Seller Note. On June 1, 2001, White Mountains issued the Seller Note to CGNU. The Seller Note has an eighteen-month term and bears interest at a rate equal to 50 basis points over the rate on White Mountains' revolving loan facility described above. The Seller Note may be settled in cash, or at White Mountains' option, with Common Shares valued at $245.00 per Common Share. White Mountains has classified this obligation as debt since management believes it has the ability to settle this obligation in a form other than pursuant to the Note Purchase Option Agreement which governs the Seller Note. During 2001, White Mountains recorded interest expense relating to the Seller Note of $10.3 million.

Deferred Credit. White Mountains acquired OneBeacon for total consideration of $2,114.3 million. Because the cost of OneBeacon was less than the fair value of its net assets acquired at that date, White Mountains recorded a $682.0 million deferred credit at acquisition which is being amortized to income ratably over the estimated period of benefit of seven years. During 2001, White Mountains recognized a total of $91.6 million of deferred credit amortization of which $56.9 million related specifically to the deferred credit resulting from the Acquisition.

III. Review of Consolidated Results

Earned insurance and reinsurance premiums totalled $2,656.1 million for 2001 versus $334.4 million for 2000 and $283.2 million for 1999. The large increase in earned premiums from 2000 to 2001 resulted primarily from the Acquisition of OneBeacon which contributed $2,208.2 million in earned premiums for the seven months ended December 31, 2001. The increase in earned premiums from 1999 to 2000 is primarily attributable to the acquisition of the Risk Capital Operations during 2000.

See "Summary of Operations by Segment" for a further discussion of earned insurance and reinsurance premiums by White Mountains' segments and lines of business.

White Mountains' total net pretax investment returns for the years ended December 31, 2001, 2000 and 1999 are shown below:

	Year Ended December 31,		
Millions	**2001**	2000	1999
Net investment income	**$ 284.5**	$ 85.9	$ 61.9
Net realized investment gains (losses), before tax	**173.1**	(8.8)	69.6
Net increase (decrease) in unrealized investment gains	**(59.9)**	47.6	(180.2)
Total net investment return, before tax	**$ 397.7**	$ 124.7	$ (48.7)

White Mountains' net investment income is comprised primarily of interest income associated with the fixed maturity investments of its operating subsidiaries and dividend income from its equity investments. The significant increase in net investment income from 1999 to 2001 is mainly attributable to White Mountains' growing portfolio of fixed maturity investments resulting from the 1999 acquisition of USF Re, the 2000 acquisitions of PCA and the Risk Capital Operations and the 2001 acquisitions of OneBeacon and C-F.

Net realized gains on investments for the year ended December 31, 2001 resulted principally from substantial sales of fixed maturities from OneBeacon and Folksamerica's investment portfolios during the second half of 2001. Net realized investment losses for the year ended December 31, 2000 resulted principally from sales of fixed maturities in preparation for Folksamerica's acquisitions of PCA and the Risk Capital Operations during the first half of 2000. Net realized investment gains of $69.6 million for 1999 included $23.9 million of pretax gains from sales of San Juan Basin Royalty Trust units and $28.0 million of pretax gains from sales of various other common stocks and other investments in Folksamerica's operating portfolio. In addition, $9.4 million of pretax gains on sales of common stocks and fixed maturity investments were recorded in anticipation of or in connection with the VGI Sale.

White Mountains' net decrease in pretax unrealized investment gains for the year ended December 31, 2001 of $59.9 million consisted of a net reduction in unrealized gains of $46.3 million related to the substantial amount of fixed maturities sold during the period and a net reduction of $13.6 million in unrealized gains, primarily in its holdings of common stocks and other investments. White Mountains' net increase in pretax unrealized investment gains for the year ended December 31, 2000 of $47.6 million consisted of a net reduction in unrealized gains of $23.7 million for investment securities sold during the period and a net increase of $71.3 million in unrealized gains, primarily in its holdings of fixed maturities. White Mountains' net decrease in pretax unrealized investment gains for the year ended December 31, 1999 of $180.2 million consisted of a net reduction in unrealized gains of $69.6 million for investment securities sold during the period and a net reduction of $110.6 million in unrealized gains on securities held during the period, relating primarily to an accounting write-down relating to exercises of FSA Options. During 1999, White Mountains was required to write its investment in the FSA Options exercised to their original cost in order to transition the investment from fair value accounting to equity accounting.

Amortization of deferred credits and other benefits provided $91.6 million, $41.4 million and $25.8 million in revenue during 2001, 2000 and 1999, respectively. The increase in deferred credit amortization from 2000 to 2001 resulted from the Acquisition. The increase in deferred credit amortization from 1999 to 2000 resulted primarily from the acquisition of PCA. In accordance with SFAS No. 141, all unamortized deferred credits at December 31, 2001 will be recognized through the income statement on January 1, 2002 as a change in accounting principle.

Net gains on sales of subsidiaries and other assets provided $20.2 million, $386.2 million and $103.9 million in revenue during 2001, 2000 and 1999, respectively. The net gains recorded during 2001 resulted from a $12.4 million pretax gain from the sale of Waterford as well as gains on sales of various fixed assets to Liberty Mutual. The net gains recorded during 2000 resulted principally from the Dexia Sale. The net gains recorded during 1999 resulted principally from the VGI Sale.

Other revenues totalled $8.1 million, $9.1 million and $34.8 million during 2001, 2000 and 1999. Other revenue consists primarily of equity in the earnings of White Mountains unconsolidated affiliates (MSA, Montpelier and formerly FSA) and sundry other revenues.

White Mountains' investment in MSA provided $2.2 million to its revenues during the year ended December 31, 2001 versus $1.0 million for 2000 and $11.6 million for 1999. MSA's net income for 2001 resulted from strong underwriting results experienced by NGM during 2001 offset partially by realized losses on its investment portfolio. MSA's net income for 2000 was adversely impacted by significant realized losses on its investment portfolio whereas MSA's net income for 1999 benefitted by significant realized investment gains.

White Mountains' investment in Montpelier provided a loss of $3.0 million during the year ended December 31, 2001. Montpelier's net loss for 2001 related to the recognition of its startup costs.

During 2000 White Mountains' investment in FSA provided a $3.6 million loss for the interim period though July 5, 2000 which resulted from realized investment losses in FSA's investment portfolio and increased expenses for employee equity-based compensation programs, which rose significantly after FSA's announcement of its acquisition by Dexia. FSA contributed $19.5 million to net income during the year ended December 31, 1999.

Losses and loss adjustment expenses totalled $2,493.9 million for 2001 versus $287.7 million for 2000 and $242.3 million for 1999. The large increase in loss and loss adjustment expenses from 2000 to 2001 resulted from the Acquisition. During 2001, White Mountains incurred $130.0 million in net losses at OneBeacon and Folksamerica resulting from the Attacks. The increase in loss and loss adjustment expenses from 1999 to 2000 is primarily attributable to the acquisitions of PCA and the Risk Capital Operations during 2000.

See "Summary of Operations by Segment" for a further discussion of losses and loss adjustment expenses by White Mountains' segments and lines of business.

Insurance and reinsurance acquisition expenses, which consist primarily of insurance and reinsurance brokerage and commission expenses, totalled $584.3 million for 2001 versus $101.1 million for 2000 and $73.4 million for 1999. The increase in these insurance expenses from 2000 to 2001 is primarily attributable to the Acquisition. The increase in these insurance expenses from 1999 to 2000 is primarily attributable to the acquisitions of PCA and the Risk Capital Operations during 2000.

General and administrative expenses totalled $417.1 million for 2001 versus $87.9 million for 2000 and $87.3 million for 1999. Share-based compensation consisting of performance shares, Restricted Shares and Options constituted $51.5 million, $25.8 million and $6.1 million of such general and administrative expenses during 2001, 2000 and 1999, respectively. The increase in general and administrative expenses, including the increase in share-based compensation, from 2000 to 2001 is primarily attributable to the Acquisition. The increase in White Mountains' share-based compensation for 2000 was higher than that of 1999 as a result of a significant increase in the value of Common Shares during that year and the recording of additional performance share expense in expectation of the 1999 and 2000 performance share awards vesting at an amount greater than target due to the highly favorable results for those award periods.

Share appreciation expense for Series B Warrants of $58.8 million was recorded during 2001 representing an increase in the value of Common Shares during the period in which the Series B Warrants were not exercisable by Berkshire. Upon shareholder approval at the 2001 Annual Meeting, the Series B Warrants were reclassified to common shareholders' equity.

In connection with purchase accounting for the Acquisition, White Mountains was required to adjust to fair value OneBeacon's loss and loss adjustment expense reserves and the related reinsurance recoverables by $646.9 million and $346.9 million, respectively, on OneBeacon's acquired balance sheet. This net reduction to loss and loss adjustment expense reserves of $300.0 million will be accreted through an income statement charge over the period the claims are expected to be settled. As such, White Mountains recognized $56.0 million of accretion of fair value adjustment to loss and loss adjustment expense reserves during 2001. White Mountains will accrete the remaining $244.0 million over the future periods that the claims are settled.

Interest expense totalled $45.7 million for 2001 versus $16.1 million for 2000 and $14.7 million for 1999. The increase in interest expense from 2000 to 2001 resulted from borrowings under the Lehman Facility and the Seller Note which were undertaken on June 1, 2001, offset slightly by reduced interest expense resulting from the Debt Tender and the Debt Escrow transactions. White Mountains has entered into various interest rate swap agreements which were undertaken to achieve a fixed interest rate on a portion of the Lehman Facility. The swap program results in a weighted average fixed rate of 7.1% on $700.0 million of its total borrowings under the Lehman Facility. Interest expense for 2001 relating to the Lehman Facility totalled $28.5 million, interest expense relating to the interest rate swap agreements totalled $3.9 million and interest on the Seller Note totalled $10.3 million. The increase in interest expense from 1999 to 2000 reflects higher average levels of indebtedness at Folksamerica for the period.

In connection with the Redomestication, the Company and certain of its subsidiaries changed their domicile to either Bermuda or Barbados (the "Bermuda and Barbados Companies") while certain other subsidiaries remained domiciled in the United States (the "US Companies"). As a result, income earned by the Bermuda and Barbados Companies will generally be subject to an effective overall tax rate lower than that imposed by the United States, however, no tax benefits will be attained in the event of net losses incurred by such companies. Prior to the Redomestication, the Company filed a consolidated United States income tax return with its subsidiaries. The US Companies continue to file United States tax returns but may no longer do so on a group-wide consolidated basis. As a result, the aggregate United States Federal income tax liability of the US Companies may be higher than it otherwise would have been if part of a consolidated tax return. These factors may serve to increase or decrease White Mountains' effective tax rate for 1999 and beyond, depending on the events and circumstances occurring during such periods.

The income tax provision related to pretax earnings for 2001, 2000 and 1999 represents an effective tax rate of 41.3%, 12.0% and 32.9%, respectively. White Mountains' effective rate of tax benefit for 2001 (resulting from a net loss reported during the period) was greater than the statutory rate of 35% primarily as a result of the effects of deferred credit amortization. The reduction in the effective rate from 1999 and 2000 resulted from an increase in White Mountains' non-United States net earnings to $395.9 million in 2000 versus $9.0 million in 1999.

Net income from discontinued operations of $95.0 million recorded during 2000 related to a reserve release associated with the sale of Fireman's Fund. Net income from discontinued operations of $12.6 million recorded during 1999 related to the Mortgage Banking Sale.

Excess of fair value over cost amounts which were recorded as extraordinary gains during 2001 related to the acquisitions of C-F and the Folksam assets, both of which occurred after July 1, 2001. In accordance with SFAS No. 141, White Mountains recognized a $13.6 million and a $3.0 million extraordinary gain during 2001 representing the excess of the fair value of C-F's and Folksam's net assets over their cost, respectively.

A loss on early extinguishment of debt of $4.8 million was recorded during 2001 in connection with the Debt Tender and the Debt Escrow.

Dividends on Convertible Preference Shares of $.3 million were declared and paid in 2001 during the period in which the Convertible Preference Shares were outstanding.

Upon shareholder approval at the 2001 Annual Meeting, the Convertible Preference Shares were repurchased and cancelled in consideration of 2,184,583 Common Shares. Because the redemption value of the Convertible Preference Shares was in excess of the cash received upon their issuance, the Convertible Preference Shares were required to be marked-to-market until the date they were converted to shareholders' equity, resulting in a $305.1 million charge to retained earnings, with an offsetting increase to paid-in surplus.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of cash inflows for the Company and certain of its intermediary holding companies are investment income, sales and maturities of investment securities and 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. Accordingly, there is no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future.

Detailed information concerning White Mountains' liquidity and capital resource activities during 2001, 2000 and 1999 follows:

For the year ended December 31, 2001

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

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

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

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

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

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

In connection with the Acquisition, White Mountains borrowed $825.0 million under the Lehman Facility. The Lehman Facility is comprised of two term loan facilities and a revolving credit facility. The term loan facilities are comprised of a $300.0 million Tranche A Loan with a five-year maturity and a $400.0 million Tranche B Loan with a six-year maturity. The revolving credit facility provides for revolving credit loans of up to $175.0 million, including up to $25.0 million available for the issuance of letters of credit. The revolving credit facility matures on June 1, 2006.

In connection with the Acquisition, White Mountains issued the Seller Note to CGNU. The Seller Note has an eighteen-month term and bears interest at a rate equal to 50 basis points over the rate on White Mountains' revolving loan facility described above. The Seller Note may be settled in cash, or at White Mountains' option, with Common Shares valued at $245.00 per share.

In June 2001 White Mountains forgave its intercompany note to Folksamerica issued in December 2000 in the amount of $195.0 million.

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

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

In October 2001 OneBeacon announced that it had signed a letter of intent to purchase Parkway Insurance Co. ("Parkway"), a personal automobile insurer in New Jersey, from Fireman's Fund. OneBeacon was unable to come to definitive terms with Fireman's Fund on the purchase of Parkway.

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

In December 2001 White Mountains filed a definitive Form S-3 with the Securities and Exchange Commission (the "SEC") which will permit the Company or its wholly-owned subsidiary, Fund American Companies, Inc. (formerly TACK Acquisition Corp.), to offer up to $1.0 billion of debt securities, preference shares or trust preferred securities. White Mountains currently intends to use the proceeds of any issuances of securities for general corporate purposes, including repayment of existing borrowings.

In December 2001 OneBeacon invested $180.0 million in Montpelier consisting of 1,800,000 common shares of Montpelier valued at $100 per share and the Company received warrants to acquire an additional 797,088 common shares of Montpelier at $100 per share over the next ten years.

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

In December 2001 Folksamerica received a $400.0 million capital contribution from its parent OneBeacon, in the form of cash, which was undertaken to allow Folksamerica to further capitalize on improved pricing trends which accelerated after the Attacks.

In December 2001 Folksamerica issued $7.0 million in short-term debt to a third party.

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

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

Through December 31, 2001, White Mountains paid a total of $18.4 million in dividends to holders of the Convertible Preference Shares, the Berkshire Preferred Stock and the Zenith Preferred Stock. Through December 31, 2001, White Mountains paid a total of $29.2 million in interest under the Lehman Facility including $2.9 million paid under related interest rate swap agreements.

For the year ended December 31, 2000

In March 2000 Folksamerica acquired PCA for consideration of $122.3 million in cash. Significant assets and liabilities acquired through PCA included $339.8 million of cash and investments, $160.0 million of reinsurance recoverables and $405.5 million of loss and loss adjustment expense reserves.

In May 2000 Folksamerica acquired the Risk Capital Operations for consideration of $20.3 million in cash plus related expenses. Significant assets and liabilities acquired with the Risk Capital Operations included $249.9 million of cash and investments, $108.6 million of premiums receivable, $312.5 million of net loss and loss adjustment expense reserves and $82.0 million of unearned reinsurance premiums. In addition, the Risk Capital Operations provided Folksamerica with two specialty underwriting units (Accident & Health and Marine) and several significant new treaty clients.

In July 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 FSA Common Stock to Dexia for proceeds of $620.4 million.

In December 2000 White Mountains provided $259.6 million of capital to Folksamerica through the contribution of ACIC and BICC and through the issuance of a $195.0 million intercompany note which was forgiven during 2001. Folksamerica subsequently contributed ACIC and $80.0 million of such cash to Folksamerica Reinsurance Company in order to provide the statutory capital needed to support its acquisitions of PCA and Risk Capital. The remaining $115.0 million was used by Folksamerica to repay its outstanding bank indebtedness.

During 2000 the Company repurchased and retired 65,838 Common Shares for $8.3 million in cash.

During 2000 the Company declared and paid quarterly cash dividends totalling $7.1 million.

As part of the Folksamerica acquisition in 1998, White Mountains refinanced Folksamerica's existing long-term indebtedness by utilizing a six-year revolving credit agreement whereby Folksamerica could borrow up to $120.0 million at market interest rates. This facility was repaid and terminated by Folksamerica during 2000 as described above.

For the year ended December 31, 1999

In May 1999 White Mountains exercised FSA Options to acquire 666,667 shares of FSA Common Stock for $15.7 million in cash.

In May 1999 White Mountains concluded the Mortgage Banking Sale and received net proceeds totalling $180.6 million.

In June 1999 White Mountains concluded the VGI Sale and received net proceeds of $139.0 million in cash after receiving a special dividend of assets and cash prior to the closing of $76.6 million. In connection with the VGI Sale, White Mountains repaid $15.0 million of VGI's indebtedness.

In June 1999 Folksamerica acquired USF Re for total consideration of $92.5 million. The purchase consideration included the issuance of a $20.8 million, five-year note by Folksamerica (which was reduced to zero at year-end 2000 due to adverse loss development at USF Re post acquisition) with the balance paid in cash.

In September 1999 White Mountains exercised FSA Options to acquire 1,893,940 shares of FSA Common Stock in exchange for White Mountains' $50.0 million investment in MediaOne preferred stock.

In October 1999 the Company acquired IAG for $86.7 million in cash.

In December 1999 White Mountains purchased an additional 922,509 shares of FSA Common Stock for $50.0 million.

During 1999 the Company issued a total of 1,137,495 Common Shares to its Chairman and its key employees in satisfaction of the Chairman's warrant exercise and various employee benefit plan obligations. In order to entice the Chairman to exercise his warrants to acquire Common Shares early, the Company paid the Chairman $6.0 million to compensate him for the estimated interest cost of borrowing the strike price and the amounts required to prematurely pay his income taxes.

During 1999 the Company repurchased 1,020,150 Common Shares for $139.5 million in cash.

During 1999 the Company declared and paid quarterly cash dividends totalling $8.8 million.

In connection with the Redomestication, White Mountains paid $104.1 million in certain compensation benefits to its current and former employees and Directors in October 1999 at an incremental after tax cost of $14.9 million.

In connection with the compensation payments, White Mountains paid cash of $89.8 million (primarily to its former employees) and issued Common Shares valued at $14.3 million (primarily to its current employees, Directors and advisors). A significant portion of such compensation paid represented the acceleration of expenses that would have ordinarily been incurred in future periods which resulted in increased tax deductible expenses in 1999.

In connection with the Redomestication, the Company was treated as if it sold all of its directly owned assets in a fully taxable transaction in which gains, but not losses, were recognized. The Company incurred a United States income tax liability upon the Redomestication of approximately $13.5 million.

Significant Cash Flow Activities for the Years Ended December 31, 2001, 2000 and 1999

The following table summarizes certain information pertaining to White Mountains' cash flows:

	Year ending December 31,		
Millions	**2001**	2000	1999
Net cash used for operating activities	**$ (300.7)**	$ (114.0)	$ (208.3)
Net cash (used for) provided from investing activities	**(1,102.6)**	234.4	354.3
Net cash provided from (used for) financing activities	**1,466.3**	(119.9)	(164.5)
Net increase (decrease) in cash during year	**$ 63.0**	$ .5	$ (18.5)

Cash used for operations of $300.7 million during the 2001 period is primarily the result of claims payments and general expenses exceeding premiums collected at OneBeacon. The net cash used for operations during the 2000 period of $114.0 million is primarily the result of significant acquisitions of run-off insurance portfolios during that period. Run-off transactions involved the assumption of sizable portfolios of invested assets as well as the assumption of insurance and reinsurance liabilities. Run-off liabilities paid are shown as uses of operating cash whereas offsetting sales of the related assets acquired are shown as sources of cash from investing activities. The net cash used for operations during the 1999 period of $208.3 million is primarily the result of dispositions of certain of White Mountains' operating subsidiaries and the activities of its insurance and reinsurance run-off activities.

Cash used for investing activities of $1,102.6 million during 2001 resulted primarily from the costs associated with the Acquisition, partially offset by net sales of investment securities in anticipation of the Acquisition. Cash provided from investing activities of $234.4 million during 2000 resulted primarily from proceeds from the sale of a former subsidiary, partially offset by net purchases of investment securities. Cash provided from investing activities of $354.3 million during 1999 resulted primarily from net sales of investment securities and proceeds from the sale of two former subsidiaries. In addition, sales of investment securities acquired in connection with White Mountains' insurance and reinsurance run-off activities served to provide net cash from investing activities during each of the periods presented herein.

Cash provided from financing activities of $1,466.3 million during 2001 resulted primarily from activities undertaken to finance the Acquisition, partially offset by cash used in connection with the Debt Tender and the Debt Escrow. Cash used for financing activities of $119.9 million during 2000 resulted primarily from the repayment of Folksamerica's outstanding bank indebtedness. Cash used for financing activities of $164.5 million during 1999 resulted primarily from repurchases of Common Shares.

In connection with the Renewal Rights Agreement, OneBeacon retained all of the existing liabilities, including loss and loss adjustment expense reserves, related to the transferred business. A large portion of the premiums associated with the business transferred to Liberty Mutual on November 1, 2001 were previously received and invested by OneBeacon whereas the related losses and loss adjustment expenses associated with such business have not yet been fully paid. As a result, OneBeacon's future payments of such losses and loss adjustment expenses are expected to result in sizable net uses of operating cash. However, the liquidation of OneBeacon's existing invested assets supporting such reserves is expected to result in sizable cash sources from investing activities.

Contractual Obligations and Covenants

Set forth below is a schedule of White Mountains' material contract obligations and commitments as of December 31, 2001:

(Millions)	Due in One Year or Less	Due in Two Years	Due in Three Years	Due in Four Years	Due After Four Years	Total
Debt	$ 358.4	$ 67.2	$ 69.6	$ 77.1	$ 553.1	$ 1,125.4
Preferred stock of subsidiaries	–	–	–	–	320.0	320.0
Operating leases	33.5	28.7	19.9	16.8	43.1	142.0
Total contractual obligations	$ 391.9	$ 95.9	$ 89.5	$ 93.9	$ 916.2	$ 1,587.4

The Lehman Facility contains various affirmative, negative and financial covenants which are considered to be customary for such borrowings and include meeting certain minimum net worth and financial ratio standards. Failure to meet one or more of these covenants could result in an event of default which ultimately could accelerate required principal repayments. At December 31, 2001, White Mountains was in compliance with all of the covenants under the Lehman Facility, and anticipates it will continue to meet the financial covenants under the Lehman Facility for the foreseeable future.

There are no provisions within White Mountains' leasing agreements that would trigger acceleration of future lease payments. (See Notes 6, 10 and 18 to the consolidated financial statements for additional information regarding the obligations and commitments listed above).

White Mountains does not finance its operations through the securitization of its trade receivables, through special purpose entities or through synthetic leases. Further, White Mountains has not entered into any arrangement requiring it to guarantee payment of third party debt or to fund losses of an unconsolidated special purpose entity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

Management believes that its critical accounting policies affect its more significant estimates used in the preparation of its consolidated financial statements. The descriptions below are summarized and have been simplified for clarity. A more detailed description of the significant accounting policies used by the Company in preparing its financial statements is included in the notes to the Consolidated Financial Statements.

Loss and Loss Adjustment Expenses

White Mountains must estimate insurance losses and loss adjustment expenses incurred to provide adequate loss reserves for the payment of insurance claims. The process of estimating loss and loss adjustment expenses involves a considerable degree of judgement by management, including issues as to an insured's liabilities, definitions of occurrence, scope of coverage, policy limits and application and interpretation of policy terms and exclusions. As a result, the ultimate amount of expense incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

Purchase Accounting and Related Deferred Credits and Goodwill

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

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

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", effective January 1, 2002, White Mountains will amortize its existing and prospective goodwill only when the asset acquired is deemed to have been impaired rather than systematically over a perceived period of benefit.

Reinsurance Transactions

White Mountains' insurance and reinsurance subsidiaries enter into reinsurance contracts from time to time to protect their businesses from losses due to poor risk diversification, to manage their operating leverage ratios and to limit ultimate losses arising from catastrophic events. Amounts related to reinsurance contracts are recorded in accordance with SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts".

The collectibility of reinsurance recoverables is subject to the solvency of the reinsurers. The Company is selective in regard to its reinsurers, placing reinsurance with only those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis.

Pension Benefit Obligations

White Mountains has pension benefit obligations that are developed from external actuarial valuations. Inherent in these valuations and related net periodic costs or credits are key assumptions including discount rates, interest rates and expected future returns on plan assets. White Mountains is required to consider current market conditions, such as changes in relevant interest rates and anticipated future investment returns, in selecting these assumptions. Changes in the pension benefit obligations and the related net periodic costs or credits may occur in the future due to any variance of actual results from our assumptions and changes in the number of participating employees.

MARKET RISK

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

Interest Rate Risk

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

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

Indebtedness. White Mountains utilized a significant amount of variable rate debt financing (the Lehman Facility and the Seller Note) in connection with the Acquisition. Increases and decreases in prevailing interest rates will translate into increases and decreases in the future interest expense associated with this indebtedness although the carrying value of such liabilities will not be affected. At December 31, 2001, White Mountains also had $5.1 million in fixed rate indebtedness outstanding which was prepaid in connection with the Acquisition by the Debt Escrow transaction, therefore, its fair value is not subject to future changes in prevailing interest rates.

During 2001 White Mountains entered into a ten-year, $200.0 million notional interest rate swap and three separate three-year interest rate swaps at an aggregate $500.0 million notional with two large financial institutions. The interest rate swaps were undertaken to achieve a fixed interest rate on a portion of the Lehman Facility. Pursuant to SFAS No. 133, these contracts are carried at fair value on the balance sheet (which constituted an obligation by White Mountains of $4.9 million at December 31, 2001) with changes in their fair value reported directly through the income statement as they do not qualify for hedge accounting since their duration is dissimilar to that of the Lehman Facility.

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

Dollars in Millions	Fair Value at December 31, 2001	Assumed Change in Relevant Interest Rate [1]	Estimated Fair Value After Change in Interest Rate	After Tax Increase (Decrease) in Carrying Value
Fixed maturity investments	**$6,128.3**	100 bp decrease	$ 6,379.9	$ 163.5
		100 bp increase	5,902.6	(146.7)
Interest rate swaps	**$(4.9)**	100 bp decrease	$ (33.5)	$ (18.6)
(carried in other investments)		100 bp increase	22.2	17.6

[1] The relevant interest rate for the assumed change in White Mountains' fixed income portfolio and interest rate swaps is predicated upon assumed changes in the three-year or the ten-year United States Treasury yield, depending on the duration of the contract.

Equity Price Risk

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

Foreign Currency Exchange Rates

A small portion of White Mountains' assets and liabilities are denominated in foreign currencies. Net unrealized foreign currency translation gains and losses are reported, after tax, as a net amount in a separate component of common shareholders' equity. Changes in the values of these assets and liabilities due to currency fluctuations, after tax, are reported on the income statement as a component of other comprehensive income. White Mountains' assets and liabilities denominated in foreign currency are not material.

FORWARD-LOOKING STATEMENTS

White Mountains relies upon the safe harbor for forward looking statements provided by 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. Accordingly, forward-looking statements by the Company and its affiliates are qualified by reference to the following cautionary statements.

In its filings with the SEC, reports to shareholders, press releases and other written and oral communications, White Mountains from time to time makes forward-looking statements. All statements regarding its expected financial position and operating results, its business strategy and its financial plans are forward-looking statements. Such forward-looking statements include, but are not limited to, (i) projections of revenues, income (or loss), earnings (or loss) per share, dividends, market share or other financial forecasts, (ii) statements of plans, objectives or goals of White Mountains or its management, including those related to growth in book value and deferred credit per share or return on equity and (iii) expected losses on, and adequacy of loss reserves for, insurance in force. Words such as "believes", "anticipates", "expects", "intends", "may", "will" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

White Mountains cautions that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in forward-looking statements made by White Mountains. These factors include, but are not limited to: (i) competitive forces, including the conduct of other property and casualty insurers and reinsurers, (ii) changes in domestic or foreign laws or regulations applicable to White Mountains, its competitors or its clients, (iii) an economic downturn or other economic conditions (such as rising interest rate environment) adversely affecting White Mountains' financial position, (iv) loss reserves and other balance sheet items established by White Mountains subsequently proving to have been inadequate, (v) the failure of pending transactions to be consummated under expected terms or at all and (vi) the amount of time and extent of business interruptions and other losses resulting from the Attacks. White Mountains cautions that the foregoing list of important factors is not exhaustive. In any event, such forward-looking statements made by White Mountains speak only as of the date on which they are made, and White Mountains does not undertake any obligation to update or revise such statements as a result of new information, future events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See "Market Risk Disclosures" contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 50 of this report.

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

None.

PART III

Item 10. Directors and Executive Officers

a. Directors (as of March 22, 2002)

Reported under the caption "Election of the Company's Directors" on pages 3 through 6 of the Company's 2002 Proxy Statement, herein incorporated by reference.

b. Executive Officers (as of March 22, 2002)

Name	Position	Age	Executive officer since (a)
Raymond Barrette	Chairman, Managing Director and Chief Executive Officer of OneBeacon	51	1997
Dennis P. Beaulieu	Treasurer and Corporate Secretary	54	2001
John J. Byrne	Chairman and Chief Executive Officer	69	1985
John P. Cavoores	Managing Director, President and Chief Operating Officer of OneBeacon	44	2002
John D. Gillespie	Managing Director of OneBeacon	43	2001
K. Thomas Kemp	President	61	1991
J. Brian Palmer	Chief Accounting Officer	29	2001
James J. Ritchie	Managing Director and Chief Financial Officer of OneBeacon	47	2001

(a) All executive officers of the Company and its subsidiaries, are elected by the Board for a term of one-year or until their successors have been elected and have duly qualified.

Mr. Barrette has served as Managing Director and Chief Executive Officer of OneBeacon since June 2001, serving as Chairman of its Board of Managers since December 2001, and has been a director of the Company since 2000. Mr. Barrette formerly served as President of the Company from 2000 to June 2001 and served as Executive Vice President and Chief Financial Officer of the Company from 1997 to 2000. He was formerly a consultant with Tillinghast-Towers Perrin from 1994 to 1996 and was with Fireman's Fund Insurance Company from 1973 to 1993. Mr. Barrette is Chairman of Folksamerica and a director of Montpelier.

Mr. Beaulieu has served as Secretary and Treasurer of the Company since June 1, 2001. Mr. Beaulieu previously served as Vice President and Secretary of the Company from January 1995 to May 2001. He also served as secretary for a number of the Company's subsidiaries from January 1995 to May 2001 and as Chief Financial Officer of White Mountains Insurance Company from March 1995 to June 1999. Prior to joining White Mountains, Mr. Beaulieu was Chief Financial Officer of New Dartmouth Bank from October 1991 to June 1994.

Mr. Byrne was appointed CEO of the Company in February 2002 and has served as Chairman of the Company since 1985. Mr. Byrne formerly served as Chairman of OneBeacon from June 2001 to December 2001, as CEO of the Company from January 2000 to June 2001, as President and CEO of the Company from 1990 to 1997 and as CEO from 1985 to 1990. Mr. Byrne is a member of OneBeacon and also serves as a director of Folksamerica, Overstock.com and as Chairman of Montpelier.

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

Mr. Gillespie has served as Managing Director of OneBeacon since June 2001 and has been a director of the Company since 1999. He is also the founder and Managing Partner of his own investment firm, Prospector Partners, LLC ("Prospector"), in Hartford, Connecticut. Prior to forming Prospector, Mr. Gillespie was President of the T. Rowe Price Growth Stock Fund and the New Age Media Fund, Inc. Mr. Gillespie is a member of OneBeacon and serves as a director of Folksamerica and Montpelier.

Mr. Kemp has served as President of the Company since June 2001 and has been a director since 1994. Mr. Kemp previously served as Deputy Chairman from January 2000 to June 2001 and as the Company's President and CEO from 1997 to 2000 and served as Executive Vice President from 1993 to 1997 and its Vice President, Treasurer and Secretary from 1991 to 1993. Mr. Kemp is also a director of Fund American Re, Folksamerica, MSA and Amlin plc.

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

Mr. Ritchie was appointed Chief Financial Officer of Fund American Companies, Inc. in March 2001 and was named a Managing Director and Chief Financial Officer of OneBeacon in June 2001. Prior to joining White Mountains in 2001, Mr. Ritchie served as Senior Vice President and Chief Financial Officer of CIGNA Corporation's International Division. Mr. Ritchie was with CIGNA since 1986. Mr. Ritchie is a member of OneBeacon and serves as a director of Folksamerica.

Item 11. Executive Compensation

Reported under the captions "Compensation of Executive Officers" on pages 10 through 13, "Reports of the Compensation Committees on Executive Compensation" on pages 13 though 15, "Member Return Graph" on page 17, and "Compensation Plans" on page 12 of the Company's 2002 Proxy Statement, herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Reported under the caption "Voting Securities and Principal Holders Thereof" on pages 7 through 9 of the Company's 2002 Proxy Statement, herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions

Reported under the captions "Other Compensation Arrangements" on page 12, "Certain Relationships and Related Transactions" on page 13 and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" on page 18 of the Company's 2002 Proxy Statement, herein incorporated by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

a. Documents Filed as Part of the Report

The financial statements and financial statement schedules and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 50 of this report. A listing of exhibits filed as part of the report appear on pages 47 through 48 of this report.

b. Reports on Form 8-K

On October 31, 2001, the Company filed a Form 8-K (Item 5) which announced that it had executed a definitive agreement with Liberty Mutual to assume new and renewal commercial and personal lines business produced by OneBeacon agents in 42 states and the District of Columbia.

On November 1, 2001, the Company filed a Form 8-K (Item 9) which served to furnish a letter issued by the Registrant's Chairman, dated October 31, 2001, to shareholders concerning OneBeacon and Folksamerica.

On November 2, 2001, the Company filed a Form 8-K (Item 9) which served to furnish information regarding White Mountains' involvement as a founding shareholder in Montpelier.

On November 5, 2001, the Company filed a Form 8-K (Item 2) which provided the definitive Liberty Mutual documents including the Renewal Rights Agreement.

On November 7, 2001, the Company filed a Form 8-K (Item 5) containing Management's Discussion and Analysis to the audited consolidated financial statements of CGU Corporation for the years ended December 31, 2000, 1999 and 1998 and the unaudited six month periods ended June 30, 2001 and 2000. This information was filed as a supplement to the financial statement information previously filed as Exhibit 99(w) to the Company's Form 8-K dated June 25, 2001.

On December 18, 2001, the Company filed a Form 8-K (Item 9) which served to furnish information regarding the formation of Montpelier.

c. **Exhibits**

Exhibit number	Name
2	Plan of Reorganization (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3 (a)	Memorandum of Continuance of the Company (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3 (b)	Bye-Laws of the Company (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
4	Indenture dated January 1, 1993, with The First National Bank of Chicago, as trustee, pursuant to the Company's offering of $150 million of medium-term notes (incorporated by reference herein to the Company's Registration Statement on S-3 (No. 33-54006) dated October 30, 1992)
10 (a)	Stock Purchase Agreement among CGU International Holdings Luxembourg S.A., CGU Holdings LLC, CGNU PLC, the Company, Fund American Enterprises Holdings, Inc. and Fund American Companies, Inc. dated as of September 24, 2000 (incorporated by reference herein to Exhibit 99(a) of the Company's Report on Form 8-K dated September 24, 2000)
10 (b)	Amendment No. 1 dated October 15, 2000 to the Stock Purchase Agreement among CGU International Holdings Luxembourg S.A., CGU Holdings LLC, CGNU PLC, the Company, Fund American Enterprises Holdings, Inc. and Fund American Companies, Inc. dated as of September 24, 2000 (incorporated by reference herein to Exhibit 99(c) of the Company's Report on Form 8-K dated October 19, 2000)
10 (c)	Amendment No. 2 dated February 20, 2001 to the Stock Purchase Agreement among CGU International Holdings Luxembourg S.A., CGU Holdings LLC, CGNU PLC, the Company, Fund American Enterprises Holdings, Inc. and Fund American Companies, Inc. dated as of September 24, 2000 (incorporated by reference herein to Exhibit 99(i) of the Company's Report on Form 8-K dated February 20, 2001)
10 (d)	Convertible Preferred Stock Term Sheet relating to the Company's acquisition of OneBeacon (incorporated by reference herein to Exhibit 99(e) of the Company's Report on Form 8-K dated October 19, 2000)
10 (e)	Berkshire Preferred Stock and Warrants Term Sheet relating to the Company's acquisition of OneBeacon (incorporated by reference herein to Exhibit 99(f) of the Company's Report on Form 8-K dated October 19, 2000)
10 (f)	$875 million Credit Agreement among Fund American Enterprises Holdings, Inc., Fund American Companies, Inc. and the Company (as borrowers), Lehman Brothers, Inc. (as arranger) and the several lenders as parties thereto relating to the Company's acquisition of OneBeacon dated March 16, 2001 (incorporated by reference herein to Exhibit 10(f) of the Company's Report on Form 10-K dated March 26, 2001)
10 (g)	Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance Company and GRC dated April 13, 2001 (incorporated by reference herein to Exhibit 99(m) of the Company's Report on Form 8-K dated June 1, 2001)
10 (h)	Adverse Development Agreement of Reinsurance between NICO (and certain of its affiliates) and Potomac Insurance Company dated April 13, 2001 and related documents (incorporated by reference herein to Exhibits 99(n), 99(o), 99(p) and 99(q) of the Company's Report on Form 8-K dated June 1, 2001)
10 (i)	Warrant Agreement among the Registrant and Berkshire dated May 30, 2001 (incorporated by reference herein to Exhibits 99(s) of the Company's Report on Form 8-K dated June 1, 2001)
10 (j)	Subscription Agreement among Berkshire, Fund American Companies, Inc. and the Registrant dated May 30, 2001 (incorporated by reference herein to Exhibits 99(t) of the Company's Report on Form 8-K dated June 1, 2001)
10 (k)	Form of Subordinated Note Due 2002 issued to CGU International Holdings Luxembourg S.A. and CGU Holdings LLC dated June 1, 2001 (incorporated by reference herein to Exhibits 99(u) of the Company's Report on Form 8-K dated June 1, 2001)
10 (l)	Note Purchase Option Agreement among CGU International Holdings Luxembourg S.A. and CGU Holdings LLC and the Registrant dated June 1, 2001 (incorporated by reference herein to Exhibits 99(v) of the Company's Report on Form 8-K dated June 1, 2001)

Exhibit number	Name
10 (m)	Master Agreement by and among the Company, OneBeacon and Liberty Mutual including the Renewal Rights Agreement and related documents (incorporated by reference herein to Exhibits 99(d), 99(e), 99(f), 99(g) and 99(h) of the Company's Report on Form 8-K dated November 1, 2001)
10 (n)	Asset Purchase Agreement dated as of December 4, 2001 between Folksam International Insurance Company, Ltd., Folksam Mutual General Insurance Company and Fund American Reinsurance Company, Ltd. And related documents (incorporated by reference herein to Exhibits 99(a), 99(b), 99(c) and 99(d) of the Company's Report on Form 8-K dated January 3, 2002)
10 (o)	Stock Purchase and Indemnity Agreement by and among the Company and Dexia S.A. for all of the outstanding capital stock of White Mountains Holdings, Inc. and indirectly for certain of the outstanding capital stock of FSA (incorporated by reference herein to Exhibit 99.1 of the Company's Report on Form 8-K dated March 10, 2000)
10 (p)	Asset Purchase Agreement, as of January 10, 2000, by and between Risk Capital Holdings, Inc., Risk Capital Reinsurance Company, Folksamerica Holding Company, Inc. and Folksamerica Reinsurance Company (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated January 10, 2000)
10 (q)	Stock Purchase Agreement as of December 30, 1999, by and among Humana Inc., Physician Corporation of America and Folksamerica Holding Company, Inc. (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated December 30, 1999)
10 (r)	Amended and Restated Management Contract by and between PCA and Humana Workers Compensation Services, Inc. (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated December 30, 1999)
10 (s)	VGI Stock Acquisition Agreement dated February 10, 1999 between Unitrin, Inc. and the Company (incorporated by reference herein to Exhibit 10(n) of the Company's 1998 Annual Report on Form 10-K)
10 (t)	Amendment No. 2 dated October 29, 1999 to the Credit Agreement dated February 24, 1999 among Folksamerica Holding Company, Inc., the Lenders (as named therein) and The First National Bank of Chicago (incorporated by reference herein to Exhibit 10(g) of the Company's 1999 Annual Report on Form 10-K)
10 (u)	White Mountains Long-Term Incentive Plan, as amended, (incorporated by reference to Appendix I of the Company's Notice of 2001 Annual General Meeting of Shareholders and Proxy Statement dated July 5, 2001) (**)
10 (v)	White Mountains Insurance Group Discounted Option Plan (*)(**)
10 (w)	OneBeacon Insurance Discounted Option Plan (*)(**)
10 (x)	OneBeacon Insurance Supplemental Plan (incorporated by reference herein to Exhibit 4(c) of the Company's Report on Form S-8 dated August 27, 2001) (**)
10 (y)	Employment Agreement dated January 1, 2001 among John D. Gillespie and Fund American Companies, Inc. (formerly TACK Acquisition Corp.) (*)(**)
10 (z)	Revenue Sharing Agreement among John D. Gillespie, Fund American Companies, Inc. (formerly TACK Acquisition Corp.) and Folksamerica Reinsurance Company (*)(**)
11	Statement Re Computation of Per Share Earnings (***)
21	Subsidiaries of the Registrant (*)
23	Consent of PricewaterhouseCoopers dated April 1, 2002 (*)
24	Powers of Attorney (*)

(*) Included herein.

(**) Management contracts or compensation plans/arrangements required to be filed as an exhibit pursuant to Item 14(a)3 of Form 10-K.

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

d. Financial Statement Schedules

The financial statement schedules and report of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 50 of this report.

SIGNATURES

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

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Date: April 1, 2002

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

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

Signature	Title	Date
RAYMOND BARRETTE* Raymond Barrette	Director	April 1, 2002
/s/ DENNIS P. BEAULIEU Dennis P. Beaulieu	Treasurer and Corporate Secretary (Principal Financial Officer)	April 1, 2002
/s/ JOHN J. BYRNE John J. Byrne	Chairman and Chief Executive Officer (Principal Executive Officer)	April 1, 2002
MARK J. BYRNE* Mark J. Byrne	Director	April 1, 2002
PATRICK M. BYRNE* Patrick M. Byrne	Director	April 1, 2002
HOWARD L. CLARK, JR.* Howard L. Clark, Jr.	Director	April 1, 2002
ROBERT P. COCHRAN* Robert P. Cochran	Director	April 1, 2002
STEVEN E. FASS* Steven E. Fass	Director	April 1, 2002
GEORGE J. GILLESPIE, III* George J. Gillespie, III	Director	April 1, 2002
JOHN D. GILLESPIE* John D. Gillespie	Director	April 1, 2002
K. THOMAS KEMP* K. Thomas Kemp	Director	April 1, 2002
GORDON S. MACKLIN* Gordon S. Macklin	Director	April 1, 2002
FRANK A. OLSON* Frank A. Olson	Director	April 1, 2002
/s/ J. BRIAN PALMER J. Brian Palmer	Chief Accounting Officer (Principal Accounting Officer)	April 1, 2002
JOSEPH S. STEINBERG* Joseph S. Steinberg	Director	April 1, 2002
ARTHUR ZANKEL* Arthur Zankel	Director	April 1, 2002

*By: /s/ K. THOMAS KEMP
K. Thomas Kemp, Attorney-in-Fact

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

	Form 10-K page(s)
Consolidated financial statements:	
Consolidated balance sheets as of December 31, 2001 and 2000	F-1
Consolidated statements of income and comprehensive income for each of the years ended December 31, 2001, 2000 and 1999	F-2
Consolidated statements of common shareholders' equity for each of the years ended December 31, 2001, 2000 and 1999	F-3
Consolidated statements of cash flows for each of the years ended December 31, 2001, 2000 and 1999	F-4
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Other financial information:	
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V. Valuation and qualifying accounts	FS-6
VI. Supplemental information concerning property and casualty insurance underwriters	FS-7

CONSOLIDATED BALANCE SHEETS

Dollars in millions, except share amounts	December 31, 2001	2000
Assets		
Fixed maturity investments, at fair value (cost $6,156.5 and $1,063.0)	$ 6,128.3	$ 1,078.6
Short-term investments, at amortized cost (which approximated fair value)	2,545.8	735.9
Common equity securities, at fair value (cost $155.1 and $127.5)	173.6	144.8
Other investments (cost $150.0 and $117.3)	158.0	142.9
Total investments	9,005.7	2,102.2
Cash	67.4	4.4
Reinsurance recoverable on paid and unpaid losses	4,342.0	777.2
Insurance and reinsurance balances receivable	1,062.0	105.7
Deferred tax asset	696.4	105.1
Deferred acquisition costs	313.3	27.2
Investments in unconsolidated insurance affiliates	311.1	130.6
Investment income accrued	99.9	20.1
Goodwill	22.3	25.4
Other assets	572.7	247.3
Total assets	$ 16,492.8	$ 3,545.2
Liabilities		
Loss and loss adjustment expense reserves	$ 9,527.6	$ 1,556.3
Unearned insurance and reinsurance premiums	1,814.5	182.0
Debt	1,125.4	96.0
Deferred credits	682.5	92.2
Funds held under reinsurance treaties	361.7	420.0
Other liabilities	1,366.2	152.2
Total liabilities	14,877.9	2,498.7
Minority interest - mandatorily redeemable preferred stock of subsidiaries	170.3	–
Common shareholders' equity		
Common Shares at $1 par per share– authorized 50,000,000 Common Shares, issued and outstanding 8,264,681 and 5,880,115 Common Shares	8.3	5.9
Paid-in surplus	1,098.3	66.2
Retained earnings	355.1	927.5
Accumulated other comprehensive income, after tax	4.4	46.9
Unearned compensation - Restricted Share awards	(21.5)	–
Total common shareholders' equity	1,444.6	1,046.5
Total liabilities, minority interest and common shareholders' equity	$ 16,492.8	$ 3,545.2

See Notes to Consolidated Financial Statements including Note 18 for Commitments and Contingencies.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Millions, except per share amounts	Year Ended December 31, 2001	2000	1999
Revenues:			
Earned insurance and reinsurance premiums	**$ 2,656.1**	$ 334.4	$ 283.2
Net investment income	**284.5**	85.9	61.9
Net gains (losses) on investments	**173.1**	(8.8)	69.6
Amortization of deferred credits and other benefits	**91.6**	41.4	25.8
Net gains on sales of subsidiaries and other assets	**20.2**	386.2	103.9
Other revenue	**8.1**	9.1	34.8
Total revenues	**3,233.6**	848.2	579.2
Expenses:			
Losses and loss adjustment expenses	**2,493.9**	287.7	242.3
Insurance and reinsurance acquisition expenses	**584.3**	101.1	73.4
General and administrative expenses	**417.1**	87.9	87.3
Share appreciation expense for Series B Warrants	**58.8**	–	–
Accretion of fair value adjustment to loss and loss adjustment expense reserves	**56.0**	–	–
Interest expense	**45.7**	16.1	14.7
Total expenses	**3,655.8**	492.8	417.7
Pretax earnings (loss)	**(422.2)**	355.4	161.5
Tax benefit (provision)	**174.3**	(42.5)	(53.1)
Net income (loss) before minority interest and extraordinary items	**(247.9)**	312.9	108.4
Accretion of preferred stock of subsidiaries to face value	**(5.1)**	–	–
Dividends on preferred stock of subsidiaries	**(18.1)**	–	–
Net income (loss) from continuing operations	**(271.1)**	312.9	108.4
Net income from discontinued operations	**–**	95.0	12.6
Net income (loss) before extraordinary items	**(271.1)**	407.9	121.0
Excess of fair value of acquired net assets over cost	**16.6**	–	–
Loss on early extinguishment of debt	**(4.8)**	–	–
Net income (loss)	**(259.3)**	407.9	121.0
Net change in unrealized gains for investments held	**(4.5)**	56.3	(73.7)
Net change in foreign currency translation	**(2.0)**	(.7)	.9
Recognition of net unrealized gains for investments sold	**(36.0)**	(15.9)	(45.2)
Comprehensive net income (loss)	**$ (301.8)**	$ 447.6	$ 3.0
Computation of net income (loss) available to common shareholders:			
Net income (loss)	**$ (259.3)**	$ 407.9	$ 121.0
Redemption value adjustment - Convertible Preference Shares	**(305.1)**	–	–
Dividends on Convertible Preference Shares	**(.3)**	–	–
Net income (loss) available to common shareholders	**$ (564.7)**	$ 407.9	$ 121.0
Basic earnings per share:			
Net income (loss) from continuing operations	**$ (86.52)**	$ 53.08	$ 19.25
Net income (loss)	**(84.75)**	69.19	21.50
Diluted earnings per share:			
Net income (loss) from continuing operations	**$ (86.52)**	$ 52.84	$ 17.66
Net income (loss)	**(84.75)**	68.89	19.73

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

Millions	Total	Common Shares and paid-in surplus	Retained earnings	Common Shares in treasury	Accumulated other comprehensive income	Unearned compensation
Balances at January 1, 1999	$ 702.5	$ 385.1	$1,063.2	$(871.0)	$ 125.2	$ –
Net income	121.0	–	121.0	–	–	–
Net unrealized investment losses	(118.9)	–	–	–	(118.9)	–
Foreign currency translation adjustments	.9	–	–	–	.9	–
Dividends declared to common shareholders	(8.8)	–	(8.8)	–	–	–
Issuances of Common Shares	57.1	–	(58.8)	115.9	–	–
Repurchases and retirements of Common Shares	(139.5)	(312.2)	(582.4)	755.1	–	–
Balances at December 31, 1999	614.3	72.9	534.2	–	7.2	–
Net income	407.9	–	407.9	–	–	–
Net unrealized investment gains	40.4	–	–	–	40.4	–
Foreign currency translation adjustments	(.7)	–	–	–	(.7)	–
Dividends declared to common shareholders	(7.1)	–	(7.1)	–	–	–
Repurchases and retirements of Common Shares	(8.3)	(.8)	(7.5)	–	–	–
Balances at December 31, 2000	1,046.5	72.1	927.5	–	46.9	–
Net loss	(259.3)	–	(259.3)	–	–	–
Net unrealized investment losses	(40.5)	–	–	–	(40.5)	–
Foreign currency translation adjustments	(2.0)	–	–	–	(2.0)	–
Dividends on Convertible Preference Shares	(.3)	–	(.3)	–	–	–
Dividends declared to common shareholders	(5.9)	–	(5.9)	–	–	–
Issuances of Common Shares	779.6	779.6	–	–	–	–
Redemption value adjustment - Convertible Preference Shares	(305.1)	–	(305.1)	–	–	–
Repurchases and retirements of Common Shares	(1.9)	(.1)	(1.8)	–	–	–
Issuance of Warrants	213.6	213.6	–	–	–	–
Issuance of unearned Restricted Shares	–	31.9	–	–	–	(31.9)
Amortization of earned Restricted Shares	10.4	–	–	–	–	10.4
Accrued Option expense	9.5	9.5	–	–	–	–
Balances at December 31, 2001	**$1,444.6**	**$1,106.6**	**$ 355.1**	**$ –**	**$ 4.4**	**$ (21.5)**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 2001	2000	1999
Net (loss) income	$ (259.3)	$ 407.9	$ 121.0
Reconciliation of net income to cash flows from operating activities:			
Dividends on preferred stock of subsidiaries	18.1	–	–
Excess of fair value of acquired net assets over cost	(16.6)	–	–
Loss on early extinguishment of debt	4.8	–	–
Share appreciation expense for Series B Warrants	58.8	–	–
Accretion of fair value adjustment to loss and loss adjustment expenses reserves	56.0	–	–
Share appreciation expense for Options and Restricted Shares	20.0	–	–
Net income from discontinued operations	–	(95.0)	(12.6)
Net gains on sales of subsidiaries and other assets	(20.2)	(386.2)	(103.9)
Net (gains) losses on investments	(173.1)	8.8	(69.6)
Amortization of deferred credits and other benefits	(91.6)	(41.4)	(25.8)
Deferred income tax (benefit) expense	(186.0)	(18.1)	38.7
Net change in other operating items:			
Net change in reinsurance recoverable on paid and unpaid losses	(1,410.1)	(367.2)	5.7
Net change in insurance loss and loss adjustment expense reserves	1,500.4	(72.4)	(69.2)
Net change in funds held and insurance and reinsurance premiums receivable	331.8	432.8	28.9
Net change in unearned insurance and reinsurance premiums	(247.0)	(19.9)	(7.8)
Net change in other assets and liabilities, net	113.3	36.7	(113.7)
Net cash used for operating activities	(300.7)	(114.0)	(208.3)
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	(979.2)	(614.6)	75.5
Sales of common equity securities and other investments	246.9	204.0	256.4
Sales of fixed maturity investments	7,603.6	315.1	237.7
Maturities of fixed maturity investments	1,121.1	63.0	36.0
Purchases of common equity securities and other investments	(233.8)	(205.6)	(71.1)
Purchases of fixed maturity investments	(6,897.3)	(159.0)	(89.4)
Purchases of consolidated and unconsolidated affiliates	(1,979.8)	60.1	(234.3)
Proceeds from sales of consolidated and unconsolidated affiliates	23.6	570.4	144.5
Net (purchases) sales of fixed assets	(7.7)	1.0	(1.0)
Net cash (used for) provided from investing activities	(1,102.6)	234.4	354.3
Cash flows from financing activities:			
Issuances of debt	832.0	15.0	100.0
Repayments of debt	(103.9)	(119.0)	(138.0)
Proceeds from issuances of Common Shares and Convertible Preference Shares	444.4	–	–
Proceeds from issuances of preferred stock of subsidiaries	245.0	–	–
Proceeds from issuances and exercises of warrants to acquire Common Shares	75.0	–	21.7
Common Shares repurchased and retired	(1.9)	(8.8)	(139.4)
Cash dividends to preferred shareholders	(18.4)	–	–
Cash dividends paid to holders of Common Shares	(5.9)	(7.1)	(8.8)
Net cash provided from (used for) financing activities	1,466.3	(119.9)	(164.5)
Net increase (decrease) in cash during year	63.0	.5	(18.5)
Cash balance at beginning of year	4.4	3.9	22.4
Cash balance at end of year	$ 67.4	$ 4.4	$ 3.9

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

Basis of presentation

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

The Company's consolidated property and casualty insurance operations are conducted primarily through OneBeacon, which was acquired on June 1, 2001. Therefore, the Company's 2001 consolidated financial results include OneBeacon's results only for the seven months ended December 31, 2001. The Company's consolidated property and casualty reinsurance operations are conducted through Folksamerica. Folksamerica, which is owned by OneBeacon, also owns PIC, ACIC and BICC. All significant intercompany transactions have been eliminated in consolidation. The financial statements include all adjustments considered necessary by management to fairly present the Company's financial position, its results of operations and its cash flows.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation. White Mountains has completed numerous significant transactions during the periods presented that have affected the comparability of the financial statement information presented herein.

Investment securities

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

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

Other investments principally include investments in limited partnership interests which are recorded using the equity method of accounting.

Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 2001 and 2000.

Cash

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

Insurance and reinsurance operations

Premiums written are recognized as revenues and are earned ratably over the terms of the related policies or reinsurance treaties. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force.

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs which are directly attributable to and vary with the production of new business. These costs are deferred and amortized over the applicable premium recognition period as insurance and reinsurance acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income.

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

In connection with purchase accounting for the Acquisition, White Mountains was required to adjust to fair value OneBeacon's loss and loss adjustment expense reserves and the related reinsurance recoverables by $646.9 million and $346.9 million, respectively, on OneBeacon's acquired balance sheet. This net reduction to loss and loss adjustment expense reserves of $300.0 million will be accreted through an income statement charge over the period that the claims are expected to be settled. See Note 3.

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The collectibility of reinsurance recoverables is subject to the solvency of the reinsurers. White Mountains is selective in regard to its reinsurers, placing reinsurance with only those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis.

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

Federal and foreign income and withholding taxes

As a result of the Redomestication, income earned by the Bermuda and Barbados Companies will generally be subject to an effective overall tax rate lower than that imposed by the United States, however, no tax benefits will be obtained in the event of net losses incurred by such companies. The U.S. Companies are subject to United States income taxes. Prior to the Redomestication, the Company filed a consolidated United States Federal income tax return with its subsidiaries. The U.S. Companies continue to file United States tax returns but may no longer do so on a group-wide consolidated basis. As a result, the aggregate United States income tax liability of the U.S. Companies may be higher than it otherwise would have been if part of a consolidated tax return.

The Company is no longer subject to United States income taxes on its direct earnings. The Company's Barbados subsidiaries are generally subject to a 5% United States withholding tax on dividends received from its subsidiaries as well as a 1% Barbados income tax on taxable earnings (which include dividends received from its subsidiaries). These taxes are recorded in addition to United States income taxes accrued by its U.S. Companies.

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

Foreign currency translation

Net after tax unrealized losses from foreign currency fluctuations associated with Fund American Re's operations, Folksamerica's Canadian operations and certain of BICC's loss reserves totalled $2.7 million and $.7 million at December 31, 2001 and December 31, 2000, respectively. These net after tax losses are recorded in shareholders' equity as a component of accumulated other comprehensive income and changes in these values are reported on the Company's statement of income and comprehensive income as a component of other comprehensive income.

Accounting standards recently adopted and issued

During 2001, White Mountains adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires companies to record all derivatives on the balance sheet as either assets or liabilities and measure those instruments at fair value. The manner in which companies are to record gains and losses resulting from changes in the values of those derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. Upon its adoption on January 1, 2001, SFAS No. 133 had no impact on White Mountains' financial condition. During 2001, White Mountains entered into various interest rate swap agreements which were undertaken to achieve a fixed interest rate on the Lehman Facility. Pursuant to SFAS No. 133, these contracts are carried at fair value on the balance sheet which constituted an obligation by White Mountains of $4.9 million at December 31, 2001. Changes in the fair value of these financial instruments are reported directly through the income statement as they do not qualify for hedge accounting since their duration is dissimilar to that of the Lehman Facility. White Mountains is not currently invested in any other traditional or embedded derivative financial instruments for hedging or for any other purpose.

In June 2001 the FASB issued SFAS No. 141 entitled "Business Combinations". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. With respect to deferred credits (i.e., negative goodwill), SFAS No. 141 calls for the recognition of all existing deferred credits arising from business combinations prior to July 1, 2001 through the income statement as a change in accounting principle on the first day of the fiscal year beginning after December 15, 2001, and requires deferred credits arising from business combinations on or after July 1, 2001 to be immediately recognized through the income statement as an extraordinary gain. As of December 31, 2001 and December 31, 2000, White Mountains had deferred credits of $682.5 million and $92.2 million, respectively. In accordance with SFAS No. 141, White Mountains recognized extraordinary gains of $16.6 million during 2001 in connection with business combinations that it initiated after July 1, 2001 and it will recognize its entire December 31, 2001 unamortized deferred credit balance on January 1, 2002 as the effect of a change in accounting principle. For the years ended December 31, 2001, 2000 and 1999, White Mountains recognized revenue of $91.6 million, $34.6 million and $11.8 million, respectively from the amortization of its deferred credits.

In June 2001 the FASB issued SFAS No. 142 entitled "Goodwill and Other Intangible Assets". SFAS No. 142 sets forth new standards concerning accounting for deferred credits, goodwill and other intangible assets arising from business combinations. With respect to goodwill, SFAS No. 142 calls for the amortization of existing and prospective goodwill only when the asset acquired is deemed to have been impaired rather than systematically over a perceived period of benefit. SFAS No. 142 is effective for interim and annual periods beginning after December 15, 2001. As of December 31, 2001 and December 31, 2000, unamortized goodwill amounted to $22.3 million and $25.4 million, respectively. For the years ended December 31, 2001, 2000 and 1999, White Mountains recognized goodwill amortization of $3.1 million, $3.5 million and $1.3 million, respectively. Pursuant to the requirements of SFAS No. 142, upon implementation on January 1, 2002, White Mountains will cease amortization of the unamortized goodwill balance. The Company is currently evaluating the effect of the impairment testing requirements of SFAS No. 142, however, the impact is not anticipated to be material to its results of operations or financial position.

In August 2001 the FASB issued SFAS No. 144 entitled "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the effect of SFAS No. 144.

Effective January 1, 2001, insurance companies domiciled in the United States were required to adopt new regulations implementing a codification of statutory accounting principles for insurers ("Codification"). The purpose of Codification was to enhance the consistency of the accounting treatment of assets, liabilities, reserves, income and expenses of insurers, by setting forth the accounting practices and procedures to be followed in completing annual and quarterly financial statements required by state law. Codification served to reduce Folksamerica's statutory surplus by $.5 million at January 1, 2001.

Earnings (loss) per share

Basic earnings (loss) per share amounts are based on the weighted average number of Common Shares outstanding. Diluted earnings per share amounts are based on the weighted average number of Common Shares and the net effect of potentially dilutive Common Shares outstanding. In 1999 net income is reduced by an amount deemed to be reflective of the dilution to FSA's reported net income caused by its investment in FSA Preferred Stock. The following table outlines the Company's computation of earnings (loss) per share for the years ended December 31, 2001, 2000 and 1999:

	Year Ended December 31,		
	2001	2000	1999
Earnings (loss) per share numerators (in millions):			
Net income (loss) from continuing operations	**$ (271.1)**	$ 312.9	$ 108.4
Redemption value adjustment - Convertible Preference Shares	**(305.1)**	–	–
Dividends on Convertible Preference Shares	**(.3)**	–	–
Dilution to earnings resulting from FSA Preferred Stock	–	–	(.6)
Diluted income (loss) from continuing operations available to common shareholders	**$ (576.5)**	$ 312.9	$ 107.8
Net income from discontinued operations	–	95.0	12.6
Extraordinary income items	**11.8**	–	–
Diluted net income (loss) available to common shareholders	**$ (564.7)**	$ 407.9	$ 120.4
Earnings (loss) per share denominators (in thousands):			
Basic earnings (loss) per share denominator (average Common Shares outstanding)	**6,663**	5,895	5,630
Average outstanding dilutive Options and warrants to acquire Common Shares [(a),(b)]	–	26	472
Diluted earnings (loss) per share denominator	**6,663**	5,921	6,102
Basic earnings (loss) per share (in dollars):			
Net income (loss) from continuing operations	**$ (86.52)**	$ 53.08	$ 19.25
Net income from discontinued operations	–	16.11	2.25
Extraordinary income items	**1.77**	–	–
Net income (loss)	**$ (84.75)**	$ 69.19	$ 21.50
Diluted earnings (loss) per share (in dollars):			
Net income (loss) from continuing operations	**$ (86.52)**	$ 52.84	$ 17.66
Net income from discontinued operations	–	16.05	2.07
Extraordinary income items	**1.77**	–	–
Net income (loss)	**$ (84.75)**	$ 68.89	$ 19.73

[(a)] See Note 9 for detailed information concerning outstanding dilutive Options and warrants to acquire Common Shares

[(b)] During the 2001 period, Options and warrants to acquire Common Shares are not included in the dilutive share calculation as the impact of their inclusion would serve to be antidilutive to the calculation of net loss per share.

NOTE 2. Significant Transactions

ONEBEACON

On June 1, 2001, White Mountains acquired OneBeacon from CGNU for $2,114.3 million, of which $260.0 million consisted of the Seller Note with the balance paid in cash. White Mountains and OneBeacon undertook a series of related pre-closing transactions prior to the Acquisition as follows:

White Mountains Pre-closing Transactions

Debt Tender and Debt Escrow Transactions. Prior to the Acquisition, the Company completed the Debt Tender and repurchased and retired $90.9 million of Notes and subsequently prepaid, through 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 2001.

Equity Financing. On June 1, 2001, a small group of private investors purchased 2,184,583 Convertible Preference Shares, a newly-issued class of non-voting convertible preference shares of the Company that contained a mandatory redemption feature. Upon approval by shareholders at the 2001 Annual Meeting, the Convertible Preference Shares were converted into 2,184,583 Common Shares pursuant to the terms of the Convertible Preference Share agreement. Had shareholder approval not been obtained by March 31, 2003, the holders of Convertible Preference Shares would not have been entitled to conversion, but would have had the right to require the Company to redeem for cash the Convertible Preference Shares on an "as converted" basis with the redemption price equal to the then-current price of a Common Share. This conversion right caused the Convertible Preference Shares to have a redemption value in excess of cash received upon issuance, which resulted in a net charge to retained earnings of $305.1 million for the brief period from issuance until conversion, with an offsetting increase to paid-in surplus. While outstanding, the Company declared and paid dividends on Convertible Preference Shares of $.3 million.

On June 1, 2001, Berkshire purchased the Warrants from the Company for $75.0 million in cash. The Warrants entitle Berkshire to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share. Of the total Warrants purchased by Berkshire, Series A Warrants to purchase 1,170,000 Common Shares were immediately exercisable and Series B Warrants to purchase 544,285 Common Shares became exercisable upon approval by shareholders at the 2001 Annual Meeting. From the period June 1, 2001 through the date of the 2001 Annual Meeting, 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 Series B Warrants totalled $58.8 million. Upon shareholder approval, the Series B Warrants were converted 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 purchased the Berkshire Preferred Stock for $225.0 million. The Berkshire Preferred Stock was issued by a subsidiary of the Company and is a cumulative non-voting instrument with a face value of $300.0 million. The Berkshire Preferred Stock is entitled to a dividend of no less than 2.35% per quarter and is mandatorily redeemable after seven years.

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 therefore 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 purchased the Zenith Preferred Stock for $20.0 million. The Zenith Preferred Stock was issued by a subsidiary of the Company and is a cumulative non-voting instrument with a face value of $20.0 million. The Zenith Preferred Stock is entitled to a dividend of no less than 2.5% per quarter through June 30, 2007 and a dividend of no less than 3.5% per quarter thereafter and is mandatorily redeemable after ten years.

Bank Financing. On June 1, 2001, a subsidiary of the Company borrowed $825.0 million under the Lehman Facility consisting of $700.0 million in term loans and $125.0 million in revolving loans (of a $175.0 million revolving loan 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 which were undertaken to achieve a fixed interest rate on the term loans. See Note 6.

Seller Note. On June 1, 2001, White Mountains issued the Seller Note of $260.0 million to CGNU. The Seller Note has an eighteen-month term and bears interest at a rate equal to 50 basis points over the rate on White Mountains' revolving loan facility described above. The Seller Note may be settled in cash, or at White Mountains' option, with Common Shares valued at $245.00 per Common Share. White Mountains has classified this obligation as debt since management believes it has the ability to settle this obligation in a form other than pursuant to the Note Purchase Option Agreement that governs the Seller Note.

OneBeacon Pre-closing Transactions

NICO Cover. Immediately prior to the Acquisition, CGNU caused OneBeacon to purchase a reinsurance contract for a premium of $1,322.3 million under which OneBeacon is entitled to recover up to $2.5 billion in ultimate losses and loss adjustment expenses incurred related to asbestos claims arising from business written by OneBeacon prior to 1992, environmental claims arising from business written by OneBeacon prior to 1987 and certain other exposures.

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. Third party reinsurance collected on the claims covered by this agreement serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon.

GRC Cover. Immediately prior to the Acquisition, CGNU caused OneBeacon to obtain $570.0 million of reinsurance protection through the GRC Cover consisting of $400.0 million of adverse development coverage on losses related to its years 2000 and prior, in addition to $170.0 million of loss reserves ceded to GRC.

The NICO Cover and the GRC Cover, which were contingent on, and occurred contemporaneously with the Acquisition, qualify for prospective reinsurance accounting treatment under EITF Topic D-54 which characterizes the protections as an indemnification by the seller for increases in the liabilities for losses and loss adjustment expenses that existed at the acquisition date. See Notes 3 and 4.

Purchase Accounting Associated with the Acquisition

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

In accordance with the purchase method of accounting, on June 1, 2001, White Mountains decreased the net assets of OneBeacon by $26.9 million ($17.4 million after taxes) representing adjustments to reflect the estimated fair value of OneBeacon's assets and liabilities assumed. This decrease was primarily comprised of pretax adjustments of (i) $185.3 million to record the fair value of certain liabilities at the time of the Acquisition, mostly assigned risk exposures in New York, (ii) $42.0 million in allowance for doubtful accounts on insurance balances receivable and (iii) $85.9 million to recognize the fair value of employee benefit obligations, offset by (iv) a net asset increase of $300.0 million resulting from fair value adjustments made to OneBeacon's loss and loss adjustment expense reserves and related reinsurance recoverables. White Mountains also decreased the net assets of OneBeacon by an additional $246.5 million ($175.9 million after tax) representing an allocation of the excess of acquired net assets over the purchase price to OneBeacon's non-current, non-financial assets existing at the time of the Acquisition, primarily its property, plant and equipment.

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

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

Significant assets and liabilities acquired through OneBeacon included $34.0 million of cash, $7,408.6 million of investments, $2,448.9 million of reinsurance recoverable on paid and unpaid losses, $1,267.3 million of insurance balances receivable, $7,011.1 million of loss and loss adjustment expense reserves and $1,897.7 million of unearned insurance premiums.

In conjunction with its adoption of SFAS No. 141 entitled "Business Combinations", White Mountains will recognize its entire unamortized deferred credit balance on January 1, 2002, including its unamortized deferred credit balance relating to OneBeacon of $625.1 million at December 31, 2001, as a change in accounting principle. Had the Acquisition occurred on or after July 1, 2001, White Mountains would have immediately recognized this deferred credit on its income statement as an extraordinary gain as was the case with its acquisitions of C-F and the Folksam net assets.

Post-Acquisition Transaction - Renewal Rights Agreement

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual. Service agreements have been put in place to ensure a smooth transition. The underwriting results and cash flows of the renewed policies will be shared between OneBeacon and Liberty Mutual over a two year period though a reinsurance agreement whereby OneBeacon will assume two-thirds and one-third of the business renewed in the first and second years, respectively. OneBeacon retained substantially all of the existing assets and liabilities related to the transferred business including all loss and loss adjustment expenses and unearned premium reserves.

Unaudited Pro Forma Financial Information for the Acquisition and the Renewal Rights Agreement - Years Ended December 31, 2001 and 2000

Supplemental unaudited pro forma condensed combined income statement information for the years ended December 31, 2001 and 2000, which assumes that the Acquisition and the Renewal Rights Agreement had occurred as of January 1, 2001 and 2000, respectively, follows:

(Unaudited)	Pro Forma Year Ended December 31,	
Millions, except per share amounts	2001	2000
Total revenues as reported	$ 3,233.6	$ 848.2
Pro forma effect of the Acquisition	1,759.4	4,798.3
Pro forma effect of the Renewal Rights Agreement	(1,162.4)	(1,449.6)
Total pro forma revenues	$ 3,830.6	$ 4,196.9
Net loss from continuing operations	$ (446.9)	$ (308.2)
Loss per share numerator:		
Net loss from continuing operations available to common shareholders	$ (744.1)	$ (617.7)
Net loss available to common shareholders	(780.6)	(588.7)
Loss per share:		
Net loss from continuing operations	$ (116.18)	$ (104.79)
Net loss	(117.15)	(99.87)

The unaudited pro forma information presented above for the years ended December 31, 2001 and 2000 has been supplied for comparative purposes only and does not purport to reflect the actual results that would have been reported had the Acquisition and the Renewal Rights Agreement been consummated at January 1, 2001 and 2000, respectively. Additionally, such pro forma financial information is not expected to be reflective of results that may occur in the future, particularly in light of significant non-recurring transactions such as the NICO Cover and the GRC Cover which are included therein. These transactions served to reduce revenues during the 2001 and 2000 pro forma periods presented by approximately $1.6 billion and $1.7 billion, respectively, and served to reduce net loss by

OTHER ACQUISITIONS AND DISPOSITIONS

In December 2001 Fund American Re acquired substantially all of the international reinsurance operations of Folksam. The $64.0 million purchase price was paid in a combination of cash, a note and Common Shares. At December 31, 2001, Fund American Re had $126.3 million of total assets and $63.9 million of shareholder's equity. In accordance with SFAS No. 141, White Mountains recognized a $3.0 million extraordinary gain during 2001 representing the excess of the fair value of Folksam's net assets over its cost.

In September 2001 Folksamerica acquired C-F for total consideration of $49.2 million plus related expenses. The purchase consideration included the issuance of a $25.0 million, five-year note by Folksamerica which may be reduced by adverse loss development experienced by C-F post-acquisition. In accordance with SFAS No. 141, White Mountains recognized a $13.6 million extraordinary gain during 2001 representing the excess of the fair value of C-F's net assets over its cost.

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

In October 2000, Folksamerica purchased 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.

In October 2000 the Company was informed that the Internal Revenue Service agreed with its position taken in its 1991 tax return concerning the sale of Fireman's Fund and, accordingly, released a $95.0 million reserve during 2000 to income which is presented as a gain from discontinued operations.

In July 2000 White Mountains sold 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 FSA Common Stock to Dexia for proceeds of $620.4 million. White Mountains recognized a $391.2 million pretax gain on the Dexia Sale in 2000.

In May 2000 Folksamerica completed its acquisition of the Risk Capital Operations for $20.3 million in cash plus related expenses. Because the cost of the Risk Capital Operations was more than the fair value of its net identifiable assets at that date, White Mountains recorded $24.9 million in goodwill at acquisition ($22.3 million and $23.3 million at December 31, 2001 and 2000, respectively) which was being amortized to income over the estimated period of benefit of ten years.

In March 2000 Folksamerica acquired PCA for $122.3 million in cash. Because the cost of PCA was less than the fair value of its net identifiable assets acquired at that date, White Mountains recorded a $37.9 million deferred credit at acquisition ($26.8 million and $33.0 million at December 31, 2001 and 2000, respectively) which was being amortized to income over the estimated period of benefit of six years.

In October 1999 the Company acquired IAG (which consisted primarily of PIC, ACIC and BICC) for $86.7 million in cash. Because the cost of acquiring PIC, ACIC and BICC was less than the value of their net identifiable assets, the Company recorded a $62.0 million deferred credit at acquisition ($16.3 million and $37.0 million at December 31, 2001 and 2000, respectively) which was being amortized to income over the estimated period of benefit of three years.

In June 1999 Folksamerica acquired USF Re. The purchase consideration included the issuance of a $20.8 million, five-year note (which was reduced to zero by post-acquisition adverse loss development at USF Re of $6.8 million and $14.0 million during 2000 and 1999, respectively).

In June 1999 White Mountains sold VGI 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. White Mountains recorded a pretax gain of $88.1 million in 1999 on the transaction. 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, respectively, in reserves for such adverse loss development protections.

In May 1999 White Mountains concluded the Mortgage Banking Sale and received net proceeds totalling $180.6 million. White Mountains recorded a $19.4 million pretax ($12.6 million after tax) net income on the sale of its mortgage banking net assets which is presented as net income from discontinued operations.

In August 1998 White Mountains acquired all the outstanding common stock of Folksamerica thereby causing Folksamerica to become a consolidated subsidiary as of that date. Because the cost of White Mountains' investment in Folksamerica was less than the value of Folksamerica's net identifiable assets at that date, White Mountains recorded a $39.8 million deferred credit ($14.3 million and $22.2 million at December 31, 2001 and 2000, respectively) which was being amortized to income ratably over the estimated period of benefit of five years.

NOTE 3. Reserves for Unpaid Losses and Loss Adjustment Expenses

OneBeacon

The following table summarizes the loss and loss adjustment expense reserve activities of OneBeacon for the seven months ended December 31, 2001:

Millions	Period Ended December 31, 2001
Loss and loss adjustment expense reserves acquired - OneBeacon [1]	$ 4,394.4
Losses and loss adjustment expenses incurred relating to:	
Current year losses	2,009.2
Prior year losses	64.6
Total incurred losses and loss adjustment expenses	2,073.8
Accretion of fair value adjustment of loss and loss adjustment expense reserves	56.0
Loss and loss adjustment expenses paid relating to:	
Current year losses	(989.9)
Prior year losses	(962.8)
Total loss and loss adjustment expense payments	(1,952.7)
Net ending balance	4,571.5
Plus ending reinsurance recoverable on unpaid losses	3,285.9
Gross ending balance	$ 7,857.4

[1] Reinsurance recoverable on unpaid losses acquired in the Acquisition were $1,969.8 million.

In connection with purchase accounting for the Acquisition, White Mountains was required to adjust to fair value OneBeacon's loss and loss adjustment expense reserves and the related reinsurance recoverables by $646.9 million and $346.9 million, respectively, on OneBeacon's acquired balance sheet. This reduction to net loss and loss adjustment expense reserves of $300.0 million is being accreted through an income statement charge over the period that the claims are expected to be settled. As such, White Mountains recognized $56.0 million of loss and loss adjustment expenses for the seven months ended December 31, 2001. The fair values of OneBeacon's loss and loss adjustment expense reserves and related reinsurance recoverables acquired on June 1, 2001 were based on the present value of their expected cash flows with consideration for the uncertainty inherent in both the timing of, and the ultimate amount of, future payments for losses and receipts of amounts recoverable from reinsurers. In estimating fair value, management adjusted OneBeacon's nominal loss reserves (net of the effects of reinsurance obtained from the NICO Cover and the GRC Cover) and discounted them to their present value using an applicable risk-free discount rate. The series of future cash flows related to such loss payments and reinsurance recoveries were developed using OneBeacon's historical loss data. The result was subsequently reduced by the "price" for bearing the uncertainty inherent in OneBeacon's net loss reserves. This was assumed to be approximately 11% of the present value of the expected underlying cash flows of the loss reserves and reinsurance recoverables, which is believed to be reflective of the cost OneBeacon would incur if it had attempted to reinsure the full amount of its net loss and loss adjustment expense reserves with a third party reinsurer.

During the fourth quarter of 2001, OneBeacon increased its estimate of losses and loss adjustment expense reserves for years 1999 and prior in the workers compensation, general liability, commercial multiple peril and commercial automobile lines of business. These actions exhausted the remaining 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 losses and loss adjustment expenses related to certain unallocated loss adjustment expenses and pools and associations which were not covered by the NICO Cover or the GRC Cover.

OneBeacon discounts certain loss and loss adjustment expenses relating to long-term workers compensation reserves. These liabilities on an undiscounted net of reinsurance basis were $662.9 million at December 31, 2001. Discounting these reserves served to reduce net loss and loss adjustment expense liabilities by $278.1 million at December 31, 2001.

Reinsurance and Other Insurance Operations

The following table summarizes loss and loss adjustment expense reserve activity relating to White Mountains' reinsurance and other insurance operations for the years ended December 31, 2001, 2000 and 1999:

	Year Ended December 31,		
Millions	**2001**	2000	1999
Gross beginning balance	**$ 1,556.3**	$ 851.0	$ 811.7
Less beginning reinsurance recoverable on unpaid losses	**(726.5)**	(169.0)	(137.9)
Net loss and loss adjustment expense reserves	**829.8**	682.0	673.8
Loss and loss adjustment expense reserves acquired - Fund American Re [1]	**4.4**	–	–
Loss and loss adjustment expense reserves acquired - C-F [1]	**2.3**	–	–
Loss and loss adjustment expense reserves transferred [2]	**(22.2)**	(270.6)	–
Loss and loss adjustment expense reserves acquired - PCA [1]	–	253.8	–
Loss and loss adjustment expense reserves acquired - Risk Capital Operations [1]	–	312.6	–
Loss and loss adjustment expense reserves acquired - USF Re [1]	–	–	106.5
Loss and loss adjustment expense reserves acquired - IAG	–	–	22.5
Loss and loss adjustment expense reserves sold - VGI	–	–	(87.8)
Losses and loss adjustment expenses incurred relating to:			
Current year losses	**381.4**	264.1	210.4
Prior year losses	**38.7**	23.6	31.9
Total incurred losses and loss adjustment expenses	**420.1**	287.7	242.3
Loss and loss adjustment expenses paid relating to:			
Current year losses	**(103.5)**	(16.0)	(55.4)
Prior year losses	**(378.3)**	(419.7)	(219.9)
Total loss and loss adjustment expense payments	**(481.8)**	(435.7)	(275.3)
Net ending balance	**752.6**	829.8	682.0
Plus ending reinsurance recoverable on unpaid losses	**917.6**	726.5	169.0
Gross ending balance	**$ 1,670.2**	$ 1,556.3	$ 851.0

(1) Reinsurance recoverables on unpaid losses acquired in the Fund American Re, Risk Capital Operations, PCA and USF Re acquisitions were $21.0 million, $59.1 million, $153.3 million and $21.8 million, respectively.

(2) Represents $22.2 million and $270.6 million of loss reserves ceded to Imagine Re during 2001 and 2000, respectively. See Note 4.

Prior accident year losses of $38.7 million incurred in 2001 consisted primarily of $22.2 million in reserve strengthening on business ceded under a retroactive reinsurance agreement entered into during the 2000 fourth quarter - See Note 4 for details of this agreement. Because the reinsurance cover was retroactive, the offsetting benefit (reinsurance recoverable) of $22.2 million has been deferred and is being recognized into underwriting income over the expected settlement period of the underlying claims. The remaining $16.5 million in prior accident year losses incurred in 2001 were primarily due to higher than expected reported losses in Folksamerica's property excess line.

Incurred losses for the years ended December 31, 2000 and 1999 related to prior accident years of $23.6 million and $31.9 million, respectively, were principally from the portfolios acquired with USF Re and the Risk Capital Operations. In connection with the USF Re acquisition, Folksamerica issued the USF Re Seller Note for $20.8 million under which Folksamerica was not required to repay the loan should loss and loss adjustment expenses acquired in the acquisition develop adversely. In response to adverse development experienced on reserves acquired in the USF Re acquisition, the USF Re Seller Note was reduced by $6.8 million and $14.0 million, which was recorded to "Amortization of deferred credits and other benefits" in the Company's income statement during the periods ended December 31, 2000 and 1999, respectively.

Asbestos and environmental loss and loss adjustment expense reserve activity

White Mountains 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.

During the fourth quarter of 2001, OneBeacon increased its reserves for gross asbestos and environmental reserves so that its reserve levels are more closely aligned with industry-wide survival ratios, substantially all of which was covered under the NICO Cover. As a result, OneBeacon estimates that it has exhausted approximately $1,771 million of the coverage provided by the NICO Cover after estimating amounts that will be recovered by NICO from other third party reinsurers at December 31, 2001. To the extent that 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. The following table summarizes reported asbestos and environmental loss and loss adjustment expense reserve activities (gross and net of reinsurance) for White Mountains' consolidated insurance and reinsurance operations for the years ended December 31, 2001, 2000 and 1999, respectively.

	Year Ended December 31,					
Millions	2001		2000		1999	
	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Beginning balance	$ 51.0	$ 37.2	$ 53.4	$ 40.0	$ 47.5	$ 35.2
Loss and loss adjustment expense reserves acquired	222.0	6.9	–	–	–	–
Incurred losses and loss adjustment expenses	1,064.5	12.8	5.5	4.3	16.5	11.9
Paid losses and loss adjustment expenses	(90.6)	(10.0)	(7.9)	(7.1)	(10.6)	(7.1)
Ending balance	1,246.9	46.9	51.0	37.2	53.4	40.0
Environmental:						
Beginning balance	18.6	16.9	20.1	18.1	27.6	23.2
Loss and loss adjustment expense reserves acquired	779.7	25.4	–	–	–	–
Incurred losses and loss adjustment expenses	.4	.1	2.9	2.2	(0.9)	(2.0)
Paid losses and loss adjustment expenses	(32.2)	(8.9)	(4.4)	(3.4)	(6.6)	(3.1)
Ending balance	766.5	33.5	18.6	16.9	20.1	18.1
Total asbestos and environmental:						
Beginning balance	69.6	54.1	73.5	58.1	75.1	58.4
Loss and loss adjustment expense reserves acquired	1,001.7	32.3	–	–	–	–
Incurred losses and loss adjustment expenses	1,064.9	12.9	8.4	6.5	15.6	9.9
Paid losses and loss adjustment expenses	(122.8)	(18.9)	(12.3)	(10.5)	(17.2)	(10.2)
Ending balance	$ 2,013.4	$ 80.4	$ 69.6	$ 54.1	$ 73.5	$ 58.1

White Mountains' insurance and reinsurance subsidiaries have estimated asbestos and environmental loss and loss adjustment expense liabilities based upon several factors including facts surrounding reported cases and exposures (such as policy limits and deductibles), current law, past and projected claim activity and past settlement

Year ended December 31, 2000 Millions	OneBeacon	Folksamerica	Other Insurance Operations	Total
Gross written premiums:				
Direct	$ –	$ 6.3	$ 25.9	$ 32.2
Assumed	–	484.7	–	484.7
Ceded	–	(158.4)	(3.3)	(161.7)
Net written premiums	$ –	$ 332.6	$ 22.6	$ 355.2
Gross earned premiums:				
Direct	$ –	$ 4.1	$ 28.4	$ 32.5
Assumed	–	476.1	.4	476.5
Ceded	–	(167.7)	(6.9)	(174.6)
Net earned premiums	$ –	$ 312.5	$ 21.9	$ 334.4
Losses and loss adjustment expenses:				
Direct	$ –	$ (.6)	$ 20.6	$ 20.0
Assumed	–	468.5	.3	468.8
Ceded	–	(197.1)	(4.0)	(201.1)
Net losses and loss adjustment expenses	$ –	$ 270.8	$ 16.9	$ 287.7

Year ended December 31, 1999 Millions	OneBeacon	Folksamerica	Other Insurance Operations	Total
Gross written premiums:				
Direct	$ –	$ 2.2	$ 62.6	$ 64.8
Assumed	–	236.2	33.9	270.1
Ceded	–	(36.7)	(23.5)	(60.2)
Net written premiums	$ –	$ 201.7	$ 73.0	$ 274.7
Gross earned premiums:				
Direct	$ –	$ 2.4	$ 61.4	$ 63.8
Assumed	–	241.0	39.6	280.6
Ceded	–	(32.4)	(28.8)	(61.2)
Net earned premiums	$ –	$ 211.0	$ 72.2	$ 283.2
Losses and loss adjustment expenses:				
Direct	$ –	$ 7.8	$ 47.5	$ 55.3
Assumed	–	205.4	29.1	234.5
Ceded	–	(31.0)	(16.5)	(47.5)
Net losses and loss adjustment expenses	$ –	$ 182.2	$ 60.1	$ 242.3

OneBeacon

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

Catastrophe losses are unpredictable and the level of catastrophic losses experienced in any year could potentially be material to OneBeacon's results of operations and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms, tornadoes 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 implements programs to manage its exposure to catastrophe losses through individual risk selection, by limiting its concentration of insurance written in catastrophe-prone areas (such as coastal regions) and through the purchase of catastrophe reinsurance. OneBeacon has entered into a property catastrophe reinsurance program for the 2002 calendar year whereby the first $125.0 million of losses resulting from any single catastrophe are retained by OneBeacon. Property catastrophe losses from a single event in excess of $125.0 million, up to $200.0 million, are reinsured with a syndicate of reinsurers for 75% of the loss. Property catastrophe losses from a single event in excess of $200.0 million, up to $750.0 million, are reinsured with a group of reinsurers for 95% of the loss. 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. In the event of a 2002 catastrophe, OneBeacon can reinstate property catastrophe coverage for the remainder of 2002 by paying a reinstatement premium which is based on the product of the percentage of coverage reinstated and its original property catastrophe coverage premium of $34.7 million. OneBeacon also purchases reinsurance coverage for certain specific risks below $125.0 million where appropriate.

Reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders. Therefore, 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 with strong financial strength ratings. Reinsurance recoverables from Berkshire (NICO and GRC's ultimate parent) under the NICO Cover and the GRC Cover represented 62.0% of White Mountains' total reinsurance recoverables at December 31, 2001. Both NICO and GRC have A++ (Superior) ratings from A.M. Best. The remaining reinsurers generally are rated A (Excellent) or better by A.M. Best. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have not historically been significant.

In connection with the Acquisition, OneBeacon obtained the GRC Cover which provided $570.0 million of reinsurance protection, consisting of $400.0 million of adverse development coverage on losses occurring in years 2000 and prior, in addition to $170.0 million of reserves ceded as of the date of the Acquisition. During the fourth quarter of 2001, OneBeacon increased its estimate of gross prior year loss reserves which exhausted the total coverage available under the GRC Cover. The GRC Cover contains a feature whereby OneBeacon may not be entitled to recover losses to the full contract limit should such losses be paid out more quickly than expected. OneBeacon has estimated that approximately $38.3 million of the total $570.0 million of available coverage is subject to such limitation at December 31, 2001. Accordingly, OneBeacon has recorded $531.7 million in recoverables due from GRC at December 31, 2001.

Folksamerica

Folksamerica has exposure to losses assumed from primary insurers including losses caused by hurricanes, earthquakes, winter storms, windstorms 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 closely monitoring aggregate exposures and related probable maximum losses (PMLs), and by reinsuring excess risks with other reinsurers. Folksamerica's catastrophe management strategy is to limit its net loss to less than 10% of surplus for a 1 in 250 year event. Folksamerica's current catastrophe protection program includes 85% of $35 million of protection in excess of a $25 million retention for the first loss and additional coverage for a second loss. The contract is 100% placed with a top quality reinsurer, and has reinstatement provision whereby, in the event of one loss, the coverage is reinstated for additional premium.

In the fourth quarter of 2000 Folksamerica purchased reinsurance coverage (the "Imagine Cover") from Imagine Insurance Company, Ltd. of Barbados ("Imagine") which was designed to reduce its statutory operating leverage and to provide adverse development protection of up to $115.0 million on (i) loss and loss adjustment expense reserves remaining from the Risk Capital Operations; (ii) loss and loss adjustment expense reserves remaining from the USF Re acquisition; (iii) adverse development protection on Folksamerica's remaining asbestos and environmental exposures and (iv) prospective reinsurance coverage for losses in excess of premiums earned on policies which Folksamerica was contractually bound to write as a result of the Risk Capital Operations. In connection with the Imagine Cover, Folksamerica transferred loss and loss adjustment expense reserves of $250.0 million and unearned premium reserves of $65.0 million to Imagine for consideration of $315.0 million. $212.3 million of the consideration due under the Imagine Cover is included as a liability entitled "Funds held under reinsurance treaties" on White Mountains' December 31, 2001 balance sheet. Folksamerica holds a letter of credit and funds held as collateral for amounts due from Imagine.

In accordance with SFAS No. 113, amounts related to reserves transferred to Imagine for liabilities incurred as a result of past insurable events have been accounted for as retroactive reinsurance. At December 31, 2001 and 2000, Folksamerica's reinsurance recoverables include $442.3 million and $321.7 million, respectively, recorded under the Imagine Cover. At December 31, 2001 and December 31, 2000, Folksamerica has also recorded $40.0 million and $20.6 million in deferred gains, respectively, related to adverse development on loss reserves transferred to Imagine at the inception of the Imagine Cover. Folksamerica is recognizing these deferred gains into income over the expected settlement period of the underlying claims, and accordingly recognized $2.8 million of such deferred gains during the year ended December 31, 2001.

At December 31, 2001 and 2000, Folksamerica had reinsurance recoverables with a carrying value of $141.7 million and $116.7 million, respectively, associated with London Life and Casualty Reinsurance Corporation. Folksamerica holds a letter of credit and funds held as collateral for amounts due from London Life and Casualty.

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.

NOTE 5. Investment Securities

White Mountains' net investment income is comprised primarily of interest income associated with the fixed maturity investments of its consolidated insurance and reinsurance operations, dividend income from its equity investments and interest income from its short-term investments. Net investment income for 2001, 2000 and 1999 consisted of the following:

	Year Ended December 31,		
Millions	**2001**	2000	1999
Investment income:			
Fixed maturity investments	**$ 276.1**	$ 63.1	$ 53.6
Short-term investments	**12.2**	19.9	6.1
Common equity securities	**4.7**	2.8	3.2
Other	**.8**	.7	.3
Total investment income	**293.8**	86.5	63.2
Less investment expenses and other charges	**(9.3)**	(.6)	(1.3)
Net investment income, before tax	**$ 284.5**	$ 85.9	$ 61.9

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

Millions	Year Ended December 31, 2001	2000	1999
Fixed maturity investments	**$ 170.4**	$ (9.2)	$ .7
Common equity securities	**10.3**	(4.7)	61.3
Other investments	**(7.6)**	5.1	7.6
Net realized investment gains (losses), before tax	**173.1**	(8.8)	69.6
Income taxes attributable to realized investment gains and losses	**(55.1)**	4.2	(24.8)
Net realized investment gains (losses), after tax	**$ 118.0**	$ (4.6)	$ 44.8

White Mountains recognized gross realized investment gains of $290.8 million, $22.3 million and $90.4 million and gross realized investment losses of $117.7 million, $31.1 million and $20.8 million on sales of investment securities during 2001, 2000 and 1999, respectively. The components of White Mountains' change in unrealized investment gains, after tax, as recorded on the statements of income and comprehensive income were as follows:

Millions	Year Ended December 31, 2001	2000	1999
Net change in pretax unrealized gains for investments securities held	**$ (13.9)**	$ 65.1	$ (11.7)
Net change in pretax unrealized gains from investments in unconsolidated affiliates held	**.3**	6.2	(98.9)
Net change in pretax unrealized investment gains for investments held	**(13.6)**	71.3	(110.6)
Income taxes attributable to investments held	**9.1**	(15.0)	36.9
Net change in unrealized gains for investments held, after tax	**(4.5)**	56.3	(73.7)
Recognition of pretax net unrealized gains for investments sold	**(46.3)**	(23.7)	(69.6)
Income taxes attributable to investments sold	**10.3**	7.8	24.4
Recognition of net unrealized gains for investments sold, after tax	**(36.0)**	(15.9)	(45.2)
Change in net unrealized investment gains, after tax	**(40.5)**	40.4	(118.9)
Net realized investment gains (losses), after tax	**118.0**	(4.6)	44.8
Total investment gains (losses) recorded during the period, after tax	**$ 77.5**	$ 35.8	$ (74.1)

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

Millions	December 31, 2001	2000
Investment securities:		
Gross unrealized investment gains	**$ 111.8**	$ 70.5
Gross unrealized investment losses	**(113.5)**	(12.0)
Net unrealized gains (losses) from investment securities	**(1.7)**	58.5
Net unrealized gains from investments in unconsolidated insurance affiliates	**3.2**	2.9
Total net unrealized investment gains, before tax	**1.5**	61.4
Income taxes attributable to such gains	**5.6**	(13.8)
Total net unrealized investment gains, after tax	**$ 7.1**	$ 47.6

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' fixed maturity investments as of December 31, 2001 and 2000, were as follows:

	December 31, 2001			
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
U. S. Government and agency obligations	$ 1,846.0	$ 18.7	$ (17.7)	$ 1,847.0
Debt securities issued by industrial corporations	3,512.5	12.7	(54.3)	3,470.9
Municipal obligations	69.1	1.5	(.3)	70.3
Mortgage-backed securities	468.0	4.2	(1.7)	470.5
Foreign government obligations	66.3	1.1	(.4)	67.0
Preferred stocks	194.6	30.0	(22.0)	202.6
Total fixed maturity investments	**$ 6,156.5**	$ 68.2	$(96.4)	**$ 6,128.3**

	December 31, 2000			
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
U. S. Government and agency obligations	$ 309.4	$ 9.5	$ (.7)	$ 318.2
Debt securities issued by industrial corporations	310.6	3.9	(1.6)	312.9
Municipal obligations	265.7	3.0	(.2)	268.5
Mortgage-backed securities	102.4	1.3	(.4)	103.3
Foreign government obligations	52.2	.3	(.1)	52.4
Preferred stocks	22.7	.6	–	23.3
Total fixed maturity investments	$1,063.0	$18.6	$(3.0)	$1,078.6

The cost or amortized cost and carrying value of White Mountains' fixed maturity investments at December 31, 2001 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31, 2001	
Millions	Cost or amortized cost	Carrying value
Due in one year or less	$ 112.6	$ 114.3
Due after one year through five years	1,885.0	1,891.0
Due after five years through ten years	2,598.5	2,571.2
Due after ten years	897.8	878.8
Mortgage-backed securities	468.0	470.5
Preferred stocks	194.6	202.5
Total	**$ 6,156.5**	**$ 6,128.3**

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' common equity securities and other investments as of December 31, 2001 and 2000, were as follows:

	December 31, 2001			
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Common equity securities	**$ 155.1**	$ 26.0	$ (7.5)	**$ 173.6**
Other investments	**$ 150.0**	$ 17.6	$(9.6)	**$ 158.0**

	December 31, 2000			
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Common equity securities	$127.5	$21.1	$(3.8)	$144.8
Other investments	$117.3	$30.8	$(5.2)	$142.9

White Mountains' consolidated insurance and reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits totalled $510.1 million and $69.1 million as of December 31, 2001 and 2000, respectively.

Sales and maturities of investments, excluding short-term investments, totalled $8,971.6 million, $582.1 million and $530.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. There were no non-cash exchanges or involuntary sales of investment securities during 2001, 2000 or 1999.

OneBeacon participates in a securities lending program whereby it loans investment securities to other institutions for short periods of time. OneBeacon receives a fee from the borrower in return for the use of its assets. OneBeacon's policy is to require collateral equal to approximately 102% of the fair value of the loaned securities, which is held by a third party. All securities loaned can be redeemed on short notice. The total market value of OneBeacon's securities on loan at December 31, 2001 was $1,766.9 million with corresponding collateral of $1,800.1 million.

NOTE 6. Debt

Short-term debt

At December 31, 2001 the Company had $358.4 million of short-term debt outstanding, consisting of the $260.0 million Seller Note, which bears interest at a rate equal to 50 basis points over the rate on the Lehman Facility, $91.4 million representing the current portion of term loans under the Lehman Facility and $7.0 million in other short-term borrowings. At December 31, 2000 the Company had no short-term debt outstanding.

Long-term debt

Long-term debt outstanding as of December 31, 2001 and 2000 consisted of the following:

Millions	December 31, 2001	2000
Lehman Facility:		
Revolving loan	$ 125.0	$ –
Term loans	608.6	–
Total	733.6	–
Other Debt:		
Medium-term notes	$ 5.1	$ 96.0
C-F seller note	25.0	–
Folksam seller note	3.3	–
Total long-term debt	$ 767.0	$ 96.0

A schedule of contractual repayments of White Mountains' debt as of December 31, 2001 follows:

Millions	December 31, 2001
Due in one year or less	$ 358.4
Due in 2 to 3 years	136.9
Due in four to five years	253.1
Due after five years	377.0
Total	$ 1,125.4

Lehman Facility

General

In connection with the Acquisition, the Lehman Facility was provided to Fund American Companies, Inc. ("Fund American"), a wholly-owned subsidiary of the Company, as the borrower. The Lehman Facility is comprised of two term loan facilities and a revolving credit facility. The term loan facilities are comprised of a $300.0 million Tranche A Loan with a five-year maturity and a $400.0 million Tranche B Loan with a six-year maturity. The revolving credit facility provides for revolving credit loans of up to $175.0 million, including up to $25.0 million available for the issuance of letters of credit. The revolving credit facility expires on June 1, 2006.

Interest Rate, Fees

All borrowings under the Lehman Facility bear interest, at Fund American's election, at a rate per annum equal to either: (a) the base rate (generally, the higher of (x) the prime lending rate of the British Banking Association and (y) the Federal funds rate as established by the Federal Reserve Bank of New York plus 0.50%) plus (i) 0.50% to 1.75%, in the case of the revolving credit facility and the Tranche A Loan, and (ii) 1.50% to 2.50%, in the case of the Tranche B Loan, or (b) the eurodollar rate (the rate based on a formula relating to the rate for dollar deposits in the interbank eurodollar market for a given interest period) plus (i) 1.50% to 2.75%, in the case of the revolving credit facility and the Tranche A Loan, and (ii) 2.50% to 3.50%, in the case of the Tranche B Loan.

A commitment fee calculated at a rate of between 0.25% and 0.375% per annum is payable on the average daily unused portion of the revolving credit facility.

Interest Rate Swaps

Since June 2001, Fund American has entered into a series of interest rate swaps with large financial institutions that were undertaken to achieve a fixed interest rate on the term loans under the Lehman Facility. The interest rate swaps consist of a $200.0 million notional contract that was executed in June 2001, which is indexed to a 6.050% ten-year rate, a $200.0 million notional contract that was executed in September 2001, which is indexed to a 3.955% three-year rate, and $100.0 million and $200.0 million notional contracts that were executed in October 2001, which are indexed to a 3.825% three-year rate.

Pursuant to SFAS No. 133, the interest rate swaps are carried at fair value on White Mountains' balance sheet with changes in their fair value reported directly through the income statement as the swap investments do not match the duration of the Lehman Facility. As a result, the swaps do not satisfy the criteria for hedge accounting under SFAS No. 133. As of December 31, 2001, the aggregate market value of the interest rate swaps was a net liability of $4.9 million.

As of December 31, 2001, the weighted average interest rate for the $700.0 million outstanding under the term portion of the Lehman Facility, after giving effect to the interest rate swaps, was fixed at approximately 7.05%. As of December 31, 2001, the interest rate on the $125.0 million outstanding under the revolving portion of the Lehman Facility was based on the eurodollar rate in effect at that time plus 2.13%, or 4.13%.

Repayments and Prepayments

The Tranche A Loan and the Tranche B Loan are repaid quarterly in amounts equal to a specified percentage rate multiplied by the principal amount borrowed.

The term loans may be prepaid at any time without premium or penalty with the exception that any payments on the Tranche B Loan on or prior to December 1, 2002, shall include a prepayment premium ranging from 0.5% to 1.5%.

The credit facilities are subject to mandatory prepayments with (i) 50% of the net proceeds in excess of $5.0 million from certain equity issuances and (ii) 100% of the net proceeds in excess of $10.0 million from certain asset sales.

Guarantees

The obligations of Fund American with respect to the Lehman Facility are unconditionally guaranteed by OneBeacon, each of its subsidiaries (other than insurance company subsidiaries, certain foreign subsidiaries, and A.W.G. Dewar) and Fund American Enterprises Holdings, Inc., a wholly owned subsidiary of White Mountains.

The obligations of Fund American and each guarantor with respect to the Lehman Facility are secured by a perfected first priority security interest in all their assets including the capital stock of their non-insurance company subsidiaries (other than A.W.G. Dewar) and each of their first-tier insurance company subsidiaries.

Certain Covenants

The Lehman Facility contains affirmative covenants which include:

- reporting requirements;
- conduct of business and compliance with laws;
- requirements to maintain properties and insurance; and
- requirements to maintain interest rate protection.

The Lehman Facility also contains negative covenants that restrict the ability to:

- incur indebtedness and issue preferred stock;
- incur liens;
- engage in certain mergers, acquisitions, consolidations and asset sales;
- declare dividends or redeem or repurchase capital stock;
- make certain investments;
- make payments in respect of, or modify the terms of, subordinated indebtedness and other debt instruments;
- transact with affiliates; and
- enter into sale and leaseback transactions.

In addition, the Lehman Facility requires compliance with various financial covenants, including minimum interest and fixed charge coverage, maximum financial leverage, minimum net worth and statutory surplus and minimum risk-based capital ratios. At December 31, 2001, White Mountains was in compliance with all of the covenants under the Lehman Facility.

Events of Default

The Lehman Facility contains customary events of default including payment defaults, breaches of representations and warranties, covenant defaults, cross-default to certain other indebtedness, bankruptcy and insolvency events, ERISA violations, material judgements, invalidity of any guarantee or security document and a change of control.

Other Debt

At December 31, 2000 the Company had $96.0 million in medium-term notes outstanding. Pursuant to the Debt Tender, the Company repurchased and retired $90.9 million of Notes and subsequently prepaid the $5.1 million balance of the Notes through the Debt Escrow. The Company recorded a $4.8 million extraordinary loss on extinguishment of debt in connection with the Debt Tender and the Debt Escrow during 2001.

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

Fund American Re acquired substantially all of the international reinsurance operations of Folksam. The $64.0 million purchase price was paid in a combination of cash, Common Shares and a $3.0 million note (denominated in Swedish Kronor) due in 2006.

Total interest expense incurred by White Mountains for its indebtedness was $45.7 million, $16.1 million and $14.7 million in 2001, 2000 and 1999, respectively. Total interest paid by White Mountains for its indebtedness was $35.0 million, $16.1 million and $15.6 million in 2001, 2000 and 1999, respectively.

NOTE 7. Income Taxes

In connection with the Redomestication, the Company and certain of its subsidiaries changed their domicile to either Bermuda or Barbados while certain other subsidiaries remained domiciled in the United States. As a result, income earned by the US Companies will generally be subject to an effective overall tax rate lower than that imposed by the United States, however, no tax benefits will be attained in the event of net losses incurred by such companies. These factors may serve to increase or decrease White Mountains' effective tax rate for 1999 and beyond, depending on the events and circumstances occurring during such periods.

In connection with the Redomestication, the Company was treated as if it sold all of its directly owned assets in a fully taxable transaction in which gains, but not losses, were recognized. The Company incurred a tax liability upon the Redomestication of approximately $13.5 million.

The total income tax provision (benefit) consisted of the following:

	Year Ended December 31,		
Millions	2001	2000	1999
United States income tax provision (benefit)	$ (175.4)	$ 38.0	$ 47.0
State and local income tax provision	2.0	1.7	6.0
United States withholding tax and foreign income tax provision (benefit)	(.9)	2.8	.1
Total income tax provision (benefit)	$ (174.3)	$ 42.5	$ 53.1
Net income tax payments	$ 8.4	$ 54.5	$ 14.1
Income taxes recorded directly to shareholders' equity related to:			
Changes in net unrealized investment gains and losses	$ 19.4	$ (7.2)	$ 61.3
Changes in net foreign currency translation gains and losses	$ .8	$ .4	$ (.5)

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

Millions	Year Ended December 31, 2001	2000	1999
Current	$ 11.7	$ 58.2	$ 14.3
Deferred	(186.0)	(15.7)	38.8
Total income tax provision (benefit) on pretax earnings	$ (174.3)	$ 42.5	$ 53.1

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

Millions	December 31, 2001	2000
Deferred income tax assets related to:		
Net operating loss and tax credit carryforwards	$ 363.2	$ 29.3
Discounting of loss reserves	122.8	60.3
Compensation and benefit accruals	121.0	4.1
Unearned insurance and reinsurance premiums	114.5	7.2
Involuntary pool and guaranty fund accruals	51.3	–
Fixed assets	43.5	–
Deferred gain on reinsurance contract	16.3	7.1
Allowance for doubtful accounts	14.0	1.0
Other items	44.9	5.9
Total deferred income tax assets	$ 891.5	$ 114.9
Deferred income tax liabilities related to:		
Deferred acquisition costs	107.0	9.6
Prepaid pension cost	18.9	–
Net unrealized investment gains	3.3	.2
Other items	10.9	–
Total deferred income tax liabilities	140.1	9.8
Net deferred tax assets before valuation allowance	751.4	105.1
Valuation allowance	(55.0)	–
Net deferred tax assets	$ 696.4	$ 105.1

The Company believes that it is more likely than not that results of future operations will generate sufficient taxable income to realize the deferred tax asset balances carried as of December 31, 2001 and 2000. The valuation allowance at December 31, 2001 reflects management's assessment that it is more likely than not that the benefit related to certain foreign tax credit carryforwards may not be realized before expiration of the carryforward period.

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

	Year Ended December 31,		
Millions	**2001**	2000	1999
Tax (benefit) provision at the United States statutory rate	**$ (147.8)**	$ 124.4	$ 56.5
Differences in taxes resulting from:			
Deferred credit amortization and purchase price adjustments	**(23.8)**	(6.3)	(7.9)
Tax reserve adjustments	**5.1**	5.5	6.1
State income taxes, net	**1.3**	1.2	3.9
Non-United States net earnings	**1.8**	(88.6)	(3.6)
United States income tax incurred upon the Redomestication	**–**	11.0	2.5
Tax exempt interest and dividends	**(4.5)**	(3.9)	(3.6)
Foreign and withholding taxes	**(.9)**	2.8	.1
Non deductible interest expense	**3.6**	–	–
Other, net	**(9.1)**	(3.6)	(.9)
Total income tax (benefit) provision on pretax earnings	**$ (174.3)**	$ 42.5	$ 53.1

The non-United States component of pretax earnings (loss) was $(5.1) million, $395.9 million and $9.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

During 2000, the Company released a $95.0 million tax reserve relating to its 1991 sale of Fireman's Fund.

At December 31, 2001, there were net operating loss carryforwards of approximately $800.0 million available, the majority of which will expire in 2020. Certain of these tax losses are subject to an annual limitation on utilization under Internal Revenue Code Section 382.

At December 31, 2001, there were foreign tax credit carryforwards and alternative tax credit carryforwards available of approximately $55.0 million and $27.0 million, respectively. The foreign tax credits begin to expire in 2002. The alternative minimum tax credits do not expire.

The United States federal income tax returns of the US Companies are routinely audited by taxing authorities. In management's opinion, adequate tax liabilities have been established for all open tax years.

On March 9, 2002, President Bush signed into law the Job Creation and Worker Assistance Act of 2002. Pursuant to the Act, subsidiaries of White Mountains will be allowed to carryback losses from 2001 and 2002 an additional three years. Federal taxes incurred and available for recoupment in the extended carryback period total approximately $250.0 million. White Mountains is in the process of calculating the potential refund it will receive under this new provision.

NOTE 8. Retirement and Postretirement Plans

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

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

The following table sets forth (i) the change in the benefit obligation, (ii) the change in the fair value of plan assets, (iii) the resulting funded status reconciled with amounts reported in White Mountains' consolidated financial statements, and (iv) the weighted average assumptions associated with the various pension plan and postretirement benefits as of December 31, 2001:

Millions	Pension Benefits	Other Postretirement Benefits
Benefit obligation in respect of companies acquired	$ 552.3	$ 137.6
Service cost	12.0	2.1
Interest cost	21.8	5.6
Curtailment	(15.1)	(15.7)
Plan amendments	15.1	–
Actuarial loss	9.0	11.4
Benefits and expenses paid, net of participant contributions	(28.7)	(4.4)
Benefit obligation as of December 31, 2001	**$ 566.4**	**$ 136.6**
Fair value of plan assets in respect of companies acquired	$ 540.0	$ –
Actual return on plan assets	7.5	–
Employer contributions	2.5	4.4
Benefits and expenses paid, net of participant contributions	(28.7)	(4.4)
Fair value of plan assets as of December 31, 2001	**$ 521.3**	**$ –**
Funded status as of December 31, 2001	$ (45.1)	$ (136.6)
Unrecognized actuarial loss	15.1	11.4
Unrecognized prior service cost	15.1	–
Net liability as of December 31, 2001	**$ (14.9)**	**$ (125.2)**
Weighted average assumptions:		
Effective discount rate	6.50%	6.50%
Expected return on plan assets	7.50%	–
Rate of compensation increase	4.00%	–

The components of net pension costs were as follows:

Millions	Pension Benefits	Other Postretirement Benefits
Service cost	$ 12.0	$ 2.1
Interest cost	21.8	5.6
Expected return on plan assets	(28.7)	–
Net periodic pension cost	**$ 5.1**	**$ 7.7**

For measurement purposes, a 10.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5% over a six year period and remain constant thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percent change in assumed health care cost trend rates would have the following effects:

Millions	One Percent Increase	One Percent Decrease
Effect on total service and interest cost components	$ 1.3	$ (1.1)
Effect on postretirement benefit obligation	17.0	(15.0)

Certain of the Company's subsidiaries sponsor various employee savings plans (defined contribution plans) covering the majority of employees. The plans provide for salary reduction contributions by qualifying employees and matching contributions of up to six percent of qualifying employees' salary. Total expense for the plans was $9.6 million and $1.5 million in 2001 and 2000, respectively.

OneBeacon has a post-employment benefit liability of $16.6 million related to its long-term disability plan at December 31, 2001.

NOTE 9. Employee Share-Based Compensation Plans

White Mountains' Incentive Plan (the "Incentive Plan")

The Incentive Plan provides for granting to certain officers of the Company, and certain of its subsidiaries, various types of share-based incentive awards including performance shares, Restricted Shares and Options. On August 23, 2001, the Company's shareholders approved an amendment to the Incentive Plan which provided a fresh inventory of 300,000 Common Shares available for grant thereunder over a ten year period. As a result, 300,000 Common Shares were available for grant under the Incentive Plan at December 31, 2001.

Performance shares are conditional grants of a specified maximum number of Common Shares or an equivalent amount of cash. Grants are generally earned, subject to the attainment of pre-specified performance goals, at the end of a three-year period or as otherwise determined by the Compensation Committee of the Board. The performance goal for full payment of performance shares issued during 1999 and 2000 is the achievement of a 13% annual after tax return on equity (as specifically defined by the Company's Compensation Committee) as measured over the applicable performance periods. These performance shares can double if after-tax returns on equity significantly exceed 13% over the performance periods. The performance goal for full payment of performance shares issued during 2001 is, in whole or in part, based on the achievement of a 12.1% annual after tax return on equity. The Company's return on equity used to determine awards includes the cost of all projected compensation awards. For certain officers, the performance goal for full payment of performance shares issued during 2001 is, in part, based on the achievement of a 105% core insurance operations trade ratio for the period July 1, 2001 to December 31, 2003 (as specifically defined by the Company's Compensation Committee). These performance shares can double if the trade ratio is 101% or less.

For the three-year performance periods beginning 2001, 2000 and 1999, White Mountains granted a total of 84,600, 34,000 and 31,300 performance shares, respectively, under the Incentive Plan. No performance share awards were paid during 2001 or 2000. During 1999 White Mountains paid a total of 141,650 performance shares to its participants in Common Shares and cash. Performance shares paid during 1999 included 58,100 performance shares relating to the period from 1996 to 1998, 40,300 performance shares paid early relating to the period from 1997 to 1999 and 43,250 performance shares paid early relating to the period from 1998 to 2000.

For 2001 the Compensation Committee made a one time award of Restricted Shares to key officers of the Company. Pursuant to the Incentive Plan, White Mountains issued 94,500 Restricted Shares, of which 21,000 vest in December 2002 and 73,500 vest in June 2003. Vesting of Restricted Share awards is dependent on continuous service by the employee throughout the award period. There are no other restrictions on the Restricted Shares once they have become fully vested.

At December 31, 2001, the Company had outstanding 80,665 Options (15,865 of which were exercisable) issued to certain key employees which vest incrementally over a ten year period. The Options had a weighted average exercise price of $118.22 per Common Share at December 31, 2001. During 2001, 335 Options were exercised at an exercise price of $118.15 per Common Share.

OneBeacon Performance Plan

OneBeacon's Performance Plan (the "Performance Plan") provides for granting of performance shares to certain key employees of OneBeacon. The performance goals for full payment of performance shares issued under the Performance Plan are similar to those of the Incentive Plan.

For the thirty-month performance period from July 1, 2001 to December 31, 2003, OneBeacon granted a total of 148,100 performance shares to its key employees. No performance shares were paid during 2001 under the Performance Plan.

Other Share-Based Compensation

The defined contribution plans of OneBeacon and Folksamerica (the "401(k) Plans") offer its participants the ability to invest their balances in several different investment options, including the Company's Common Shares. As of December 31, 2001 and 2000, the 401(k) Plans owned less than 1% of the total Common Shares outstanding. In connection with the Acquisition, eligible OneBeacon employees received a one-time contribution of two Common Shares which resulted in the issuance of 11,980 Common Shares.

The Company's Chairman formerly held warrants to acquire Common Shares entitling him to buy 1,000,000 Common Shares for $21.66 per Common Share. During 1999 the Chairman exercised the warrants early in exchange for a one-time payment of $6.0 million. This one-time payment compensated the Chairman for the estimated interest cost of borrowing the strike price and the amounts required to prematurely pay his income taxes. The 1999 exercise of warrants provided the Company with increased tax deductible expenses.

Share-Based Compensation Expense

White Mountains expenses its performance shares awarded under the Incentive Plan and the Performance Plan over the relevant performance period assuming full vesting at the current market value of Common Shares. During 2001, 2000 and 1999, White Mountains recorded compensation charges of $31.6 million, $25.8 million, and $6.1 million, respectively, for outstanding performance shares. White Mountains' performance share expense in 2001 was higher than 2000 as a result of performance shares issued to OneBeacon employees post-acquisition. White Mountains' performance share expense in 2000 was higher than that of 1999 due to a significant increase in the value of Common Shares during that year and the recording of additional performance share expense in expectation of the 1999 and 2000 performance share awards vesting at an amount greater than 100% in light of above target results for those award periods.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its Options and Restricted Shares. During 2001 the Company recognized a $9.5 million compensation charge for its outstanding Options and recognized a $10.4 million compensation charge for its outstanding Restricted Shares.

White Mountains has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock Based Compensation" with respect to its outstanding Options and Restricted Shares. Had share-based compensation expense been determined based on the fair value at the grant dates for these awards using a Black-Scholes option valuation model, consistent with the provisions of SFAS No. 123, the compensation charge for the Options and Restricted Shares would have been less than the amount actually recognized by the Company under APB No. 25 for the year ended December 31, 2001. This would have had an anti-dilutive effect on the pro forma results of operations for the year ended December 31, 2001. The pro forma effect of recognizing compensation charge for its vested Options under SFAS No. 123 for the year ended December 31, 2000 would have been $.3 million, or $.06 per diluted Common Share. There were no Restricted Shares outstanding during 2000 and there were no Restricted Shares or Options outstanding during 1999.

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

Berkshire Preferred Stock

On June 1, 2001, Berkshire purchased for $225.0 million, $300.0 million in face value of cumulative non-voting preferred stock of a subsidiary of the Company. The Berkshire Preferred Stock is entitled to a dividend of no less than 2.35% per quarter and is mandatorily redeemable after seven years. During 2001, White Mountains declared and paid dividends of $16.4 million on the Berkshire Preferred Stock and recorded $5.1 million of related accretion charges (See Note 2).

Zenith Preferred Stock

On June 1, 2001, Zenith purchased $20.0 million in cumulative non-voting preferred stock of a subsidiary of the Company. The Zenith Preferred Stock is entitled to a dividend of no less than a 2.5% per quarter through June 30, 2007 and a dividend of no less than 3.5% per quarter thereafter and is mandatorily redeemable after ten years. During 2001, White Mountains declared and paid dividends of $1.7 million on the Zenith Preferred Stock.

Convertible Preference Shares

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

NOTE 11. Common Shareholders' Equity

Common Shares repurchased and retired

During 2001, 2000 and 1999 the Company repurchased 6,000 Common Shares for $1.9 million, 65,838 Common Shares for $8.3 million and 1,020,150 Common Shares for $139.5 million, respectively. In conformance with Bermuda law, the Company retires all Common Shares it repurchases.

Common Shares issued

During 2001 the Company issued a total of 2,390,566 Common Shares which consisted of 2,184,583 Common Shares issued in connection with the conversion of the Convertible Preference Shares, 86,385 Common Shares issued in connection the purchase of the Folksam net assets, 94,500 Restricted Shares issued to key employees and 25,098 Common Shares issued to employees in connection with various White Mountains share-based compensation plans. No Common Shares were issued during 2000. During 1999 the Company issued a total of 1,137,495 Common Shares to its employees and Directors in satisfaction of the Chairman's warrant exercise and various employee benefit plan obligations.

Dividends on Common Shares

During 2001, 2000 and 1999 the Company declared and paid cash dividends totalling $5.9 million (or $1.00 per Common Share), $7.1 million (or $1.20 per Common Share) and $8.8 million (or $1.60 per Common Share), respectively.

Warrants to Acquire Common Shares

On June 1, 2001, Berkshire purchased the Warrants from the Company for $75.0 million in cash entitling it to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share. The Warrants have a term of seven years from the date of issuance although the Company has the right to call the Warrants for $60.0 million in cash commencing on the fourth anniversary of their issuance. See Note 2.

NOTE 12. Statutory Capital and Surplus

White Mountains' insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and 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. Over the last several years most states have implemented laws that establish standards for current, as well as continued, state accreditation. In addition, the NAIC uses RBC standards for property and casualty companies as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. At December 31, 2001, White Mountains' active insurance and reinsurance subsidiaries met their respective RBC requirements.

OneBeacon's consolidated combined policyholders' surplus, as reported to various regulatory authorities as of December 31, 2001, was $2,406.5 million. OneBeacon's consolidated combined statutory net loss for the year ended December 31, 2001 was $408.4 million. The principal differences between OneBeacon's combined statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, gains recognized under retroactive reinsurance contracts and market value adjustments for debt securities. OneBeacon's insurance subsidiaries' statutory policyholders' surplus at December 31, 2001 was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the states under which OneBeacon's insurance subsidiaries are domiciled, OneBeacon's insurance subsidiaries may pay dividends only from earned surplus as determined on a statutory basis. Generally, the maximum amount of cash dividends that OneBeacon's insurance subsidiaries may pay out of their statutory earned surplus without prior regulatory approval in any twelve month period is the greater of the company's prior year statutory net income or 10% of prior year end statutory surplus. Accordingly, there is no assurance that dividends may be paid by OneBeacon's insurance subsidiaries in the future. At December 31, 2001, OneBeacon's insurance subsidiaries have the ability to pay dividends to its shareholder of $235.6 million in 2002 without prior approval of regulatory authorities.

Folksamerica's policyholders' surplus, as reported to various regulatory authorities as of December 31, 2001, and 2000, was $804.8 million and $443.9 million, respectively. The large increase in surplus from 2000 to 2001 resulted principally from a $400.0 million capital contribution it received from it's parent, OneBeacon, in the form of cash to permit Folksamerica to further capitalize on improved pricing trends emerging after the Attacks. Folksamerica's statutory net income (loss) for the years ended December 31, 2001, 2000 and 1999 was $(35.3) million, $(20.0) million and $48.6 million, respectively. The principal differences between Folksamerica's statutory amounts and the amounts reported in accordance with GAAP include deferred taxes, deferred acquisition costs, gains recognized under retroactive reinsurance contracts and market value adjustments for debt securities. Folksamerica's statutory policyholders' surplus at December 31, 2001 was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the state of New York, Folksamerica may pay dividends only from earned surplus as determined on a statutory basis. Generally, the maximum amount of cash dividends that a New York-domiciled company may pay out of its statutory earned surplus without prior regulatory approval in any twelve month period is the lesser of the company's statutory net investment income or 10% of statutory surplus. Accordingly, there is no assurance that dividends may be paid by Folksamerica in the future. At December 31, 2001, Folksamerica has the ability to pay a dividend to its shareholder of approximately $30 million in 2002 without prior approval of regulatory authorities.

The aggregate policyholders' surplus of PIC and ACIC at December 31, 2001 and 2000, as reported to regulatory authorities, was $54.0 million and $60.5 million, respectively. Statutory net loss for the years ended December 31, 2001 and 2000 and the period from October 16, 1999 to December 31, 1999 for PIC and ACIC totalled $6.2 million, $1.7 million and $3.9 million, respectively. The principal differences between PIC and ACIC's statutory amounts and the amounts reported in accordance with GAAP include deferred taxes, deferred acquisition costs and market value adjustments for debt securities. PIC and ACIC's statutory policyholders' surplus at December 31, 2001 was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the states under which PIC and ACIC are domiciled, PIC and ACIC may pay dividends only from earned surplus as determined on a statutory basis. Generally, the maximum amount of cash dividends that PIC and ACIC may pay out of their statutory earned surplus without prior regulatory approval in any twelve month period is the greater of the company's statutory net income or 10% of statutory surplus. Accordingly, there is no assurance that dividends may be paid by PIC and ACIC in the future. At December 31, 2001, $1.9 million of PIC's total statutory surplus was available for the payment of dividends in 2002 to its shareholder without prior approval of regulatory authorities. At December 31, 2001, no dividends could be paid from ACIC to its shareholder without prior approval of regulatory authorities.

NOTE 13. Segment Information

White Mountains has determined that its reportable segments include OneBeacon, Folksamerica and Other Insurance Operations and Holding Company (consisting of ACIC, BICC, PIC, Esurance, Fund American Re and the operations of the Company and certain of its intermediate subsidiary holding companies). OneBeacon's operations further include four distinct underwriting sub-segments consisting of Personal, Commercial, Specialty and Non-core insurance products. The Personal and Commercial sub-segments consist of agency-produced business in New England, New York and New Jersey. Personal products include auto, homeowners and Custom-Pac products (combination policies offering home and auto coverage with optional umbrella, ocean marine and inland marine coverages). Commercial products include package (combination policies offering property and liability coverage), commercial auto and workers compensation. Specialty products principally include non-crop farm and ranch business, ocean marine and tuition reimbursement. Non-core products include business assumed from Liberty Mutual in connection with the Renewal Rights Agreement, business in territories subject to the Renewal Rights Agreement written prior to November 1, 2001, premiums generated from NFU and national programs and national accounts and certain other insurance products in run-off.

White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board. There are no significant intercompany transactions among White Mountains' segments other than occasional intercompany sales and transfers of investment securities (gains and losses resulting from such transfers have been eliminated herein).

Certain amounts in the prior periods have been reclassified to conform with the current presentation. Selected financial information for White Mountains' segments follows:

Millions	OneBeacon	Folksamerica	Other Insurance Operations and Holding Company	Total
Year ended December 31, 2001				
Earned insurance and reinsurance premiums	$ 2,208.2	$ 421.5	$ 26.4	$ 2,656.1
Net investment income	228.4	45.6	10.5	284.5
Net realized gains (losses) on sales of investments	183.1	23.9	(33.9)	173.1
Gains on sales of subsidiaries and other assets	–	–	20.2	20.2
Amortization of deferred credits and other benefits and other revenue	(3.4)	17.7	85.4	99.7
Total revenues	**$ 2,616.3**	**$ 508.7**	**$ 108.6**	**$ 3,233.6**
Pretax loss	**$ (269.2)**	**$ (42.2)**	**$ (110.8)**	**$ (422.2)**
Income tax benefit	113.0	14.1	47.2	174.3
Accretion and dividends on preferred stock	–	–	(23.2)	(23.2)
Net loss from continuing operations	**$ (156.2)**	**$ (28.1)**	**$ (86.8)**	**$ (271.1)**
Year ended December 31, 2000				
Earned insurance and reinsurance premiums	$ –	$ 312.5	$ 21.9	$ 334.4
Net investment income	–	57.6	28.3	85.9
Net realized gains (losses) on sales of investments	–	(12.3)	3.5	(8.8)
Gains on sales of subsidiaries and other assets	–	–	386.2	386.2
Amortization of deferred credits and other benefits and other revenue	–	20.1	30.4	50.5
Total revenues	$ –	$ 377.9	$ 470.3	$ 848.2
Pretax earnings (loss)	$ –	$ (29.5)	$ 384.9	$ 355.4
Income tax benefit (provision)	–	19.4	(61.9)	(42.5)
Net income (loss) from continuing operations	$ –	$ (10.1)	$ 323.0	$ 312.9
Year ended December 31, 1999				
Earned insurance and reinsurance premiums	$ –	$ 211.0	$ 72.2	$ 283.2
Net investment income	–	49.9	12.0	61.9
Net realized gains on sales of investments	–	28.0	41.6	69.6
Gains on sales of subsidiaries and insurance assets	–	15.8	88.1	103.9
Amortization of deferred credits and other benefits and other revenue	–	20.3	40.3	60.6
Total revenues	$ –	325.0	254.2	579.2
Pretax earnings	$ –	$ 54.7	$ 106.8	$ 161.5
Income tax provision	–	(9.8)	(43.3)	(53.1)
Net income from continuing operations	$ –	$ 44.9	$ 63.5	$ 108.4
Ending assets				
December 31, 2001	**$ 12,831.9**	**$ 3,042.4**	**$ 618.5**	**$ 16,492.8**
December 31, 2000	$ –	$ 2,769.5	775.7	$ 3,545.2

The following table provides further information on OneBeacon's four distinct underwriting sub-segments consisting of its Personal, Commercial, Specialty and Non-core insurance products:

	OneBeacon				
Millions	Personal	Commercial	Specialty	Non-core	Total
Seven months ended December 31, 2001					
Earned insurance premiums	$ 521.5	$ 427.5	$ 127.0	$ 1,132.2	$ 2,208.2
Loss and loss adjustment expenses [a]	(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)**

[a] Loss and loss adjustment expenses include losses, net of reinsurance, associated with the Attacks of $2.8 million, $98.1 million and $4.1 million in the Personal, Commercial and Non-core lines, respectively.

NOTE 14. Investments in Unconsolidated Insurance Affiliates

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

Investment in Montpelier

In December 2001 White Mountains, the Benfield Group plc and several other private investors established Montpelier and Montpelier Re. OneBeacon invested $180.0 million in Montpelier consisting of 1,800,000 common shares of Montpelier 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. At December 31, 2001, OneBeacon owned 20.6% of the outstanding common shares of Montpelier and accounts for this investment using the equity method. At December 31, 2001, White Mountains carried its investment in Montpelier common shares at $177.4 million. Amounts recorded by White Mountains during 2001 relating to its investment in Montpelier consisted of a $3.0 million equity in loss from Montpelier's operations and a $.4 million equity in net unrealized gains from Montpelier's investment portfolio. The fair value of the warrants to acquire Montpelier common stock was immaterial at December 31, 2001, as the book value of Montpelier at that time was less than the Company's exercise price. No dividends were declared or paid by Montpelier during 2001.

Investment in MSA

At December 31, 2001, 2000 and 1999, White Mountains owned 222,093 shares of the common stock of MSA. This represented 50.0% of the total shares of MSA common stock outstanding at those times. White Mountains' investment in MSA is accounted for using the equity method. The following table provides summary financial amounts recorded by White Mountains relating to its investment in MSA common stock:

Millions	2001	2000	1999
Amounts recorded by White Mountains:			
Investment in MSA Common Stock [a]	**$ 133.7**	$ 130.6	$119.3
Equity in earnings from MSA Common Stock [b]	**2.2**	1.0	11.6
Equity in net unrealized investment gains (losses) from MSA's investment portfolio [c]	**.9**	6.2	(12.5)

[a] Includes related goodwill of $2.5 million, $3.7 million and $2.6 million at December 31, 2001, 2000 and 1999, respectively.
[b] Recorded net of related amortization of goodwill.
[c] Recorded directly to shareholders' equity (after tax) as a component of other comprehensive income.

At December 31, 2001 and 2000, White Mountains' consolidated retained earnings included $28.9 million and $26.7 million, respectively, of accumulated undistributed earnings of MSA (net of related amortization of goodwill). No dividends were declared or paid by MSA during 2001, 2000 and 1999.

Investment in FSA

During 2000 White Mountains concluded the Dexia Sale, which included all its holdings of FSA at that time, for proceeds of $620.4 million and recognized a pretax gain of $391.2 million.

White Mountains owned 6,943,316 shares of FSA Common Stock at December 31, 1999. This represented approximately 21.2% of the total shares of FSA Common Stock outstanding at that time. At December 31, 1999, White Mountains also owned FSA Preferred Stock which provided White Mountains the right to acquire 2,000,000 additional shares of FSA Common Stock for net consideration of $59.3 million.

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 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 shareholders' equity and reported on the income statement as a component of other comprehensive income. The following table provides summary financial amounts recorded by White Mountains during 2000 and 1999 relating to its investment in FSA:

Millions	2000	1999
Amounts recorded by White Mountains:		
Investment in FSA Common Stock	$ –	$ 262.2
Investment in FSA Options and Preferred Stock	–	41.1
Total investment in FSA	$ –	$ 303.3
Equity in earnings (loss) from FSA Common Stock [a]	$ (3.6)	$ 19.5
Dividends received from FSA Common Stock	1.4	2.1
Equity in net unrealized investment gains (losses) from FSA's investment portfolio [b]	–	(14.0)
Unrealized investment gains (losses) on FSA Options and Preferred Stock [b]	–	(4.1)
Write-down from fair value to equity value upon exercise of FSA Options, before tax	–	(45.8)

[a] Recorded net of related amortization of goodwill.
[b] Recorded directly to shareholders' equity (after tax) as a component of other comprehensive income.

At December 31, 1999, White Mountains' consolidated retained earnings included $53.3 million of accumulated undistributed earnings of FSA (net of related amortization of goodwill).

NOTE 15. Fair Value of Financial Instruments

White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness. At December 31, 2001, White Mountains had no significant fixed-rate, long-term indebtedness as a result of the Debt Tender and the Debt Escrow which extinguished or prepaid its outstanding Notes. At December 31, 2000, the market value of the Notes was $97.2 million which compared to a carrying value of $96.0 million. The fair value of the Notes outstanding in 2000 was estimated by discounting future cash flows using incremental borrowing rates for similar types of borrowing arrangements or quoted market prices.

NOTE 16. Related Party Transactions

NICO and GRC are wholly-owned subsidiaries of Berkshire. Through the Warrants, Berkshire has the right to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share which represented approximately 17.1% of the total outstanding Common Shares at December 31, 2001 on a fully-converted basis.

Mr. Howard Clark, a Director of the Company, is Vice Chairman of Lehman Brothers Inc. ("Lehman"). Lehman has, from time to time, provided various services to White Mountains including investment banking services, brokerage services, underwriting of debt and equity securities and financial consulting services. Lehman is the arranger, the administrative agent and a lender under the $875.0 million Lehman Facility. See Note 6.

Mr. George Gillespie, a Director of the Company, is a Partner at Cravath, Swaine & Moore which has been retained by White Mountains from time to time to perform legal services.

Pursuant to an employment agreement with White Mountains, Mr. John Gillespie, a Director of the Company and an Officer of OneBeacon, may continue his active involvement with his investment management business, Prospector Partners, LLC ("Prospector"), so long as Mr. Gillespie devotes the requisite time required to discharge his responsibilities to OneBeacon. The agreement specifies procedures pursuant to which Prospector's funds have the ability to invest first in opportunities appropriate for both White Mountains and such funds. Pursuant to revenue sharing agreements, Mr. Gillespie has agreed to pay White Mountains a portion of the revenues and distributions allocable to him in connection with Prospector, in return for White Mountains agreeing to pay the operational expenses of his investment management companies. At December 31, 2001, White Mountains had $82 million invested in funds managed by Prospector.

At December 31, 2001, White Mountains had limited partnership investment interests in High Rise Partners, L.P. White Mountains also owns investments that are managed by High Rise Capital Management L.P., of which Mr. Zankel, a director of the Company, is the senior Managing Member.

White Mountains formerly owned two short-range aircraft jointly with Haverford Utah, LLC ("Haverford"). Messrs. Jack Byrne, Patrick Byrne and Thomas Kemp (each Directors of the Company and, in the case of Messrs. Jack Byrne and Kemp, each Officers of the Company) were principals of Haverford. Both aircraft were acquired from unaffiliated third parties during 1996. In exchange for Haverford's 20% ownership interest in the aircraft, Haverford contributed capital equal to 20% of the total initial cost of the aircraft and paid its pro rata share of all fixed costs plus the direct operating costs for its use pursuant to a Joint Ownership Agreement. The aircraft were sold to a third party during 2000 which resulted in Haverford receiving 20% of the cash proceeds.

White Mountains believes that the above transactions were on terms that were reasonable and competitive and, in the case of Lehman, were obtained through a competitive bid process. White Mountains believes that such transactions did not serve to impair the independence of any of the parties involved. Additional transactions of this nature may be expected to take place in the ordinary course of business in the future.

NOTE 17. Estimated Charges Incurred in Connection with the Tragedies of September 11, 2001

In connection with the Attacks, White Mountains recorded approximately $130.0 million of pretax charges during 2001. Gross and net of reinsurance losses from the Attacks were approximately $248.0 million and $105.0 million, respectively, at OneBeacon and $104.0 million and $25.0 million, respectively, at Folksamerica. White Mountains 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.

NOTE 18. Commitments and Contingencies

White Mountains leases certain office space under noncancellable operating leases expiring at various dates through 2010. Rental expense for all of White Mountains' locations was approximately $22.3 million, $2.1 million and $1.6 million for the years ended December 31, 2001, 2000 and 1999, respectively. White Mountains also has various other lease obligations which are immaterial in the aggregate.

White Mountains' future annual minimum rental payments required under noncancellable leases for office space are $33.5 million, $28.7 million, $19.9 million, $16.8 million and $43.1 million for the 2002, 2003, 2004, 2005 and 2006 and thereafter, respectively.

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. In accordance with SOP 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments", White Mountains' insurance subsidiaries record guaranty fund assessments when such assessments are billed by the respective guaranty funds. In addition, each insurance subsidiary's policy is to accrue for any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated. The actual amount of such assessments will depend upon the final outcome of rehabilitation proceedings and will be paid over several years. At December 31, 2001, the reserve for such assessments at White Mountains' insurance subsidiaries totalled $39.6 million, of which $26.3 million related to the insolvency of Reliance insurance Company.

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

Several of OneBeacon's insurance subsidiaries write voluntary automobile insurance in the state of New York. In doing so, they are obligated to accept assignments from the NYAIP for their market share of voluntary premiums written two years prior. In connection with the Acquisition, White Mountains estimated the fair value of the liability associated with NYAIP assignments as a result of voluntary business written by OneBeacon in periods prior to the Acquisition and recorded a liability of $110.0 million as a part of purchase accounting in its financial statements. This liability was increased to $131.1 million as of December 31, 2001. Management will periodically review and adjust this liability in accordance with generally accepted accounting principles as circumstances change within the New York automobile insurance marketplace.

Various claims have been made against White Mountains in the normal course of its business. Based on all information available at the date of this report, management believes that the outcome of such claims will not, in the aggregate, have a material effect on White Mountains' financial position or results of operations.

NOTE 19. Interim Period and Pro Forma Restatements (Unaudited)

As further discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained within this Annual Report on Form 10-K, during the second and third quarters of 2001 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 also 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. As a result, the Company has restated all applicable interim and pro forma earnings per share and related disclosures herein.

This revision did not affect the Company's historical balance sheets, its related determinations of book value per share and fully converted book value per share or its net income (or loss) or comprehensive net income (or loss) during any period. Since the Convertible Preference Shares were converted to Common Shares on August 23, 2001, the Company's results for the three month period ended December 31, 2001 were not affected.

Millions, except per share data	Computation of amounts available to common shareholders		Basic earnings (loss) per Common Share		Diluted earnings (loss) per Common Share	
	Net income (loss) from continuing operations	Net income (loss)	Net income (loss) from continuing operations	Net income (loss)	Net income (loss) from continuing operations	Net income (loss)
Form 10-Q as of September 30, 2001:						
As Restated:						
Three months ended 9/30/01	$ 34.4	$ 48.0	$ 5.07	$ 7.08	$ 4.56	$ 6.36
Nine months ended 9/30/01	(437.9)	(429.1)	(70.82)	(69.39)	(70.82)	(69.39)
Pro forma - nine months ended 9/30/01	n/c	n/c	(121.85)	(123.39)	(121.85)	(123.39)
Pro forma - nine months ended 9/30/00	n/c	n/c	(27.25)	(5.36)	(27.25)	(5.36)
As Originally Reported:						
Three months ended 9/30/01	$ (44.8)	$ (31.2)	$ (6.60)	$ (4.59)	$ (6.60)	$ (4.59)
Nine months ended 9/30/01	(132.8)	(124.0)	(21.48)	(20.05)	(21.48)	(20.05)
Pro forma - nine months ended 9/30/01	n/c	n/c	(72.52)	(74.06)	(72.52)	(74.06)
Pro forma - nine months ended 9/30/00	n/c	n/c	23.82	45.72	23.82	45.72
Form 10-Q as of June 30, 2001:						
As Restated:						
Three months ended 6/30/01	n/c	$ (494.3)	n/c	$ (84.12)	n/c	$ (84.12)
Six months ended 6/30/01	n/c	(477.2)	n/c	(81.18)	n/c	(81.18)
Pro forma - six months ended 6/30/01	n/c	(996.7)	n/c	(169.56)	n/c	(169.56)
Pro forma - six months ended 6/30/00	n/c	(669.8)	n/c	(113.35)	n/c	(113.35)
As Originally Reported:						
Three months ended 6/30/01	n/c	$ (109.9)	n/c	$ (18.71)	n/c	$ (18.71)
Six months ended 6/30/01	n/c	(92.8)	n/c	(15.80)	n/c	(15.80)
Pro forma - six months ended 6/30/01	n/c	(612.3)	n/c	(100.24)	n/c	(104.17)
Pro forma - six months ended 6/30/00	n/c	(285.4)	n/c	(49.90)	n/c	(48.30)
Form 8-K dated June 1, 2001:						
As Restated:						
Pro forma - three months ended 3/31/01	n/c	$ (512.7)	$ (83.64)	$ (87.19)	$ (83.64)	$ (87.19)
Pro forma - twelve months ended 12/31/00	n/c	(620.4)	(110.16)	(105.24)	(109.68)	(104.79)
As Originally Reported:						
Pro forma - three months ended 3/31/01	n/c	$ (194.5)	$ (29.52)	$ (33.08)	$ (29.27)	$ (32.79)
Pro forma - twelve months ended 12/31/00	n/c	(302.2)	(56.18)	(51.26)	(55.94)	(51.04)
Form 8-K dated November 1, 2001:						
As Restated:						
Pro forma - nine months ended 9/30/01	n/c	$ (748.1)	$ (119.43)	$ (120.96)	$ (119.43)	$ (120.96)
Pro forma - twelve months ended 12/31/00	n/c	(588.7)	(104.79)	(99.87)	(104.33)	(99.43)
As Originally Reported:						
Pro forma - nine months ended 9/30/01	n/c	$ (443.0)	$ (70.10)	$ (71.63)	$ (70.10)	$ (71.63)
Pro forma - twelve months ended 12/31/00	n/c	(283.6)	(53.03)	(48.11)	(52.80)	(47.90)

n/c - represents captions not contained within the referenced filings.

REPORT ON MANAGEMENT'S RESPONSIBILITIES

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

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

PricewaterhouseCoopers has audited the consolidated financial statements of White Mountains as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001. PricewaterhouseCoopers has issued their unqualified report thereon, which appears on page F-42.

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

The Audit Committee of the Board, which is comprised solely of independent, qualified directors, has general responsibility for the oversight and surveillance of the accounting, reporting and financial control practices of White Mountains as well as establishing and maintaining the Company's Audit Committee Charter. The Audit Committee, which reports to the full Board, annually reviews the overall quality and effectiveness of the independent auditors and management with respect to the financial reporting process and the adequacy of internal controls. The independent auditors have free access to the Audit Committee, without members of management present, to discuss the results of their audits, the adequacy of internal controls and any other matter that they believe should be brought to the attention of the Audit Committee. The Report of the Audit Committee appears on page 16 of the Company's 2002 Proxy Statement, herein incorporated by reference.

John J. Byrne
Chairman, Chief Executive Officer
(Principal Executive Officer)

Dennis P. Beaulieu
Corporate Secretary and Treasurer
(Principal Financial Officer)

J. Brian Palmer
Chief Accounting Officer
(Principal Accounting Officer)

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the index referenced under Item 14(a) on page 46 present fairly, in all material respects, the financial position of White Mountains Insurance Group, Ltd. and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedules listed in the index referenced under Item 14(a) on page 46 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

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

PricewaterhouseCoopers

Hamilton, Bermuda
April 1, 2002

SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)

Selected quarterly financial data for 2001 and 2000 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods.

	2001 Three Months Ended [a]				2000 Three Months Ended [b]			
Millions, except per share amounts	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$ 1,187.4	$1,339.4	$ 552.5	$ 154.3	$ 55.1	$ 546.1	$ 163.9	$ 83.1
Expenses	1,423.2	1,416.8	677.5	138.3	79.3	161.9	161.0	90.6
Pretax earnings (loss)	(235.8)	(77.4)	(125.0)	16.0	(24.2)	384.2	2.9	(7.5)
Tax benefit (provision)	107.5	42.4	23.3	1.1	8.4	(49.7)	(3.1)	1.9
Accretion and dividends on preferred stock of subsidiaries	(10.3)	(9.8)	(3.1)	–	–	–	–	–
Net income (loss) from continuing operations	(138.6)	(44.8)	(104.8)	17.1	(15.8)	334.5	(.2)	(5.6)
Net income from discontinued operations	–	–	–	–	–	95.0	–	–
Extraordinary items	3.0	13.6	(4.8)	–	–	–	–	–
Net income (loss)	$ (135.6)	$ (31.2)	$ (109.6)	$ 17.1	$ (15.8)	$ 429.5	$ (.2)	$ (5.6)
Net income (loss) from continuing operations per share (c):								
Basic	$ (17.14)	$ 5.07	$ (83.30)	$ 2.91	$ (2.68)	$ 56.86	$ (.03)	$ (.94)
Diluted	(17.14)	4.56	(83.30)	2.88	(2.68)	56.59	(.03)	(.94)
Net income (loss) per share (c):								
Basic	$ (16.77)	$ 7.08	$ (84.12)	$ 2.91	$ (2.68)	$ 73.02	$ (.03)	$ (.94)
Diluted	(16.77)	6.36	(84.12)	2.88	(2.68)	72.67	(.03)	(.94)
Tangible book value per share	$ 225.81	$ 243.41	$ 247.34	$ 185.44	$ 187.65	$ 186.44	$ 123.21	$ 127.92

(a) The quarterly amounts subsequent to March 31, 2001 reflect the acquisition of OneBeacon on June 1, 2001.

(b) The quarterly amounts subsequent to March 31, 2000 reflect the acquisitions of PCA and the Risk Capital Operations. The quarterly amounts for the three month period ended September 30, 2000 reflect the Dexia Sale and a $95.0 million reserve release relating to Fireman's Fund.

(c) Net income (loss) per share amounts reported for the three months ended June 30, 2001 and September 30, 2001 have been restated from the amounts previously reported in their respective quarterly reports on Form 10-Q. See Note 19.

White Mountains®
INSURANCE GROUP

SCHEDULE I

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES
At December 31, 2001

Millions	Cost	Fair Value
Fixed maturities:		
Bonds:		
United States Government and government agencies and authorities	$ 2,314.0	$ 2,317.5
Corporate bonds	3,512.5	3,470.9
States, municipalities and political subdivisions	69.1	70.3
Foreign governments	66.3	67.0
Redeemable preferred stocks	194.6	202.6
Total fixed maturities	6,156.5	6,128.3
Common equity securities:		
Banks, trust and insurance companies	50.5	56.2
Public utilities	15.9	18.0
Industrial, miscellaneous and other	88.7	99.4
Total common equity securities	155.1	173.6
Other investments	150.0	158.0
Short-term investments	2,545.8	2,545.8
Total investments	$ 9,007.4	$ 9,005.7

Note - fair value was equal to carrying value at December 31, 2001.

SCHEDULE II

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Registrant Only)

CONDENSED BALANCE SHEETS

Millions	December 31, 2001	2000
Assets:		
Common equity securities and other investments	$ 30.4	$ 30.5
Short-term investments, at amortized cost	54.7	96.4
Other assets	51.4	56.8
Investments in consolidated affiliates	1,350.2	1,040.3
Total assets	$ 1,486.7	$ 1,224.0
Liabilities:		
Long-term debt	$ 5.1	$ 96.0
Deferred credits	16.3	37.0
Accounts payable and other liabilities	20.7	44.5
Total liabilities	42.1	177.5
Common shareholders' equity	1,444.6	1,046.5
Total liabilities and common shareholders' equity	$ 1,486.7	$ 1,224.0

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Millions	Year Ended December 31, 2001	2000	1999
Revenues	$ 35.9	$ 26.8	$ 29.1
Expenses	66.9	43.5	46.6
Pretax loss	(31.0)	(16.7)	(17.5)
Income tax provision	(1.0)	(26.6)	(6.0)
Net loss	(32.0)	(43.3)	(23.5)
Earnings (losses) from consolidated affiliates	(222.5)	356.2	131.9
Earnings from discontinued operations, after tax	–	95.0	12.6
Extraordinary loss on early extinguishment of debt	(4.8)	–	–
Consolidated net income (loss)	(259.3)	407.9	121.0
Other comprehensive net income (loss) items, after tax	(42.5)	39.7	(118.0)
Consolidated comprehensive net income (loss)	$(301.8)	$ 447.6	$ 3.0
Computation of net income (loss) available to common shareholders:			
Consolidated net income (loss)	$(259.3)	$ 407.9	$ 121.0
Redemption value adjustment - Convertible Preference Shares	(305.1)	–	–
Dividends on Convertible Preference Shares	(.3)	–	–
Consolidated comprehensive net income (loss)	$(564.7)	$ 407.9	$ 121.0

SCHEDULE II
(continued)

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Registrant Only)

CONDENSED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 2001	2000	1999
Net income (loss)	**$(259.3)**	$ 407.9	$ 121.0
Reconciliation of net income to net cash from operating activities:			
Cash dividends to holders of Convertible Preference Shares	**.3**	–	–
Loss on early extinguishment of debt	**4.8**	–	–
Share appreciation expense for Options and Restricted Shares	**20.0**	–	–
Share appreciation expense for Series B Warrants	**58.8**	–	–
Net realized gains on sales of investments and other assets	**(13.3)**	(2.7)	(21.7)
Distributions from consolidated subsidiaries in excess of current earnings	–	–	213.0
Undistributed current losses (earnings) from consolidated subsidiaries	**278.0**	(250.1)	–
Amortization of deferred credits	**(20.7)**	(20.8)	–
Deferred income tax provision	–	–	39.7
Release of tax reserve on sale of former insurance subsidiary	–	(95.0)	–
Net change in other assets	**18.5**	(24.3)	2.5
Net change in accounts payable and other liabilities	**(32.3)**	37.3	(112.5)
Net cash provided from operating activities	**54.8**	52.3	242.0
Cash flows from investing activities:			
Net decrease (increase) in short-term investments, net of balances acquired	**41.7**	(84.8)	18.3
Sales of investment securities	**31.0**	53.8	5.4
Purchases of investment securities and other assets	**(30.9)**	(1.4)	–
Contributions to subsidiaries	**(530.7)**	–	–
Investments in consolidated affiliates, net of balances acquired	–	–	(73.5)
Investments in unconsolidated affiliates	–	–	(50.0)
Proceeds from sales of affiliates	**23.6**	–	–
Net cash provided from (used for) investing activities	**(465.3)**	(32.4)	(99.8)
Cash flows from financing activities:			
Proceeds from issuances of Common Shares and Convertible Preference Shares	**444.4**	–	–
Proceeds from issuances and exercises of warrants to acquire Common Shares	**75.0**	–	21.7
Common Shares repurchased and retired	**(1.9)**	(8.8)	(139.4)
Repayments of long-term debt	**(100.8)**	(4.0)	(15.9)
Cash dividends to holders of Convertible Preference Shares	**(.3)**	–	–
Cash dividends paid to holders of Common Shares	**(5.9)**	(7.1)	(8.8)
Net cash used for financing activities	**410.5**	(19.9)	(142.4)
Net decrease in cash during year	**–**	–	(.2)
Cash balance at beginning of year	**–**	–	.2
Cash balance at end of year	**$ –**	$ –	$ –

SCHEDULE III

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUPPLEMENTARY INSURANCE INFORMATION
(Millions)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Segment	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premiums earned	Net investment income [a]	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses	Premiums written
Years ended:										
December 31, 2001:										
OneBeacon	$ 267.4	$ 7,857.4	$ 1,612.0	$ –	$ 2,208.2	$ 228.4	$ 2,073.8	$ 456.5	$ 346.1	$ 1,878.2
Reinsurance and other insurance operations	45.9	1,670.2	202.5	–	447.9	51.7	420.1	127.8	61.5	487.2
December 31, 2000:										
Reinsurance and other insurance operations	$ 27.2	$ 1,556.3	$ 182.0	$ –	$ 334.4	$ 65.7	$ 287.7	$ 101.1	$ 31.6	$ 355.2
December 31, 1999:										
Reinsurance and other insurance operations	$ 22.2	$ 851.0	$ 92.1	$ –	$ 283.2	$ 54.0	$ 242.3	$ 73.4	$ 38.2	$ 274.7

[a] The amounts shown exclude net investment income relating to non-insurance operations of $4.4 million, $20.2 million and $7.9 million for the twelve months ended December 31, 2001, 2000 and 1999, respectively.

:HEDULE IV

WHITE MOUNTAINS INSURANCE GROUP, LTD.
REINSURANCE

Column A	Column B	Column C	Column D	Column E	Column F
ımiums earned)llars in millions)	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
ars ended:					
cember 31, 2001:					
)neBeacon	$ 2,374.2	$ (230.2)	$ 64.2	$ 2,208.2	2.9%
leinsurance and other insurance operations	36.7	(237.6)	648.8	447.9	144.9%
cember 31, 2000:					
leinsurance and other insurance operations	$ 32.5	$ (174.6)	$ 476.5	$ 334.4	142.5%
cember 31, 1999:					
leinsurance and other insurance operations	$ 63.8	$ (61.2)	$ 280.6	$ 283.2	99.1%

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

SCHEDULE V

WHITE MOUNTAINS INSURANCE GROUP, LTD.
VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions			
Millions	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions described	Balance at end of period
Years ended:					
December 31, 2001:					
Reinsurance recoverable:					
Allowance for reinsurance balances	$ 1.2	$ –	$ 24.0 [a]	$ (9.3) [b]	$ 15.9
Property and casualty insurance:					
Allowance for uncollectible accounts	1.1	–	96.8 [a]	(1.0) [b]	96.9
December 31, 2000:					
Reinsurance recoverable:					
Allowance for reinsurance balances	$ 1.2	$ –	$ –	$ –	$ 1.2
Property and casualty insurance:					
Allowance for uncollectible accounts	1.1	–	–	–	1.1
December 31, 1999:					
Reinsurance recoverable:					
Allowance for reinsurance balances	$ 1.2	$ –	$ –	$ –	$ 1.2
Property and casualty insurance:					
Allowance for uncollectible accounts	.4	–	.7 [c]	–	1.1

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

(b) Amounts shown represent charge-offs of overdue recoverables for OneBeacon from June 1, 2001 through December 31, 2001.

(c) Represents charge-offs of balances receivable

SCHEDULE VI

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

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H		Column I	Column J	Column K
							Claims and Claims Adjustment Expenses Incurred Related to				
Affiliation with registrant	Deferred acquisition costs	Reserves for Unpaid Claims and Claims Adjustment Expenses	Discount, if any, deducted in Column C	Unearned Premiums	Earned Premiums	Net investment income	(1) Current Year	(2) Prior Year	Amortization of deferred policy acquisition costs	Paid Claims and Claims Adjustment Expenses	Premiums written
OneBeacon:											
2001 [a]	$ 267.4	$ 7,857.4	$278.1 [c]	$ 1,612.0	$ 2,208.2	$ 228.4	$2,009.2	$ 64.6	$ 456.5	$1,952.7	$ 1,878.2
Consolidated reinsurance and other insurance operations:											
2001	$ 45.9	$ 1,670.2	$ –	$ 202.5	$ 447.9	$ 51.7	$ 381.4	$ 38.7	$ 127.8	$ 481.8	$ 487.2
2000	27.2	1,556.3	–	182.0	334.4	65.7	264.1	23.6	101.1	435.7	355.2
1999	22.2	851.0	–	92.1	283.2	54.0	210.4	31.9	73.4	275.3	274.7
50%-or-less owned property and casualty investees [b]:											
2001	$ 21.5	$ 104.9	$ –	$ 74.9	$ 143.3	$ 11.4	$ 95.2	$ (1.8)	$ 41.4	$ 92.7	$ 153.4
2000	18.8	101.1	–	64.8	127.1	11.8	91.9	(3.3)	37.2	89.0	132.7
1999	17.5	99.2	–	59.2	118.7	12.5	89.3	(7.0)	34.4	84.3	121.3

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

(b) The amounts shown represent White Mountains' share of its property and casualty insurance and reinsurance affiliates, MSA and Montpelier. MSA was 50.0% owned during the three year period ended December 31, 2001 and Montpelier was 20.6% owned during the year ended December 31, 2001.

(c) The amounts shown exclude unamortized fair value adjustments to reserves of $56.0 million for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains' purchase of OneBeacon.

White Mountains®
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