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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001

OR

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

For the transition period from ___ to ___

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	**94-2708455** (I.R.S. Employer Identification No.)
28 Gates Street, White River Junction, Vermont (Address of principal executive offices)	**05001-7066** (Zip Code)

Registrant's telephone number, including area code: **(802) 295-4500**

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

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

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

None

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

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

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of March 31, 2002, was $2,861,356,117.

As of March 31, 2002, 8,284,181 common shares, par value of $1.00 per share ("Common Shares"), were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Notice of 2002 Annual General Meeting of Members and Proxy Statement dated March 22, 2002 (Part III)

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PART I

Item 1. Business

GENERAL

White Mountains Insurance Group, Ltd. (the "Company") was originally formed as a Delaware corporation in 1980 and became a Bermuda limited liability company during 1999. In October 1999, the Company completed a corporate reorganization that changed its domicile from Delaware to Bermuda (the "Redomestication"). The Company's principal businesses are conducted through its subsidiaries and affiliates in the business of property and casualty insurance and reinsurance. Within this report, the consolidated organization is referred to as "White Mountains". The Company's headquarters are located at Crawford House, 23 Church Street, Hamilton, Bermuda HM 11, its principal executive office is located at 28 Gates Street, White River Junction, Vermont 05001-7066 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM DX.

On June 1, 2001, White Mountains acquired OneBeacon Insurance Group LLC (together with its subsidiaries, "OneBeacon") from London-based CGNU plc ("CGNU") for $2.1 billion, of which $260.0 million consisted of a convertible note payable (the "Seller Note") with the balance paid in cash (the "Acquisition"). OneBeacon owns several property and casualty insurance and reinsurance companies throughout the United States. These include OneBeacon Insurance Company, National Farmers Union Property and Casualty Company ("NFU"), Houston General Insurance Company ("HG"), Folksamerica Reinsurance Company (together with Folksamerica Holding Company, Inc. and subsidiaries, "Folksamerica") and Peninsula Insurance Company ("PIC"). Folksamerica and PIC are owned by OneBeacon but are run as separate entities, with distinct operations, management and business strategies. Folksamerica and PIC were contributed to OneBeacon immediately subsequent to the Acquisition. The Company's consolidated results include OneBeacon's financial results for the seven month period since the Acquisition.

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group ("Liberty Mutual") pursuant to a renewal rights agreement (the "Renewal Rights Agreement"). This transfer amounted to approximately $1.5 billion in written premiums, or approximately 45% of OneBeacon's total business. Service agreements are in place to ensure a smooth transition. Over the next two years, the underwriting results and cash flows of the renewed policies will be shared between OneBeacon and Liberty Mutual. A reinsurance agreement pro-rates results so that OneBeacon assumes approximately two-thirds and one-third of the underwriting results corresponding to renewals in the first and second years, respectively. OneBeacon is now focused on becoming a profitable independent agency property and casualty insurance company in the Northeast and for select specialty business on a national basis.

White Mountains' Operating Principles

Each employee of White Mountains is expected to operate within the spirit of its four operating principles. These are:

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

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

Invest for Total Return. White Mountains invests for the best growth in after tax value over time whether reported as income or not and without regard to any need to report a smooth earnings stream. In addition to investing our bond portfolios for total after tax return, that will also mean prudent investment in equities consistent with leverage and insurance risk considerations.

Think Like Owners. By taking accountability for one's actions and behaving with a sense of urgency, all employees demonstrate their stake in the business by working smarter and understanding that actions influence results. Thinking like an owner embraces all that without losing the touchstone of a capitalist enterprise.

ONEBEACON

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

On June 1, 2001, White Mountains significantly strengthened OneBeacon's balance sheet. In connection with the Acquisition, CGNU caused OneBeacon to purchase reinsurance contracts with two reinsurance companies rated AAA (Extremely Strong) by Standard & Poor's and A++ (Superior) by A.M. Best: a full risk-transfer cover from National Indemnity Company ("NICO") for up to $2.5 billion in old asbestos and environmental claims (the "NICO Cover") and an adverse development cover from General Reinsurance Corporation ("GRC") for up to $400.0 million on losses occurring in years 2000 and prior (the "GRC Cover"). Additionally, White Mountains' purchase accounting adjustments resulted in a strengthening of OneBeacon's acquired balance sheet in the form of adjustments to OneBeacon's insurance and non-insurance liabilities and assets.

Immediately subsequent to the Acquisition, a new management team was appointed and new performance expectations established through ongoing communication of White Mountains' operating principles and long-term incentive compensation based on results. Since the Acquisition, substantial actions have been taken to improve OneBeacon's business, including increased pricing and re-underwriting. Certain unprofitable lines of business, accounts and agents have been eliminated. Management has also been seeking to improve the claim function by increasing staffing levels in many areas and introducing programs and tools geared toward controlling indemnity costs. Credit terms have been changed to accelerate the receipt of cash and collection of old receivables is a high priority. Spending on major systems initiatives has been substantially scaled back to focus on delivering meaningful improvements to existing systems while eliminating the multitude of redundant systems left over from the Merger. Significant efforts are underway to rebuild coherent management information that has been lacking since the Merger.

OneBeacon conducts its primary personal and commercial business through independent agents in four regional operations – Northern New England, Southern New England, Upstate New York and the Metro New York/New Jersey area. Agents add value to their customers through personal attention, coverage expertise and an understanding of local market conditions. The regional operations target personal and commercial customers, focusing on the family account and small to mid-sized businesses. OneBeacon's objective is to underwrite only profitable business without regard to market share, premium volume or growth. In addition to these regional operations, OneBeacon is also committed to nurturing its select specialty businesses that focus on providing custom coverages to certain niche markets, including ocean marine, agricultural insurance ("Agri"), professional liability and tuition reimbursement. Each specialty business has its own operations and appointed agents that target specific customer groups.

Property and Casualty Insurance Overview

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

OneBeacon provides property and casualty insurance on a wide variety of coverages, including the following:

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

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

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

Underwriting profit or loss is determined by subtracting losses, loss adjustment expenses, policy acquisition expenses and other underwriting expenses from earned premiums. A key measure of relative underwriting performance is the combined ratio. An insurance company's statutory combined ratio is calculated by adding the ratio of incurred loss and loss adjustment expenses to premiums earned (the "loss ratio") and the ratio of commissions, premium taxes and other underwriting expenses to premiums written (the "expense ratio"). For management purposes, OneBeacon uses a modified statutory combined ratio ("trade ratio") that divides general and administrative expenses by earned premiums rather than written premiums. Management believes the trade ratio to be the best measure of the current profitability of OneBeacon's businesses because it relates the cost of producing the business to premiums written and the cost of operating the business to premiums earned. A trade ratio of 100% or less indicates an underwriting profit, while a ratio greater than 100% indicates an underwriting loss. When considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable despite incurring an underwriting loss.

Lines of Business

OneBeacon writes three core lines of business consisting of personal and commercial lines in the Northeast and certain specialty lines. Premiums from other "non-core" lines, including business assumed from Liberty Mutual in connection with the Renewal Rights Agreement and certain non-core or runoff operations will diminish significantly over the next two years as OneBeacon's obligations under the Renewal Rights Agreement decrease and policies in run-off expire. For the twelve months ended December 31, 2001, OneBeacon's net written premiums and accident year trade ratios (after removing the effects of the NICO Cover, GRC Cover and certain other non-recurring transactions related to the Acquisition) by line of business were as follows:

Net written premiums and trade ratios by line of business ($ in millions)	Net Written Premiums for the Year Ended December 31, 2001		Trade Ratios for the Year Ended December 31, 2001	Trade Ratios for the Year Ended December 31, 2001 (excluding losses from the attacks of September 11, 2001)
Personal	$ 856.9	25 %	110%	110%
Commercial	690.1	20	121%	109%
Specialty	224.4	6	99%	98%
Other non-core lines	1,695.5	49	125%	125%
Total	$ 3,466.9	100 %	119%	116%

OneBeacon's personal lines include auto, homeowners and Custom-Pac products (combination policies offering home and auto coverage with optional umbrella, boatowners and other coverages), which for the twelve months ended December 31, 2001 represented 61%, 16% and 15%, respectively, of personal lines net written premium. OneBeacon's commercial lines include package (combination policies offering property and liability coverage), commercial auto and workers compensation, which for the twelve months ended December 31, 2001 represented 46%, 22% and 20%, respectively, of OneBeacon's commercial lines net written premium. Specialty products principally include ocean marine, Agri, professional liability and tuition reimbursement. Other non-core products include business assumed from Liberty Mutual in connection with the Renewal Rights Agreement ($124.4 million), business in territories subject to the Renewal Rights Agreement written prior to November 1, 2001 ($1,230.5 million), premiums generated from NFU ($171.9 million), national programs and national accounts and certain other insurance products in run-off ($168.7 million).

New York Automobile Insurance Plan ("NYAIP")

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 ago. 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.

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 for their market share of voluntary premiums written two years ago. In connection with the Acquisition, White Mountains estimated the cost of discharging its obligations associated with NYAIP assignments resulting from voluntary business written by OneBeacon in the two-year period prior to the Acquisition and recorded a liability of $110.0 million. Management will periodically review and adjust this liability in accordance with accounting principles generally accepted in the United States ("GAAP") as circumstances change within the New York automobile insurance marketplace.

AutoOne. In the last few years, the number of individuals requiring NYAIP assignments and LAD fees have both increased significantly. In order to mitigate its own exposure to the cost of future NYAIP assignments and to take advantage of rapidly rising LAD servicing fees, in October of 2001 OneBeacon established its wholly-owned subsidiary, General Assurance Company ("GAC"), to act as a LAD servicing carrier. This company, which does business as "AutoOne", has written 17 LAD contracts that are expected to result in approximately $100 million of assigned written premium and approximately $118 million of LAD fees in 2002. OneBeacon believes that AutoOne's current business strategy will enable it to capitalize on the significant demands for LAD services resulting from increased NYAIP assignments and improve the results of OneBeacon's overall New York automobile business by reducing its cost of obtaining LAD services. AutoOne is operated as a separate division of OneBeacon.

LAD servicing contracts between AutoOne and other insurers are for a period of one year. Once an assigned risk policy has been written, AutoOne is obligated to provide insurance for two more years unless the insured departs from the NYAIP, regardless of whether the LAD contract is renewed. This risk can be somewhat mitigated through (i) renewal of the LAD contract in the subsequent year; (ii) through "disengagement" fees due to AutoOne upon non-renewal of the LAD servicing contract; and (iii) through utilization of various credits offered by New York to those insurers who voluntarily provide coverage to individuals in the NYAIP. To the extent that assigned risk rates are increased by New York, the resulting additional premium, along with the LAD fee, provides for a significant profit opportunity.

OneBeacon Professional Partners

In February 2002, OneBeacon announced that it is entering the directors and officers ("D&O") and professional liability markets under the name OneBeacon Professional Partners. D&O coverage protects directors and officers against personal liability that may arise from omissions or misstatements in the course of running their business. OneBeacon's target for D&O cover will be mid-sized public and private companies outside of the technology sector. Professional liability insurance protects against liability that may result from negligence or misconduct related to business operations. OneBeacon's emphasis will be medical professional liability business for small and mid-size institutions and provider groups that require excess coverage and low limits.

OneBeacon Professional Partners' liability coverages are expected to be issued on a "claims made" basis, which means insurance that covers losses reported during the time period when a liability policy is in effect, regardless of when the event causing the claim actually occurred. OneBeacon Professional Partners operates as a separate division of OneBeacon, and is staffed with a team of experienced liability insurance professionals who recently joined OneBeacon in Avon, CT.

Geographic Concentration

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

	Year Ended December 31, 2001	
Premiums by state	actual	as adjusted (1)
New York	21%	39%
Massachusetts	13	24
New Jersey	7	13
Maine	5	10
Connecticut	3	5
Other	51	9
Total	100%	100%

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

Marketing

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

In connection with the Renewal Rights Agreement, OneBeacon reduced the number of its branch offices from 38 to 13, and its total agents from approximately 3,970 in 50 states to approximately 1,850 agents in 8 states. OneBeacon's operations are located close to its agent partners and customers throughout the Northeast.

OneBeacon's specialty businesses are located in separate locations, logistically appropriate to their target markets. International Marine Underwriters ("IMU") is headquartered in New York City and has nine branch locations located throughout the United States. Its products are distributed through a network of select agents that specialize in the ocean marine business. Agri has centralized operations in Lenexa, Kansas and distributes its products through independent agencies that focus on the farm and ranch marketplace. For both of these specialty businesses, OneBeacon leverages its knowledge about these markets to provide products and services tailored to meet customer needs.

Underwriting and Pricing

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

Following the Merger, the integration of underwriting and claims functions focused on expense savings brought about numerous changes in business practices and philosophy, as well as in processes and systems. These changes, along with a complicated conversion of policies and claims, led to weak pricing and underwriting and confused claims management and reserving. The reserve uncertainties contributed significantly to the inadequacy (as further discussed herein) of 1999 and prior year reserves, which was corrected in 2000 and 2001.

Since the Acquisition, OneBeacon has focused significant attention on pricing and underwriting. Commercial lines prices increased 16% in 2001 with further increases of 25% targeted for 2002. Personal lines pricing increased 5% with a goal of rate, reclassification and coverage actions to produce a 16% increase in 2002. In addition, OneBeacon has ceased writing policies on certain historically unprofitable product lines such as its national programs and national accounts and has reduced or eliminated writings through historically unprofitable agents. Further, as a result of the Renewal Rights Agreement, OneBeacon is focusing its efforts on improving the ongoing operations in the Northeast, where it believes historical results were closer to profit targets.

On November 1, 2001, Liberty Mutual assumed control over the underwriting and pricing of business subject to the Renewal Rights Agreement. Through the related reinsurance agreement, OneBeacon assumes approximately two-thirds and one-third of Liberty Mutual's underwriting results corresponding to renewals in the first and second years, respectively. Failure of Liberty Mutual to adequately control the renewal underwriting and pricing of the transferred business could adversely impact the financial results of OneBeacon, as well as those of Liberty Mutual, during the transitional reinsurance period.

Competition

Property and casualty insurance is highly competitive and extensively regulated by state insurance departments. It is often difficult for insurance companies to differentiate their products to consumers. The more significant competitive factors for most insurance products offered by OneBeacon are price, product terms and claims service. OneBeacon's underwriting principles and dedication to agency distribution are unlikely to make OneBeacon the "low cost" provider in most markets. OneBeacon believes that most property and casualty insurance customers value the counsel of a professional independent agent, and that its use of independent agents is a competitive advantage over direct-response writers. As a result, OneBeacon has nurtured close relationships with its agents thereby reinforcing doing business on a personal level. OneBeacon is able to offer its independent agents products with terms desired by the insureds and greater financial strength than many smaller Northeast regional carriers, and with more personalized service than larger national carriers.

Claims

Effective claims management is a critical factor in achieving satisfactory underwriting results. Additionally, claims service is the most important product differentiation that OneBeacon brings to its agents and insureds. OneBeacon's near-term staffing and systems plans will cause OneBeacon to spend more on administrative claims costs to reduce overall loss costs.

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

Pursuant to the Renewal Rights Agreement, Liberty Mutual assumed control of OneBeacon's claims offices in the regions subject to the Renewal Rights Agreement, and will service claims from OneBeacon policies written prior to November 1, 2001 in those regions. Service agreements were put in place in connection with the Renewal Rights Agreement through which Liberty Mutual has become a third party administrator ("TPA") for those claims. OneBeacon also uses TPA's for certain other claims, especially in the national accounts and national programs now in run-off. Additionally, NICO is handling the claims processing for claims ceded under the NICO Cover under a TPA agreement. OneBeacon's claims staff performs on-site claim audits of its TPA's to ensure the propriety of the controls and processes over claims serviced by the TPA on behalf of OneBeacon.

Employees

White Mountains has brought a new management team to OneBeacon to improve operating results in the short term and establish practices for sustaining acceptable underwriting results going forward. To encourage staff to evolve toward a results-oriented culture, all OneBeacon employees were awarded two Common Shares of and a new performance-based compensation program was introduced for managers and key employees. Managers now see greater emphasis on incentive compensation with payouts based on corporate and individual goal achievements. OneBeacon supports continuous learning to achieve effectiveness and flexibility and encourages its staff to think like owners and take accountability to effect change. In connection with the Renewal Rights Agreement and other actions, OneBeacon reduced its workforce from approximately 7,300 to 4,200 during the past year.

Loss and Loss Adjustment Expense Reserves

OneBeacon establishes loss and loss adjustment expense reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. Loss and loss adjustment expense reserves have two components: case reserves, which are reserves for claims that have been reported to OneBeacon, and incurred but not reported ("IBNR") reserves for claims that have occurred but not yet reported to OneBeacon. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim. OneBeacon periodically adjusts case reserves as additional information becomes known or payments are made. OneBeacon determines its IBNR reserves by considering all available information including historical patterns of paid and reported claim experience, industry data, and changes in exposures to claims by line of business, type of insurance, limits of coverage, reinsurance protections and other factors affecting the business.

The process of estimating loss and loss adjustment expense reserves involves a considerable degree of judgement by management. During the claims settlement period, which may extend over a long period of time, additional facts regarding claims and trends become known which may cause OneBeacon to adjust its estimates of the ultimate liability. Also, as noted previously, the Merger combined the claims staff of the two companies. Subsequent to the Merger, it became evident that General Accident had systematically depressed case reserves under the belief that lower case reserves lead to lower settlements. In fact, it resulted in ineffective claims management and higher costs. The more conservative, and management believes, more appropriate, Commercial Union philosophy of establishing case reserves at expected settlement amounts was adopted in 1999. This has led to significant case reserve increases which has made the estimation of IBNR reserves challenging. The challenge is compounded by the lack of reliable historical data for much of the claims converted from legacy General Accident systems. Management is working diligently to reconstruct such data. In 2001, adjusters were asked to review all large cases and attest to the case reserve adequacy. As a result of this process, overall reserves have been increased significantly and the GRC Cover has been exhausted. Management is reasonably confident that known cases can be ultimately settled within established reserves. However, as a result of the factors noted above, actual loss and loss adjustment expenses may deviate, perhaps substantially, from estimates reflected in White Mountains' consolidated financial statements. Changes to prior year reserves are booked in the current accounting period.

The following table presents the development of OneBeacon's year-end property and casualty losses for the ten-year period from 1991 to 2001. Section I of the table shows the gross and net (of reinsurance) estimated liabilities that were recorded at the end of each of the indicated years for all current and prior year unpaid loss and loss adjustment expenses. Section II shows the re-estimate of the net liabilities made in each succeeding year. Section III shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from the original balance sheet dates. Section IV shows the cumulative net liabilities paid of such previously recorded liabilities.

	OneBeacon Loss and Loss Adjustment Expenses[1] Years Ended December 31,										
Dollars in Millions	1991[2]	1992	1993	1994	1995	1996	1997	1998[3]	1999	2000	2001
I. Liability for unpaid losses and LAE: Gross balance	$ —	$ 5,652.8	$ 5,562.5	$ 5,535.4	$ 5,844.4	$ 5,804.4	$ 5,655.9	$ 6,944.0	$ 6,368.8	$ 6,982.7	$ 8,425.2
Less: reins. recoverables on unpaid losses and LAE	—	(1,392.6)	(1,191.6)	(1,069.8)	(1,307.4)	(1,260.4)	(1,159.2)	(1,651.9)	(1,285.6)	(1,276.4)	(3,609.7)
Net balance	$ 3,638.2	$ 4,260.2	$ 4,370.9	$ 4,465.6	$ 4,537.0	$ 4,544.0	$ 4,496.7	$ 5,292.1	$ 5,083.2	$ 5,706.3	$ 4,815.5
II. Net liability re-estimated as of:											
1 year later	3,782.7	4,365.9	4,411.5	4,494.1	4,584.7	4,627.8	5,370.1	5,305.3	5,893.6	4,815.8	
2 years later	3,904.4	4,413.4	4,450.3	4,552.1	4,667.1	5,476.0	5,424.7	5,985.4	5,013.5		
3 years later	3,992.2	4,510.5	4,501.0	4,642.8	5,460.6	5,549.0	5,965.0	5,002.8			
4 years later	4,147.5	4,610.3	4,602.8	5,406.5	5,510.6	5,924.8	4,980.5				
5 years later	4,257.6	4,705.8	5,353.2	5,431.8	5,779.5	4,948.0					
6 years later	4,356.3	5,446.4	5,353.5	5,632.0	4,794.7						
7 years later	5,093.6	5,439.2	5,523.8	4,658.7							
8 years later	5,080.7	5,587.1	4,569.2								
9 years later	5,217.2	4,638.5									
10 years later	4,276.0										
III. Cumulative net (deficiency)/ redundancy	$ (637.8)	$ (378.3)	$ (198.3)	$ (193.1)	$ (257.7)	$ (404.0)	$ (483.8)	$ 289.3	$ 69.7	$ 890.5	$ —
Percent (deficient)/ redundant	(17.5)%	(8.9)%	(4.5)%	(4.3)%	(5.7)%	(8.9)%	(10.8)%	5.5 %	1.4 %	15.6 %	— %
IV. Cumulative net amount of liability paid through:											
1 year later	1,075.7	1,461.0	1,367.3	1,390.1	1,476.6	1,591.9	1,687.3	1,815.2	1,966.5	2,007.9	
2 years later	1,928.3	2,254.8	2,152.5	2,240.8	2,372.6	2,621.3	2,735.4	2,954.8	3,136.2		
3 years later	2,438.5	2,761.5	2,711.5	2,821.9	3,083.3	3,331.1	3,518.0	3,709.2			
4 years later	2,734.0	3,135.8	3,089.5	3,328.3	3,571.3	3,872.2	4,044.0				
5 years later	2,994.5	3,394.6	3,464.3	3,672.7	3,961.5	4,233.4					
6 years later	3,182.3	3,693.0	3,720.2	3,978.3	4,225.4						
7 years later	3,434.1	3,882.1	3,979.3	4,186.9							
8 years later	3,591.6	4,122.9	4,159.7								
9 years later	3,813.0	4,283.2									
10 years later	3,959.9										

(1) In 1998, OneBeacon was formed as a result of a pooling of interests between Commercial Union and General Accident. All historical balances have been restated as though the companies had been merged throughout the periods presented.
(2) For 1991 liabilities are shown net of reinsurance recoverables, as was the accounting practice prior to the implementation of Statement of Financial Accounting Standard ("SFAS") No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts".
(3) In 1998, OneBeacon acquired HG and NFU. All liabilities related to these entities have been shown from the acquisition date forward in this table.

The cumulative net (deficiency)/redundancy in the table above reflects reinsurance recoverables recorded in connection with the Acquisition under the NICO Cover. This cover applies to losses incurred in 2000 and prior years. As a result, it has the effect of significantly increasing OneBeacon's reinsurance recoverables in 2001 and reducing its reserve deficiency for each of the years presented prior to the Acquisition, by the amount of the reserves ceded at the time their cover was purchased. See "Asbestos and Environmental Liabilities" for a discussion of the impact of this reinsurance contract on OneBeacon's net loss and loss adjustment expense reserve position. The table presented below represents OneBeacon's cumulative net deficiency without regard to the NICO Cover.

	Year Ended December 31,										
($ in millions)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Cumulative net deficiency	(1,592.9)	(1,333.4)	(1,153.4)	(1,148.2)	(1,212.8)	(1,359.1)	(1,438.9)	(665.8)	(885.4)	(64.6)	-
Percent deficient	(43.8%)	(31.3%)	(26.4%)	(25.7%)	(26.7%)	(29.9%)	(32.0%)	(12.6%)	(17.4%)	(1.1%)	-

Asbestos and Environmental Liabilities

OneBeacon estimates its asbestos and environmental loss and loss adjustment expense liabilities based upon several factors, including 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.

Immediately prior to the Acquisition, CGNU 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 for 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, all net of other third party reinsurance recoveries. The NICO Cover, which was contingent on, and occurred contemporaneously with the Acquisition, qualifies for prospective reinsurance accounting treatment under the Emerging Issues Task Force Technical Matter Document No. D-54 ("EITF Topic D-54") which characterizes the protection as an indemnification by the seller for increases in the liabilities for losses and loss adjustment expenses that existed at the acquisition date.

Under the terms of the NICO Cover, in addition to the reinsurance premium, NICO received the benefit of reinsurance recoverables from certain of OneBeacon's third party reinsurers in existence at the time the NICO Cover was executed. Collections received from third party reinsurance on the claims covered by the NICO Cover serve to protect the $2.5 billion limit of NICO coverage for OneBeacon's benefit.

During the fourth quarter of 2001, OneBeacon increased its estimate of gross asbestos and environmental loss reserves to more conservatively reflect the ultimate cost of settling these exposures. As a result of the NICO Cover, there was no change in the net reserve balance. OneBeacon estimates that it has exhausted approximately $1,771 million of the $2.5 billion coverage provided by the NICO Cover at December 31, 2001. To the extent OneBeacon's estimate of ultimate asbestos and environmental losses and NICO's third-party recoverables differs from actual experience, the amount of coverage remaining under the NICO Cover could be higher or lower than $729 million. OneBeacon believes that as a result the NICO Cover and the reserve increase, OneBeacon should not experience financial loss from old asbestos and environmental exposures under current coverage interpretations and has a survival ratio in-line with industry survival ratios. A survival ratio is a company's reserves divided by its historical yearly loss payments for such claims. This ratio measures how many more years of payments the reserves can support, assuming future yearly payments are equal to historical yearly payments. OneBeacon's survival ratio for gross asbestos and environmental reserves, based on its average loss payments for the last three years, was approximately 7.7 at December 31, 2001. The Company's reserves for asbestos and environmental losses at December 31, 2001 represent management's best estimate of the Company's ultimate liability based on information currently available. However, as case law expands, OneBeacon may be subject to asbestos and environmental losses beyond amounts intended by policy coverage. Loss reserve additions arising from any such future unfavorable case law interpretations cannot be reasonably estimated at the present time.

Construction Defect and Mold Claims

Construction defect claims are claims that arise from coverage provided by general liability insurance. Construction defect claims typically arise from alleged defective work performed by contractors and subcontractors in the construction of apartments, condominiums and large developments of single family dwellings. In addition to damages arising directly from the alleged defective work, construction defect claims often allege that the economic value of the structure has been diminished. Mold claims are claims that arise from general liability insurance and homeowners insurance. The existence of certain airborne mold spores, resulting from moisture trapped in confined areas, has been alleged to cause severe health and environmental hazards. OneBeacon has sought to limit its potential future exposure to construction defect and mold claims by including exclusionary language in its insurance policies or ceasing to write business in jurisdictions where the exposure to such claims is large. As a result, OneBeacon believes that its reserves for such liabilities are adequate. However, as case law expands, OneBeacon may be subject to construction defect and mold loss and loss adjustment expense liabilities beyond those intended by policy coverage. OneBeacon believes that it is unlikely that any such liabilities would have a material adverse effect on its financial condition or its cash flows.

Reinsurance Protection

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

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could potentially 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 total amount of insured exposure in an area affected by the event and the severity of the event.

OneBeacon continually assesses and develops strategies 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) and through the purchase of catastrophe reinsurance. OneBeacon has entered into a property catastrophe reinsurance program for the 2002 calendar year through a group of reinsurers, with a $125.0 million retention for losses resulting from any single catastrophe. Property catastrophe losses from a single event in excess of $125.0 million and up to $200.0 million are reinsured for 75% of the loss. Property catastrophe losses from a single event in excess of $200.0 million and up to $750.0 million are reinsured for 95% of the loss. Although the $750.0 million reinsurance limit exceeds OneBeacon's expected maximum loss from a one in 250 year Northeast windstorm, which management considers to be the largest single catastrophe risk based on the coverage and geographic location of its insureds, the nature of storm activity and destruction can not be estimated with certainty. OneBeacon's 2002 catastrophe reinsurance program has a reinstatement provision whereby, in the event of one loss, the coverage used can be reinstated for an additional premium. OneBeacon also purchases reinsurance coverage for certain specific risks below $125.0 million, on either a facultative or treaty basis, where appropriate.

In connection with the Acquisition, OneBeacon obtained the GRC Cover which provides for $570.0 million of reinsurance protection consisting of $400.0 million of adverse development coverage on losses occurring in years 2000 and prior, and $170.0 million on losses incurred as of the date of the Acquisition. The GRC Cover, which was contingent on, and occurred contemporaneously with the Acquisition, qualifies for prospective reinsurance accounting treatment under EITF Topic D-54 which characterizes the protection as an indemnification by the seller for increases in the liabilities for losses and loss adjustment expenses that existed at the acquisition date. During the fourth quarter of 2001, OneBeacon increased losses and loss adjustment expense reserves for years 1999 and prior in the workers compensation, general liability, commercial multi-peril and personal and commercial automobile lines of business. These actions exhausted the remaining protection under the GRC Cover and resulted in a $50.0 million pretax charge in the 2001 fourth quarter to loss and loss adjustment expense.

At December 31, 2001, OneBeacon had $106.3 million of reinsurance currently recoverable on paid losses and $3,609.7 million that will become recoverable if claims are paid in accordance with current loss reserves estimates. Reinsurance recoverables from Berkshire Hathaway, Inc. ("Berkshire") (NICO and GRC's ultimate parent) under the NICO Cover and the GRC Cover together represented 62.0% of White Mountains' total reinsurance recoverables at December 31, 2001. Because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders, the financial position and solvency of OneBeacon's reinsurers is critical to the collectibility of its reinsurance coverages. 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.

Terrorism

As a result of the terrorist attacks of September 11, 2001 (the "Attacks"), OneBeacon incurred approximately $105.0 million of pretax net losses on gross losses of approximately $248.0 million in the third quarter of 2001. A significant portion of the gross loss resulted from damage to property in the vicinity of the World Trade Center. Our customer with the largest loss value has reopened for business.

The Attacks have had a profound impact on the United States property and casualty insurance marketplace. Prior to the Attacks, most United States insurance companies had not explicitly contemplated the risk of substantive terrorist attacks when underwriting their policies. In light of the Attacks, OneBeacon and other property and casualty insurance companies have sought to mitigate the risk associated with any future terrorist attacks by seeking to exclude coverage for such losses from their policies.

Nearly all states (New York and California are two major exceptions) have approved or conditionally approved a clause in commercial lines policies which excludes coverage for most losses resulting from biological, chemical or nuclear terrorist attacks. This clause also excludes coverage for commercial property losses resulting from all other types of terrorist attacks exceeding $25 million and excludes coverage for commercial liability losses if the terrorist event involves the death or serious injury of 50 or more people. In 29 states, however, the terrorist exclusion clause does not apply to losses on commercial property arising from fire subsequent to a terrorist attack. Workers compensation insurance and automobile insurance coverages do not currently contain terrorist exclusion clauses.

OneBeacon's 2002 property catastrophe reinsurance program does not cover personal or commercial property losses resulting from nuclear, biological or chemical terrorist attacks and its property catastrophe program only covers 30% of commercial property losses resulting from other types of terrorist attacks from $125.0 million to $650.0 million and 95% of such losses from $650 million to $750 million. Therefore, OneBeacon is exposed to the extent exclusion clauses for such losses are not obtained in the direct policies it writes.

OneBeacon closely monitors its concentration of risk by geographic area and primarily writes small commercial and personal lines business, which are unlikely to be direct targets of terrorism. As a result, OneBeacon believes its exposure to losses from future terrorist attacks to be limited. Nonetheless, risks insured by OneBeacon remain exposed to future terrorist attacks and the possibility remains that any future terrorist losses could prove to be material to the Company's financial position and/or its cash flows.

In the months following the Attacks, legislative proposals calling for the United States government to assume losses arising from future terrorist attacks over a certain limit have been discussed in Congress but no proposals have been enacted. White Mountains strongly supports the enactment of responsible legislation.

FOLKSAMERICA

Folksamerica, through its wholly owned subsidiary, Folksamerica Reinsurance Company (a New York-domiciled reinsurance company), is a multi-line broker-market reinsurer which provides reinsurance to insurers of property and casualty and accident and health risks in the United States, Canada, Continental Europe (in 2002), Latin America and the Caribbean. Folksamerica became a consolidated subsidiary of the Company during 1998. Folksamerica Reinsurance Company is rated "A-" (Excellent) by A.M. Best. During the 2000 fourth quarter and the 2001 second quarter, certain insurance operating subsidiaries of White Mountains were contributed to Folksamerica. These operations, which are described separately under "Other Insurance and Reinsurance Operations of Folksamerica", are excluded from the following discussion of Folksamerica unless otherwise noted.

In December 2001 Folksamerica received a $400.0 million capital contribution from OneBeacon, in the form of cash, which was provided to increase Folksamerica's capacity to capitalize on improved pricing trends which accelerated after the Attacks. As a result, Folksamerica is now among the largest United States-domiciled property and casualty reinsurers as measured by statutory surplus. At December 31, 2001, Folksamerica had total assets of $3.2 billion and shareholder's equity of $910.5 million.

Folksamerica commenced writing business in 1980 as one of a host of newly formed, foreign-owned reinsurers capitalized with minimal surplus. In 1991, recognizing that surplus size would become an increasingly important business issue, Folksamerica launched an aggressive strategy to increase its resources and capacity through the acquisition of select broker-market reinsurance and property and casualty insurance companies.

Since 1991, Folksamerica has acquired several other reinsurers which has served to raise Folksamerica's surplus and asset base, broaden its skill set and contribute a number of important business relationships.

Folksamerica's acquisition strategy is to seek fundamentally sound companies whose owners are no longer committed to the business. In these cases, the owner's lack of interest in the operations available for sale have had more to do with difficulties experienced by the owner in its core business than problems with the operations being sold. Folksamerica's more recent acquisitions included USF Re Insurance Co. ("USF Re") in 1999, PCA Property & Casualty Insurance Company ("PCA") in 2000, substantially all the reinsurance operations of Risk Capital Reinsurance Company (the "Risk Capital Operations") in 2000 and C-F Insurance Company ("C-F") in 2001. Folksamerica will continue to seek additional insurance and reinsurance acquisitions in the future.

Reinsurance Overview

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

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

Folksamerica writes both treaty and facultative reinsurance. Treaty reinsurance is an agreement whereby the reinsurer assumes a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of the agreement, usually one year. In the underwriting of treaty reinsurance, the reinsurer does not evaluate each individual risk and generally accepts the original underwriting decisions made by the ceding insurer. Folksamerica performs a comprehensive review of the underwriting, pricing, claims handling and general business controls of all potential treaty clients prior to quoting on such arrangements. Facultative reinsurance is underwritten on a risk-by-risk basis, which allows the reinsurer to apply its own pricing to an individual exposure. Facultative reinsurance is normally purchased by insurance companies for individual risks not covered under reinsurance treaties or for amounts in excess of limits on risks covered under reinsurance treaties. The majority of Folksamerica's premiums are derived from treaty reinsurance contracts both on an excess of loss and quota share basis, which in 2001 amounted to 37.3% and 55.5% of its total gross earned premiums, respectively.

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

New Affiliations

Olympus Reinsurance Ltd. ("Olympus"). In December 2001 Folksamerica negotiated a quota share retrocessional arrangement with Olympus which is designed to increase Folksamerica's capacity to capitalize on the enhanced reinsurance fundamentals during 2002 and beyond. Folksamerica anticipates writing additional property excess of loss business in the future as a result of increasing prices and improving conditions. Under the quota share treaty with Olympus, effective January 1, 2002, Folksamerica will cede 75% of its short-tailed excess of loss business, mainly property and marine, to Olympus. Folksamerica receives an override commission on premiums ceded to Olympus and expects such fees to be significant. Olympus is a Bermuda-domiciled insurance and reinsurance company that was recently formed with an initial capitalization of more than $500.0 million to respond to the current favorable underwriting and pricing environment in the reinsurance industry. White Mountains does not have an ownership stake in Olympus.

White Mountains Underwriting Limited ("WMU"). In December 2001, the Company formed WMU, an underwriting management company domiciled in Ireland. WMU, a wholly owned subsidiary of the Company, is expected to expand Folksamerica's access to international property excess of loss reinsurance business and will provide professional insurance services to both Folksamerica and Olympus. WMU receives management fees and a profit commission on business placed with Folksamerica and Olympus; such fees are expected to be significant.

Classes of Business

Business Classes. Folksamerica writes three main classes of reinsurance: liability reinsurance, property reinsurance and accident and health reinsurance, which for the year ended December 31, 2001 represented 68%, 20% and 6% of its net written premiums, respectively.

Folksamerica's net written premiums by line of business for the years ended December 31, 2001, 2000 and 1999 were as follows:

	Year Ended December 31,		
Business class ($ in millions)	**2001**	2000	1999
Liability	**$ 310.6**	$ 208.4	$ 122.6
Property	**93.5**	91.6	68.9
Accident and Health	**25.1**	26.4	–
Other	**29.7**	6.2	10.2
Total	**$ 458.9**	$ 332.6	$ 201.7

Geographic Concentration

Folksamerica's net written premiums by geographic region for the years ended December 31, 2001, 2000 and 1999 were as follows:

	Year Ended December 31,		
Geographic region ($ in millions)	**2001**	2000	1999
United States	**$ 408.3**	$ 296.7	$ 172.2
Canada	**26.6**	21.6	21.0
Latin America and the Caribbean	**24.0**	14.3	8.5
Total	**$ 458.9**	$ 332.6	$ 201.7

Marketing

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

Folksamerica generally pays ceding companies a ceding commission under quota share reinsurance treaties. The ceding commission is generally based on the ceding company's cost of acquiring the business being reinsured (commissions, premium taxes and certain miscellaneous expenses). During the years ended December 31, 2001 and 2000, Folksamerica received no more than 10% of its gross reinsurance premiums from any individual ceding company. Additionally, Folksamerica pays reinsurance brokers' commissions based on negotiated percentages of the premium it writes. These commissions, which average approximately 5% of premium, constitute a significant portion of Folksamerica's total acquisition costs and are included in its underwriting expenses. During the years ended December 31, 2001 and 2000, Folksamerica received approximately 54.4% and 56.4%, respectively, of its gross reinsurance premiums written from three major reinsurance brokers as follows: (1) AON Re, Inc. - 21.3% and 17.2%, respectively; (2) Benfield Blanch - 17.2% and 21.6%, respectively; and (3) Guy Carpenter - 15.9% and 17.6%, respectively.

Underwriting and Pricing

Folksamerica's underwriters and pricing actuaries evaluate each underwriting submission in order to determine price. Folksamerica prices its products by assessing the desired return on the capital needed to write a given contract and by estimating future loss and loss adjustment expenses and investment income to be earned on net cash flow from the contract. Folksamerica will only accept contracts with a high likelihood of generating acceptable returns on equity. Folksamerica's pricing indications are based on a number of underwriting factors including historical results, analysis of exposure and estimates of future loss costs, a review of other programs displaying similar exposure characteristics, the primary insurer's underwriting and claims experience and the primary insurer's financial condition. Folksamerica's underwriters perform regular underwriting audits to monitor the ceding company's pricing discipline. Such reviews provide important input to support renewal discussions.

Folksamerica and other reinsurance companies have sought to mitigate the risk associated with future terrorist attacks in a similar manner as direct insurers. Since the Attacks, reinsurers have attained significant price increases across all lines of reinsurance in response to greater perceived policy exposures. Regulations regarding permitted policy exclusions applicable to reinsurance contracts are often less stringent than those imposed upon direct insurers. As a result, exclusions are more often dictated by the marketplace than by regulation. Folksamerica's reinsurance contracts on commercial risks written subsequent to the Attacks contain clauses which exclude terrorist exposure. Reinsurance contracts on personal risks written subsequent to the Attacks do not contain such exclusions.

Competition

In general, poor market conditions for primary companies in recent years have caused insurers to reduce their own premium writings or restructure their reinsurance programs, thereby reducing the amount of reinsurance they purchase. As a result of consolidation within the industry, many ceding companies are now larger and financially stronger, thereby enabling them to retain more risk. In addition, increasingly intense competition in the reinsurance markets, primarily as a result of excess industry capital, has historically driven reinsurance prices on many programs below levels which Folksamerica will accept. The significant insured losses resulting from the Attacks have reduced the capacity of several reinsurers resulting in marked improvements in reinsurance pricing, terms and conditions. However, due to recent capital raising activities by several Bermuda-based and other reinsurers, there is no

assurance that such improved conditions will continue over an extended period. Folksamerica's management believes that the reinsurance industry, including the intermediary market, will continue to undergo further consolidation. Management further believes that size and financial strength will become increasingly important factors in selecting reliable reinsurance partners, particularly in light of the weakening of several reinsurers in the wake of the Attacks.

Claims

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

Loss and Loss Adjustment Expense Reserves

Folksamerica establishes loss and loss adjustment expense reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. Loss and loss adjustment expense reserves have two components: case reserves and IBNR reserves. Reserve estimates reflect the judgement of both the ceding company and Folksamerica, based on the experience and knowledge of their respective claims personnel, regarding the nature and value of the claim. The ceding company may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made. Upon notification of a loss from a ceding company, Folksamerica establishes case reserves, including loss adjustment expense reserves, based upon Folksamerica's share of the amount of reserves established by the ceding company and Folksamerica's independent evaluation of the loss. In cases where available information indicates that reserves established by the ceding company are inadequate, Folksamerica establishes case reserves in excess of its share of the reserves established by the ceding company.

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

The process of estimating loss and loss adjustment expense reserves involves a considerable degree of judgement by management. During the claims settlement period, which may extend over a long period of time, additional facts regarding claims and trends may become evident which may cause Folksamerica to adjust its estimates of the ultimate liability. As a result, actual loss and loss adjustment expenses may deviate, perhaps substantially, from estimates reflected in the Company's consolidated financial statements. Changes to prior year reserves are booked in the current accounting period.

The following table presents the subsequent development of the year-end loss reserves of Folksamerica and its subsidiaries for the ten-year period from 1991 to 2001. Section I of the table shows the gross and net (of reinsurance) estimated liabilities that were recorded at the end of each of the indicated years for all current and prior year unpaid loss and loss adjustment expenses. Section II shows the re-estimate of the net liabilities made in each succeeding year. Section III shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from the original balance sheet dates. Section IV shows the cumulative net liabilities paid of such previously recorded liabilities.

	Folksamerica's Loss and Loss Adjustment Expenses [1], [2], [3] Years Ended December 31,										
Dollars	1991 [4]	1992 [4]	1993 [4]	1994 [4]	1995 [4]	1996 [4]	1997 [4]	1998	1999	2000	2001
I. Liability for unpaid losses and LAE:											
Gross balance	$ –	$ 758.3	$ 798.4	$ 856.2	$ 981.5	$1,578.7	$1,461.3	$1,437.6	$1,273.1	$1,556.3	$1,644.5
Less: reins. recoverables on unpaid losses and LAE	–	(172.0)	(154.4)	(182.4)	(201.0)	(390.2)	(352.0)	(398.0)	(351.1)	(724.2)	(896.6)
Net balance	$ 506.3	$ 586.3	$ 644.0	$ 673.8	$ 780.5	$1,188.5	$1,109.3	$1,039.6	$ 922.0	$ 832.1	$ 747.9
II. Net liability re-estimated as of:											
1 year later	543.4	601.5	672.5	701.8	834.1	1,222.6	1,125.5	1,036.0	950.8	846.4	–
2 years later	542.9	626.0	706.0	748.6	855.4	1,224.6	1,108.5	1,047.8	962.5		
3 years later	567.6	653.2	746.3	763.7	862.7	1,206.4	1,114.5	1,032.3			
4 years later	589.2	680.7	761.3	767.0	874.9	1,214.2	1,088.7				
5 years later	610.2	694.8	764.1	778.8	874.2	1,188.9					
6 years later	623.0	699.6	772.8	779.2	844.9						
7 years later	630.6	706.5	774.2	755.9							
8 years later	637.1	709.1	756.3								
9 years later	635.7	696.8									
10 years later	626.3										
III. Cumulative net (deficiency)/redundancy	$ (120.0)	$ (110.5)	$ (112.3)	$ (82.1)	$ (64.4)	$ (0.4)	$ 20.6	$ 7.3	$ (40.5)	$ (14.3)	$ –
Percent (deficient)/ redundant	(23.7)%	(18.8)%	(17.4)%	(12.2)%	(8.3)%	– %	1.9 %	.7 %	(4.4) %	(1.7)%	– %
IV. Cumulative net amount of liability paid through:											
1 year later	136.7	165.1	219.8	201.9	225.5	322.6	277.5	291.4	111.1	380.9	–
2 years later	202.6	289.8	337.3	323.4	363.6	506.7	472.0	390.6	364.0		
3 years later	290.9	366.2	418.2	412.8	457.0	656.6	582.4	552.9			
4 years later	343.4	423.9	481.2	474.3	542.8	774.0	680.9				
5 years later	382.1	467.9	521.4	530.8	608.2	843.1					
6 years later	415.8	495.2	565.8	572.7	644.1						
7 years later	439.1	530.6	596.3	598.3							
8 years later	468.7	554.6	618.2								
9 years later	488.4	572.2									
10 years later	503.9										

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

(2) The table excludes Fund American Reinsurance Company Ltd. whose liability for unpaid losses and LAE totalled $25.8 million as of December 31, 2001.

(3) For 1991 liabilities are shown net of reinsurance recoverables on paid and unpaid losses and LAE, as was the accounting practice prior to the implementation of SFAS 113.

(4) Folksamerica became a consolidated subsidiary of the Company during 1998. Reserve development for the years ended 1991 through 1997 reflects development on reserves established before the Company consolidated Folksamerica's results.

Reinsurance Protection

Folksamerica has exposure to losses caused by hurricanes, earthquakes, winter storms, windstorms, terrorist acts and other catastrophic events. In the normal course of business, Folksamerica seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance and reinsurance enterprises and by closely monitoring aggregate property exposures and related probable maximum losses ("PML", which is a model-based estimate of the maximum dollar amount that can be lost if a catastrophe occurs). To manage and analyze aggregate exposures and PML, Folksamerica utilizes a variety of tools and analyses, including catastrophe modeling software packages. Folksamerica's catastrophe management strategy is to limit its PML to less than 10% of surplus for a 1 in 250 year event. Folksamerica continually 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 the purchase of catastrophe reinsurance. Folksamerica's current catastrophe protection program includes 85% of $35.0 million of protection in excess of a $25.0 million retention for the first loss and additional coverage for a second loss. The current program also includes coverage of $10.0 million in excess of a $5.0 million retention for

Folksamerica's proportional property portfolio. Both of the above contracts are 100% placed with a single, top quality reinsurer, and have reinstatement provisions whereby, in the event of one loss, the coverage is reinstated for additional premium.

Folksamerica recorded gross and net of reinsurance losses from the Attacks of approximately $104.0 million and $25.0 million, respectively, during 2001. Folksamerica has evaluated each of its significant reinsurers and believes its provision for uncollectible reinsurance, with respect to reinsurance relating to the Attacks and otherwise, to be adequate.

Other Insurance and Reinsurance Operations of Folksamerica

In October 1999 White Mountains completed its acquisition of International American Group ("IAG"), a collection of insurance companies, for $86.7 million in cash. White Mountains acquired Peninsula Insurance Company ("PIC"), American Centennial Insurance Company ("ACIC") and British Insurance Company of Cayman ("BICC") through its acquisition of IAG, all of which were owned by Folksamerica at December 31, 2001.

PIC. PIC, which was established in 1960, is a Maryland-domiciled property and casualty insurer which writes both personal and commercial lines, primarily private passenger auto, homeowners, commercial auto and commercial multi-peril. Most of PIC's insurance products are sold in Maryland, Delaware and Virginia. PIC is rated "A" (Excellent) by A.M. Best. PIC markets insurance products principally through independent agents. PIC's primary business focus is to establish strong long-term relationships with its agents and insured customers by focusing on providing quality insurance products to families and small private businesses. PIC pays their independent agents commissions representing negotiated percentages of the premium they write. These commissions, which currently range from 5.0% to 20.0% of premium, depending on the line of business, constitute a significant portion of total acquisition costs and are included in underwriting expenses. At December 31, 2001 and 2000, and the years then ended, PIC had $55.9 million and $56.3 million of total assets, $28.3 million and $22.7 million in net written premiums and $22.5 million and $23.7 million of shareholder's equity, respectively.

ACIC and BICC. ACIC and BICC are Delaware-domiciled and Cayman Island-domiciled, respectively, property and casualty insurance companies in run-off. At December 31, 2001 and 2000, ACIC had $66.2 million and $66.0 million of total assets and $37.0 million and $43.9 million of shareholder's equity, respectively. At December 31, 2001 and 2000, BICC had $22.4 million and $22.1 million of total assets and $4.4 million and $4.5 million of shareholder's equity, respectively.

Esurance, Inc. ("Esurance"). Esurance, which was established in 1998, is a personal lines property and casualty insurance provider that currently sells personal auto insurance in 27 states. Esurance leverages technology to remove excess costs from the marketing, sales and servicing of personal lines insurance products. Esurance focuses on the Internet as its main sales and service channel, while maintaining its customer service center on a 24/7 basis. In October 2000, Folksamerica purchased an 80% majority interest in Esurance for $9.0 million. During the fourth quarter of 2001, Folksamerica purchased the remaining 20% minority interest in Esurance for $1.5 million, thereby making Esurance a wholly owned subsidiary as of December 31, 2001. At and for the year ended December 31, 2001, Esurance had total assets of $9.6 million, total revenues of $3.2 million and an accumulated shareholder's deficit of $16.1 million.

FUND AMERICAN REINSURANCE COMPANY LTD. ("Fund American Re)

On December 20, 2001, Fund American Re, a subsidiary of the Company, acquired substantially all of the international reinsurance operations of the Folksam Group ("Folksam") of Stockholm, Sweden. With this acquisition, White Mountains has begun the formation and growth of its internationally-based reinsurance operations. Fund American Re is commercially domiciled in Bermuda but maintains its executive office and an operating branch in Stockholm, Sweden, and operates through an additional branch in Singapore. Gross annual premium volume for the acquired operations averaged $170.0 million during the preceding three-year period. The $64.0 million purchase price was paid in a combination of cash, a note and Common Shares. Folksamerica will provide reinsurance support for this international expansion. At December 31, 2001, Fund American Re had $126.3 million of total assets and $63.9 million of shareholder's equity. Due to the timing of the formation of Fund American Re and the related Folksam acquisition, Fund American Re's results of operations for 2001 were not material.

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.

Montpelier Re Holdings Ltd. ("Montpelier")

In December 2001 White Mountains, the Benfield Group plc and several other private investors established Montpelier and its wholly owned subsidiary Montpelier Reinsurance Ltd. ("Montpelier Re"). Montpelier Re is a Bermuda-domiciled insurance and reinsurance company which was formed to respond to the current favorable underwriting and pricing environment in the reinsurance industry. Montpelier Re will initially focus on property reinsurance business and had an initial capitalization of more than $1.0 billion, consisting of $874.0 million of common equity and $150.0 million of bank debt. OneBeacon invested $180.0 million in Montpelier consisting of 1,800,000 common shares valued at $100 per share and the Company received warrants to acquire an additional 797,088 common shares at $100 per share over the next ten years for its efforts in forming Montpelier. Three of White Mountains' directors serve on Montpelier's eleven member board of directors, including John J. Byrne, Chairman and Chief Executive Officer of the Company who serves as Montpelier's non-executive Chairman. White Mountains owns approximately 21% of the outstanding common shares of Montpelier, or approximately 27% on a fully-converted basis, and accounts for this investment using the equity method.

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

MSA is a subsidiary of National Grange Mutual Insurance Company ("NGM"), a New Hampshire-domiciled property and casualty insurance company, which insures risks located primarily in New York, Massachusetts, Connecticut, Pennsylvania, New Hampshire, Virginia and Florida. NGM's principal lines of business and approximate percentage of total direct written premiums are personal automobile (41%), commercial multi-peril (20%), homeowners (13%) and commercial automobile (15%). MSA, through its subsidiaries, participates in 60% of NGM's property and casualty business through a quota share reinsurance agreement. MSA's net written premiums totalled $306.8 million, $265.4 million and $242.7 million in 2001, 2000 and 1999, respectively, and its net income was $6.8 million, $3.8 million and $25.8 million, respectively. MSA's total assets as of December 31, 2001 and 2000 were $653.8 million and $608.7 million, respectively, and its shareholders' equity was $262.3 million and $253.8 million, respectively. White Mountains owns 50% of the outstanding common stock of MSA and its investment in MSA was $133.7 million and $130.6 million at December 31, 2001 and December 31, 2000, respectively.

FORMER OPERATIONS

Financial Security Assurance Holdings Ltd. ("FSA")

FSA guarantees scheduled payments of principal and interest on municipal bonds and asset-backed securities, including residential mortgage-backed securities.

On July 5, 2000 White Mountains concluded the sale of its indirect, wholly owned subsidiary, White Mountains Holdings, Inc. (which controlled a substantial amount of its holdings of FSA) and all its other holdings of the common stock of FSA ("FSA Common Stock") to Dexia S.A. for proceeds of $620.4 million (the "Dexia Sale") which resulted in a pretax gain of $391.2 million.

From 1994 to 1999 White Mountains purchased 4,382,709 shares of FSA Common Stock in a series of public and private transactions. During 1999, White Mountains exercised various fixed price options ("FSA Options") which provided White Mountains with 2,560,607 additional shares of FSA Common Stock. White Mountains also held shares of convertible preferred stock ("FSA Preferred Stock") which gave White Mountains the right to acquire up to 2,000,000 additional shares of FSA Common Stock.

Prior to the Dexia Sale, White Mountains' accounted for its investment in FSA Common Stock using the equity method. White Mountains' accounted for its investment in FSA Preferred Stock and FSA Options under the provisions of SFAS No. 115 whereby the investment was reported at fair value as of the balance sheet date, with related unrealized investment gains and losses, after tax, reported as a net amount in a separate component of common shareholders' equity and reported on the income statement as a component of other comprehensive net income.

Waterford Insurance Company ("Waterford")

Waterford is a small Kansas-domiciled property and casualty insurance company that was purchased by White Mountains in 1996. Waterford was sold to a third party on January 5, 2001 for cash proceeds of $23.6 million (net of transaction related expenses), which resulted in a pretax gain of $12.4 million.

Valley Group, Inc. ("VGI")

VGI is a collection of property and casualty insurance companies acquired by White Mountains in 1995 which included Valley Insurance Companies ("Valley") of Albany, Oregon and Charter Group, Inc. ("CGI") of Richardson, Texas. White Mountains subsequently formed White Mountains Insurance Company ("WMIC"), a small property and casualty company. Valley, CGI and WMIC are collectively referred to herein as "VGI".

In June 1999 White Mountains completed the sale of VGI to Unitrin, Inc. (the "VGI Sale") and received net proceeds of $139.0 million in cash after receiving a special dividend prior to the closing of $76.6 million (net of related tax liabilities) consisting of cash, investment securities and the common stock of Waterford. The VGI Sale resulted in a pretax gain of $88.1 million. As part of the VGI Sale, White Mountains has provided Unitrin, Inc. with certain adverse loss development protections that will be settled as of December 31, 2002. During 2001 and 2000 White Mountains provided $5.9 million and $5.4 million in reserves for such adverse loss development protections, respectively.

Other Operations

In 1991 White Mountains sold Fireman's Fund Insurance Company ("Fireman's Fund"), a large property and casualty insurance company, to Allianz of America, Inc. Since 1991 the Company carried a reserve related to various outstanding tax issues involving the sale. In 2000, the Company was informed that the Internal Revenue Service agreed with its position taken in its 1991 tax return and, accordingly, released a $95.0 million reserve during 2000 to income which is presented as a gain from discontinued operations.

In 1999 White Mountains concluded the sale of substantially all the mortgage banking assets (the "Mortgage Banking Sale") of White Mountains Services Corporation (formerly Source One Mortgage Services Corporation) and received net proceeds totaling $180.6 million. White Mountains recorded a $19.4 million pretax ($12.6 million after tax) gain on the sale of its mortgage banking net assets which is presented as a gain from discontinued operations.

REGULATION

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

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

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

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

The insurance laws of many states generally provide that property and casualty insurers doing business in those states belong to a statutory property and casualty guaranty association. The purpose of these guaranty associations is to protect policyholders by requiring that solvent property and casualty insurers pay certain insurance claims of insolvent insurers. These guaranty associations generally pay these claims by assessing solvent insurers proportionately based on the insurer's share of voluntary premiums written in the state. While most guaranty associations provide for recovery of assessments through rate increases, surcharges or premium tax credits, there is no assurance that insurers will ultimately recover these assessments. During 2001, OneBeacon incurred approximately $30.6 million in charges related to the Reliance Insurance Company insolvency.

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

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

White Mountains' insurance subsidiaries are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. White Mountains investment portfolio at December 31, 2001 complied with such laws and regulations in all material respects.

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

White Mountains is subject to regulation under certain state insurance holding company acts. These regulations contain reporting requirements relating to the capital structure, ownership, financial condition and general business operations of White Mountains' insurance and reinsurance subsidiaries. These regulations also contain special reporting and prior approval requirements with respect to certain transactions among affiliates.

While the federal government does not directly regulate the insurance business, federal legislation and administrative policies affect the insurance industry. In addition, legislation has been introduced from time to time in recent years that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry. A number of enacted and pending legislative measures could lead to increased consolidation and increased competition for business and for capital in the financial services industry. White Mountains cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect such measures may have on its insurance and reinsurance operations.

Environmental cleanup of polluted waste sites is subject to both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the cleanup and restoration of waste sites by Potentially Responsible Parties ("PRPs"). Superfund and the mini-Superfunds establish a mechanism to pay for cleanup of waste sites if PRPs fail to do so, and to assign liability to PRPs. The extent of liability allocated to a PRP is dependent on a variety of factors, including the extent of cleanup necessary and the process of assigning liability. The insurance industry in general is involved in extensive litigation regarding coverage issues arising out of the cleanup of waste sites by insured PRPs and as a result has disputed many such claims. Superfund reform proposals have been introduced in Congress, but none has yet been enacted. At this time, it remains unclear as to whether Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims. The NICO Cover includes coverage for such exposures; however, there can be no assurance that the coverage provided under the NICO Cover will ultimately prove to be adequate.

RATINGS

Insurance and reinsurance companies are evaluated by various rating agencies in order to provide a basis for measuring the financial strength of individual insurance companies. Higher ratings generally indicate financial stability and a stronger ability to pay claims. A.M. Best, a rating agency which specializes in the insurance and reinsurance industry, currently rates OneBeacon's principal operating insurance subsidiaries "A" (Excellent) and Folksamerica's principal reinsurance operating subsidiary "A-" (Excellent). White Mountains believes that strong ratings are important factors in the marketing of insurance products to agents and consumers.

INVESTING OPERATIONS

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

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

At December 31, 2001, White Mountains' investment portfolio consisted of $6,128.3 million (68%) of fixed maturity investments, $2,545.8 million (28%) of short-term investments and $331.6 million (4%) of common equity securities and other investments. White Mountains' fixed maturity portfolio at December 31, 2001 consisted principally of corporate debt securities (57%), United States government and agency securities (30%), mortgage-backed securities (8%) and preferred equity securities, foreign government obligations and municipal bonds (5%).

White Mountains' investment philosophy is to invest all assets with a view towards maximizing its after-tax total return over extended periods of time. Under this approach, each dollar of after-tax investment income, realized gains and losses and unrealized gains and losses is valued equally. White Mountains' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to perceived credit risks. White Mountains generally manages the interest rate risk associated with holding fixed maturity investments by actively monitoring and maintaining the average duration of the portfolio with a view towards achieving an adequate after-tax total return without subjecting the portfolio to an unreasonable level of interest rate risk. At December 31, 2001, the duration of White Mountains' fixed income portfolio was approximately 5.1 years.

Management further believes that the investment assets of its insurance and reinsurance operations should be invested in a portfolio consisting of a mixture of fixed income investments, equity securities and other investments (primarily investments in limited partnership interests that invest in common equity securities) in order to maximize returns over extended periods of time. OneBeacon's Investment Committee, comprised of certain officers and key managers of OneBeacon and other investment professionals, oversees White Mountains' investment activities. The Investment Committee regularly monitors the overall investment results of White Mountains, reviews the results of each of White Mountains' various investment managers, reviews compliance with established investment guidelines, approves all purchases and sales of investment securities and ultimately reports the overall investment results to the Company's Board of Directors.

EMPLOYEES

As of December 31, 2001, White Mountains employed 6,893 persons (consisting of eight persons at the Company, approximately 60 persons at Fund American Re and approximately 6,825 persons at OneBeacon and its subsidiaries including Folksamerica). Management believes that White Mountains has satisfactory relations with its employees and with its agents. On January 1, 2002, OneBeacon transferred approximately 2,400 of its employees to Liberty Mutual pursuant to the Renewal Rights Agreement.

Item 2. Properties

The Company maintains two professional offices in Hamilton, Bermuda which serve as its headquarters and its registered office. Fund American Re maintains a branch office in Stockholm, Sweden. The home offices of OneBeacon and Folksamerica are located in Boston, Massachusetts and New York, New York, respectively, with branch offices in various cities throughout the United States. In addition, the Company maintains a professional office in White River Junction, Vermont which serves, in part, as its principal executive office.

The Company's headquarters, registered office and principal executive offices are leased. Fund American Re's branch office in Sweden is leased. The home offices of OneBeacon and Folksamerica and most of its branch offices are leased with the exception of branch offices located in Florida, Illinois, New Jersey, New York, Tennessee and Washington, which are owned by OneBeacon. Additionally, OneBeacon owns office facilities in Illinois, Pennsylvania and Oregon. Certain leased and owned OneBeacon office locations have been leased or subleased to Liberty Mutual in connection with the Renewal Rights Agreement for a period of no more than three years. Management considers its office facilities suitable and adequate for its current level of operations.

Item 3. Legal Proceedings

White Mountains, and the insurance and reinsurance industry in general, are subject to litigation and arbitration in the normal course of its business. As of December 31, 2001, 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.

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

There were no matters submitted to a vote of the Company's shareholders during the fourth quarter of 2001.

PART II

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

As of March 22, 2002, there were 497 registered holders of Common Shares of the Company, par value $1.00 per share.

During 2001 and 2000 the Company declared and paid cash dividends on Common Shares totaling $1.00 and $1.20 per Common Share, respectively. During 2000 the Company paid its cash dividends quarterly but in 2001 changed its dividend payment policy to provide for an annual dividend payable in the first quarter of each year, dependent on the Company's financial position and the regularity of its cash flows.

Common Shares (symbol WTM) are listed on the New York Stock Exchange. The quarterly range of the daily closing price for Common Shares during 2001 and 2000 is presented below:

	2001		2000	
	High	**Low**	High	Low
Quarter ended:				
December 31	**$369.99**	**$330.00**	$319.00	$239.00
September 30	**376.00**	**315.50**	272.88	155.00
June 30	**391.00**	**304.01**	162.00	126.00
March 31	**328.50**	**290.00**	135.81	102.00

Item 6. Selected Financial Data

Selected consolidated income statement data and ending balance sheet data for each of the five years ended December 31, 2001, follows:

	Year Ended December 31,				
Millions, except share and per share amounts	2001 [a]	2000 [b]	1999 [c]	1998 [d]	1997
Income Statement Data:					
Revenues	$ 3,234	$ 848	$ 579	$ 390	$ 293
Expenses	3,656	493	418	311	192
Pretax earnings (loss)	(422)	355	161	79	101
Income tax (provision) benefit	174	(42)	(53)	(28)	(36)
Accretion and dividends on preferred stock of subsidiaries	(23)	–	–	–	–
Net income (loss) from continuing operations	$ (271)	$ 313	$ 108	$ 51	$ 65
Net income (loss) from continuing operations per share:					
Basic	$ (86.52)	$ 53.08	$ 19.25	$ 8.71	$ 9.88
Diluted	$ (86.52)	$ 52.84	$ 17.66	$ 7.75	$ 8.93
Balance Sheet Data:					
Total assets	$ 16,493	$ 3,545	$ 2,049	$ 2,164	$ 1,156
Short-term debt	358	–	4	52	2
Long-term debt	767	96 [e]	203	186	132
Deferred credits	683 [f]	92	101 [g]	37 [h]	–
Mandatorily redeemable preferred stock of subsidiaries	170	–	–	–	–
Common shareholders' equity [i]	1,445	1,046	614	703	659
Book value per share [j]	$ 160.36	$ 177.07	$ 103.32	$ 109.68	$ 100.08
Tangible book value per share [j] [k]	$ 225.81	$ 187.65	$ 120.23	$ 115.11	$ 100.08
Share Data:					
Cash dividends paid per Common Share	$ 1.00	$ 1.20	$ 1.60	$ 1.60	$ .80
Ending Common and equivalent Common Shares (000's) [l]	10,048	5,961	5,946	6,831	6,983

(a) Includes the acquisition of OneBeacon on June 1, 2001 and its results of operations from that date through December 31, 2001. In connection with the Acquisition, White Mountains issued $1,085 million in debt. White Mountains also issued preferred stock of subsidiaries, warrants to acquire Common Shares and Convertible Preference Shares for total proceeds of $758 million.
(b) Includes the acquisitions of PCA and the Risk Capital Operations as well as the gain on the Dexia Sale.
(c) Includes gains resulting from the VGI Sale and the Mortgage Banking Sale.
(d) Includes the interim period income statement and ending balance sheet of Folksamerica which was initially consolidated by the Company during 1998.
(e) Reflects a significant repayment of long-term debt by Folksamerica during 2000. See Note 6.
(f) Deferred credits added during 2001 resulted from the purchase of OneBeacon. See Note 2.
(g) Deferred credits added during 1999 resulted principally from the purchase of IAG. See Note 2.
(h) Deferred credits added during 1998 resulted from White Mountains' initial consolidation of Folksamerica by the Company. See Note 2.
(i) Reflects reductions in common shareholders' equity resulting from significant repurchases of Common Shares from 1996 to 1999 and an increase in common shareholders' equity in 2001 resulting from capital raising activities undertaken in connection with the Acquisition. See Note 2.
(j) As adjusted for the dilutive effects of outstanding options and warrants to acquire Common Shares.
(k) Book value per share plus unamortized deferred credits less goodwill per Common Share.
(l) Includes outstanding options and warrants to acquire Common Shares.

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

The following financial discussion should be read in conjunction with White Mountains' Consolidated Financial Statements and Notes thereto which are contained elsewhere in this report. White Mountains' business has undergone significant changes during 2001, therefore, particular attention should be given to the Company's description of its current business contained in Item 1 of this Annual Report on Form 10-K.

The following discussion contains forward looking statements. White Mountains intends statements which are not historical in nature to be, and are hereby identified as "forward-looking statements" to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This safe harbor requires that White Mountains specify important factors that could cause actual results to differ materially from those contained in forward-looking statements made by or on behalf of White Mountains. White Mountains cannot promise that its expectations in such forward-looking statements will turn out to be correct. White Mountains' actual results could be materially different from and worse than its expectations. Refer to page 43 for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999

White Mountains' discussion of its results of operations is presented below under the following subheadings: (I) Summary of Operations by Segment, (II) the OneBeacon Acquisition and Associated Capital Raising Activities, and (III) Review of Consolidated Results.

A tabular summary of White Mountains' consolidated financial results for the years ended December 31, 2001, 2000 and 1999 follows:

	Year Ended December 31,		
Millions, except per share amounts	**2001**	2000	1999
Total revenues	**$ 3,233.6**	$ 848.2	$ 579.2
Total expenses	**3,655.8**	492.8	417.7
Net income (loss)	**(259.3)**	407.9	121.0
Diluted net income (loss) per share:	**$ (84.75)**	$ 68.89	$ 19.73
Book Value per Common and equivalent Common Share:			
Fully converted book value per share	**$ 160.36**	$ 177.07	$ 103.32
Fully converted tangible book value per share	**225.81**	187.65	120.23

White Mountains' fully converted tangible book value per share grew by more than 20% during 2001, principally as a result of its acquisition of OneBeacon for $682.0 million less than the value of the net assets acquired. The net loss of $259.3 million for 2001 resulted principally from net losses experienced at OneBeacon ($156.2 million) and its reinsurance operations Folksamerica ($28.1 million) and losses from other insurance and holding company activities ($75.0 million). OneBeacon and Folksamerica's poor 2001 underwriting results were significantly impacted by $85.0 million in net after tax losses incurred in connection with the Attacks and, in the case of OneBeacon, by unsatisfactory underwriting results. White Mountains' loss per share of $84.75 in 2001 resulted from the insurance and reinsurance losses previously mentioned and a $305.1 million reduction to net income available to common shareholders relating to its Convertible Preference Shares during the brief period they were outstanding during 2001.

The Company has revised its loss per share for the year ended December 31, 2001 to $84.75 from $38.95, which was the amount previously reported in its earnings release filed on Form 8-K (Item 9) on February 28, 2002. This revision did not change the Company's reported book value per share ($160.36), fully converted tangible book value per share ($225.81), retained earnings ($355 million) or common shareholders' equity ($1,445 million) at December 31, 2001, or its reported net loss ($259 million) or comprehensive net loss ($302 million) for the year then ended. This change does not affect the text of the Company's 2001 earnings release as its focus has always been on growth in tangible book value per share and its comprehensive net income or loss, neither of which have been revised.

The revision results from the manner in which the Company's Convertible Preference Shares were considered in arriving at earnings per share during the brief period they were outstanding. The Company, in consultation with its independent accountants, marked its Convertible Preference Shares to market (based on the market value of underlying Common Shares) with the excess of market over the cash proceeds it received being charged directly to retained earnings. In preparing this Annual Report on Form 10-K, it was determined that this net charge should have been included in the Company's determination of earnings or loss per share, and the related determination of net income or loss available to common shareholders, for the interim periods ended June 30, 2001 and September 30, 2001, and certain other pro forma periods. As a result, the Company has restated all applicable interim and pro forma earnings per share and related disclosures in Note 19 to the Consolidated Financial Statements contained herein. Since the Convertible Preference Shares were converted to Common Shares on August 23, 2001, the Company's reported results for the three-months ended December 31, 2001 were not affected.

White Mountains' fully converted tangible book value per share at December 31, 2000 was $187.65, an increase of $67.42 from December 31, 1999. The increase resulted primarily from the Dexia Sale and the gain relating to the sale of Fireman's Fund.

White Mountains' net income for 2000 of $407.9 million resulted principally from the Dexia Sale ($391.2 million pretax) and a gain related to the taxation of the sale of Fireman's Fund in 1991 ($95.0 million). White Mountains' net income for 1999 of $121.0 million resulted principally from the VGI Sale ($88.1 million pretax) and the Mortgage Banking Sale ($19.4 million pretax, $12.6 million after tax).

I. Summary of Operations By Segment

As a result of the Acquisition, White Mountains now conducts its operations through three distinct segments consisting of OneBeacon, Folksamerica and its Other Insurance Operations and Holding Company. White Mountains' Other Insurance Operations and Holding Company segment is comprised of the Company, BICC, ACIC, PIC, Esurance, Fund American Re and certain of the Company's intermediate holding companies. White Mountains segment information is presented in Note 13 to the Consolidated Financial Statements.

OneBeacon

OneBeacon is currently producing unsatisfactory underwriting results and has done so for several years. White Mountains believes that its purchase of OneBeacon added significant value to its shareholders, provided it can quickly, and significantly, improve this business through successful execution of a series of initiatives commenced in 2001.

White Mountains has already moved quickly to strengthen OneBeacon's balance sheet with a strong view towards capital preservation. This was accomplished in three separate ways. The first was to cause the seller to purchase reinsurance contracts with two highly rated reinsurance companies: a full risk-transfer cover from NICO for up to $2.5 billion in old asbestos and environmental claims and $400 million in adverse development coverage on losses occurring in years 2000 and prior from GRC. The second action was to insist that OneBeacon's large portfolio of common stocks ($1.7 billion) and municipal bonds ($1.4 billion) be substantially sold-off prior to the Acquisition. Post-acquisition, White Mountains further repositioned OneBeacon's investment portfolio, including a substantial sell-off of its mortgage-backed securities, to achieve a highly liquid, high-quality fixed income portfolio of an intermediate duration. Finally, White Mountains' purchase accounting adjustments resulted in a strengthening of OneBeacon's acquired balance sheet in the form of adjustments to OneBeacon's insurance and non-insurance liabilities and assets. These actions, coupled with more disciplined loss reserving practices post-acquisition, have made OneBeacon's balance sheet considerably more solid than the balance sheet acquired by White Mountains on June 1, 2001.

Immediately after the Acquisition a new management team was appointed and new performance expectations established. Through ongoing communication of White Mountains' operating principles and the introduction of long-term incentive compensation tied closely to results, OneBeacon is building a culture dedicated to making the significant changes necessary to improve OneBeacon's execution, discipline, and focus upon profitability. OneBeacon's new performance-based compensation program is based on its "trade ratio". Aggressive steps have been taken to improve results quickly including the segregation of the book between core and non-core businesses.

Core Operations

White Mountains also moved quickly to start fixing OneBeacon's business as its historical underwriting results were highly unsatisfactory. White Mountains identified certain businesses that offer reasonable profit improvement opportunities. These "core" operations consist of personal lines and commercial lines sold through agents in New England, New York and New Jersey and selected Specialty products. Specialty products consist principally of Agri, IMU (ocean marine) and A.W.G. Dewar (tuition reimbursement) whose distribution is not limited to the Northeast.

Commercial Lines. In ongoing commercial lines, price increases of 16% were achieved in 2001 with a further 25% targeted for 2002. Many poor performing classes of business, agencies and medium and large accounts have been terminated. Further attention has been directed toward taking appropriate underwriting actions to reduce OneBeacon's risk with respect to emerging exposures such as terrorism, construction defect, mold and coastal exposures.

Personal Lines. Due to a late start, personal lines prices were increased only 5% in 2001. Through rate increases and rate equivalent actions such as insurance to value, a 16% increase is being targeted for 2002. Rate equivalent actions on business renewed during the first three months of 2002 have resulted in 13% and 4% average increases across homeowners and automobile business, respectively. In addition, base rate increases have been approved in several states for homeowners and automobile lines. Given OneBeacon's concentration of business in the Northeast, careful management of windstorm exposures is critical. OneBeacon is taking steps to reduce its exposure through decreasing the number of properties it insures in coastal territories and implementing a windstorm deductible program. Also, because OneBeacon writes the majority of its ongoing personal automobile insurance in three very difficult markets, New York, New Jersey and Massachusetts, dedicated business units have been formed to address the unique aspects of each market. For example, AutoOne, OneBeacon's LAD operation was formed to address the particularly difficult assigned risk market in New York.

Claims. Management has been improving the claims function by making expenditures in claims personnel, processes and systems where it is believed that lower overall loss costs will be the result. All field claims professionals have been realigned under a single reporting relationship to the Chief Claims Officer in lieu of a decentralized structure. The quality of staff has been upgraded and staff levels have been increased in certain high impact areas for more effective case management. To better enable claims professionals to determine appropriate indemnity settlement amounts, a state of the art tool has been deployed. The use of appraisals, re-inspections and audits also has increased along with the implementation of quality control and performance metrics across the function. Workers compensation claims handling has been centralized which, along with enhanced early intervention programs, nurse case management and retained health care provider relationships, will help get the injured workers back to work faster. Improved claims reporting procedures have been implemented for automobile claims which, along with more efficient use of vendors on physical damage claims, will help reduce loss cost and improve service to agents and insureds. As a result of these actions, management expects a more professional, better equipped claims organization to emerge.

Other Initiatives. Credit terms have been changed to accelerate the receipt of cash and collection of old receivables is a high priority. Spending on major systems initiatives has been substantially scaled back to focus on delivering meaningful improvements to existing systems while eliminating the multitude of redundant systems left over from the Merger. Management is working diligently to reconstruct reliable historical data from legacy General Accident systems.

Non-Core Operations

The underwriting results of OneBeacon's non-core operations have been particularly unsatisfactory. The national program and national accounts business has been placed into run-off, and OneBeacon's obligation to write new business in most multi-year programs will be winding down in 2002. The largest element of business included in this sub-segment, however, is agency produced business written in territories outside of New England, New York and New Jersey. OneBeacon commenced numerous actions, along the lines of those described above for the core lines, to improve operating results in the non-core regions. In addition, during 2001 OneBeacon formally withdrew from the personal lines markets in 14 states.

On November 1, 2001, OneBeacon transferred its agency business, agents and operations in 42 non-core states and the District of Columbia to Liberty Mutual. This transfer amounted to approximately $1.5 billion in written premiums, or approximately 45% of OneBeacon's total business. Over the next two years, the underwriting results and cash flows of the renewed policies will be shared between OneBeacon and Liberty Mutual. A reinsurance agreement prorates results so that OneBeacon assumes approximately two-thirds and one-third of the underwriting results corresponding to renewals in the first and second years, respectively. Liberty Mutual has continued, and in some cases accelerated, the underwriting and pricing actions initiated prior to the transactions. The transaction enables OneBeacon's management to concentrate its efforts on building a profitable book of agency produced personal and commercial lines business in the Northeast and selected specialty lines throughout the country.

Performance Targets

Management's performance goals for 2002 are based upon achieving a trade ratio of 101-103% in the ongoing businesses and an overall OneBeacon trade ratio of 108-110%, which includes the results of business placed in run-off and reinsuring two-thirds of the underwriting results from business transferred to Liberty Mutual.

Summary of operations by business line

A summary of OneBeacon's underwriting results for the seven months ended December 31, 2001 follows:

Seven months ended December 31, 2001	Property and Casualty Insurance				
Millions	Personal	Commercial	Specialty	Non-Core	Total
Net written premiums	$ 513.2	$ 358.0	$ 139.8	$ 867.2	$ 1,878.2
Earned premiums	521.5	427.5	127.0	1,132.2	2,208.2
Loss and loss adjustment expenses	(445.6)	(449.6)	(79.9)	(1,098.7)	(2,073.8)
Other underwriting expenses	(134.1)	(173.8)	(41.0)	(439.1)	(788.0)
Net underwriting gain (loss)	**$ (58.2)**	**$ (195.9)**	**$ 6.1**	**$ (405.6)**	**$ (653.6)**

Personal and commercial premiums written declined during the seven month period and further declines are expected to continue as OneBeacon repositions its book of business for improved profitability. Declines in personal and commercial lines written premiums were partially offset by an increase in specialty lines premiums. The disciplined underwriting and pricing historically demonstrated in specialty lines, coupled with favorable market conditions, enabled OneBeacon to capitalize on price increases while continuing to mitigate underwriting risks through policy coverage revisions and agency terminations. During 2001, OneBeacon also established a new business initiative through the New York LAD.

OneBeacon's 2001 trade ratios on all lines of its business, except core specialty, were unacceptable largely as a result of premiums charged proving to be inadequate for risks assumed. The actions previously discussed were implemented to address this deficiency. Loss and loss adjustment expenses for the 2001 period also included $105.0 million in losses, net of reinsurance, associated with the Attacks. OneBeacon's gross loss associated with the Attacks was $248.0 million.

During 2001 OneBeacon's losses and loss adjustment expenses relating to prior years developed unfavorably, resulting primarily from an increase in OneBeacon's 1999 and prior loss estimates in its workers compensation, general liability, commercial multi-peril and commercial automobile lines of business. These actions exhausted the protection under the GRC Cover and resulted in a $50.0 million charge in the 2001 fourth quarter to loss and loss adjustment expense. Additionally, during 2001 OneBeacon recognized approximately $14.6 million in prior year losses and loss adjustment expenses which were not covered by either the NICO Cover or the GRC Cover.

As expected, and consistent with OneBeacon's decision to exit its non-strategic operations, the underwriting results in OneBeacon's non-core operations were unacceptable for the seven months ended December 31, 2001. Although expected to improve in the future, OneBeacon's trade ratio associated with this business is expected to continue to be higher than that of its core operations as the national programs and national accounts business, along with the business reinsured from Liberty Mutual, wind down.

Overall, OneBeacon has and will continue to incur significant costs associated with its underwriting, claims and run-off initiatives implemented during 2001. These costs are expected to yield future improvements to OneBeacon's overall loss and loss adjustment expense ratios but, in the short run, will adversely affect its expense ratios. Improving the loss ratio is OneBeacon's number one priority.

Folksamerica

A summary of Folksamerica's 2001, 2000 and 1999 underwriting results follows:

Dollars in millions	Year Ended December 31,		
	2001	2000	1999
Net written premiums	**$ 458.3**	$ 332.6	$ 201.7
Earned premiums	**421.5**	312.5	211.0
Losses and loss adjustment expenses	**(385.0)**	(270.8)	(182.2)
Underwriting expenses	**(155.4)**	(120.9)	(81.4)
Net underwriting loss	**$ (118.9)**	$ (79.2)	$ (52.6)
Statutory combined ratios:			
Loss and loss adjustment expense	**91 %**	88 %	87 %
Underwriting expense	**34**	38	36
Combined	**125 %**	126 %	123 %

The majority of Folksamerica's premiums written during the past three years ended 2001 cover liability risks (typically 60% to 70% of such premiums), property risks (20% to 30%) and accident and health risks (6% to 8%).

Folksamerica's significant increase in premiums for 2001 versus 2000 is primarily attributable to additional writings across most lines in response to improved terms and conditions in the overall reinsurance market. Folksamerica's significant increase in premiums for 2000 versus 1999 is primarily attributable to its acquisition of the Risk Capital Operations which provided Folksamerica with two new specialty underwriting units (Accident & Health and Marine) and several new treaty clients.

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

Folksamerica's 2001 incurred losses include $24.1 million in losses related to prior accident years representing (i) higher than expected reported losses in Folksamerica's property excess line and (ii) a strengthening of reserves related to losses arising from the portfolios acquired from the USF Re and the Risk Capital Operations. Incurred losses for 2000 and 1999 include $22.9 million and $29.3 million, respectively, related principally to prior accident years representing losses arising from the portfolios acquired with USF Re and the Risk Capital Operations.

Folksamerica's 2001 and 2000 statutory combined ratios do not take into account the favorable impact of a retroactive reinsurance cover placed during 2000 which covers certain losses associated with Folksamerica's asbestos and environmental exposures as well as losses associated with USF Re and the Risk Capital Operations. Because this contract was written to cover losses incurred in prior years, the reinsurance benefit recorded in its statutory financial statements is not included in Folksamerica's statutory combined ratio; however, adverse development on reserves covered under this contract is required to be included in its statutory combined ratio. The reinsurance benefits obtained from this contract totalled $20.2 million and $20.6 million for the years ended December 31, 2001 and 2000, respectively.

Folksamerica has acquired several competitors in recent years. In cases where the insurance or reinsurance reserves of the acquired company are expected to develop adversely, Folksamerica generally obtains certain indemnifications from the seller designed to mitigate the future losses that Folksamerica must recognize. Indemnifications used by Folksamerica in some of its more recent acquisitions consist of bargain purchases (resulting in deferred credits) and the issuance of purchase notes with adverse loss development protection features. These indemnifications provide revenues to Folksamerica to compensate for the expected losses and loss adjustment expenses it may recognize in connection with the acquired operations. These revenues, recorded as

amortization of deferred credits and other benefits, are not reflected as a reduction to the loss development incurred by Folksamerica and therefore do not serve to reduce Folksamerica's reported statutory combined ratio.

During 2001, 2000 and 1999, Folksamerica recognized income relating to the amortization of its deferred credits of $14.1 million, $12.5 million and $7.0 million, respectively, resulting from bargain purchases of insurance and reinsurance operations. In addition, during 1999 Folksamerica issued a $20.8 million note in connection with the acquisition of USF Re which was to be reduced to the extent that future USF Re loss and loss adjustment expenses develop adversely (the "USF Re Seller Note"). In response to adverse development recorded by Folksamerica, the USF Re Seller Note was reduced by $6.8 million and $14.0 million, which was recorded in White Mountains' financial statements, during 2000 and 1999, respectively.

Had the retroactive reinsurance and acquisition benefits described above been permitted to be recognized in Folksamerica's 2001 and 2000 statutory combined ratios, they would have served to decrease such ratios by approximately 12 and 10 points to 113% and 116%, respectively.

The reinsurance market in general has responded to the significant industry losses generated in 2001 with a combination of rate increases, coverage restrictions and higher ceding company retentions. In December 2001 Folksamerica received a $400.0 million capital contribution from its parent OneBeacon, in the form of cash, which was made to increase Folksamerica's capacity to capitalize on improving pricing trends which accelerated after the Attacks. In addition, the retrocessional agreement that Folksamerica entered into with Olympus late in 2001 provides additional opportunities to leverage Folksamerica's underwriting expertise and infrastructure to underwrite increased lines on worldwide property excess business in a favorable market.

Other Insurance Operations and Holding Company

White Mountains' capital management activities are conducted through the Company and its intermediary holding companies. In this regard, the primary operations relating to its holding companies for 2001 consisted of the effects of financing activities and purchase accounting undertaken in connection the Acquisition, amortization of deferred credits arising from White Mountains' acquisitions of OneBeacon and IAG, the gain recognized from the sale of Waterford and net investment income on its short-term investments. The primary operations of BICC, ACIC, PIC, Esurance and Fund American Re during 2001 contributed revenues of $33.7 million, expenses of $59.3 million and a net loss of $17.0 million. During 2000, the operations of the holding company primarily included the gain recognized from the Dexia Sale, amortization of certain deferred credits, interest expense on long-term debt, the operations of BICC, ACIC and PIC and net investment income on short-term investments. During 1999, the operations of the holding company primarily included the gain recognized from the VGI Sale, interest expense on long-term debt, amortization of certain deferred credits and net investment income on short-term investments and its other insurance operations included the operations of VGI through the date of the VGI Sale. See "Liquidity and Capital Resources."

II. The OneBeacon Acquisition and Associated Capital Raising Activities

On June 1, 2001, White Mountains acquired OneBeacon from CGNU for $2,114.3 million, of which $260.0 million was paid with the Seller Note and the balance paid in cash. White Mountains undertook a series of related transactions prior to or simultaneously with the Acquisition that had a substantial impact on its consolidated financial statements during 2001. These transactions, coupled with the inclusion of OneBeacon's results for the seven months ended December 31, 2001, served to significantly affect the comparability of the financial statement information presented herein. A summary of White Mountains' transactions relating to its acquisition of OneBeacon follows:

Debt Tender and Debt Escrow Transactions. In April 2001 the Company completed a tender offer and consent solicitation for $96.3 million in outstanding medium-term notes (the "Debt Tender") which facilitated the Acquisition by amending the indenture governing its medium-term notes ("the "Notes"). Pursuant to the Debt Tender, the Company repurchased and retired $90.9 million of its Notes and subsequently prepaid, in the form of a fully-funded irrevocable escrow arrangement (the "Debt Escrow"), the balance of the Notes. The Company recorded a $4.8 million extraordinary loss on extinguishment of debt in connection with the Debt Tender and the Debt Escrow during the 2001 second quarter.

Equity Financing. On June 1, 2001, a small group of private investors purchased $437.6 million of a newly-issued class of non-voting convertible preference shares of the Company (the "Convertible Preference Shares"). On August 23, 2001, upon approval by shareholders at the Company's 2001 Annual Meeting of Shareholders (the "2001 Annual Meeting"), the Convertible Preference Shares were repurchased and cancelled by the Company (the "Conversion") in consideration of 2,184,583 Common Shares. Had shareholder approval not been obtained by March 31, 2003, the holders of Convertible Preference Shares would have had the right to require the Company to repurchase the Convertible Preference Shares on an "as converted" basis at the then-current price of a Common Share. This conversion right, coupled with the fact that the market value of Common Shares immediately prior to shareholder approval ($340 per Common Share) exceeded the private investors' cost of the Convertible Preference Shares (approximately $200 per Common Share), caused this instrument to have a redemption value in excess of cash received upon issuance. This required the Convertible Preference Shares to be marked-to-market until August 23, 2001 when the Convertible Preference Shares were converted to common shareholders' equity, resulting in a $305.1 million charge to retained earnings, with an offsetting increase to paid-in surplus.

On June 1, 2001, Berkshire purchased from the Company, for $75.0 million in cash, warrants (the "Warrants") to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share. Of the total Warrants purchased by Berkshire, Warrants to purchase 1,170,000 Common Shares (the "Series A Warrants") were immediately exercisable and Warrants to purchase 544,285 Common Shares (the "Series B Warrants") became exercisable upon shareholder approval at the 2001 Annual Meeting. Prior to shareholder approval, the Series B Warrants constituted a contingent put liability (similar in nature to a stock appreciation right) which was carried at fair value through a periodic charge or credit to the income statement. The income statement charge recorded by the Company during 2001 associated with the difference between the fair value and allocated cost of the Series B Warrants totalled $58.8 million. Upon shareholder approval at the 2001 Annual Meeting, the Series B Warrants were converted from a liability to common shareholders' equity. 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.

On June 1, 2001, Berkshire also purchased for $225.0 million, $300.0 million in face value of cumulative non-voting preferred stock (the "Berkshire Preferred Stock") of a subsidiary of the Company. The Berkshire Preferred Stock is mandatorily redeemable after seven years. The Berkshire Preferred Stock represents subsidiary preferred stock which is considered to be minority interest to the Company.

As previously mentioned, White Mountains received a total of $300.0 million in cash from Berkshire in full payment for the Warrants and the Berkshire Preferred Stock. The proceeds received were allocated to each instrument based on their relative estimated fair values on June 1, 2001. As a result, $154.8 million of such proceeds were allocated to the Warrants and recorded to common shareholders' equity and $145.2 million of such proceeds were allocated to the Berkshire Preferred Stock. White Mountains is accreting the Berkshire Preferred Stock's recorded value to its face value of $300.0 million using the interest method of amortization over the instrument's seven-year term through an income statement charge. During 2001, White Mountains recorded $5.1 million of accretion charges on the Berkshire Preferred Stock.

On June 1, 2001, Zenith Insurance Company ("Zenith") purchased $20.0 million in cumulative non-voting preferred stock (the "Zenith Preferred Stock") of a subsidiary of the Company. The Zenith Preferred Stock is mandatorily redeemable after ten years. The Zenith Preferred Stock represents subsidiary preferred stock which is considered to be minority interest to the Company.

During 2001, White Mountains declared and paid cash dividends on the Berkshire Preferred Stock and the Zenith Preferred Stock totalling $18.1 million.

Bank Financing. On June 1, 2001, a subsidiary of the Company borrowed $700.0 million in term loans and $125.0 million in revolving loans (of a $175.0 million revolving loan facility) from a banking syndicate arranged by Lehman Brothers Inc. (collectively the "Lehman Facility"). The term loans are repayable in quarterly installments with a final maturity on March 31, 2007. The revolving loan facility is available from the closing date until the fifth anniversary of the closing. The loans are variable rate instruments which are currently tied to a rate based on short-term eurodollar rates. White Mountains subsequently entered into various interest rate swap agreements in order to achieve a fixed interest rate on the term loans. During 2001, White Mountains recorded interest expense relating to the Lehman Facility of $32.4 million, including $3.9 million of expense recorded under the related interest rate swap agreements.