.4
Gross earned premiums:				
Direct	$ 2,374.2	$ 6.0	$ 30.7	$ 2,410.9
Assumed	64.2	648.8	–	713.0
Ceded	(230.2)	(233.3)	(4.3)	(467.8)
Net earned premiums	$ 2,208.2	$ 421.5	$ 26.4	$ 2,656.1
Losses and LAE:				
Direct	$ 3,379.5	$ (5.4)	$ 21.8	$ 3,395.9
Assumed	68.6	661.5	15.5	745.6
Ceded	(1,374.3)	(271.1)	(2.2)	(1,647.6)
Net losses and LAE	$ 2,073.8	$ 385.0	$ 35.1	$ 2,493.9

(1) Assumed amounts principally relate to business assumed under the Liberty Agreement.

OneBeacon

In the ordinary course of its business, OneBeacon purchases reinsurance from high-quality, highly rated third party reinsurers in order to provide diversification of its business and minimize loss from large risks or catastrophic events.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon's operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is both a function of the amount and type of insured exposure in an area affected by the event and the severity of the event. OneBeacon continually assesses and implements programs to manage its exposure to catastrophe losses through individual risk selection, by limiting its concentration of insurance written in catastrophe-prone areas, such as coastal regions. OneBeacon's largest single natural catastrophe risk is a Northeast windstorm.

OneBeacon seeks to further reduce its exposure to catastrophe losses through the purchase of catastrophe reinsurance. OneBeacon uses PML forecasting to quantify its exposure to catastrophic losses. PML is a statistical modeling technique that measures a company's catastrophic exposure as the maximum probable loss in a given time period.

As a result of the Attacks, OneBeacon incurred approximately $75.0 million of pretax loss and LAE net of reinsurance, or approximately $248.0 million gross of reinsurance. In light of the Attacks, OneBeacon has sought to mitigate the risk associated with any future terrorist attacks by seeking to exclude, where permissible, coverage for such losses from their policies.

On November 26, 2002, President Bush signed the Terrorism Act, which established a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. The Terrorism Act requires primary commercial insurers to make terrorism coverage available immediately and provides Federal protection above individual company retention and aggregate industry retention levels. OneBeacon estimates its individual retention level under the Terrorism Act to be approximately $90 million in 2004. Aggregate industry retention levels are $12.5 billion for 2004 and $15.0 billion for 2005. The Federal government will pay 90% of covered terrorism losses that exceed either OneBeacon's or the industry's retention levels, up to $100.0 billion. The Terrorism Act is in effect until December 31, 2004, at which time certain members of the U.S. government have the authority to renew it for another year. Should the Terrorism Act be renewed on December 31, 2004, it will expire on December 31, 2005.

During the first four months of 2003, OneBeacon was able to significantly reduce the cost of its reinsurance program by purchasing less property catastrophe reinsurance during the low catastrophe season and postpone its annual renewal date to May 1. Effective May 1, 2003, OneBeacon purchased its normal property catastrophe reinsurance program to cover its full estimated PML (one-in-250 year) through April 30, 2004. Under that cover, the first $200.0 million of losses resulting from any single catastrophe are retained by OneBeacon and losses from a single event in excess of $200.0 million and up to $850.0 million are reinsured for 100% of the loss. OneBeacon also purchases reinsurance coverage for certain risks, including catastrophe losses, on either a facultative or treaty basis, where it deems appropriate.

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

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

In connection with the OneBeacon Acquisition, OneBeacon obtained the NICO Cover under which OneBeacon is entitled to recover up to $2.5 billion in ultimate losses and LAE incurred related to asbestos claims arising from business written by OneBeacon prior to 1992, environmental claims arising from business written by OneBeacon prior to 1987 and certain other exposures. See Note 3 for a description of the NICO Cover.

Also in connection with the OneBeacon Acquisition, OneBeacon obtained the GRC Cover which provided up to $570.0 million of reinsurance protection, consisting of $400.0 million of adverse development coverage on losses occurring in years 2000 and prior, in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon has recorded $531.7 million in recoverables due from GRC at December 31, 2003 and December 31, 2002. OneBeacon will only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the GRC Cover.

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

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

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

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

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

Folksamerica

Folksamerica has exposure to losses caused by hurricanes, earthquakes, winter storms, windstorms, terrorist acts and other catastrophic events. In the normal course of business, Folksamerica seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance and reinsurance enterprises and by closely monitoring aggregate exposures and related PMLs. To manage and analyze aggregate exposures and PML, Folksamerica utilizes a variety of tools and analyses, including catastrophe modeling software packages. Folksamerica regularly assesses its concentration of underwriting exposures in catastrophe prone areas and develops strategies to manage this exposure, primarily through limiting accumulation of exposure to acceptable levels and if determined necessary the purchase of catastrophe reinsurance. The primary reinsurance protections are the quota share arrangements with Olympus discussed below. Through November 25, 2003, Folksamerica's catastrophe protection program included $35.0 million of protection in excess of a $60.0 million retention for a second loss. This reinsurance program was commuted effective November 25, 2003, however, Folksamerica does have various common account catastrophe covers purchased to protect individual proportional property contracts against a catastrophic event. In prior years, Folksamerica had purchased aggregate stop loss protection from London Life, which protected Folksamerica's accident year results from the effects of a single large event or multiple small events. No cessions were made to this contract in 2002 and prior ceded balances are fully collateralized by funds held and letters of credit. This contract was not renewed in 2003.

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

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

In accordance with SFAS 113, amounts related to reserves transferred to Imagine for liabilities incurred as a result of past insurable events have been accounted for as retroactive reinsurance. At December 31, 2003 and 2002, Folksamerica's reinsurance recoverables included $312.4 million and $381.2 million, respectively, recorded under the Imagine Cover. All balances due from Imagine are fully collateralized, either with Folksamerica as the beneficiary of invested assets in a trust, with funds held, or through a letter of credit. As of December 31, 2003, the entire $115.0 million available under this contract had been fully utilized. At December 31, 2003 and 2002, Folksamerica had also recorded $50.6 million and $53.9 million in deferred gains, respectively, related to adverse development on loss reserves transferred to Imagine at the inception of the Imagine Cover. Folksamerica is recognizing these deferred gains into income over the expected settlement period of the underlying claims, and accordingly recognized $8.2 million, $8.5 million and $2.8 million of such deferred gains during 2003, 2002 and 2001, respectively.

Folksamerica has quota share retrocessional arrangements with Olympus which is designed to increase Folksamerica's capacity to capitalize on the improved pricing trends which accelerated after the Attacks and to reduce its potential loss exposure to any large, or series of smaller, property catastrophe events. Olympus is a Bermuda-domiciled insurance and reinsurance company that was formed in December 2001 with an initial capitalization of more than $500.0 million to respond to the favorable underwriting and pricing environment in the reinsurance market. Olympus is rated "A-" (Excellent, the fourth highest of fifteen ratings) by A.M. Best. Under these arrangements with Olympus, Folksamerica cedes up to 75% of substantially all of its short-tailed excess of loss business, mainly property and marine, and 50% of its proportional property business to Olympus and receives an override commission on the premiums ceded to Olympus. During 2003 and 2002, Folksamerica received $18.0 million and $17.1 million, respectively, in override commissions from Olympus.

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

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

(1) Represents non-U.S. insurance entities which balances are fully collateralized through Funds Held, Letters of Credit or Trust Agreements.
(2) A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of fifteen ratings), "A" (Excellent, which is the third highest of fifteen ratings) and "A-" (Excellent, which is the fourth highest of fifteen ratings).

NOTE 5. Investment Securities

White Mountains' net investment income is comprised primarily of interest income associated with the fixed maturity investments of its consolidated insurance and reinsurance operations, dividend income from its equity investments and interest income from its short-term investments. Net investment income for 2003, 2002 and 2001 consisted of the following:

Millions	Year Ended December 31,		
	2003	2002	2001
Investment income:			
Fixed maturity investments	$ 266.3	$ 332.7	$ 276.1
Short-term investments	16.6	19.3	12.2
Common equity securities	9.5	6.6	4.7
Other	1.3	11.8	.8
Total investment income	293.7	370.4	293.8
Less investment expenses and other charges	(2.8)	(4.4)	(9.3)
Net investment income, before tax	$ 290.9	$ 366.0	$ 284.5

The composition of realized investment gains (losses) consisted of the following:

Millions	Year Ended December 31, 2003	2002	2001
Fixed maturity investments	$ 102.7	$ 156.0	$ 170.4
Common equity securities	37.8	(3.0)	10.3
Other investments	22.1	3.0	(7.6)
Net realized investment gains, before tax	162.6	156.0	173.1
Income taxes attributable to realized investment gains and losses	(45.2)	(33.1)	(55.1)
Net realized investment gains, after-tax	$ 117.4	$ 122.9	$ 118.0

White Mountains recognized gross realized investment gains of $271.7 million, $265.2 million and $290.8 million and gross realized investment losses of $109.1 million, $109.2 million and $117.7 million on sales of investment securities during 2003, 2002 and 2001, respectively.

In 2001, the Company received warrants to acquire 4,781,572 common shares of Montpelier at $16.67 per share (as adjusted for stock splits) that are exercisable until December 2011. White Mountains' investment in the Montpelier warrants constitutes a derivative security under SFAS 133, thereby requiring the instruments to be recorded at fair value with the resulting gain or loss recognized currently through the income statement as a realized investment gain. In accordance with SFAS 133, White Mountains has determined the fair value of the Montpelier warrants to be $90.5 million as of December 31, 2003 and has correspondingly recognized realized investment gains of $32.5 million and $58.0 million for the years ended December 31, 2003 and December 31, 2002, respectively.

White Mountains' portfolio of fixed maturity investments is comprised primarily of investment grade corporate debt securities, U.S. government and agency securities and mortgage-backed securities (greater than 99% of such securities received a rating from the National Association of Insurance Commissioners of 1 or 2) and are classified as available for sale. Nearly all of the fixed maturity securities currently held by White Mountains are publicly traded.

As of December 31, 2003 and 2002, White Mountains reported $371.6 million and $495.2 million, respectively, in accounts payable on unsettled investment purchases and $9.1 million and $160.8 million, respectively in accounts receivable on unsettled investment sales. The 2003 payable related primarily to an unsettled purchase of a Swedish Treasury Bill, which was included in short-term investments at December 31, 2003, whereas the 2002 payable and receivable related primarily to agreements to purchase or sell "TBA" mortgage-backed securities. A TBA trade represents a commitment to purchase or sell a pool of mortgage-backed securities in the future. TBA trades are settled in the future, since at the time of the trade, the specific identification of the mortgage loans underlying the mortgage-backed security is not final. Mortgage pools (including fixed rate or variable rate mortgages) guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac are subsequently allocated to the TBA transactions. The period between the TBA trade date and the ultimate cash settlement date can be as long as 180 days, though it typically runs between 45 and 60 days. At the time of a TBA purchase trade, White Mountains intends to take delivery of the mortgage-backed security on the cash settlement date.

Net realized investment gains were reduced by mark-to-market realized losses of $4.2 million, $47.4 million and $4.8 million for the years ended December 31, 2003, 2002 and 2001, respectively in connection with White Mountains' interest rate swap agreements, which were undertaken to achieve a fixed interest rate on the Old Bank Facility. These interest rate swaps were terminated in May 2003 in connection with the repayment of the Old Bank Facility. Additionally, OneBeacon recorded a $5.4 million write-down of its surplus note investment in New Jersey Skylands Insurance Association during 2003, which is reflected in White Mountains' net realized investment gains.

The components of White Mountains' change in unrealized investment gains, after-tax, as recorded on the statements of income and comprehensive income were as follows:

Millions	Year Ended December 31, 2003	2002	2001
Net change in pretax unrealized gains for investment securities held	$ 235.9	$ 448.2	$ (13.9)
Net change in pretax unrealized gains from investments in unconsolidated affiliates held	5.1	9.3	.3
Net change in pretax unrealized investment gains for investments held	241.0	457.5	(13.6)
Income taxes attributable to investments held	(77.9)	(158.8)	9.1
Net change in unrealized gains for investments held, after-tax	163.1	298.7	(4.5)
Recognition of pretax net unrealized gains for investments sold	(134.0)	(144.8)	(46.3)
Income taxes attributable to investments sold	46.7	49.8	10.3
Recognition of net unrealized gains for investments sold, after-tax	(87.3)	(95.0)	(36.0)
Change in net unrealized investment gains, after-tax	75.8	203.7	(40.5)
Change in net unrealized foreign currency gains (losses), after-tax	3.2	(1.4)	–
Net realized investment gains, after-tax	117.4	122.9	118.0
Total investment gains recorded during the period, after-tax	$ 196.4	$ 325.2	$ 77.5

The components of White Mountains' ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated insurance affiliates were as follows:

Millions	December 31, 2003	2002
Investment securities:		
Gross unrealized investment gains	$ 410.4	$ 349.3
Gross unrealized investment losses	(7.4)	(48.2)
Net unrealized gains from investment securities	403.0	301.1
Net unrealized gains from investments in unconsolidated insurance affiliates	17.6	12.5
Total net unrealized investment gains, before tax	420.6	313.6
Income taxes attributable to such gains	(134.6)	(103.4)
Total net unrealized investment gains, after-tax	$ 286.0	$ 210.2

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' fixed maturity investments as of December 31, 2003 and 2002, were as follows:

	December 31, 2003				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government obligations	$ 2,089.3	$ 53.6	$ (3.7)	$ –	$ 2,139.2
Debt securities issued by industrial corporations	2,686.7	160.7	(2.2)	–	2,845.2
Municipal obligations	53.1	4.5	–	–	57.6
Asset-backed securities	959.4	3.8	(.2)	–	963.0
Foreign government obligations	141.1	3.8	–	–	144.9
Preferred stocks	80.6	12.8	(.3)	5.1	98.2
Total fixed maturity investments	$ 6,010.2	$ 239.2	$ (6.4)	$ 5.1	$ 6,248.1

Millions	December 31, 2002				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government obligations	$ 2,052.4	$ 66.4	$ –	$ –	$ 2,118.8
Debt securities issued by industrial corporations	3,120.0	171.8	(3.7)	–	3,288.1
Municipal obligations	62.7	4.4	–	–	67.1
Asset-backed securities	892.0	9.3	(0.3)	–	901.0
Foreign government obligations	90.8	3.0	(0.1)	–	93.7
Preferred stocks	189.6	25.6	(17.2)	2.4	200.4
Total fixed maturity investments	$6,407.5	$ 280.5	$ (21.3)	$ 2.4	$6,669.1

The cost or amortized cost and carrying value of White Mountains' fixed maturity investments at December 31, 2003 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

Millions	December 31, 2003	
	Cost or amortized cost	Carrying value
Due in one year or less	$ 311.7	$ 315.6
Due after one year through five years	2,712.9	2,797.6
Due after five years through ten years	1,728.4	1,830.2
Due after ten years	217.2	243.5
Asset-backed securities	959.4	963.0
Preferred stocks	80.6	98.2
Total	**$ 6,010.2**	**$ 6,248.1**

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' common equity securities and other investments as of December 31, 2003 and 2002, were as follows:

Millions	December 31, 2003				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	**$ 396.2**	$ 115.4	$ (.4)	2.4	**$ 513.6**
Other investments	**$ 184.0**	$ 55.8	$ (.6)	–	**$ 239.2**

Millions	December 31, 2002				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	$252.3	$ 40.4	$ (21.0)	3.3	$275.0
Other investments	$142.3	$ 28.3	$ (5.9)	–	$164.7

White Mountains' consolidated insurance and reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits totalled $592.7 million and $552.2 million as of December 31, 2003 and 2002, respectively.

Sales and maturities of investments, excluding short-term investments, totalled $18,822.6 million, $14,042.2 million and $8,971.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. There were no non-cash exchanges or involuntary sales of investment securities during 2003, 2002 or 2001.

OneBeacon participates in a securities lending program whereby it loans investment securities to other institutions for short periods of time. OneBeacon receives a fee from the borrower in return for the use of its assets. OneBeacon's policy is to require collateral equal to approximately 102% of the fair value of the loaned securities, which is held by a third party. All securities loaned can be redeemed on short notice. The total market value of OneBeacon's securities on loan at December 31, 2003 was $895.2 million with corresponding collateral of $911.0 million.

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):

	December 31, 2003			
$ in millions	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 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.

NOTE 6. Debt

Debt outstanding as of December 31, 2003 and 2002 consisted of the following:

	December 31,	
Millions	2003	2002
Senior Notes, face value	$ 700.0	$ –
Unamortized original issue discount	(1.9)	–
Senior Notes, carrying value	698.1	–
New Bank Facility	–	–
Old Bank Facility:		
Revolving loan	–	125.0
Term loans	–	621.4
Total Old Bank Facility	–	746.4
C-F seller note	25.0	25.0
Fund III notes	15.0	15.0
Other debt	4.9	6.8
Total debt	$ 743.0	$ 793.2

A schedule of contractual repayments of White Mountains' debt as of December 31, 2003 follows:

Millions	December 31, 2003
Due in one year or less	$ –
Due in 2 to 3 years	29.9
Due in four to five years	15.0
Due after five years	700.0
Total	$ 744.9

Senior Notes

On May 19, 2003, Fund American, a wholly-owned subsidiary of the Company, issued $700.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.7%. After payment of a $4.5 million underwriting discount, the resulting $693.4 million in proceeds to Fund American were used to repay all of the term loans and a portion of the revolving loan (with the remainder repaid with cash on hand) under Fund American's Old Bank Facility (see below). The Senior Notes bear an annual interest rate of 5.9%, payable semi-annually in arrears on May 15 and November 15, until maturity on May 15, 2013, and are fully and unconditionally guaranteed as to the payment of principal and interest by the Company. Fund American incurred $7.3 million in expenses related to the issuance of the Senior Notes (including the $4.5 million underwriting discount), which have been deferred and are being recognized into interest expense over the life of the Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the Senior Notes have an effective yield to maturity of approximately 6.0% per annum.

The Senior Notes were issued under an indenture with Bank One, N.A. as trustee, which contains certain 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.

New Bank Facility

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 arranged through Fleet Securities, Inc. and Banc One Capital Markets, Inc., which matures in September 2006 and under which both Fund American and the Company are permitted borrowers. Under the New Bank 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. Amounts outstanding under the New Bank Facility bear interest at a variable base rate (Fleet National Bank's prime rate) or a variable Eurodollar rate plus an applicable margin based on the level of borrowings outstanding under the New Bank Facility and Fund American's public debt ratings. If fully drawn, the New Bank Facility would currently have an all-in margin of 1.125% over the Eurodollar rate compared to 2.125% for the old revolving credit commitment under the Old Bank Facility. 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.

Old Bank Facility

In connection with the OneBeacon Acquisition, Fund American had borrowed $825.0 million from a banking syndicate arranged by Lehman Brothers Inc., which was initially comprised of two term loan facilities (subsequently refinanced into three term loan facilities) and a revolving credit facility. On May 19, 2003, using proceeds from the Senior Notes offering, Fund American repaid the entire $614.9 million of term loans then outstanding under the Old Bank Facility. In addition, on May 27, 2003, using the remaining $78.5 million in proceeds from the Senior Notes offering and cash on hand, Fund American repaid the entire $125.0 million of revolving loans outstanding under the Old Bank Facility.

Interest Rate Swaps

Fund American had entered into a series of interest rate swaps with large financial institutions in order to achieve a fixed interest rate on the term loans under the Old Bank Facility. The swap investments did not match the duration of the Old Bank Facility and as a result did not satisfy the criteria for hedge accounting under SFAS 133. Pursuant to SFAS 133, the interest rate swaps had been carried at fair value on White Mountains' balance sheet as an other investment, with changes in their fair value reported directly through the income statement as realized gains or losses.

In connection with the repayment of the Old Bank Facility, Fund American negotiated with the corresponding banks for an early termination of the interest rate swap agreements and as a result paid a total of $56.4 million on May 20, 2003 in full satisfaction of the swap agreements. As of December 31, 2002, White Mountains had recorded the aggregate fair value of the interest rate swaps as an other investment of $(52.2) million. For the years ended December 31, 2003, 2002 and 2001, White Mountains recorded realized losses of $4.2 million, $47.4 million and $4.8 million, respectively, representing the decrease in fair value of the swap investments as a result of decreases in market interest rates.

Other Debt

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.

OBPP and FSUI have borrowed $8.0 million and $7.0 million, respectively, from Fund III in connection with an incentive program sponsored by the State of Connecticut known as the Connecticut Insurance Reinvestment Act. These variable rate loans mature in April 2007.

White Mountains' other debt at December 31, 2003 was consisted entirely of $4.9 million outstanding under a seller note issued in connection with Fund American Re's 2001 acquisition of Folksam's international reinsurance business. The Fund American Re seller note contains an acquisition protection clause whereby the amount due under the note may be reduced by post-acquisition adverse loss development.

Interest

Total interest expense incurred by White Mountains for its indebtedness was $48.6 million, $71.8 million and $45.7 million in 2003, 2002 and 2001, respectively. Total interest paid by White Mountains for its indebtedness was $45.8 million, $79.8 million and $35.0 million in 2003, 2002 and 2001, respectively.

NOTE 7. Income Taxes

The Company is domiciled in Bermuda and has subsidiaries domiciled in several countries. The majority of the Company's worldwide operations are taxed in the United States. Income earned or losses incurred by non-U.S. companies will generally be subject to an overall effective tax rate lower than that imposed by the United States.

The total income tax provision (benefit) for the years ended December 31, 2003, 2002 and 2001 consisted of the following:

Millions	Year Ended December 31, 2003	2002	2001
U.S. income tax provision (benefit)	$ 114.2	$ 4.7	$ (180.3)
State and local income tax provision	.1	–	2.0
U.S. withholding tax and foreign income tax provision (benefit)	13.3	7.0	(.9)
Total income tax provision (benefit)	$ 127.6	$ 11.7	$ (179.2)
Net income tax receipts (payments)	$ 16.6	$ 189.6	$ (8.4)

The components of the income tax provision (benefit) on pretax earnings follow:

Millions	Year Ended December 31, 2003	2002	2001
Current	$ 22.6	$ (152.2)	$ 11.7
Deferred	105.0	163.9	(190.9)
Total income tax provision (benefit) on pretax earnings	$ 127.6	$ 11.7	$ (179.2)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. Deferred income tax assets and liabilities are shown net in circumstances where a consolidated income tax return is filed. An outline of the significant components of White Mountains' deferred tax assets and liabilities follows:

Millions	December 31, 2003	2002
Deferred income tax assets related to:		
Net operating loss and tax credit carryforwards	$ 84.2	$ 192.4
Discounting of loss reserves	149.5	134.0
Compensation and benefit accruals	180.0	128.2
Unearned insurance and reinsurance premiums	79.7	90.0
Involuntary pool and guaranty fund accruals	12.2	35.3
Fixed assets	3.6	34.3
Allowance for doubtful accounts	12.2	26.7
Deferred gain on reinsurance contract	21.5	23.2
Other items	49.4	47.2
Total deferred income tax assets	$ 592.3	$ 711.3
Deferred income tax liabilities related to:		
Net unrealized investment gains	135.4	105.4
Equity in unconsolidated insurance affiliates	35.6	10.7
Deferred acquisition costs	80.6	84.8
Receivable from trust	24.1	26.8
Other items	56.6	23.6
Total deferred income tax liabilities	332.3	251.3
Net deferred tax assets before valuation allowance	260.0	460.0
Valuation allowance	–	(30.0)
Net deferred tax assets	$ 260.0	$ 430.0

The Company believes that it is more likely than not that results of future operations will generate sufficient taxable income to realize the deferred tax asset balances carried as of December 31, 2003 and 2002. During 2003, the valuation allowance was reduced by $30.0 million due to the expiration of certain foreign tax credits that were previously recorded as deferred tax assets.

A reconciliation of taxes calculated using the 35% U.S. statutory rate (the tax rate at which the majority of the Company's worldwide operations are taxed) to the income tax provision on pretax earnings follows:

	Year Ended December 31,		
Millions	2003	2002	2001
Tax (benefit) provision at the U.S. statutory rate	$ 130.3	$ 41.8	$ (149.6)
Differences in taxes resulting from:			
Interest expense - dividends and accretion on preferred stock	7.8	–	–
Tax reserve adjustments	4.3	15.4	5.1
State income taxes, net	–	–	1.3
Non-U.S. earnings, net of foreign taxes	(11.4)	(27.2)	(1.2)
Tax exempt interest and dividends	(4.1)	(4.5)	(4.5)
Deferred credit amortization and purchase price adjustments	–	(7.0)	(23.8)
Change in valuation allowance	–	(10.0)	–
Non deductible interest expense	–	4.3	3.6
Other, net	.7	(1.1)	(10.1)
Total income tax (benefit) provision on pretax earnings	$ 127.6	$ 11.7	$ (179.2)

The non-U.S. component of pretax earnings was $70.5 million, $97.8 million and $.8 million for the years ended December 31, 2003, 2002 and 2001, respectively.

At December 31, 2003, there were net operating loss carryforwards of approximately $180.0 million available, the majority of which will expire in 2020. Certain of these tax losses are subject to an annual limitation on utilization under Internal Revenue Code Section 382.

At December 31, 2003, there were alternative minimum tax credit carryforwards available of approximately $21.2 million. The alternative minimum tax credits do not expire.

The U.S. federal income tax returns of the U.S. Companies are routinely audited by taxing authorities. In management's opinion, adequate tax liabilities have been established for all open tax years. These liabilities could be revised in the future if estimates of White Mountains' ultimate liability changes.

NOTE 8. Retirement and Postretirement Plans

Certain subsidiaries of the Company offer various retirement and postretirement benefits to its employees. Under the terms of these plans, White Mountains reserves the right to change, modify or discontinue the plans. Prior to the purchase of OneBeacon, the cost associated with retirement and postretirement benefits was not material to White Mountains' financial statements.

Certain subsidiaries of the Company sponsor qualified and non-qualified, non-contributory, defined benefit plans covering substantially all employees. The benefits for the plans are based primarily on years of service and employees' pay near retirement. Participants generally vest after five years of continuous service. White Mountains' funding policy is consistent with the funding requirements of federal laws and regulations.

In addition to the defined benefit plans, certain of the Company's subsidiaries have multiple contributory postretirement benefit plans which provide medical and life insurance benefits to pensioners and survivors. White Mountains' funding policy is to make contributions to the plan that are necessary to cover its current obligations.

The majority of OneBeacon's pension and retiree medical plans were curtailed in the fourth quarter of 2002. The OneBeacon Insurance Pension Plan will no longer add new participants or increase benefits for existing participants. Non-vested participants already in the plan will continue to vest during their employment with OneBeacon, this effectively causes the projected benefit obligation to equal the accumulated benefit obligation. Retirees are also

eligible for medical benefits if they meet certain age and service requirements. However, due to the curtailment, the plan no longer accepts new retirees after a grace period ended May 31, 2003. The majority of retiree medical costs are capped at defined dollar amounts, with retirees contributing the remainder. OneBeacon uses a December 31 measurement date for its plans.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Medicare Act") made significant changes to the federal Medicare Program that will impact OneBeacon's retiree medical obligations. OneBeacon has decided to defer recognition of the effects of the Medicare Act until further FASB guidance is available, which could require changing previously reported information. OneBeacon anticipates that the provisions of the Medicare Act, once recognized, will reduce its retiree medical benefit obligation as the Medicare Act provides for increased coverage for prescription drugs. OneBeacon does not believe that it will need to amend its retiree medical plan to realize these benefits. The impact of the recognition of benefits provided for under Medicare Act is expected to be immaterial to White Mountains' consolidated financial position.

The following tables set forth (i) the obligations and funded status, (ii) assumptions, (iii) plan assets, and (iv) cash flows associated with the various pension plan and postretirement benefits as of December 31, 2003 and 2002:

Obligations and Funded Status

(Millions)	Pension Benefits		Other Postretirement Benefits	
Change in benefit obligation:	2003	2002 [1]	2003	2002 [2]
Benefit obligation at beginning of year	$ 494.6	$ 605.1	$ 70.0	$ 136.6
Service cost	1.9	14.6	.2	1.8
Interest cost	30.5	36.3	4.6	8.3
Curtailment	–	(64.1)	–	(30.5)
Plan amendments	–	.1	(13.4)	(41.6)
Assumption changes	–	–	3.5	–
Actuarial (gain) loss	44.5	(12.0)	13.8	–
Liability net loss	–	1.1	–	4.7
Benefits and expenses paid, net of participant contributions	(70.0)	(86.5)	(9.0)	(9.3)
Benefit obligation at end of year	$ 501.5	$ 494.6	$ 69.7	$ 70.0
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 471.1	$ 551.6	$ –	$ –
Actual return on plan assets	82.0	11.6	–	–
Employer contributions	5.4	6.0	9.0	9.4
Benefits and expenses paid, net of participant contributions	(79.7)	(98.1)	(9.0)	(9.4)
Fair value of plan assets at end of year	$ 478.8	$ 471.1	$ –	$ –
Funded status	$ (22.7)	$ (23.5)	$ (69.7)	$ (70.0)
Unrecognized actuarial loss (gain)	6.4	7.4	(.1)	–
Unrecognized net loss	–	4.3	16.8	–
Unrecognized prior service benefit	–	–	(50.9)	(41.1)
Net amount recognized	$ (16.3)	$ (11.8)	$ (103.9)	$ (111.1)

(1) Effective December 31, 2002, the participants' benefits in the OneBeacon Insurance Pension Plan were frozen. The benefit cessation resulted in a reduction in the projected benefit obligation at December 31, 2002 of $61.0 million, of which $20.7 million was recognized as a curtailment gain.

(2) During 2002, OneBeacon made several design changes to its post-retirement benefit plan including reducing the Company's share of retiree health costs and eliminating the subsidy for the majority of future retirees. As a result, the Company recorded $14.4 million in curtailment gains.

Amounts recognized in the financial statements consist of:

Millions	Pension Benefits 2003	Pension Benefits 2002	Other Postretirement Benefits 2003	Other Postretirement Benefits 2002
Prepaid benefit cost	$ 15.4	$ 22.0	–	–
Accrued benefit cost	(31.7)	(33.8)	(103.9)	(111.1)
Intangible assets	–	–	–	–
Accumulated other comprehensive income	–	–	–	–
Net amount recognized	$ (16.3)	$ (11.8)	$ (103.9)	$ (111.1)

The accumulated benefit obligation for all defined benefit pension plans was $501.5 million and $494.6 million at December 31, 2003 and 2002, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets were as follows:

Millions	December 31, 2003	December 31, 2002
Projected benefit obligation	$ 52.5	$ 51.8
Accumulated benefit obligation	48.4	46.7
Fair value of plan assets	18.9	15.2

The components of net periodic benefit costs for the years ended December 31, 2003 and 2002 were as follows:

Millions	Pension Benefits 2003	Pension Benefits 2002	Other Postretirement Benefits 2003	Other Postretirement Benefits 2002
Service cost	$ 1.9	$ 14.6	$ 0.2	$ 1.8
Interest cost	30.5	36.3	4.6	8.3
Expected return on plan assets	(30.5)	(38.4)	–	–
Amortization of prior service cost (benefit)	–	1.5	(3.6)	(.5)
Amortization of unrecognized loss	–	–	.5	–
Recognized actuarial loss	–	.1	–	.1
Net periodic pension cost before settlements, curtailments and special termination benefits	1.9	14.1	1.7	9.7
Settlement expense(gain)	(1.6)	3.5	–	–
Curtailment (gain)	–	(20.7)	–	(14.4)
Special termination benefits expense	9.7	3.4	–	–
Net periodic pension cost (income)	$ 10.0	$ .3	$ 1.7	$ (4.7)

The funded status of the consolidated pension plans is ($22.7) million, of which $4.0 million relates to the qualified pension plans and ($26.7) million is related to the non-qualified plan which is unfunded.

Assumptions

The weighted average assumptions used to determine benefit obligations at December 31, 2003 and 2002 were:

	Pension Benefits 2003	Pension Benefits 2002	Other Postretirement Benefits 2003	Other Postretirement Benefits 2002
Discount rate	6.0%	6.5%	6.0%	6.5%
Rate of compensation increase	.2%	.3%	–	–

The weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2003 and 2002 were:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003 (3)	2002
Discount rate	6.5%	6.5%	6.0%	6.5%
Expect long-term rate of return on plan assets	7.0%	7.5%	–	–
Rate of compensation increase	.2%	.3%	–	–

(3) The discount rate in effect from January 1 through June 30, 2003 was 6.5%. The postretirement health plan was re-measured on June 30 due to plan changes that became effective on July 1. The discount rate was lowered to 6.0% for the re-measurement and remained in effect through December 31, 2003.

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, 2003 and December 31, 2002 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 had dropped over the past few years as a consequence of lower inflation and lower bond yields.

The assumed health care cost trend rates at December 31, 2003 and 2002 were:

Millions	2003	2002
Health care cost trend rate assumed for next year	10.0%	8.5%
Rate to which the cost trend rate is assumed to decline	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2013	2007

Assumed health care cost trend rates typically have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following pre-tax effects:

Millions	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost	$ –	$ –
Effect on postretirement benefit obligation	.3	(.3)

Plan Assets

OneBeacon's pension plans weighted-average asset allocations at December 31, 2003 and 2002, by asset category were as follows:

	Plan Assets at December 31,	
Asset Category	2003	2002
Equity securities	44%	32%
Debt securities	37%	51%
Convertible securities	11%	9%
Cash and cash equivalents	8%	8%
Total	100%	100%

The majority of the plans' assets are invested by White Mountains Advisors LLC, a subsidiary of White Mountains Insurance Group, Ltd. The investment policy places an emphasis on preserving invested assets through a diversified portfolio of high-quality income producing investments and equity investments. The gross return objective is to obtain a long-term (over annual and rolling three year periods) total return greater than that obtained by holding 10-year treasuries plus 150 Basis Points.

The investment management process integrates the risks and returns available in the investment arena with the risks and returns available to the plan in establishing the proper allocation of invested assets. The asset classes include fixed income, equity, convertible securities, and cash and cash equivalents. The factors examined in establishing the appropriate investment mix include: the outlook for risk and return in the various investment markets and sectors, and the long term need for capital growth.

Cash Flows

OneBeacon expects to contribute $5.1 million to its pension plans and $9.0 million to its other postretirement benefits plans in 2004. The majority of OneBeacon's expected pension contributions in 2004 relate to non-qualified pension plans, for which OneBeacon has established assets held in rabbi trusts.

Other Benefit Plans

Certain of the Company's subsidiaries sponsor various employee savings plans (defined contribution plans) covering the majority of employees. The contributory plans provide qualifying employees with matching contributions of up to six percent of qualifying employees' salary (subject to federal limits on allowable contributions in a given year). Total expense for the plans was $5.5 million, $7.4 million and $9.6 million in 2003, 2002 and 2001, respectively.

OneBeacon had a post-employment benefit liability of $14.4 million and $14.1 million related to its long-term disability plan at December 31, 2003 and 2002, respectively.

Effective January 1, 2003, OneBeacon adopted an employee stock ownership plan ("ESOP"), which is a OneBeacon-funded, benefit plan. During 2003, OneBeacon accrued $11.4 million to pay benefits and allocate shares of stock to participant's accounts in the first quarter of 2004.

NOTE 9. Employee Share-Based Compensation Plans

White Mountains' share-based compensation expenses, consisting primarily of performance share expense, are designed to maximize shareholder value over long periods of time by aligning the financial interests of its management with those of its owners. The Board believes that share-based compensation for its key employees should be payable in full only if the Company achieves superior returns for its owners. Performance shares are payable upon achievement 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 typically paid in cash, though they may be paid in Common Shares at the election of the Board. The target of White Mountains' performance share programs is linked to achievement of an overall annualized return of at least equal to the market yield available from a ten-year U.S. Treasury note plus 700 basis points at the time of grant. White Mountains expenses all its share-based compensation, including its outstanding Options. As a result, the Company's calculation of return includes the full expense of all outstanding share-based compensation awards.

White Mountains' Long-Term Incentive Plan (the "Incentive Plan")

The Incentive Plan provides for granting to certain officers of the Company, and certain of its subsidiaries, various types of share-based incentive awards including performance shares, Restricted Shares and Options. The Incentive Plan was adopted by the Board and was approved by the Company's sole shareholder in 1985 and was subsequently amended by its shareholders in 1995 and 2001.

Performance Shares. Performance shares are conditional grants of a specified maximum number of Common Shares or an equivalent amount of cash. Grants are generally earned, subject to the attainment of pre-specified performance goals (which bear the cost of all projected compensation awards), at the end of a three-year period or as otherwise determined by the Compensation Committee of the Board and are valued based on the market value of

Common Shares at the time awards are earned. Results that significantly exceed pre-specified targets can result in a performance share payout of up to 200% of value whereas results significantly less than target result in no payout. At December 31, 2003, there were 75,200, 57,000 and 65,600 performance shares outstanding under the Incentive Plan for the three-year performance periods beginning 2003, 2002 and 2001, respectively.

During the first quarter of 2003, White Mountains made payments with respect to 39,500 performance shares (relating to the 2000-2002 performance period) at a 200% payout level, amounting to $25.7 million, to its participants 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 payments with respect to an additional 21,725 performance shares, 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. 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.

The targeted performance goal for full payment of performance shares granted during 2003 is the attainment of a corporate annualized return on equity of 11% after tax as measured by the Company's growth in its intrinsic business value. At a return on equity of 4% or less, no such performance shares would be earned and at a return on equity of 21% or more, 200% of such performance shares would be earned. With respect to 50% of the 2003 performance shares granted to certain participants, target performance is the attainment of a 11% return on equity, 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, no such performance shares would be earned and at a return on invested assets of 325 basis points over the applicable return on the ten-year United States treasury rate, 200% of such performance shares would be earned.

The targeted performance goal for full payment of performance shares granted during 2002 is the attainment of a 12% annual after-tax return on equity (as specifically defined by the Company's Compensation Committee) which would result in such performance shares being fully earned. With respect to 50% of the 2002 performance shares granted to certain participants, target performance is the attainment of a 12% after-tax return. The remaining 50% is based on the attainment of a Trade Ratio of 102% on OneBeacon's core insurance operations. With respect to 50% of the 2002 performance shares granted to certain other participants, target performance is the attainment of a 12% after-tax return with the remaining 50% based on the attainment of a return on invested assets of 150 basis points over the applicable return on the ten-year U.S. treasury rate. At a return on invested assets of 5% or less, no such performance shares would be earned and at a return on invested assets of 8% or more, 200% of such performance shares would be earned.

The targeted performance goal for full payment of performance shares granted during 2001 is the attainment of a 12.1% annual after-tax return which would result in such performance shares being fully earned. With respect to 50% of the 2001 performance shares granted to certain participants, target performance is the attainment of a 12.1% after-tax return with the remaining 50% based on the attainment of a Trade Ratio of 105% on OneBeacon's core insurance operations. With respect to 50% of the 2001 performance shares granted to certain other participants, target performance is the attainment of a 12.1% after-tax return with the remaining 50% based on the attainment of a return on invested assets of 100 basis points over the applicable return on the two-year U.S. treasury bill.

Restricted Shares. In 2001, the Compensation Committee made an award of Restricted Shares to key officers of the Company. Pursuant to the Incentive Plan, White Mountains issued 94,500 Restricted Shares, of which 21,000 vested in December, 2002 and 73,500 vested in June 2003. During 2002 and 2003, the Company repurchased 20,750 and 34,000, respectively, of these Restricted Shares and in return granted an equivalent value in various non-qualified deferred compensation plans of the Company and its subsidiaries. During 2003, 6,000 additional Restricted Shares were awarded to certain key officers. These Restricted Shares vest in two years from the date of grant. No Restricted Shares were awarded during 2002. Vesting of Restricted Share awards is dependent on continuous service by the employee throughout the award period. There are no other restrictions on the Restricted Shares once they have become fully vested.

Options. At December 31, 2003 and 2002, the Company had outstanding 50,565 Options (7,365 of which were exercisable) and 61,965 Options (12,105 of which were exercisable). These Options were issued in 2000 to certain key employees as a one-time incentive and vest ratably over a ten-year period. The Options had a weighted average exercise price of $132.83 and $125.31 per Common Share at December 31, 2003 and 2002. During 2003 and 2002, 11,400 and 11,500 Options, respectively, were exercised at an average exercise price of $129.01 and $120.55 per Common Share, respectively. During 2002, 7,200 Options were forfeited.

OneBeacon Performance Plan

OneBeacon's Performance Plan (the "OB Performance Plan") provides for granting of performance shares to certain key employees of OneBeacon. The performance goals for full payment of performance shares issued under the OB Performance Plan are similar to those of the Incentive Plan. The OB Performance Plan was approved by the Board but was not subject to shareholder approval.

At December 31, 2003, there were 114,286 and 85,588 performance shares outstanding under the OB Performance Plan for the three-year performance periods beginning in 2002 and 2001, respectively. No performance shares were paid during 2003, 2002 or 2001 and no performance shares were granted for the performance period beginning in 2003 under the OB Performance Plan. In 2003, the OB Performance Plan began awarding non shared-based performance units in place of performance shares.

Other Share-Based Compensation

The defined contribution plans of OneBeacon and Folksamerica (the "401(k) Plans") offer its participants the ability to invest their balances in several different investment options, including the Company's Common Shares. As of December 31, 2003 and 2002, the 401(k) Plans owned less than 1% of the total Common Shares outstanding. In connection with the OneBeacon Acquisition, during 2001 eligible OneBeacon employees received a one-time contribution of two Common Shares which resulted in the issuance of 11,980 Common Shares.

Effective January 1, 2003, OneBeacon adopted an employee stock ownership plan ("ESOP"), which is a OneBeacon-funded benefit plan. The ESOP provides all of its participants with an annual base contribution in Common Shares equal to 3% of their salary, up to the applicable Social Security wage base (currently $87,000). Additionally, those participants not otherwise eligible to receive benefits under OneBeacon's Management Incentive Plan can earn up to an additional 6% of their salary through the ESOP, contingent upon OneBeacon's performance.

NOTE 10. Mandatorily Redeemable Preferred Stock of Subsidiaries and Convertible Preference Shares

Mandatorily Redeemable Preferred Stock

In July 2003, White Mountains adopted the provisions of SFAS 150 and it subsequently adopted FSP 150-3 in November 2003 (See Note 1). White Mountains has two classes of mandatorily redeemable preferred stock of subsidiaries, which were previously classified as minority interests, that fell within the scope of SFAS 150 and are considered noncontrolling interests under FSP 150-3. Upon adoption of SFAS 150 in 2003, White Mountains reclassified these instruments from mezzanine equity to liabilities at their historical carrying values. In addition, beginning in the third quarter of 2003, all dividends and accretion on White Mountains' mandatorily redeemable preferred stock have been recorded as interest expense.

Berkshire Preferred Stock

As part of the financing for the OneBeacon Acquisition, Berkshire invested a total of $300 million in cash, of which (i) $225 million was for the purchase of the Berkshire Preferred Stock, which has a $300 million redemption value; and (ii) $75 million was for the purchase of the Warrants. The Berkshire Preferred Stock is entitled to a dividend of no less than 2.35% per quarter and is mandatorily redeemable after seven years. The Berkshire Preferred Stock was initially recorded at $145.2 million, as the aggregate proceeds received from Berkshire of $300 million were originally between the Berkshire Preferred Stock and the Warrants, based on their relative fair values in accordance with Accounting Principles Board Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants". Through December 31, 2003, the carrying value of the Berkshire Preferred Stock had been accreted up to $174.5 million.

During each of 2003 and 2002, White Mountains declared and paid dividends of $28.2 million on the Berkshire Preferred Stock and recorded $13.6 million and $10.6 million, respectively, of related accretion charges. In accordance with SFAS 150, $14.1 million of the dividends and $7.2 million of the accretion recorded during the second half of 2003 are presented as interest expense on mandatorily redeemable preferred stock.

Zenith Preferred Stock

On June 1, 2001, Zenith Insurance Company ("Zenith") purchased $20.0 million in cumulative non-voting preferred stock of a subsidiary of the Company (the "Zenith Preferred Stock"). The Zenith Preferred Stock is entitled to a dividend of no less than a 2.5% per quarter through June 30, 2007 and a dividend of no less than 3.5% per quarter thereafter and is mandatorily redeemable after ten years. During 2003 and 2002, White Mountains declared and paid dividends of $2.0 million and $2.1 million, respectively, on the Zenith Preferred Stock. In accordance with SFAS 150, $1.0 million of the dividends recorded during the second half of 2003 are presented as interest expense on mandatorily redeemable preferred stock.

Convertible Preference Shares

In October of 2002, White Mountains sold $200.0 million of convertible preference shares 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). 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 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 cumulative $68.5 million charge to retained earnings ($49.5 million of which was recognized during the year ended December 31, 2003), with an offsetting increase to paid-in surplus. During 2002, White Mountains declared and paid dividends of $.4 million on the convertible preference shares.

On June 1, 2001, a small group of private investors purchased 2,184,583 convertible preference shares. Upon approval by shareholders at the 2001 Annual Meeting, the convertible preference shares were repurchased and cancelled in consideration of 2,184,583 Common Shares. This required the convertible preference shares to be marked-to-market, (i.e., redemption value) until the date the convertible preference shares were converted to shareholders' equity, which occurred on August 23, 2001. This resulted in a $305.1 million charge to retained earnings, with an offsetting increase to paid-in surplus. During 2001, the Company declared and paid dividends of $.3 million on the convertible preference shares.

NOTE 11. Common Shareholders' Equity

Common Shares repurchased and retired

During 2003, 2002 and 2001, the Company repurchased for cash 284 Common Shares for $.1 million, 489 Common Shares for $.2 million and 6,000 Common Shares for $1.9 million respectively. In addition, during 2003 and 2002 the Company repurchased 39,274 and 20,750, respectively, outstanding Restricted Shares held by certain key employees and said employees were instead granted the market value of such shares in various non-qualified deferred compensation plans of the Company and its subsidiaries (See Note 9). In conformance with Bermuda law, the Company retires all Common Shares it repurchases.

Common Shares issued

During 2003, the Company issued a total of 695,366 Common Shares, which consisted of 677,966 Common Shares issued in connection with the repurchase and cancellation of Convertible Preference Shares and 17,400 Common Shares issued to employees in connection with various White Mountains share-based compensation plans. During 2002, the Company issued a total of 107,945 Common Shares, which consisted of 84,745 Common Shares issued in a private equity transaction with Highfields and 23,200 Common Shares issued to employees in connection with various White Mountains share-based compensation plans. 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 repurchase and

cancellation of Convertible Preference Shares, 86,385 Common Shares issued in connection with 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 share-based compensation plans.

Dividends on Common Shares

During 2003, 2002 and 2001, the Company declared and paid cash dividends totalling $8.4 million (or $1.00 per Common Share), $8.3 million (or $1.00 per Common Share) and $5.9 million (or $1.00 per Common Share), respectively.

Warrants to acquire Common Shares

On June 1, 2001, Berkshire purchased the Warrants from the Company for $75.0 million in cash entitling it to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share. 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. As a result of White Mountains' private equity issuances in the fourth quarter of 2002, customary anti-dilution provisions applicable to the Warrants increased the number of Common Shares purchasable on exercise of the Warrants to 1,724,200 and decreased the exercise price per Common Share of the Warrants to $173.99.

NOTE 12. Statutory Capital and Surplus

White Mountains' insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. Over the last several years most states have implemented laws that establish standards for current, as well as continued, state accreditation. In addition, the NAIC uses risk-based capital ("RBC") standards for property and casualty companies as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. At December 31, 2003, White Mountains' active insurance and reinsurance subsidiaries met their respective RBC requirements.

OneBeacon's consolidated combined policyholders' surplus (which includes Folksamerica and its subsidiaries), as reported to various regulatory authorities as of December 31, 2003 and 2002, was $2,810.8 million and $2,560.1 million, respectively. OneBeacon's consolidated combined statutory net income (loss) for the years ended December 31, 2003, 2002 and 2001 was $472.1 million, $342.6 million and $(449.6) million, respectively. The principal differences between OneBeacon's combined statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts, market value adjustments for debt securities and recognition of pension plan curtailment gains. OneBeacon's insurance subsidiaries' statutory policyholders' surplus at December 31, 2003 was in excess of the minimum requirements of relevant state insurance regulations.

Folksamerica Reinsurance Company's policyholders' surplus, as reported to various regulatory authorities as of December 31, 2003 and 2002, was $912.8 million and $857.1 million, respectively. Folksamerica Reinsurance Company's statutory net income (loss) for the years ended December 31, 2003, 2002 and 2001 was $33.0 million, $58.2 million and $(35.3) million, respectively. The principal differences between Folksamerica Reinsurance Company's statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts and market value adjustments for debt securities. Folksamerica Reinsurance Company's statutory policyholders' surplus at December 31, 2003 was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the states under which OneBeacon's insurance subsidiaries are domiciled, OneBeacon's insurance subsidiaries may pay dividends only from unassigned funds as determined on a statutory basis. Generally, the maximum amount of cash dividends that OneBeacon's insurance subsidiaries may pay out of their statutory earned surplus without prior regulatory approval in any twelve month period is the greater of the company's prior year statutory net income or 10% of prior year end statutory surplus. Accordingly, there is no assurance that dividends may be paid by OneBeacon's insurance subsidiaries in the future. At December 31, 2003, OneBeacon's first tier insurance subsidiaries had the ability to pay dividends to their parent holding company of $330 million in 2004 without prior approval of regulatory authorities.

NOTE 13. Segment Information

White Mountains has determined that its reportable segments include "OneBeacon" (consisting solely of the operations of OneBeacon), "Reinsurance" (consisting of Folksamerica, WMU, Fund American Re and White Mountains' investment in Montpelier) and "Other Operations" (consisting of Peninsula, American Centennial, British Insurance Company, Esurance, the operations of the Company and the Company's intermediate subsidiary holding companies).

White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board. Significant intercompany transactions among White Mountains' segments have been eliminated herein. Certain amounts in the prior periods have been reclassified to conform with the current presentation. Financial information for White Mountains' segments follows:

Millions	OneBeacon	Reinsurance	Other Operations	Total
Year ended December 31, 2003				
Earned insurance and reinsurance premiums	$ 2,183.4	$ 922.6	$ 31.7	$ 3,137.7
Net investment income	233.9	54.2	2.8	290.9
Net realized gains (losses)	127.1	40.3	(4.8)	162.6
Other revenue	90.5	75.5	49.4	215.4
Total revenues	2,634.9	1,092.6	79.1	3,806.6
Loss and LAE	1,493.8	620.4	23.9	2,138.1
Insurance and reinsurance acquisition expenses	394.9	197.0	19.7	611.6
Other underwriting expenses	258.7	61.0	43.6	363.3
General and administrative expenses	67.6	19.6	114.6	201.8
Accretion of fair value adjustment to loss and LAE reserves	–	–	48.6	48.6
Interest expense on debt	.3	2.0	46.3	48.6
Interest expense - dividends and accretion on preferred stock subject to mandatory redemption	–	–	22.3	22.3
Total expenses	2,215.3	900.0	319.0	3,434.3
Pretax earnings (loss)	$ 419.6	$ 192.6	$ (239.9)	$ 372.3

Millions	OneBeacon	Reinsurance	Other Operations	Total
Year ended December 31, 2002				
Earned insurance and reinsurance premiums	$ 2,870.9	$ 675.8	$ 29.7	$ 3,576.4
Net investment income	314.0	52.7	(.7)	366.0
Net realized gains (losses)	113.0	88.3	(45.3)	156.0
Other revenue	14.4	53.6	45.7	113.7
Total revenues	$ 3,312.3	$ 870.4	$ 29.4	$ 4,212.1
Loss and LAE	2,131.3	478.8	28.1	2,638.2
Insurance and reinsurance acquisition expenses	629.1	161.1	16.1	806.3
Other underwriting expenses	329.2	42.4	32.3	403.9
General and administrative expenses	22.4	20.6	49.7	92.7
Accretion of fair value adjustment to loss and LAE reserves	–	–	79.8	79.8
Interest expense on debt	–	2.0	69.8	71.8
Total expenses	3,112.0	704.9	275.8	4,092.7
Pretax earnings (loss)	$ 200.3	$ 165.5	$ (246.4)	$ 119.4
Year ended December 31, 2001				
Earned insurance and reinsurance premiums	$ 2,208.2	$ 421.5	$ 26.4	$ 2,656.1
Net investment income	228.4	46.1	10.0	284.5
Net realized gains (losses)	183.1	23.9	(33.9)	173.1
Amortization of deferred credits and other revenue	–	17.3	103.4	120.7
Total revenues	$ 2,619.7	$ 508.8	$ 105.9	$ 3,234.4
Loss and LAE	2,073.8	385.4	34.7	2,493.9
Insurance and reinsurance acquisition expenses	403.2	124.6	3.2	531.0
Other underwriting expenses	377.9	31.4	27.0	436.3
General and administrative expenses	30.6	13.1	(3.5)	40.2
Share appreciation expense for Series B Warrants	–	–	58.8	58.8
Accretion of fair value adjustment to loss and LAE reserves	–	–	56.0	56.0
Interest expense on debt	–	.4	45.3	45.7
Total expenses	2,885.5	554.9	221.5	3,661.9
Pretax loss	$ (265.8)	$ (46.1)	$ (115.6)	$ (427.5)

Selected Balance Sheet Data	OneBeacon	Reinsurance	Other Operations	Total
December 31, 2003				
Total investments	$ 5,585.4	$ 2,089.4	$ 872.7	$ 8,547.5
Reinsurance recoverable on paid and unpaid losses	3,068.6	791.5	(264.6)	3,595.5
Total assets	10,155.5	4,102.5	713.0	14,971.0
Loss and LAE reserves	6,268.8	1,808.7	(349.3)	7,728.2
Total liabilities	8,193.1	2,648.5	1,150.2	11,991.8
Total equity	1,962.4	1,454.0	(437.2)	2,979.2
December 31, 2002				
Total investments	$ 6,648.5	$ 1,850.2	$ 400.7	$ 8,899.4
Reinsurance recoverable on paid and unpaid losses	3,638.6	880.2	(287.1)	4,231.7
Total assets	12,247.9	3,621.6	164.1	16,033.6
Loss and LAE reserves	7,630.5	1,664.2	(419.4)	8,875.3
Total liabilities	10,324.6	2,323.4	577.8	13,225.8
Total equity	1,923.3	1,298.1	(813.5)	2,407.9

NOTE 14. Investments in Unconsolidated Insurance Affiliates

White Mountains' investments in unconsolidated insurance affiliates represent operating investments in other insurers in which White Mountains has a significant voting and economic interest but does not own more than 50.0% of the entity. White Mountains' voting percentages and directorships in its unconsolidated affiliates do not provide White Mountains the ability to exercise significant influence over the operating and financial policies of its investees.

Investment in Montpelier

In December 2001, White Mountains, the Benfield Group plc and several other private investors established Montpelier and its wholly owned subsidiary Montpelier Re. Montpelier Re was formed with approximately $1.0 billion in capital to respond to the then current favorable underwriting and pricing environment in the reinsurance industry. Montpelier has initially focused on property reinsurance business. Montpelier Re is rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best. At December 31, 2003 and 2002, as adjusted for stock splits, 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 2011. On October 9, 2002, Montpelier completed an IPO whereby it sold 10,952,600 of its common shares for total proceeds of $201.2 million. White Mountains did not acquire or sell any shares through the IPO.

Through its holdings of common shares, White Mountains owns approximately 17% of the outstanding common shares of Montpelier and accounts for this investment using the equity method. White Mountains' ownership in Montpelier when considering its warrants is approximately 21% on a fully-converted basis. White Mountains accounts for its warrants in Montpelier as derivative instruments and recognizes changes in the fair value of the warrants during a given period in its income statement as a realized gain or loss. The fair value of the warrants to acquire Montpelier common stock was immaterial at December 31, 2001, as the book value of Montpelier at that time was less than the Company's exercise price. No dividends were declared or paid by Montpelier during 2002 or 2001.

The following table summarizes financial information for Montpelier for the years ended December 31, 2003 and 2002 and for the approximately one-month period ended December 31, 2001:

	Period ended December 31,		
$ in millions	2003	2002	2001
Montpelier balance sheet data:			
Total cash and investments	$ 2,237.8	$ 1,581.4	$ 991.0
Premiums receivable	207.9	147.2	.1
Total assets	2,552.6	1,833.9	1,021.8
Unearned premium	318.7	241.0	.2
Long-term debt	–	150.0	150.0
Loss and loss adjustment expense reserve	249.8	146.1	–
Total liabilities	894.9	581.4	161.1
Common shareholders' equity	1,657.7	1,252.5	860.7
Montpelier income statement data:			
Net premiums written	$ 778.0	$ 565.9	$ 0.2
Net premiums earned	705.4	329.9	–
Net investment income	50.1	39.7	1.1
Loss and loss adjustment expenses	164.1	133.3	–
Net income (loss)	407.1	152.0	(61.6)
Comprehensive net income (loss)	425.3	185.7	(59.7)
GAAP combined ratio	50%	67%	n/a

Pretax amounts recorded by White Mountains relating to its investment in Montpelier as of and for the years 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	$ –	$ 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.

Investment in MSA

At December 31, 2003, 2002 and 2001, White Mountains owned 222,093 shares of the common stock of MSA. This represented 50.0% of the total shares of MSA common stock outstanding at those times. White Mountains' investment in MSA is accounted for using the equity method. The following table provides summary financial amounts recorded by White Mountains relating to its investment in MSA common stock:

Millions	2003	2002	2001
Amounts recorded by White Mountains:			
Investment in MSA common stock [1]	$ 142.8	$ 128.1	$ 133.7
Equity in earnings (losses) from MSA common stock [2]	13.2	(9.1)	2.4
Equity in net unrealized investment gains from MSA's investment portfolio [3]	1.5	3.5	.9

[1] Includes related goodwill of $2.5 million at December 31, 2001.
[2] 2001 and 2002 recorded net of related amortization of goodwill.
[3] Recorded directly to shareholders' equity (after-tax) as a component of other comprehensive income.

At December 31, 2003 and 2002, White Mountains' consolidated retained earnings included $33.4 million and $20.2 million, respectively, of accumulated undistributed earnings of MSA. No dividends were declared or paid by MSA during 2003, 2002 and 2001.

NOTE 15. Fair Value of Financial Instruments

SFAS No. 107, "Disclosure about Fair Value of Financial Instruments" ("SFAS 107"), requires disclosure of fair value information of financial instruments. For certain financial instruments where quoted market prices are not available, other independent valuation techniques and assumptions are used. Because considerable judgment is used, these estimates are not necessarily indicative of amounts that could be realized in a current market exchange. SFAS 107 excludes certain financial instruments from disclosure, including insurance contracts, other than financial guarantees and investment contracts. White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness.

At December 31, 2003, the fair value of White Mountains' Senior Notes (its only fixed-rate, long-term indebtedness) 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. Considerable judgment is required to develop such estimates of fair value. Therefore, the estimate provided herein is not necessarily indicative of the amounts that could be realized in a current market exchange. As of December 31, 2002, White Mountains had fixed-rate long-term indebtedness with a carrying value of $5.1 million, which approximated its fair value.

NOTE 16. 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 Note 4). 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 2002 and 2003, Folksamerica entered into quota share retrocessional arrangements with Olympus. Under these arrangements with Olympus, Folksamerica cedes up to 75% of substantially all of its short-tailed excess of loss business, mainly property and marine, and 50% of its proportional property business to Olympus and receives an override commission on the premiums ceded to Olympus. During 2003 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 Holdings. Mr. Joseph S. Steinberg, a director of the Company, is Chairman of Olympus Holdings and is President of 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

Mr. Howard Clark, a director of the Company, is Vice Chairman of 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 and Chairman 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, 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 trusts for the benefit of members of his family (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 Fund III. OBPP and 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 received $2.9 million and $1.3 million in fees from Montpelier Re and Olympus, respectively.

NOTE 17. Commitments and Contingencies

White Mountains leases certain office space under noncancellable operating leases expiring at various dates through 2010. Rental expense for all of White Mountains' locations was approximately $42.9 million, $45.9 million and $22.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. White Mountains also has various other lease obligations which are immaterial in the aggregate.

White Mountains' future annual minimum rental payments required under noncancellable leases for office space are $33.5 million, $30.7 million, $28.2 million, $25.7 million and $35.8 million for 2004, 2005, 2006, 2007 and 2008 and thereafter, respectively.

Assigned Risks

As a condition of its license to do business in certain states, White Mountains' insurance operations are required to participate in mandatory shared market mechanisms. Each state dictates the types of insurance and the level of coverage that must be provided. The total amount of such business an insurer is required to accept is based on its market share of voluntary business in the state. In certain cases, White Mountains is obligated to write business from mandatory shared market mechanisms at some time in the future based on the market share of voluntary policies it is currently writing. Underwriting results related to assigned risk plans are typically adverse and are not subject to the predictability associated with White Mountains' voluntarily written business.

The NYAIP is a residual insurance market that obtains personal automobile insurance for those individuals who cannot otherwise obtain it in the voluntary insurance market. The NYAIP assigns such individuals to insurers to underwrite and service policies based on the proportion of the automobile insurance premiums each company voluntarily wrote in New York two years prior. The NYAIP allows insurers to either provide insurance coverage to these individuals or to transfer their NYAIP obligation to certain other insurance companies approved by the New York State Insurance Department. This latter process is referred to as a Limited Assigned Distribution ("LAD") and the companies that assume this obligation are referred to as "LAD servicing carriers". Companies who transfer their NYAIP business pay a fee to LAD servicing carriers in addition to the policy premium. To mitigate some of its NYAIP exposure, OneBeacon entered the LAD servicing business in December 2001 through the formation of its wholly owned subsidiary, General Assurance Company, which does business under the trade name "AutoOne Insurance".

Several of OneBeacon's insurance subsidiaries write voluntary automobile insurance in the state of New York. In doing so, they are obligated to accept NYAIP assignments during the next two years. At December 31, 2003 and 2002, White Mountains' liabilities for discharging its obligations associated with NYAIP assignments resulting from voluntary business written by OneBeacon in the preceding two-year periods were $34.9 million and $103.0 million, respectively. This estimate is based on projections of the total NYAIP assigned premiums over the next two years, OneBeacon's share of such assignments, fees charged by LAD servicing carriers to transfer NYAIP business and credits OneBeacon is able to generate for its own use as a result of being a LAD servicing carrier (i.e., AutoOne Insurance). During the third quarter of 2003, OneBeacon recorded a $30.0 million reduction in its NYAIP liability, resulting from changes in the New York assigned risk market, including a depopulation of the assigned risk pool and favorable revisions to the structure of credit programs.

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. In accordance with SOP 97-3, White Mountains' insurance subsidiaries record guaranty fund assessments when such assessments are billed by the respective guaranty funds. In addition, each insurance subsidiary's policy is to accrue for any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated. The actual amount of such assessments will depend upon the final outcome of rehabilitation proceedings and will be paid over several years. At December 31, 2003, the reserve for such assessments at White Mountains' insurance subsidiaries totalled $23.9 million.

General Litigation

White Mountains, and the insurance and reinsurance industry in general, are subject to litigation and arbitration in the normal course of its business. Other than those items listed below, White Mountains was not a party to any material litigation or arbitration other than as routinely encountered in claims activity, none of which is expected by management to have a material adverse effect on its financial condition and/or cash flows as of December 31, 2003.

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

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

On January 30, 2001, an action was filed in Los Angeles on behalf of Sierra Holdings, a dissolved corporation in which White Mountains holds an interest, against Credit Lyonnais, S.A. and other parties who were the successful bidders for the assets of ELIC in the 1991 sale of those assets conducted by the California Commissioner of Insurance. Sierra Holdings alleges that defendants' acquisition violated both federal and state law and that, but for defendants' wrongful acts, it would have been chosen to purchase ELIC's assets. Credit Lyonnais and certain of the other defendants plead guilty to criminal charges associated with their acquisition of ELIC. The case is currently in active discovery but no trial date has yet been set.

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

In June 1999, White Mountains sold VGI to Unitrin. 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.

NOTE 18. Consolidating Financial Information

The Company will fully and unconditionally guarantee any debt securities, preference shares or trust preferred securities issued by Fund American pursuant to its December 2001 shelf registration statement, including Fund American's May 2003 issuance of the Senior Notes (see Note 6). The following tables present White Mountains' consolidating balance sheets as of December 31, 2003 and December 31, 2002 and statements of income and cash flows for the years then ended. These financial statements reflect the Company's financial position, results of operations and cash flows on a stand-alone basis, that of Fund American and of the Company's other entities, as well as the necessary adjustments to eliminate intercompany balances and transactions.

Consolidating Balance Sheet as of December 31, 2003	The Company	Other Entities	Fund American	Eliminations	Total
(in millions)					
ASSETS					
Fixed maturity investments, at fair value	$ –	$ 71.0	$ 6,177.1	$ –	$ 6,248.1
Short-term investments, at amortized cost	11.1	682.2	854.6	(1.3)	1,546.6
Common equity securities, at fair value	–	–	513.6	–	513.6
Other investments	–	89.9	149.3	–	239.2
Total investments	11.1	843.1	7,694.6	(1.3)	8,547.5
Cash	.3	27.1	62.5	–	89.9
Reinsurance recoverable on paid and unpaid losses	–	8.8	3,586.7	–	3,595.5
Accounts receivable on unsettled investment sales	–	–	9.1	–	9.1
Insurance and reinsurance premiums receivable	–	44.6	744.4	(10.0)	779.0
Investments in unconsolidated insurance affiliates	–	90.5	425.4	–	515.9
Deferred tax asset	–	(8.2)	361.6	(93.4)	260.0
Deferred acquisition costs	–	3.6	230.0	–	233.6
Ceded unearned premiums	–	.9	184.4	–	185.3
Investment income accrued	–	–	73.0	–	73.0
Investments in subsidiaries	3,021.0	–	–	(3,021.0)	–
Other assets	5.0	86.8	616.1	(25.7)	682.2
Total assets	**$ 3,037.4**	**$ 1,097.2**	**$ 13,987.8**	**$ (3,151.4)**	**$ 14,971.0**
LIABILITIES, CONVERTIBLE PREFERENCE SHARES, MINORITY INTEREST AND COMMON SHAREHOLDERS' EQUITY					
Loss and LAE reserves	$ –	$ 75.9	$ 7,652.3	$ –	$ 7,728.2
Unearned insurance and reinsurance premiums	–	23.3	1,386.1	–	1,409.4
Accounts payable on unsettled investment purchases	–	302.0	69.6	–	371.6
Debt		12.9	730.1	–	743.0
Funds held under reinsurance treaties	–	–	211.9	–	211.9
Other liabilities	58.0	318.9	1,086.7	(130.4)	1,333.2
Preferred stock subject to mandatory redemption	–	20.0	174.5	–	194.5
Total liabilities	58.0	753.0	11,311.2	(130.4)	11,991.8
Common shareholders' equity	$ 2,979.4	$ 344.2	$ 2,676.6	$ (3,021.0)	$ 2,979.2
Total liabilities common shareholders' equity	**$ 3,037.4**	**$ 1,097.2**	**$13,987.8**	**$ (3,151.4)**	**$ 14,971.0**

Consolidating Balance Sheet as of December 31, 2002	The Company	Other Entities	Fund American	Eliminations	Total
(in millions)					
ASSETS					
Fixed maturity investments, at fair value	$ –	$ 47.1	$ 6,622.0	$ –	$ 6,669.1
Short-term investments, at amortized cost	15.6	222.6	1,555.0	(2.6)	1,790.6
Common equity securities, at fair value	–	–	275.0	–	275.0
Other investments	30.7	44.9	89.1	–	164.7
Total investments	46.3	314.6	8,541.1	(2.6)	8,899.4
Cash	(.8)	41.5	80.9	(.1)	121.5
Reinsurance recoverable on paid and unpaid losses	–	5.2	4,226.5	–	4,231.7
Accounts receivable on unsettled investment sales	–	–	160.8	–	160.8
Insurance and reinsurance premiums receivable	–	28.6	801.9	–	830.5
Investments in unconsolidated insurance affiliates	58.0	–	341.9	–	399.9
Deferred tax asset	–	18.2	543.4	(131.6)	430.0
Deferred acquisition costs	–	3.0	241.9	–	244.9
Ceded unearned premiums	–	1.3	162.6	–	163.9
Investment income accrued	–	.7	90.7	–	91.4
Investments in subsidiaries	2,500.9	–	–	(2,500.9)	–
Other assets	42.9	54.7	361.9	.1	459.6
Total assets	$ 2,647.3	$467.8	$15,553.6	$(2,635.1)	$16,033.6
LIABILITIES, CONVERTIBLE PREFERENCE SHARES, MINORITY INTEREST AND COMMON SHAREHOLDERS' EQUITY					
Loss and LAE reserves	$ –	$ 61.4	$8,813.9	$ –	$8,875.3
Unearned insurance and reinsurance premiums	–	17.3	1,497.1	–	1,514.4
Accounts payable on unsettled investment purchases	–	–	495.2	–	495.2
Debt	5.1	9.7	778.4	–	793.2
Funds held under reinsurance treaties	–	–	262.4	–	262.4
Other liabilities	15.0	224.7	1,179.8	(134.2)	1,285.3
Total liabilities	20.1	313.1	13,026.8	(134.2)	13,225.8
Convertible preference shares	219.0	–	–	–	219.0
Minority interest - mandatorily redeemable preferred stock of subsidiaries	–	20.0	160.9	–	180.9
Common shareholders' equity	2,408.2	134.7	2,365.9	(2,500.9)	2,407.9
Total liabilities, convertible preference shares, minority interest and common shareholders' equity	$2,647.3	$467.8	$15,553.6	$(2,635.1)	$16,033.6

Consolidating Statement of Income for the Year Ended December 31, 2003	The Company	Other Entities	Fund American	Eliminations	Total
(in millions)					
Earned insurance and reinsurance premiums	$ —	$ 78.3	$ 3,059.4	$ —	$ 3,137.7
Net investment income	.2	4.9	285.8	—	290.9
Net realized investment gains (losses)	(1.1)	34.8	128.9	—	162.6
Other revenue (loss)	(.5)	80.6	166.0	(30.7)	215.4
Total revenues	(1.4)	198.6	3,640.1	(30.7)	3,806.6
Losses and LAE	—	53.3	2,084.8	—	2,138.1
Insurance and reinsurance acquisition expenses	—	16.9	614.6	(19.9)	611.6
Other underwriting expenses	—	3.2	360.1	—	363.3
General and administrative expenses	70.7	22.3	120.8	(12.0)	201.8
Accretion of fair value adjustment to loss and LAE reserves	—	—	48.6	—	48.6
Interest expense	—	.3	48.3	—	48.6
Interest expense on preferred shares	—	1.0	21.3	—	22.3
Total expenses	70.7	97.0	3,298.5	(31.9)	3,434.3
Pretax income (loss)	(72.1)	101.6	341.6	1.2	372.3
Income tax benefit (provision)	(.1)	.2	(126.5)	(1.2)	(127.6)
Accretion and dividends on preferred stock of subsidiaries	—	(1.0)	(20.5)	—	(21.5)
Equity in earnings of subsidiaries	352.8	—	—	(352.8)	—
Equity in earnings of unconsolidated insurance affiliates	—	—	57.4	—	57.4
Cumulative effect of changes in accounting principles	—	—	—	—	—
Net income	**$ 280.6**	**$ 100.8**	**$ 252.0**	**$ (352.8)**	**$ 280.6**

Consolidating Statement of Income for the Year Ended December 31, 2002	The Company	Other Entities	Fund American	Eliminations	Total
(in millions)					
Earned insurance and reinsurance premiums	$ —	$ 55.4	$ 3,521.0	$ —	$ 3,576.4
Net investment income	1.7	3.2	361.1	—	366.0
Net realized gains on investments	58.0	3.2	94.8	—	156.0
Other revenue	25.0	25.3	63.4	—	113.7
Total revenues	84.7	87.1	4,040.3	—	4,212.1
Losses and LAE	—	47.0	2,591.2	—	2,638.2
Insurance and reinsurance acquisition expenses	—	5.7	800.6	—	806.3
Other underwriting expenses	—	2.2	401.7	—	403.9
General and administrative expenses	24.5	8.8	59.4	—	92.7
Accretion of fair value adjustment to loss and LAE reserves	—	—	79.8	—	79.8
Interest expense	.4	12.3	59.1	—	71.8
Total expenses	24.9	76.0	3,991.8	—	4,066.0
Pretax income	59.8	11.1	48.5	—	119.4
Income tax provision	—	(5.7)	(6.0)	—	(11.7)
Accretion and dividends on preferred stock of subsidiaries	—	(2.1)	(38.8)	—	(40.9)
Equity in earnings of subsidiaries	672.0	—	—	(672.0)	-
Equity in earnings of unconsolidated insurance affiliates	—	—	14.0	—	14.0
Cumulative effect of changes in accounting principles	16.3	—	643.9	—	660.2
Excess of fair value of acquired net assets over cost	—	—	7.1	—	7.1
Net income	$ 748.1	$ 3.3	$ 668.7	$ (672.0)	$ 748.1

Consolidating Statement of Cash Flows for the Year Ended December 31, 2003	The Company	Other Entities	Fund American	Total
(in millions)				
Cash flows from operations:				
Net income (loss)	$ (72.4)	$ 101.0	$ 252.0	$280.6
Charges (credits) to reconcile net income to cash flows from operations:				
Net realized gains on investments	1.1	(34.8)	(128.9)	(162.6)
Other operating items:				
Net change in reinsurance recoverable on paid and unpaid losses	—	(3.6)	639.8	636.2
Net change in loss and LAE reserves	—	14.5	(1,161.6)	(1,147.1)
Net change in insurance and reinsurance balances receivable	—	(6.0)	57.5	51.5
Net change in unearned insurance and reinsurance premiums	—	6.0	(111.0)	(105.0)
Net change in deferred acquisition costs	(.3)	(.4)	12.0	11.3
Net change in other assets and liabilities, net	75.2	282.9	(403.4)	(45.3)
Net cash flows provided from (used for) operations	3.6	359.6	(843.6)	(480.4)
Cash flows from investing activities:				
Net decrease (increase) in short-term investments	4.5	(460.9)	700.4	244.0
Sales of fixed maturity investments	—	69.6	17,220.9	17,290.5
Maturities of fixed maturity investments	—	—	1,372.0	1,372.0
Sales of common equity securities and other investments	—	—	160.1	160.1
Purchases of fixed maturity investments	—	(93.1)	(18,155.1)	(18,248.2)
Purchases of common equity securities and other investments	(.2)	—	(354.2)	(354.4)
Sales of consolidated affiliates	—	—	25.0	25.0
Net (acquisitions) dispositions of property and equipment	—	(.1)	43.5	43.4
Net cash flows provided from (used for) investing activities	4.3	(484.5)	1,012.6	532.4
Cash flows from financing activities:				
Repayments of debt	—	—	(739.9)	(739.9)
Proceeds from issuance of debt	—	—	693.4	693.4
Intercompany dividends, contributions and transfers	—	112.6	(112.6)	—
Cash dividends paid to common shareholders	(8.3)	—	—	(8.3)
Cash dividends paid to preferred shareholders	—	(2.0)	(28.3)	(30.3)
Proceeds from issuances of Common Shares and Convertible Preference Shares	1.5	—	—	1.5
Net cash (used for) provided from financing activities	(6.8)	110.6	(187.4)	(83.6)
Net increase (decrease) in cash during period	1.1	(14.3)	(18.4)	(31.6)
Cash balances at beginning of period	(.8)	41.4	80.9	121.5
Cash balances at end of period	$ .3	$ 27.1	$ 62.5	$ 89.9

Consolidating Statement of Cash Flows for the Year Ended December 31, 2002	The Company	Other Entities	Fund American	Total
(in millions)				
Cash flows from operations:				
Net income	$ 76.1	$ 3.3	$ 668.7	$ 748.1
Charges (credits) to reconcile net income to cash flows from operations:				
Cumulative effect of changes in accounting principles	(16.3)	—	(643.9)	(660.2)
Net realized gains on investments	(57.9)	(3.3)	(94.8)	(156.0)
Other operating items:				
Net change in reinsurance recoverable on paid and unpaid losses	—	17.0	93.3	110.3
Net change in loss and LAE reserves	—	35.6	(687.9)	(652.3)
Net change in insurance and reinsurance balances receivable	—	(28.5)	301.5	273.0
Net change in unearned insurance and reinsurance premiums	—	(14.4)	(285.7)	(300.1)
Net change in deferred acquisition costs	—	5.0	63.4	68.4
Net change in other assets and liabilities, net	41.1	74.6	177.4	293.1
Net cash flows provided from (used for) operations	43.0	89.3	(408.0)	(275.7)
Cash flows from investing activities:				
Net decrease (increase) in short-term investments	39.0	(115.8)	832.0	755.2
Sales of fixed maturity investments	—	1.3	13,530.6	13,531.9
Maturities of fixed maturity investments	—	—	411.9	411.9
Sales of common equity securities and other investments	—	1.0	97.4	98.4
Purchases of fixed maturity investments	—	(46.1)	(14,020.5)	(14,066.6)
Purchases of common equity securities and other investments	(.2)	—	(244.3)	(244.5)
Purchases of consolidated affiliates	—	—	(.5)	(.5)
Net (acquisitions) dispositions of property and equipment	—	(.5)	(12.3)	(12.8)
Net cash flows provided from (used for) investing activities	38.8	(160.1)	594.3	473.0
Cash flows from financing activities:				
Repayments of debt	—	(260.0)	(78.6)	(338.6)
Proceeds from issuance of debt	—	8.0	—	8.0
Intercompany dividends and contributions	(300.0)	365.0	(65.0)	—
Cash dividends paid to common shareholders	(8.3)	—	—	(8.3)
Cash dividends paid to preferred shareholders	(.4)	(2.1)	(28.2)	(30.7)
Proceeds from issuances of Common Shares and Convertible Preference Shares	226.4	—	—	226.4
Net cash (used for) provided from financing activities	(82.3)	110.9	(171.8)	(143.2)
Net (decrease) increase in cash during period	(.5)	40.1	14.5	54.1
Cash balances at beginning of period	(.2)	1.2	66.4	67.4
Cash balances at end of period	$ (.7)	$ 41.3	$ 80.9	$ 121.5

REPORT ON MANAGEMENT'S RESPONSIBILITIES

The financial information included in this report, including the audited consolidated financial statements, has been prepared by the management of White Mountains. The consolidated financial statements have been prepared in accordance with GAAP and, where necessary, include amounts based on informed estimates and judgments. In those instances where there is no single specified accounting principle or standard, management makes a choice from reasonable, accepted alternatives which are believed to be most appropriate under the circumstances. Financial information presented elsewhere in this report is consistent with that shown in the financial statements.

White Mountains maintains internal financial and accounting controls designed to provide reasonable and cost effective assurance that assets are safeguarded from loss or unauthorized use, that transactions are recorded in accordance with management's policies and that financial records are reliable for preparing financial statements. The internal controls structure is documented by written policies and procedures which are communicated to all appropriate personnel and is updated as necessary. White Mountains' business ethics policies require adherence to ethical standards in the conduct of its business. Compliance with these controls, policies and procedures is continuously maintained and monitored by management.

PricewaterhouseCoopers LLP has audited the consolidated financial statements of White Mountains as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003. PricewaterhouseCoopers LLP has issued their unqualified report thereon, which appears on page F-60.

In connection with their financial statement audit, PricewaterhouseCoopers LLP considers the structure of internal controls to the extent considered necessary. Management reviews all recommendations of PricewaterhouseCoopers LLP concerning the structure of internal controls and responds to such recommendations with corrective actions, as appropriate.

The Audit Committee of the Board, which is comprised solely of independent, qualified directors, has general responsibility for the oversight and surveillance of the accounting, reporting and financial control practices of White Mountains as well as establishing and maintaining the Company's Audit Committee Charter. The Audit Committee, which reports to the full Board, annually reviews the overall quality and effectiveness of the independent auditors and management with respect to the financial reporting process and the adequacy of internal controls. The independent auditors have free access to the Audit Committee, without members of management present, to discuss the results of their audits, the adequacy of internal controls and any other matter that they believe should be brought to the attention of the Audit Committee.

Raymond Barrette Director, President and CEO (Principal Executive Officer)	David T. Foy Executive Vice President and CFO (Principal Financial Officer)	J. Brian Palmer Chief Accounting Officer (Principal Accounting Officer)

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of White Mountains Insurance Group, Ltd.:

In our opinion, the consolidated financial statements listed in the index referenced under Item 8 on page 73 present fairly, in all material respects, the financial position of White Mountains Insurance Group, Ltd. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index referenced under Item 8 on page 73 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for business combinations in 2001.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 2, 2004

SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)

Selected quarterly financial data for 2003 and 2002 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods. Certain reclassifications have been made to prior quarterly results to conform with the 2003 annual presentation.

	2003 Three Months Ended				2002 Three Months Ended			
Millions, except per share amounts	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$ 962.9	$ 907.1	$ 967.1	$ 969.5	$ 1,001.5	$ 1,088.9	$ 1,030.8	$ 1,090.9
Expenses	898.9	868.9	843.0	823.5	941.9	1,006.9	1,043.9	1,100.0
Pretax earnings (loss)	64.0	38.2	124.1	146.0	59.6	82.0	(13.1)	(9.1)
Tax benefit (provision)	(22.4)	(14.4)	(44.7)	(46.1)	(10.4)	(20.3)	6.0	13.0
Equity in earnings of unconsolidated affiliates	15.1	13.6	15.8	12.9	6.2	3.2	3.6	1.0
Accretion and dividends on preferred stock of subsidiaries	–	–	(10.8)	(10.7)	(10.5)	(10.3)	(10.1)	(10.0)
Net income (loss) before accounting changes and extraordinary items	$ 56.7	$ 37.4	$ 84.4	$ 102.1	$ 44.9	$ 54.6	$ (13.6)	$ (5.1)
Net income (loss) before accounting changes and extraordinary items per share:								
Basic	$ 6.30	$ 4.16	$ 5.38	$ 10.94	$ 3.09	$ 6.67	$ (1.66)	$ (.62)
Diluted	5.57	3.69	4.77	9.92	2.78	6.04	(1.68)	(.62)
Fully converted tangible book value per share	$ 291.27	$ 282.24	$ 280.88	$ 266.96	$ 258.82	$ 249.38	$ 235.62	$ 221.80

SCHEDULE I

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES
At December 31, 2003

Millions	Cost	Fair Value
Fixed maturities:		
Bonds:		
U.S. Government and government agencies and authorities [1]	$ 2,457.5	$ 2,508.4
Corporate bonds and asset-backed securities	3,277.9	3,439.0
States, municipalities and political subdivisions	53.1	57.6
Foreign governments	141.1	144.9
Redeemable preferred stocks	80.6	98.2
Total fixed maturities	6,010.2	6,248.1
Short-term investments	1,546.6	1,546.6
Common equity securities:		
Banks, trust and insurance companies	76.6	97.0
Public utilities	76.7	101.0
Industrial, miscellaneous and other	242.9	315.6
Total common equity securities	396.2	513.6
Other investments	184.0	239.2
Total investments	$ 8,137.0	$ 8,547.5

(1) Includes mortgage-backed securities issued by GNMA, FNMA and FHLMC.

Note - fair value was equal to carrying value at December 31, 2003.

SCHEDULE II

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Registrant Only)

CONDENSED BALANCE SHEETS

Millions	December 31, 2003	December 31, 2002
Assets:		
Common equity securities and other investments	$ –	$ 30.6
Short-term investments, at amortized cost	11.1	15.6
Other assets	5.3	41.9
Investments in consolidated and unconsolidated affiliates	3,021.0	2,558.9
Total assets	$ 3,037.4	$ 2,647.0
Liabilities:		
Long-term debt	$ –	$ 5.1
Accounts payable and other liabilities	58.0	15.0
Total liabilities	58.0	20.1
Convertible preference shares	–	219.0
Common shareholders' equity	2,979.4	2,407.9
Total liabilities, convertible preference shares and common shareholders' equity	$ 3,037.4	$ 2,647.0

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Millions	Year Ended December 31, 2003	2002	2001
Revenues (including realized gains and losses)	$ (1.4)	$ 84.7	$ 38.4
Expenses	70.7	24.9	69.4
Pretax income (loss)	(72.1)	59.8	(31.0)
Income tax provision	(.1)	–	(1.0)
Net income (loss)	(72.2)	59.8	(32.0)
Earnings (losses) from consolidated affiliates	352.8	672.0	(222.5)
Cumulative effect of changes in accounting principles	–	16.3	–
Extraordinary loss on early extinguishment of debt	–	–	(4.8)
Consolidated net income (loss)	280.6	748.1	(259.3)
Other comprehensive net income (loss) items, after-tax	79.0	202.3	(42.5)
Consolidated comprehensive net income (loss)	$ 359.6	$ 950.4	$ (301.8)
Computation of net income (loss) available to common shareholders:			
Consolidated net income (loss)	$ 280.6	$ 748.1	$ (259.3)
Redemption value adjustment - Convertible Preference Shares	(49.5)	(19.0)	(305.1)
Dividends on Convertible Preference Shares	–	(.4)	(.3)
Net income (loss) available to common shareholders	$ 231.1	$ 728.7	$ (564.7)

SCHEDULE II
(continued)

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Registrant Only)

CONDENSED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 2003	2002	2001
Net income (loss)	$ 280.6	$ 748.1	$(259.3)
Reconciliation of net income to net cash from operating activities:			
Cash dividends to holders of Convertible Preference Shares	–	.4	.3
Cumulative effect of changes in accounting principles	–	(16.3)	–
Loss on early extinguishment of debt	–	–	4.8
Share appreciation expense for Options and Restricted Shares	–	16.9	20.0
Share appreciation expense for Series B Warrants	–	–	58.8
Net realized losses (gains) on sales of investments and other assets	1.8	(57.9)	(13.3)
Undistributed current (earnings) losses from consolidated subsidiaries	(353.0)	(648.7)	278.0
Amortization of deferred credits	–	–	(20.7)
Net income tax receipts	32.0	–	–
Net change in other assets and other liabilities	(.4)	12.4	18.5
Net change in accounts payable and other liabilities	41.7	(11.4)	(32.3)
Net cash provided from operating activities	2.7	43.5	54.8
Cash flows from investing activities:			
Net decrease in short-term investments, net of balances acquired	4.5	39.0	41.7
Sales of investment securities	–	–	31.0
Purchases of investment securities and other assets	(.1)	(.2)	(30.9)
Contributions to subsidiaries	–	(300.0)	(530.7)
Proceeds from sales of affiliates	–	–	23.6
Net cash provided from (used for) investing activities	4.4	(261.2)	(465.3)
Cash flows from financing activities:			
Proceeds from issuances of Common Shares and Convertible Preference Shares	1.5	226.4	444.4
Proceeds from issuances of warrants to acquire Common Shares	–	–	75.0
Common Shares repurchased and retired	–	–	(1.9)
Repayments of long-term debt	–	–	(100.8)
Cash dividends paid to holders of Common Shares	(8.3)	(8.3)	(5.9)
Cash dividends to holders of Convertible Preference Shares	–	(.4)	(.3)
Net cash (used for) provided from financing activities	(6.8)	217.7	410.5
Net change in cash during year	.3	–	–
Cash balance at beginning of year	–	–	–
Cash balance at end of year	$ .3	$ –	$ –

SCHEDULE III

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUPPLEMENTARY INSURANCE INFORMATION
(Millions)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Segment	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premiums earned	Net investment income [1]	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses	Premiums written
Years ended:										
December 31, 2003:										
OneBeacon	$ 165.2	$ 5,855.7	$ 1,044.0	$ –	$ 2,183.4	$ 233.9	$ 1,493.8	$ 394.9	$ 258.7	$ 2,004.0
Reinsurance and other insurance operations	68.4	1,872.5	365.4	–	954.3	58.2	644.3	216.7	104.6	1,003.7
December 31, 2002:										
OneBeacon	$ 188.4	$ 7,149.5	$ 1,269.5	$ –	$ 2,870.9	$ 314.0	$ 2,131.3	$ 629.1	$ 329.2	$ 2,522.8
Reinsurance and other insurance operations	56.5	1,725.8	244.9	–	705.5	57.7	506.9	177.2	74.7	770.7
December 31, 2001:										
OneBeacon	$ 267.4	$ 7,857.4	$ 1,612.0	$ –	$ 2,208.2	$ 228.4	$ 2,073.8	$ 403.2	$ 377.9	$ 1,878.2
Reinsurance and other insurance operations	45.9	1,670.2	202.5	–	447.9	51.7	420.1	127.8	58.4	487.2

(1) The amounts shown exclude net investment income (expense) relating to non-insurance operations of $(1.2), $(5.7) million and $4.4 million for the twelve months ended December 31, 2003, 2002 and 2001, respectively.

SCHEDULE IV

WHITE MOUNTAINS INSURANCE GROUP, LTD.
REINSURANCE

Column A	Column B	Column C	Column D	Column E	Column F
Premiums earned (Millions)	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Years ended:					
December 31, 2003:					
OneBeacon	$ 2,313.2	$ (518.6)	$ 388.8	$ 2,183.4	17.8%
Reinsurance and other insurance operations	45.7	(462.2)	1,370.8	954.3	143.6%
December 31, 2002:					
OneBeacon	$ 3,181.8	$ (815.5)	$ 504.6	$ 2,870.9	17.6%
Reinsurance and other insurance operations	42.0	(299.6)	963.1	705.5	136.5%
December 31, 2001:					
OneBeacon [1]	$ 2,374.2	$ (230.2)	$ 64.2	$ 2,208.2	2.9%
Reinsurance and other insurance operations	36.7	(237.6)	648.8	447.9	144.9%

(1) Amounts shown for OneBeacon in columns B through F represent activity from June 1, 2001 through December 31, 2001.

SCHEDULE V

WHITE MOUNTAINS INSURANCE GROUP, LTD.
VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions (subtractions)			
Millions	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions described[1]	Balance at end of period
Years ended:					
December 31, 2003:					
Reinsurance recoverable:					
Allowance for reinsurance balances	$ 18.5	$ –	$ –	$(2.6)	$15.9
Property and casualty insurance:					
Allowance for uncollectible accounts	69.1	(26.0)	–	(20.1)	23.0
December 31, 2002:					
Reinsurance recoverable:					
Allowance for reinsurance balances	$ 25.2	$ (6.1)	$ –	$ (.6)	$ 18.5
Property and casualty insurance:					
Allowance for uncollectible accounts	96.9	(22.0)	–	(5.8)	69.1
December 31, 2001:					
Reinsurance recoverable:					
Allowance for reinsurance balances	$ 1.2	$ –	$ 24.0[2]	$ –	$ 25.2
Property and casualty insurance:					
Allowance for uncollectible accounts	1.1	–	96.8[2]	(1.0)	96.9

(1) Represent charge-offs of balances receivables.
(2) Includes $21.9 million and $95.7 million of reinsurance recoverable and property and casualty insurance allowances, respectively, acquired from OneBeacon. Remaining amounts represent activity for OneBeacon from June 1, 2001 through December 31, 2001.

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WHITE MOUNTAINS INSURANCE GROUP, LTD.
SUPPLEMENTAL INFORMATION FOR PROPERTY AND CASUALTY INSURANCE UNDERWRITERS
(Millions)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H		Column I	Column J	Column K
							Claims and Claims Adjustment Expenses Incurred Related to				
Affiliation with registrant	Deferred acquisition costs	Reserves for Unpaid Claims and Claims Adjustment Expenses	Discount, if any, deducted in Column C	Unearned Premiums	Earned Premiums	Net investment income	(1) Current Year	(2) Prior Year	Amortization of deferred policy acquisition costs	Paid Claims and Claims Adjustment Expenses	Premiums written
OneBeacon:											
2003	$ 165.2	$ 5,855.7	$ 294.5 [3]	$ 1,044.0	$ 2,183.4	$ 233.9	$ 1,346.9	$ 146.9	$ 394.9	$ 2,298.8	$ 2,004.0
2002	188.4	7,149.5	299.5 [3]	1,269.5	2,870.9	314.0	2,073.9	57.4	629.1	2,877.0	2,522.8
2001 [1]	267.4	7,857.4	278.1 [3]	1,612.0	2,208.2	228.4	2,009.2	64.6	403.2	1,952.7	1,878.2
Consolidated reinsurance and other insurance operations:											
2003	$ 68.4	$ 1,872.5	–	$ 365.4	$ 954.3	$ 58.2	$ 601.8	$ 42.5	$ 216.7	$ 431.9	$ 1,003.7
2002	56.5	1,725.9	–	244.9	705.5	57.7	474.3	32.6	177.2	367.9	770.7
2001	45.9	1,670.2	–	202.5	447.9	51.7	381.4	38.7	127.8	481.8	487.2
50%-or-less owned property and casualty investees: [2]											
2003	$ 28.2	$ 140.6	–	$ 132.4	$ 198.0	$ 11.7	$ 127.5	$ 4.4	$ 55.2	$ 119.6	$ 213.8
2002	24.5	126.7	–	112.0	167.0	11.5	113.2	7.8	47.6	106.1	178.7
2001	21.5	104.9	–	74.9	143.3	11.2	95.2	(1.8)	41.4	92.7	153.4

(1) The amounts shown in columns F through K represent activity for OneBeacon from June 1, 2001 through December 31, 2001.

(2) The amounts shown represent White Mountains' share of MSA, its 50% owned unconsolidated property and casualty insurance affiliate. Excludes White Mountains' share of Montpelier, its 21% owned unconsolidated property and casualty reinsurance affiliate whose information is available publicly.

(3) The amounts shown exclude unamortized fair value adjustments to reserves of $48.6 million, $79.8 million and $56.0 million for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains' purchase of OneBeacon for the years ended December 31, 2003, 2002 and 2001, respectively.

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Raymond Barrette, certify that:

I have reviewed this annual report of White Mountains Insurance Group, Ltd.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

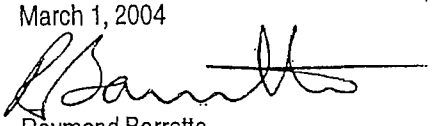
(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2004



Raymond Barrette
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER CERTIFICATION PURSUANT TO RULE 13a - 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, David T. Foy, certify that:

I have reviewed this annual report of White Mountains Insurance Group, Ltd.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2004

David T. Foy

David T. Foy
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

PRINCIPAL EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of White Mountains Insurance Group, Ltd. (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raymond Barrette, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

Raymond Barrette
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 1, 2004

Exhibit 32.2

PRINCIPAL FINANCIAL OFFICER
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of White Mountains Insurance Group, Ltd. (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David T. Foy, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

David T. Foy

David T. Foy
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: March 1, 2004

White Mountains®
INSURANCE GROUP