WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K/A
May 13, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

OR

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

For the transition period from to
Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

None

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

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

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of May 8, 2003, was $3,163,996,321.

As of May 8, 2003, 8,326,087 common shares, par value of $1.00 per share ("Common Shares"), were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to the Registrant's Annual General Meeting of Shareholders scheduled to be held May 19, 2003 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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PART I

Item 1. Business

GENERAL

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

The Company's reportable segments are OneBeacon, Reinsurance and Other Operations. The OneBeacon Insurance Group LLC family of companies are U.S.-based property and casualty insurance writers including, among several others, OneBeacon Insurance Company, Pennsylvania General Insurance Company and Camden Fire Insurance Association (collectively "OneBeacon"). OneBeacon was acquired by White Mountains from Aviva plc ("Aviva", formerly CGNU plc) on June 1, 2001 (the "Acquisition").

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

White Mountains' other operations consist of the International American Group, Esurance Inc. ("Esurance"), the Company and the Company's intermediate holding companies. The International American Group consists of Peninsula Insurance Company ("Peninsula"), American Centennial Insurance Company ("American Centennial") and British Insurance Company of Cayman ("British Insurance Company"), which were purchased by the Company in 1999. In connection with the Acquisition, Peninsula, American Centennial and British Insurance Company were contributed by the Company to Folksamerica.

White Mountains' Operating Principles

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

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

Maintain a Disciplined Balance Sheet. Insurance liabilities must always be fully recognized. Loss reserves must be solid before any other aspect of the business can be solid. Pricing, marketing and

underwriting all depend on informed judgment of ultimate loss costs and can be managed effectively only with a disciplined balance sheet.

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

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

ONEBEACON

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

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

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group ("Liberty Mutual") pursuant to a renewal rights agreement (the "Renewal Rights Agreement"). This transfer amounted to approximately 45% of OneBeacon's total business. The operating results and cash flows of policies renewed from November 1, 2001 through October 31, 2003 pursuant to the Renewal Rights Agreement are shared between Liberty Mutual and OneBeacon. A reinsurance agreement pro-rates results so that OneBeacon assumed approximately two-thirds of the operating results from renewals through October 31, 2002 and assumes approximately one-third of the operating results from renewals from November 1, 2002 to October 31, 2003. Additionally, OneBeacon has the option of assuming 10% of Liberty Mutual's regional agency markets business for the years 2004 to 2006 on a *pari passu* basis with Liberty Mutual. Since entering the Renewal Rights Agreement, OneBeacon has been focused on becoming a profitable independent agency property and casualty insurance company in the Northeast and for select specialty business on a national basis.

OneBeacon conducts its primary personal and commercial business through independent agents in two regional operations (New England and the New York/New Jersey area), a New York limited assigned distribution servicing carrier (AutoOne Insurance) and one reciprocal exchange (New Jersey Skylands Management Corporation). Agents provide value to their customers through personal

attention, coverage expertise and an understanding of local market conditions. The regional operations target personal and commercial customers, focusing on the family account and small to mid-sized businesses. OneBeacon's objective is to underwrite only profitable business without regard to market share, premium volume or growth. In addition to these regional operations, OneBeacon is also committed to nurturing its select specialty businesses that focus on providing custom coverages to certain niche markets, including ocean marine, agricultural, professional liability and tuition reimbursement. Each specialty business has its own operations and appointed agents that target specific customer groups.

At December 31, 2002 and 2001, OneBeacon had $15.8 billion and $16.5 billion of total assets, respectively, and shareholder's equity of $3.1 billion and $3.0 billion, respectively. OneBeacon's total assets and shareholder's equity include Folksamerica and its subsidiaries and OneBeacon's investment in Montpelier, which are covered elsewhere in this report.

Property and Casualty Insurance Overview

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

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

- Automobile: consists of physical damage and liability coverage. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft or other causes. Automobile liability insurance covers bodily injury of others, damage to their property and costs of legal defense resulting from a collision caused by the insured.

- Commercial property: covers losses to a business' premises, inventory and equipment as a result of weather, fire, theft and other causes.

- Homeowners: covers losses to an insured's home, including its contents, as a result of weather, fire, theft and other causes, and losses resulting from liability for acts of negligence by the insured or the insured's immediate family.

- General liability: covers businesses for any liability resulting from bodily injury and property damage arising from its general business operations, accidents on its premises and its products manufactured or sold.

- Umbrella: supplements existing insurance policies by covering losses from a broad range of insurance risks in excess of coverage provided by the primary insurance policy up to a specified limit.

- Workers compensation: covers an employer's liability for injuries, disability or death of employees, without regard to fault, as prescribed by state workers compensation law and other statutes.

Multiple peril: a package policy sold to small to mid-sized insureds or to members of trade associations or other groups that includes general liability insurance and commercial property insurance.

Inland marine: covers property that may be in transit or held by a bailee at a fixed location, movable goods that are often stored at different locations or property with an unusual antique or collector's value.

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

Ocean marine: covers losses to an insured's vessel and/or its cargo as a result of collision, fire, piracy and other perils. Ocean marine coverages include cargo, hull, protection and indemnity, primary and excess liability, marina package, comprehensive marina liability package and yacht products.

Agricultural: a package policy providing property, liability, automobile and/or umbrella coverages for the farm and ranch marketplace.

Directors and Officers ("D&O") and professional liability: covers liability that may arise as a result of omissions, misstatements, negligence or misconduct related to business operations. OneBeacon offers D&O and professional liability products to small and middle market businesses.

Tuition reimbursement: covers tuition payments due to schools and colleges when a student is unable to complete a semester as a result of an illness, accident or certain other causes.

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

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

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

Lines of Business

OneBeacon writes three "core" lines of business consisting of personal and commercial lines in the Northeast and certain specialty lines on a national basis. "Non-core" lines of business include business

assumed from Liberty Mutual in connection with the Renewal Rights Agreement and certain other non-core and run-off operations.

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

Net written premiums by line of business ($ in millions)	Year Ended December 31, 2002			Year Ended December 31, 2001		
Personal	**$**	**1,092.1**	**43%**	$	856.9	25%
Commercial		**454.6**	**18**		678.4	20
Specialty		**284.1**	**11**		221.6	6
Non-core lines		**692.0**	**28**		1,710.0	49
Total	**$**	**2,522.8**	**100%**	$	3,466.9	100%

For the twelve months ended December 31, 2002 and seven months ended December 31, 2001, OneBeacon's underwriting gain (loss) by line of business were as follows:

Underwriting gain (loss) by line of business ($ in millions)	Periods Ended December 31, 2002		2001	
Personal	**$**	**37.3**	$	(63.8)
Commercial		**28.1**		(200.5)
Specialty		**14.3**		4.8
Non-core lines		**(293.1)**		(417.8)
Total	**$**	**(213.4)**	$	(677.3)

Core Operations

Personal Lines

OneBeacon's personal lines include, among others, automobile, homeowners and Custom-Pac products (Custom-Pac products are combination policies offering home and automobile coverage with optional umbrella, boatowners and other coverages), which represented 62%, 18% and 15% of personal lines net written premium for the twelve months ended December 31, 2002. Personal lines automobile includes AutoOne Insurance and New Jersey Skylands Management Corporation.

Commercial Lines

OneBeacon's commercial lines products include, among others, multiple peril, commercial automobile and workers compensation, which represented 52%, 29% and 14% of commercial lines net written premium for the twelve months ended December 31, 2002. Nearly 90% of OneBeacon?s commercial accounts are comprised of policies with an annual premium of less than $50,000 and consist primarily of small, non-manufacturing accounts.

Specialty Lines

OneBeacon's specialty business focuses on providing custom coverages to certain niche markets, including ocean marine (offered through International Marine Underwriters, "IMU"), agricultural ("Agri"), professional liability (offered through OneBeacon Professional Partners, "OBPP") and other specialty products, such as tuition reimbursement. Each specialty business has its own operations and distribution channel that target specific customer groups. For the twelve months ended December 31,

2002, IMU, Agri, OBPP and other specialty products represented 38%, 36%, 10% and 16%, respectively, of specialty lines net written premium.

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

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

OneBeacon offers D&O and professional liability insurance under the name OneBeacon Professional Partners. OneBeacon entered the D&O and professional liability market in order to capitalize on a lack of available capacity within the marketplace. Due to the potential volatility of D&O and professional liability insurance, OneBeacon selectively underwrites each policy and does not write Fortune 1000 accounts, foreign businesses or large hospitals or groups. Further, OneBeacon does not write primary coverage. Most policies attach coverage in excess of $20 million of existing insurance and/or a deductible and have small limits of coverage, usually less than $5 million. OBPP's liability coverages are issued on a "claims made" basis, which means insurance that covers losses reported to OBPP during the time period when a liability policy is in effect, regardless of when the event causing the claim actually occurred. As a result, the ability of an insured to report claims outside of the policy term is limited, thereby limiting the claims tail.

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

Non-Core Operations

Non-core operations are primarily from business assumed from Liberty Mutual in connection with the Renewal Rights Agreement ($496.7 million in net written premiums for 2002). Premiums from non-core operations decreased from 49% of total premiums in 2001 to 28% of total premiums in 2002. Premiums from non-core lines will continue to diminish over the next year as OneBeacon's obligations under the Renewal Rights Agreement decrease and policies in run-off expire.

Geographic Concentration

OneBeacon's gross written premiums are derived solely from business produced in the United States. The various specialty businesses within core operations generate premiums from risks written in

markets across the country. Personal and commercial lines business from core operations was produced in the following states:

	Year Ended December 31,	
Personal and commercial written premiums by state	**2002**	**2001**
New York(1)	**48%**	39%
Massachusetts	**24**	24
New Jersey	**10**	13
Maine	**9**	10
Connecticut	**5**	5
Other(2)	**4**	9
Total	**100%**	100%

(1) Growth in written premiums in New York State from 2001 to 2002 is primarily from AutoOne Insurance. See separate discussion of AutoOne Insurance below.

(2) Vermont, New Hampshire and Rhode Island.

Marketing

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

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

OneBeacon's specialty businesses are located in separate locations, logistically appropriate to their target markets. IMU is headquartered in New York City and has nine branch locations located throughout the United States. Its products are distributed through a network of select agents that specialize in the ocean marine business. Agri has centralized operations in Lenexa, Kansas and distributes its products through independent agencies. OBPP, which is located in Avon, Connecticut, distributes its products nationally through excess and surplus lines brokers. Through these specialty businesses, OneBeacon leverages its knowledge about these markets to provide products and services that are tailored to meet customer needs.

Underwriting and Pricing

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

Following the Merger, the integration of underwriting and claims adjudication, settlement, administration, reporting and processing functions, which focused on expense savings, brought about numerous changes in business practices and philosophy, as well as in processes and systems. The operational integration of General Accident and Commercial Union (collectively, the "legacy companies") presented a challenge to OneBeacon in managing its business. It was necessary to combine the underwriting, pricing and claims recording practices of many organizations that had over time adopted differing operational methods, systems and means of coding and processing information. The integration of key data needed for financial reporting and regulatory compliance was given top priority; however, compromises were made in the integration of some additional information which limited the usefulness of certain analyses and tools used to manage and operate the business. This additional information, which included certain information relating to claim counts, insured values, exposure descriptors, risk classifications and pricing data, was often not captured fully or at all into the combined records of the legacy companies. As a result, it was difficult for OneBeacon's underwriters, claims managers and actuaries to localize sources of and causes for changes in price adequacy, underwriting quality and claims experience. As a consequence, in hindsight, prior management was slow to respond to external factors caused by market conditions and emerging claims trends in managing the business. However, the operational challenges described above did not affect in any material respect OneBeacon's ability to estimate reserves for losses and LAE in accordance with GAAP.

Subsequent to the Acquisition, White Mountains brought a new management team to OneBeacon to improve operating results in the short-term and establish practices for sustaining acceptable underwriting results going forward. White Mountains has taken significant actions with respect to OneBeacon since it completed the Acquisition including (1) shedding non-core businesses through the Liberty Mutual transaction (as described herein), (2) increasing prices, (3) reevaluating the risks, terms and conditions associated with renewing certain policies (and in appropriate cases declining to issue a renewal policy), (4) eliminating unprofitable products, accounts and agents, such as National Accounts and National Programs business, (5) improving the claims adjudication, settlement, administration and processing functions and (6) improving management information systems and deploying new technology to contribute to process improvement and overall results.

Further, as a result of the Renewal Rights Agreement, OneBeacon has focused its efforts on improving the ongoing operations in the Northeast, where it believes its agency relationships are the strongest and its historical results have been closer to profit targets. Under the terms of the Renewal Rights Agreement, Liberty Mutual assumed control over the underwriting and pricing of business subject to this agreement. The operating results and cash flows of policies renewed from November 1, 2001 through October 31, 2003 pursuant to the Renewal Rights Agreement are shared between Liberty Mutual and OneBeacon. A reinsurance agreement pro-rates results so that OneBeacon assumed approximately two-thirds of the operating results from renewals through October 31, 2002 and assumes approximately one-third of the operating results from renewals from November 1, 2002 to October 31, 2003. Liberty Mutual has control over a variety of factors which could impact the underwriting performance of Renewal Rights Agreement business, such as pricing adequacy, actual renewal premium volume, claims management, catastrophe exposures and other considerations. Management believes Liberty Mutual has done an acceptable job in each of these areas except for the handling of pre-November 1, 2001 claims. See "**Claims**" below for a further discussion.

Competition

Property and casualty insurance is highly competitive and extensively regulated by state insurance departments. OneBeacon competes in the United States with numerous regional and national insurance companies, most notably Travelers Insurance Group, Liberty Mutual, Selective Insurance Group, Zurich Insurance Group, Hanover Insurance Company and the Hartford Financial Services Group. It is often difficult for insurance companies to differentiate their products to consumers. The more significant

competitive factors for most insurance products offered by OneBeacon are price, product terms and claims service. OneBeacon's underwriting principles and dedication to agency distribution are unlikely to make OneBeacon the "low cost" provider in most markets. However, as a property and casualty insurer that writes predominantly through independent agents, OneBeacon believes that most property and casualty insurance customers value the counsel of a professional independent agent and that OneBeacon's use of independent agents is a competitive advantage over direct-response writers.

Claims

Effective claims management is a critical factor in achieving satisfactory underwriting results. Claims service is the most important product differentiation that OneBeacon brings to its agents and insureds. OneBeacon's near-term staffing and systems plans have caused and will continue to cause it to spend more on administrative claims costs in order to improve the efficiency of OneBeacon's claims function and ultimately to reduce overall loss costs. Additionally, in 2002, OneBeacon implemented a new claims workstation which is expected to provide management and claims adjusters with substantially more analysis and information to facilitate decision making and reduce overall claims costs in the future.

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

Pursuant to the Renewal Rights Agreement, Liberty Mutual assumed control of OneBeacon's claims offices in the regions subject to the Renewal Rights Agreement and is responsible for servicing claims from the OneBeacon policies written prior to November 1, 2001, as well as policies which have renewed in those regions since that date. Service agreements were put in place in connection with the Renewal Rights Agreement, through which Liberty Mutual became a third party administrator ("TPA") for those claims. Upon review of claims information during the third and fourth quarters of 2002, OneBeacon's management determined that average paid claims in offices where Liberty was acting as a TPA were higher than expected. As a result, management has begun a process to directly handle more of those claims related to policies written prior to the Renewal Rights Agreement and expects that substantially all such claims will be handled directly by OneBeacon by the end of 2003.

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

Loss and Loss Adjustment Expense Reserves

Non-Asbestos and Environmental Reserves

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

Reserve estimates at OneBeacon are subject to additional uncertainty as a consequence of a number of factors that occurred prior to and since the Acquisition. As previously discussed, OneBeacon is the result of the merger of the U.S. operations of General Accident and Commercial Union. While relatively the same size, the legacy companies had different underwriting and claims management

practices, which produced different business and underwriting results. The operational integration of the two companies was complex and included changes in underwriting and claims operations. Beginning in the mid-1990s, and continuing through the Merger, the subsequent operational integration of the legacy companies and the Acquisition, OneBeacon experienced an environment of significant change, both in its business and operations. Generally accepted actuarial techniques used to estimate reserves rely in large degree on projecting historical trends, such as patterns of claim development (i.e., reported claims and paid losses), into the future. Accordingly, estimating reserves becomes more uncertain if business mix, coverage limits, case reserve adequacy, claims payment rates and other factors change over time. The breadth and depth of the business and operational changes that occurred at OneBeacon (1) led to a wider range in the reserve estimates produced by a variety of actuarial loss reserving techniques, especially those that rely upon consistent claim development patterns, and (2) introduced greater complexity to the judgments required to be made by management in determining the impact of the business and operational changes on the development patterns used to estimate reserves.

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

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

In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. Often the factors influencing changes in claim costs are difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause

future experience and/or development patterns to vary from past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment.

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

Management believes that OneBeacon's loss and LAE reserves as of December 31, 2002 are reasonably stated; however, ultimate loss and LAE may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Adverse development, if any, would impact the Company's future results of operations. For a further description of the historical factors affecting OneBeacon's loss and LAE reserves prior to the Acquisition, see "Non-Asbestos and Environmental Reserves" under the caption "Loss and Loss Adjustment Expense Reserves" in the "OneBeacon" section of the business description contained within the Company's Amendment No. 3 to Form S-3 dated March 14, 2003 (the "Form S-3"). Such portion of the Form S-3 is incorporated by reference into this Form 10-K.

Asbestos and Environmental ("A&E") Reserves

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

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

OneBeacon's liabilities for A&E losses from business underwritten in the recent past are substantially limited by the application of exclusionary clauses in the policy language that eliminated coverage of such claims. After 1987 for pollution and 1992 for asbestos, most liability policies contained industry-standard absolute exclusions of such claims. In earlier years, various exclusions were also

applied, but the wording of those exclusions was less strict and subsequent court rulings have reduced their effectiveness.

OneBeacon also incurred A&E losses via its participation in industry pools and associations. The most significant of these pools was the Excess Casualty Reinsurance Association ("ECRA"), which provided excess liability reinsurance to U.S. insurers from 1950 until the early 1980s. ECRA incurred significant liabilities for A&E, of which OneBeacon bears approximately a 4.7% share, or $68 million at year end 2002.

More recently, since the 1990s, OneBeacon has experienced an influx of claims from commercial insureds, including many non-Fortune 500-sized accounts written during the 1970s and 1980s, who are named as defendants in asbestos lawsuits. As a number of large well-known manufacturers of asbestos and asbestos-containing products have gone into bankruptcy, plaintiffs have sought recoveries from peripheral defendants, such as installers, transporters or sellers of such products, or from owners of premises on which exposure to asbestos allegedly occurred. At December 31, 2002, 602 policyholders had asbestos related claims against OneBeacon. In 2002, 38 new insureds with such peripheral involvement presented asbestos claims under prior OneBeacon policies.

Historically, most asbestos claims have been asserted as product liability claims. Recently, insureds who have exhausted the available products liability limits of their insurance policies have sought payment for asbestos claims under the premises and operations coverage of their liability policies. It is more difficult for plaintiffs to establish losses as stemming from premises and operations exposures, which requires proof of the defendant's negligence, rather than products liability under which strict legal liability applies. Hence, there are fewer of such claims and settlements are generally for smaller amounts. There are currently 79 active claims against OneBeacon without product liability coverage asserting operations or premises coverage.

Immediately prior to the Acquisition, Aviva caused OneBeacon to purchase a reinsurance contract with NICO for a premium of $1.3 billion under which OneBeacon is entitled to recover from NICO up to $2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising from business written by OneBeacon in 1987 and prior, and certain other exposures. Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon's third party reinsurers in existence at the time the NICO Cover was executed ("Third Party Recoverables"). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Third Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments in the past 11 years, approximately 58% of asbestos losses and 40% of environmental losses have been recovered under the historical third party reinsurance.

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

The large majority of OneBeacon's third party reinsurance has been obtained from top-rated, financially strong companies. Of the Third Party Recoverables presented for recovery to date, approximately 3% has been determined to be unrecoverable due either to inability of a reinsurer to pay or to disputes with the reinsurer over the amounts due. For asbestos losses, this unrecoverable percentage has been 3.8% and for environmental losses 2.0%. Amounts uncollectible from third party reinsurers due to dispute or the reinsurers' financial inability to pay are covered by NICO under its agreement with OneBeacon.

OneBeacon estimates that on an incurred basis it has exhausted approximately $1,771 million of the coverage provided by NICO at December 31, 2002. Approximately $419 million of the estimated $1,771 million of incurred losses have been paid by NICO through December 31, 2002, with $106.3 million paid in 2002. To the extent that actual experience differs from OneBeacon's estimate of ultimate A&E losses and Third Party Recoverables, the remaining protection under the NICO Cover may be more or less than the approximate $729 million that OneBeacon estimates remained at December 31, 2002.

OneBeacon's reserves for A&E losses, net of Third Party Recoverables but prior to NICO recoveries, are $1.2 billion at December 31, 2002. An industry benchmark of reserve adequacy is the "survival ratio", computed as a company's reserves divided by its historical average yearly loss payments. This ratio indicates approximately how many more years of payments the reserves can support, assuming future yearly payments are equal to historical levels. OneBeacon's survival ratio was approximately 15.7 at December 31, 2002, which was computed as the ratio of A&E reserves, net of Third Party Recoverables, of $1.2 billion plus the remaining unused portion of the NICO Cover of $729 million, to the average loss payments in the past three years. White Mountains believes that as a result of the NICO Cover and its historical third party reinsurance programs, OneBeacon should not experience material financial loss from old A&E exposures under current coverage interpretations and that its survival ratio compares favorably to industry survival ratios. See Note 3 to the financial statements for more information regarding White Mountains' A&E reserves.

OneBeacon's reserves for A&E losses at December 31, 2002 represent management's best estimate of its ultimate liability based on information currently available. OneBeacon believes the NICO Cover will be adequate to cover all of its A&E obligations. However, as case law expands, medical and clean-up costs increase and industry settlement practices change, OneBeacon may be subject to asbestos and environmental losses beyond currently estimated amounts. Therefore, OneBeacon cannot guarantee that its A&E loss reserves, plus the remaining coverage under the NICO Cover, will be sufficient to cover additional liability arising from any such unfavorable developments.

Construction Defect Claims

OneBeacon's general liability and multiple peril lines of business have been significantly impacted by an increasing number of construction defect claims. Construction defect is a liability allegation relating to defective work performed in the construction of structures such as apartments, condominiums, single family dwellings or other housing. Such claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. Much of the increase in claims activity has been generated by plaintiffs' lawyers who approach disgruntled homeowners, and in many cases homeowner associations with large numbers of homeowners in multi-residential complexes, about defects or other flaws in their homes. The increasing number of claims for construction defects has been experienced industry-wide beginning with increased claims relating to exposures in California. Then, as plaintiffs' lawyers organized suits in other states with high levels of multi-residential construction, construction defect claims were reported in nearby western states, such as Colorado and Nevada, and eventually throughout the country. The reporting of such claims can be quite delayed as the statute of limitations can be up to ten years. Court decisions have expanded insurers' exposure to construction defect claims as well. For example, in 1995, California courts adopted a "continuous trigger" theory in which all insurers during the period in which the damage occurs (i.e., the entire construction period through remediation of the damage) must respond. As a result, claims may be reported more than ten years after a project has been completed as litigation can proceed for several years before an insurance company is identified as a potential contributor. Recently, claims have also emerged from parties claiming additional insured status on policies issued to other parties (e.g., such as contractors seeking coverage on a sub-contractor's policy).

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

Additional Loss and Loss Adjustment Expense Information

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

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

Section II shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid losses and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section III shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2002. Section IV shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2002. Section V shows the cumulative

amount of net losses and LAE paid relating to recorded liabilities as of the end of each succeeding year.

OneBeacon Loss and LAE(1), (3)
Years Ended December 31,

($ in millions)	1992	1993	1994	1995	1996	1997	1998(2)	1999	2000	2001	2002
I. Liability for unpaid losses and LAE:	$ 5,652.8	$ 5,562.5	$ 5,535.4	$ 5,844.4	$ 5,804.4	$ 5,655.9	$ 6,944.0	$ 6,368.8	$ 6,982.7	$ 8,425.2	$ 7,630.5
Less: reins. recoverables	(1,392.6)	(1,191.6)	(1,069.8)	(1,307.4)	(1,260.4)	(1,159.2)	(1,651.9)	(1,285.6)	(1,276.4)	(3,609.7	(3,560.6)

OneBeacon Loss and LAE(1), (3)
Years Ended December 31,

on unpaid losses and LAE											
Net balance	$ 4,260.2	$ 4,370.9	$ 4,465.6	$ 4,537.0	$ 4,544.0	$ 4,496.7	$ 5,292.1	$ 5,083.2	$ 5,706.3	$ 4,815.5	$ 4,069.9
II. Net liability re-estimated as of:											
1 year later	4,365.9	4,411.5	4,494.1	4,584.7	4,627.8	5,370.1	5,305.3	5,901.2	4,815.8	4,872.9	
2 years later	4,413.4	4,450.3	4,552.1	4,667.1	5,476.0	5,424.7	5,985.4	5,013.5	4,913.7		
3 years later	4,510.5	4,501.0	4,642.8	5,460.6	5,549.0	5,965.0	5,002.8	5,025.5			
4 years later	4,610.3	4,602.8	5,406.5	5,510.6	5,924.8	4,980.5	5,073.5				
5 years later	4,705.8	5,353.2	5,431.8	5,779.5	4,948.0	5,049.2					
6 years later	5,446.4	5,353.5	5,632.0	4,794.7	4,995.6						
7 years later	5,439.2	5,523.8	4,658.7	4,840.0							
8 years later	5,587.1	4,569.2	4,691.8								
9 years later	4,638.5	4,595.6									
10 years later	4,660.5										
III. Cumulative net (deficiency)/redundancy	$ (400.3)	$ (224.7)	$ (226.2)	$ (303.0)	$ (451.6)	$ (552.5)	$ 218.6	$ 57.7	$ 792.6	$ (57.4)	$
Percent (deficient)/redundant	(9.4)%	(5.1)%	(5.1)%	(6.7)%	(9.9)%	(12.3)%	4.1%	1.1%	13.9%	(1.2)%	%
IV. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see II. above):											
Gross re-estimated liability	11,334.1	11,024.5	10,981.8	10,861.1	10,871.8	10,807.3	10,849.8	10,632.6	10,538.9	10,057.4	
Less: gross re-estimated reinsurance recoverable	(6,673.6)	(6,428.9)	(6,290.0)	(6,021.1)	(5,876.2)	(5,758.1)	(5,776.3)	(5,607.1)	(5,625.2)	(5,184.5)	
Net re-estimated liability	$ 4,660.5	$ 4,595.6	$ 4,691.8	$ 4,840.0	$ 4,995.6	$ 5,049.2	$ 5,073.5	$ 5,025.5	$ 4,913.7	$ 4,872.9	
V. Cumulative net amount of liability paid through:											
1 year later	1,461.0	1,367.3	1,390.1	1,476.6	1,591.9	1,687.3	1,815.2	1,966.5	2,007.9	1,819.7	

OneBeacon Loss and LAE(1), (3)
Years Ended December 31,

2 years later	2,234.8	2,152.3	2,240.8	2,372.6	2,621.3	2,735.4	2,954.8	3,136.2	3,133.3		
3 years later	2,761.5	2,711.5	2,821.9	3,083.3	3,331.1	3,518.0	3,709.2	3,794.0			
4 years later	3,135.8	3,089.5	3,328.3	3,571.3	3,872.2	4,044.0	4,029.0				
5 years later	3,394.6	3,464.3	3,672.7	3,961.5	4,233.4	4,234.7					
6 years later	3,693.0	3,720.2	3,978.3	4,225.4	4,363.0						
7 years later	3,882.1	3,979.3	4,186.9	4,312.6							
8 years later	4,122.9	4,159.7	4,265.6								
9 years later	4,283.2	4,218.9									
10 years later	4,330.0										

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

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

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

The cumulative net (deficiency)/redundancy in the table above reflects reinsurance recoverables recorded in connection with the Acquisition under the NICO Cover. This cover applies to losses incurred in 2000 and prior years. As a result, it has the effect of significantly increasing OneBeacon's reinsurance recoverables in 2001 and 2002 and reducing its reserve deficiency for each of the years presented prior to the Acquisition, by the amount of the reserves ceded at the time their cover was purchased. See "**Asbestos and Environmental Reserves**" for a discussion of the impact of this

reinsurance contract on OneBeacon's net loss and LAE reserve position. The table presented below represents OneBeacon's cumulative net deficiency without regard to the NICO Cover.

	Years Ended December 31,										
($ in millions)	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Cumulative net deficiency adjusted for the NICO Cover	(1,355.4)	(1,179.8)	(1,181.3)	(1,258.1)	(1,406.7)	(1,507.6)	(736.5)	(897.4)	(162.4)	(57.4)	
Percent deficient	(31.8)%	(27.0)%	(26.5)%	(27.7)%	(31.0)%	(33.5)%	(13.9)%	(17.7)%	(2.8)%	(1.2)%	

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

	Year Ended December 31,		
($ in millions)	**2002**	**2001**	**2000**
Statutory reserves	**$ 6,029.0**	$ 6,795.8	$ 5,730.1

	Year Ended December 31,		
Reinsurance recoverable on unpaid losses and LAE(1)	**1,650.9**	1,606.5	1,276.4
Purchase accounting adjustments(2)	**(481.0)**	(567.8)	
Other	**(49.4)**(3)	22.9(4)	(23.8)(3)
GAAP reserves	**$ 7,149.5**	$ 7,857.4	$ 6,982.7

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

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

(3) Represents long-term workers compensation loss and LAE reserve discount recorded of $42.2 million in 2002 and $42.1 million in 2000, partially offset by incremental guaranty fund assessments required to be recorded under GAAP.

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

Terrorism

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

On November 26, 2002, President Bush signed the Terrorism Risk Insurance Act (the "Terrorism Act") establishing a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. The Terrorism Act requires primary commercial insurers to make terrorism coverage available immediately and provides Federal protection above individual company retention and aggregate industry retention levels. OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $100 million in 2003. Aggregate industry retention levels are $10.0 billion from the date the Terrorism Act was enacted through December 31, 2003, $12.5 billion for 2004 and $15.0 billion for 2005. The Federal government will pay 90% of covered

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

OneBeacon closely monitors its concentration of risk by geographic area and primarily writes small commercial and personal lines business, under which the insureds are unlikely to be direct targets of terrorism. During 2002, OneBeacon aggressively reduced its terrorism exposure in its commercial lines business in the largest metropolitan areas in which OneBeacon writes insurance. In the workers compensation line, total covered lives in the ten largest metropolitan areas were reduced 60% from May 31, 2002 (the first date for which OneBeacon accumulated such data) to December 31, 2002, and total insured property values were reduced 52% from December 31, 2001 to December 31, 2002. Total insured property values in New York City were reduced 84% from May 31, 2002 to December 31, 2002. As a result, OneBeacon believes its exposure to losses from future terrorist attacks has been reduced. Nonetheless, risks insured by OneBeacon, and those contemplated by the enacted Terrorism Act, remain exposed to future terrorist attacks and the possibility remains that any future terrorist losses could prove to be material to the Company's financial position and/or its cash flows.

Reinsurance Protection

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

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

OneBeacon seeks to further reduce its exposure to catastrophe losses through the purchase of catastrophe reinsurance. OneBeacon's 2002 catastrophe reinsurance program was through a group of reinsurers, with a $125.0 million retention for losses resulting from any single catastrophe. Property catastrophe losses from a single event in excess of $125.0 million and up to $200.0 million were reinsured for 75% of the loss. Property catastrophe losses from a single event in excess of $200.0 million and up to $750.0 million were reinsured for 95% of the loss. The 2002 catastrophe program was developed based on OneBeacon's exposure to a one-in-250 year Northeast windstorm.

When evaluating its catastrophe reinsurance program for 2003, OneBeacon determined that its exposure to risks resulting from a catastrophic Northeast windstorm are mitigated in the early part of calendar years due to the seasonality of such storms. Accordingly, for the first four months of 2003, OneBeacon entered into a catastrophe reinsurance program under which (1) the first $125.0 million of

losses resulting from any single catastrophe are retained by OneBeacon and (2) property catastrophe losses from a single event in excess of $125.0 million and up to $325.0 million are reinsured for 99% of the loss. Effective May 1, 2003, OneBeacon intends to enter into a property catastrophe cover that is consistent with the coverage provided by its 2002 catastrophe reinsurance program.

OneBeacon's property catastrophe reinsurance program does not cover personal or commercial property losses resulting from nuclear, biological or chemical terrorist attacks or from "certified" events as defined under the Terrorism Act. The program covers personal property losses resulting from other types of terrorist attacks and commercial property losses from other types of domestic terrorist attacks. As a result, OneBeacon does not have reinsurance protection under either the Terrorism Act or its catastrophe reinsurance program for personal property losses resulting from a nuclear, biological or chemical attack. In the event of a catastrophe, OneBeacon can reinstate its property catastrophe reinsurance program for the remainder of the original contract term by paying a reinstatement premium which is based on the product of the percentage of coverage reinstated and its original property catastrophe coverage premium. OneBeacon also maintains a casualty reinsurance program which provides protection for catastrophe losses involving worker's compensation, general liability or automobile liability in excess of $5.0 million up to $60.0 million. This program provides one full $55.0 million limit for either "certified" or "non-certified" terrorism losses but does not provide for losses resulting from nuclear, biological or chemical attacks. OneBeacon also purchases reinsurance coverage for certain risks at levels below $125.0 million, on either a facultative or treaty basis, where it deems appropriate.

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

Also in connection with the Acquisition, OneBeacon obtained the GRC Cover which provided up to $570.0 million of reinsurance protection, consisting of $400.0 million of adverse development coverage on losses occurring in years 2000 and prior, in addition to $170.0 million of reserves ceded as of the date of the Acquisition. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon has recorded $531.7 million in recoverables due from GRC at December 31, 2002 and December 31, 2001. OneBeacon will only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the GRC

Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be small.

At December 31, 2002, OneBeacon had $77.9 million of reinsurance currently recoverable on paid losses and $3,560.6 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders, the financial position and solvency of OneBeacon's reinsurers is critical to the collectibility of its reinsurance coverages. OneBeacon is selective with regard to its reinsurers, placing reinsurance with only those reinsurers having strong financial strength ratings. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have not historically been significant. Excluding industry pools and associations of $376.2 million, which are not rated by A.M. Best, 96% of OneBeacon's total reinsurance recoverables at December 31, 2002 were with reinsurers that had an A.M. Best rating of "A-" (Excellent, the fourth highest of fifteen ratings) or better. The following table provides a listing of OneBeacon's top reinsurers, excluding industry pools

and associations, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurer's A.M. Best rating.

Top Reinsurers ($ in millions)	Balance at December 31, 2002	% of Total	A.M. Best Rating(3)
Subsidiaries of Berkshire Hathaway Inc. (NICO and GRC)	$ **2,585.1**	71%	A++
Liberty Mutual and subsidiaries(1)	**273.8**	8	A
Tokio Fire and Marine Insurance Company	**67.1**	2	A++
American Re-Insurance Company	**47.0**	1	A+
Aviva plc and its affiliates(2)	**34.9**	1	not rated

(1) At December 31, 2002, OneBeacon had assumed balances payable and expenses payable of approximately $266.9 million under the Renewal Rights Agreement. In the event of Liberty Mutual's insolvency, OneBeacon has the right to offset these balances against its reinsurance recoverable due from Liberty Mutual.

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

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

New York Assigned Risk Market

OneBeacon writes voluntary personal automobile insurance in the State of New York. As a condition to its license to write automobile business within that state, OneBeacon is obligated by statute to accept future assignments from the New York Automobile Insurance Plan ("NYAIP"), a residual insurance market that obtains personal automobile insurance for those individuals who cannot otherwise obtain it in the voluntary insurance market. The share of involuntary written premium for policies assigned by the NYAIP to a particular insurer in a given year is based, in general, on the proportion of the total voluntary writings in New York two years prior. Therefore, by voluntarily writing automobile policies in New York, an insurer has an obligation under New York State insurance laws to provide insurance two years later to individuals assigned to it from the NYAIP. Alternatively, an insurance company can contractually transfer its NYAIP obligation to another insurance company for a fee in satisfaction of its NYAIP obligation. This process is called Limited Assigned Distribution ("LAD"), and the companies that assume this obligation are called LAD servicing carriers. LAD servicing carriers are paid fees (referred to as buy-out fees) to assume the insurance risk of NYAIP obligations in addition to the premiums it receives for writing the involuntary policy. The fees are typically a percentage of the total premiums the LAD servicing carrier must write to fulfill the NYAIP obligation of the transferor company. In return, the LAD servicing carrier is contractually obligated to pay all loss and loss adjustment and other underwriting expenses related to the NYAIP assigned premiums of the transferor company, with no recourse to the transferor. At December 31, 2002, White Mountains' estimated liability for discharging its obligations associated with NYAIP assignments resulting from voluntary business written by OneBeacon in the preceding two-year period was $103.0 million.

AutoOne Insurance

In the last few years, NYAIP assignments and LAD fees have both increased significantly. During October of 2001, OneBeacon licensed one of its insurance companies, General Assurance Company, to act as a LAD servicing carrier in order to mitigate OneBeacon's exposure to the cost of future NYAIP assignments and to take advantage of rapidly rising LAD servicing fees. This company, which does business as "AutoOne Insurance", wrote 18 LAD contracts with third parties that resulted in approximately $203 million of assigned personal automobile written premium and LAD fees for unaffiliated companies in 2002. Additionally, AutoOne Insurance performed LAD services relating to OneBeacon's obligation to write $53 million in assigned premium in 2002, thereby fulfilling the obligation that arose from voluntary premium written by OneBeacon in 2000. OneBeacon believes that AutoOne Insurance's current business strategy will enable it to capitalize on continued demand for LAD services and improve the results of OneBeacon's overall New York automobile business by reducing its cost of obtaining LAD services. AutoOne Insurance is operated as a separate division of OneBeacon. AutoOne Insurance's primary competitors are Robert Plan and Clarendon Insurance Group, a subsidiary of Hannover Re.

LAD servicing contracts between AutoOne Insurance and other insurers are for a period of one year. Once an assigned risk policy has been written, AutoOne Insurance is obligated to provide insurance for two more years unless the insured departs from the NYAIP, regardless of whether the LAD contract is renewed. This risk can be mitigated in whole or in part through (i) renewal of the LAD contract in the subsequent year; (ii) through "disengagement" fees due to AutoOne Insurance from the transferor company upon non-renewal of the LAD servicing contract; and (iii) through utilization of various credits offered by New York to those insurers who voluntarily provide coverage to individuals in the NYAIP, the largest of which are referred to as "take-out credits". In recent years, insurers and LAD servicing carriers have not utilized credits to a large extent as the costs to generate these credits did not outweigh the benefits. Under the credit programs in effect for NYAIP assignments written in 2002, an insurer could generally reduce its future NYAIP assignments by one dollar for every dollar of NYAIP premium voluntarily written by the insurer. These credits often could not be used to reduce NYAIP assignments for two years. The NYAIP has revised the structure of its credit programs effective for NYAIP assignments written in 2003 to increase the economic benefits of these credit programs. Under the revised structure, writing a NYAIP assignment on a voluntary basis generates two dollars of credit for each dollar of applicable premium. Takeout credits may be applied to reduce NYAIP assignments in the quarter after the takeout policy is written. OneBeacon believes that AutoOne Insurance will be able to voluntarily write policies currently in the NYAIP thereby generating takeout credits which can be used to reduce its own assignment obligations or sold to other insurance companies to reduce their NYAIP assignments.

New Jersey Skylands

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

beginning with policies renewing on or after October 23, 2002, is offering all of OneBeacon's current New Jersey personal automobile policyholders coverage upon renewal.

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

MSA is a subsidiary of National Grange Mutual Insurance Company ("NGM"), a New Hampshire-domiciled property and casualty insurance company, which insures risks located primarily in New York, Massachusetts, Connecticut, Pennsylvania, New Hampshire, Virginia and Florida. OneBeacon owns 50% of the outstanding common stock of MSA and accounts for this investment using the equity method.

OneBeacon's investment in MSA was $128.1 million and $133.7 million at December 31, 2002 and December 31, 2001. MSA's net written premiums totalled $357.3 million, $306.8 million and $265.4 million and its net income (loss) was ($13.5) million, $6.8 million and $3.8 million in 2002, 2001 and 2000. MSA's total assets as of December 31, 2002 and 2001 were $704.5 million and $653.8 million and its shareholders' equity was $253.7 million and $262.3 million. The principal insurance operating subsidiaries of NGM and MSA are rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best.

REINSURANCE

Reinsurance Overview

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

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

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

Folksamerica

Folksamerica, through its wholly owned subsidiary, Folksamerica Reinsurance Company (a New York-domiciled reinsurance company), is a multi-line, broker-market reinsurer which provides reinsurance to insurers of property, casualty, accident and health and marine risks primarily in the United States, Canada, Continental Europe, Latin America, the Caribbean and Japan. Folksamerica became a wholly- owned subsidiary of White Mountains during 1998. Folksamerica Reinsurance Company is rated "A-" (Excellent, the fourth highest of fifteen ratings) by A.M. Best. At December 31, 2002 and December 31, 2001, Folksamerica had $3.4 billion and $3.2 billion of total assets and $976.4 million and $901.7 million of shareholder's equity, respectively. Folksamerica's total assets and shareholder's equity include the International American Group and Esurance, which are covered elsewhere in this report.

Folksamerica writes both treaty and facultative reinsurance. The majority of Folksamerica's premiums are derived from treaty reinsurance contracts both on an excess of loss and quota share basis, which in 2002 amounted to 39.0% and 54.7% of its total gross earned premiums, respectively. A quota share reinsurance treaty is an arrangement whereby a reinsurer assumes a predetermined proportional share of the premiums and losses generated on specified business. An excess of loss treaty is an arrangement whereby a reinsurer assumes losses that exceed the retention of loss by the ceding company, as provided by the contract.

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

Folksamerica commenced writing reinsurance coverage in 1980 as one of a host of newly formed, foreign-owned reinsurers capitalized with minimal surplus. In 1991, recognizing that surplus size would become an increasingly important business issue, Folksamerica launched an aggressive strategy to increase its resources and capacity through the acquisition of select broker-market reinsurance and property and casualty insurance companies. Since 1991, Folksamerica has acquired eight other reinsurers. These acquisitions have served to raise Folksamerica's surplus and asset base, broaden its skill set and contribute a number of important business relationships. Folksamerica's acquisition strategy is to seek fundamentally sound companies whose owners are no longer committed to the business. In these cases, the owner's lack of interest in its specific operations which are available for sale have had more to do with difficulties experienced by the owner in its core business rather than problems with the operations being sold. Folksamerica's more recent acquisitions included USF Re Insurance Co. ("USF Re") in 1999, PCA Property & Casualty Insurance Company ("PCA") in 2000, substantially all the reinsurance operations of Risk Capital Reinsurance Company ("Risk Capital") in 2000, C-F Insurance Company ("C-F") in 2001 and Imperial Casualty and Indemnity Insurance Company ("Imperial") in 2002. Folksamerica will continue to seek additional insurance and reinsurance acquisitions in the future.

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

Classes of Business

Folksamerica writes three main classes of reinsurance: liability reinsurance, property reinsurance and accident and health reinsurance. Folksamerica's net written premiums by class of business for the years ended December 31, 2002, 2001 and 2000 were as follows:

Business class (Millions)	Year Ended December 31, 2002	2001	2000
Liability	**$ 381.6**	$ 310.6	$ 208.4
Property	**205.3**	93.5	91.6
Accident and Health	**68.1**	25.1	26.4
Other	**23.7**	29.7	6.2
Total	**$ 678.7**	$ 458.9	$ 332.6

Geographic Concentration

Folksamerica's net written premiums by geographic region for the years ended December 31, 2002, 2001 and 2000 were as follows:

Geographic region (Millions)	Year Ended December 31, 2002	2001	2000
United States	**$ 579.9**	$ 408.3	$ 296.7
Canada	**28.3**	26.6	21.6
Latin America, the Caribbean and Europe	**70.5**	24.0	14.3
Total	**$ 678.7**	$ 458.9	$ 332.6

Marketing

Folksamerica obtains most of its reinsurance business either directly through brokers and reinsurance intermediaries that represent the ceding company or indirectly through placements recommended by WMU. Folksamerica considers both the intermediary and the ceding company its clients in any placement. Much of Folksamerica's business is conducted with ceding companies and their management, with whom Folksamerica has developed strong business relationships over a long period of time. The process of placing a brokered reinsurance program typically begins when a ceding company enlists the aid of a reinsurance broker in structuring a reinsurance program. Often the ceding company and the broker will consult with one or more lead reinsurers as to the pricing and contract terms for the reinsurance protection being sought. Once the ceding company has approved the terms quoted by the lead reinsurer, the broker will offer participation to qualified reinsurers until the program is fully subscribed by reinsurers at terms agreed to by all parties. Folksamerica was a lead or co-lead reinsurer on approximately 80% of its reinsurance arrangements in 2002.

Folksamerica pays ceding companies a ceding commission under most quota share reinsurance treaties and some excess of loss reinsurance treaties. The ceding commission is generally based on the ceding company's cost of acquiring the business being reinsured (commissions, premium taxes and certain miscellaneous expenses). During the years ended December 31, 2002 and 2001, Folksamerica received no more than 10% of its gross reinsurance premiums from any individual ceding company. Additionally, Folksamerica pays reinsurance brokers commissions based on negotiated percentages of the premium it writes. These commissions, which average approximately 5% of premium, constitute a significant portion of Folksamerica's total acquisition costs and are included in its underwriting expenses. During the years ended December 31, 2002 and 2001, Folksamerica received approximately 57.0% and 54.4%, respectively, of its gross reinsurance written premiums from three major reinsurance

brokers as follows: (1) AON Re, Inc. 28.2% and 21.3%, respectively; (2) Benfield Blanch -13.5% and 17.2%, respectively; and (3) Guy Carpenter -15.3% and 15.9%, respectively.

Underwriting and Pricing

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

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

Competition

There are 20 U.S.-based reinsurance companies with broker-market operations which Folksamerica views as its direct competition. These companies report operating data to the Reinsurance Association of America ("RAA"). Based on surplus size as of December 31, 2002, Folksamerica is the fifth largest of these companies. Additionally, there are reinsurance divisions or departments of four U.S.-based insurers that, while not separate reinsurance companies, participate in the U.S. broker reinsurance market.

Across all lines of business, Folksamerica competes with all of the larger broker-market reinsurance companies and reinsurance departments or divisions of primary insurance companies. As reported by the RAA, Folksamerica wrote approximately 4.6% of gross written premiums of all broker-market reinsurance companies and reinsurance divisions of insurance companies in 2002. The broker-market companies or divisions writing the largest portion of gross premiums in 2002 were: XL Reinsurance America (16.4%),Transatlantic Reinsurance Company (13.1%) and Everest Reinsurance Company (12.5%).

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

fundamentally sound competitors whose ownership structure or other factors limit their ability to compete effectively.

In general, poor market conditions for primary companies in recent years have caused insurers to reduce their own premium writings or restructure their reinsurance programs, thereby reducing the amount of reinsurance they purchase. As a result of consolidation within the industry, many ceding companies are now larger and financially stronger, thereby enabling them to retain more risk. In addition, increasingly intense competition in the reinsurance markets, primarily as a result of excess industry capital, has historically driven reinsurance prices on many programs below levels that Folksamerica will accept. The significant insured losses resulting from the Attacks, as well as other factors, have reduced the capacity of several reinsurers resulting in marked improvements in reinsurance pricing, terms and conditions. However, due to recent capital raising activities by several Bermuda-based and other reinsurers, there is no assurance that such improved conditions will continue over an extended period. Folksamerica's management believes that the reinsurance industry, including the intermediary market, will continue to undergo further consolidation. Management further believes that size and financial strength will become increasingly important factors in selecting reliable reinsurance partners, particularly in light of the weakening of several reinsurers in the wake of the Attacks.

Claims

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

Loss and Loss Adjustment Expense Reserves

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

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

As described previously, uncertainties in projecting estimates of ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled, i.e., the "claim-tail". During the long claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about claims and trends may become known and, as a result, Folksamerica may adjust its loss and LAE reserves. If management determines that an adjustment is appropriate, the adjustment is booked in the accounting period in which such determination is made in accordance with GAAP. Management believes that Folksamerica's loss and LAE reserves as of December 31, 2002 are reasonably stated; however, ultimate loss and LAE may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Adverse development, if any, would impact the Company's future results of operations.

Reinsurance Protection

Folksamerica has exposure to losses caused by hurricanes, earthquakes, winter storms, windstorms, terrorist acts and other catastrophic events. In the normal course of business, Folksamerica seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance and reinsurance enterprises and by closely monitoring aggregate property exposures and related PMLs. To manage and analyze aggregate exposures and PML, Folksamerica utilizes a variety of tools and analyses, including catastrophe modeling software packages. Folksamerica regularly assesses its concentration of underwriting exposures in catastrophe prone areas and develops strategies to manage this exposure, primarily through limiting accumulation of exposure to acceptable levels and the purchase of catastrophe reinsurance. Folksamerica's current catastrophe protection program includes $35.0 million of protection in excess of a $60.0 million retention for a second loss. The current program also includes coverage of $15.0 million in excess of a $5.0 million retention for Folksamerica's proportional property portfolio. Each of the above contracts are 100% placed with a single, top quality reinsurer and have reinstatement provisions whereby, in the event of one covered loss, the coverage is reinstated for additional premium. Folksamerica's reinsurance program also includes annual aggregate stop loss protection from London Life and General Reinsurance Company, Ltd. ("London Life") which protects the Company's accident year loss ratio from the effect of a very large catastrophic event or a number of smaller events. Folksamerica's limit of coverage under its accident year 2002 contract with London Life was $50.0 million, attaching at a 78% loss ratio.

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

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

In connection with the Imagine Cover, Folksamerica transferred loss and LAE reserves of $250.0 million and unearned premium reserves of $65.0 million to Imagine Re for consideration of $315.0 million. As of December 31, 2002, there was approximately $9.9 million of coverage remaining under the Imagine Cover.

Folksamerica has a quota share retrocessional arrangement with Olympus Reinsurance Ltd. ("Olympus") which is designed to increase Folksamerica's capacity to capitalize on the improved pricing trends which accelerated after the Attacks and to reduce its potential loss exposure to any large,

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or series of smaller, property catastrophe events. Olympus is a Bermuda-domiciled insurance and reinsurance company that was formed in December 2001 with an initial capitalization of more than $500.0 million to respond to the favorable underwriting and pricing environment in the reinsurance market. Olympus is rated "A-" (Excellent, the fourth highest of fifteen ratings) by A.M. Best. Under the quota share treaty with Olympus, Folksamerica cedes 75% of its short-tailed excess of loss business, mainly property and marine, to Olympus and receives an override commission on the premiums ceded to Olympus. During 2002, Folksamerica received $17.1 million in override and profit commissions from Olympus.

White Mountains does not have an ownership stake in Olympus, however, certain of the Company's directors, officers and affiliates own approximately 5% of the common shares of Olympus Re Holdings, Ltd. ("Olympus Holdings"), Olympus's parent. Mr. Joseph S. Steinberg, one of the Company's directors, is Chairman of Olympus Holdings.

At December 31, 2002, Folksamerica had $67.9 million of reinsurance currently recoverable on paid losses and $807.1 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve Folksamerica of its obligation to its ceding companies, the financial position and solvency of Folksamerica's reinsurers is critical to the collectibility of its reinsurance coverages. Folksamerica is selective with regard to its reinsurers, placing reinsurance with only those reinsurers having strong financial strength ratings. Folksamerica monitors the financial strength of its reinsurers on an ongoing basis. The following table provides a listing of Folksamerica's top reinsurers based upon recoverable amounts, the percentage of total recoverables and the reinsurer's A.M. Best Rating.

Top Reinsurers ($ in millions)		**Balance at December 31, 2002**	**% of Total**	**A.M. Best Rating(2)**
Imagine Re(1)	$	381.2	42%	A-
London Life(1)		135.4	15	A
Olympus(1)		45.5	5	A-
GRC and affiliates		34.9	4	A++
Federal Insurance Company		34.6	4	A++

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

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

Montpelier

In December 2001, White Mountains, the Benfield Group plc and several other private investors established Montpelier and its wholly owned subsidiary Montpelier Reinsurance Ltd. ("Montpelier Re"). Montpelier Re is a Bermuda-domiciled insurance and reinsurance company that was formed with approximately $1.0 billion in capital to respond to the then favorable underwriting and pricing environment in the reinsurance industry. Montpelier Re has initially focused on property reinsurance business. Montpelier Re is rated "A-" (Excellent, the fourth highest of fifteen ratings) by A.M. Best. On October 15, 2002, Montpelier successfully completed an initial public offering and its common shares are listed on the New York Stock Exchange. Through holdings of common shares and warrants, White Mountains owns approximately 21% of Montpelier on a fully converted basis. As of December 31, 2002, White Mountains' investment in Montpelier consisted of 10,800,000 common shares valued at

$16.67 per share and warrants to acquire an additional 4,781,572 common shares at $16.67 per share that are exercisable until December, 2011.

Montpelier's net written premiums totalled $565.9 million and its net income was $152.0 million in 2002, its first full year of operations. Montpelier's total assets as of December 31, 2002 and 2001 were $1.8 billion and $1.0 billion and its shareholders' equity was $1.3 billion and $860.7 million.

White Mountains Underwriting Limited

In December 2001, White Mountains formed WMU, an underwriting advisement company domiciled in Ireland. WMU, a wholly-owned subsidiary of White Mountains, has expanded Folksamerica's access to international property and marine excess of loss reinsurance business in Continental Europe and Japan and provides professional insurance services to both Folksamerica and Olympus. WMU receives management fees and a profit commission on business placed with Folksamerica and Olympus. During 2002, WMU placed $120.2 million and $40.4 million of written premiums and recorded $35.7 million and $8.2 million of management fees and profit commissions from Olympus and Folksamerica, respectively.

Fund American Re

On December 20, 2001, Fund American Re acquired substantially all of the international reinsurance operations of the Folksam Group ("Folksam") of Stockholm, Sweden. A $64.0 million purchase price was paid in a combination of cash, a note and Common Shares. Fund American Re is commercially domiciled in Bermuda but maintains its executive office and an operating branch in Stockholm, Sweden, and operates through an additional branch in Singapore. Fund American Re principally writes property, liability, transportation and hail and crop reinsurance for insurance companies based in the United States and in Europe. At December 31, 2002 and 2001, Fund American Re had $149.9 million and $126.3 million of total assets, respectively, and $58.1 million and $63.9 million of shareholder's equity, respectively. Fund American Re wrote $62.5 million in net premiums during the year ended December 31, 2002. Fund American Re is rated "A-" (Excellent, the fourth highest of fifteen ratings) by A.M. Best.

Additional Loss and Loss Adjustment Expense Information

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

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

Section II shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid losses and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section III shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2002. Section IV shows the re-estimated gross liability and

re-estimated reinsurance recoverables through December 31, 2002. Section V shows the cumulative amount of net losses and LAE paid relating to recorded liabilities as of the end of each succeeding year.

Reinsurance Loss and LAE(1), (2), (3)
Years Ended December 31,

($ in millions)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
I. Liability for unpaid losses and LAE:											
Gross balance	$ 758.3	$ 798.4	$ 856.2	$ 981.5	$ 1,578.7	$ 1,461.3	$ 1,437.6	$ 1,210.6	$ 1,500.7	$ 1,610.6	$ 1,664.3
Less: reins. recoverables on unpaid losses and LAE	(172.0)	(154.4)	(182.4)	(201.0)	(390.2)	(352.0)	(398.0)	(324.0)	(702.8)	(879.5)	(815.0)
Net balance	$ 586.3	$ 644.0	$ 673.8	$ 780.5	$ 1,188.5	$ 1,109.3	1,039.6	$ 886.6	$ 797.9	$ 731.1	$ 849.3
II. Net liability re-estimated as of:											
1 year later	601.5	672.5	701.8	834.1	1,222.6	1,125.5	1,036.0	914.4	803.5	743.8	
2 years later	626.0	706.0	748.6	855.4	1,224.6	1,108.5	1,047.8	917.4	788.5		
3 years later	653.2	746.3	763.7	862.7	1,206.4	1,114.5	1,032.3	919.3			
4 years later	680.7	761.3	767.0	874.9	1,214.2	1,088.7	1,027.9				
5 years later	694.8	764.1	778.8	874.2	1,188.9	1,071.6					
6 years later	699.6	772.8	779.2	844.9	1,164.9						
7 years later	706.5	774.2	755.8	817.6							
8 years later	709.1	756.4	736.5								
9 years later	696.8	747.4									
10 years later	708.0										

Reinsurance Loss and LAE(1), (2), (3)
Years Ended December 31,

III. Cumulative net (deficiency)/redundancy	$ (121.7)	$ (103.4)	$ (62.7)	$ (37.1)	$ 23.6	$ 37.7	$ 11.7	$ (32.7)	$ 9.4	$ (12.7)	$
Percent (deficient)/redundant	(20.8)%	(16.1)%	(9.3)%	(4.8)%	2.0%	3.4%	1.1%	(3.7)%	1.2%	(1.7)%	%
IV. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see II. above):											
Gross re-estimated liability	954.9	964.2	973.2	1,029.8	1,589.9	1,470.7	1,433.6	1,330.9	1,616.0	1,702.2	
Less: gross re-estimated reinsurance recoverable	(246.9)	(216.8)	(236.7)	(212.2)	(425.0)	(399.1)	(405.7)	(411.6)	(827.5)	(958.4)	
Net re-estimated liability	$ 708.0	$ 747.4	$ 736.5	$ 817.6	$ 1,164.9	$ 1,071.6	$ 1,027.9	$ 919.3	$ 788.5	$ 743.8	
V. Cumulative net amount of liability paid through:											
1 year later	165.1	219.8	201.9	225.5	322.6	277.5	291.4	102.3	370.8	250.9	
2 years later	289.8	337.3	323.4	363.6	506.7	472.0	390.6	348.9	512.9		
3 years later	366.2	418.2	412.8	457.0	656.6	582.4	552.9	452.8			
4 years later	423.9	481.2	474.3	542.8	774.0	680.9	626.9				
5 years later	467.9	521.4	530.8	608.2	843.1	733.3					
6 years later	495.2	565.8	572.7	644.1	883.1						
7 years later	530.6	596.3	598.3	672.8							
8 years later	554.6	618.2	616.8								
9 years later	572.2	636.0									
10 years later	590.4										

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

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

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

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

	Year Ended December 31,		
(Millions)	**2002**	**2001**	**2000**
Statutory reserves	**$ 1,148.8**	$ 1,002.7	$ 776.7

	Year Ended December 31,		
Reinsurance recoverable on unpaid losses and LAE(1)	**513.2**	586.7	702.8
Other(2)	**2.3**	21.2	21.2
GAAP reserves	**$ 1,664.3**	$ 1,610.6	$ 1,500.7

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

(2) Primarily represents purchase accounting adjustments made in connection with Folksamerica acquisition of PCA Property and Casualty Insurance Company.

OTHER OPERATIONS

White Mountains' other operations consist of the International American Group, Esurance, the Company and the Company's intermediate holding companies.

International American Group

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

Peninsula, which was established in 1960, is a Maryland-domiciled property and casualty insurer which writes both personal and commercial lines, primarily private passenger automobile, homeowners, commercial automobile and commercial multi-peril. Most of Peninsula's insurance products are sold in Maryland, Delaware and Virginia. Peninsula is rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best. Peninsula markets insurance products principally through independent agents. Peninsula's primary business focus is to establish strong long-term relationships with its agents and insured customers by focusing on providing quality insurance products to families and small private businesses. At December 31, 2002 and 2001, Peninsula had $57.1 million and $55.9 million of total assets and $21.2 million and $22.5 million of shareholder's equity, respectively. For the years ended December 31, 2002, 2001 and 2000, Peninsula had $29.5 million, $28.3 million and $22.7 million in net written premiums.

American Centennial and British Insurance Company are Delaware-domiciled and Cayman Island-domiciled, respectively, property and casualty insurance and reinsurance companies in run-off. At December 31, 2002 and 2001, American Centennial had $60.9 million and $66.2 million of total assets and $26.7 million and $37.0 million of shareholder's equity, respectively. At December 31, 2002 and 2001, British Insurance Company had $24.7 million and $22.4 million of total assets and $4.3 million and $4.4 million of shareholder's equity, respectively.

Esurance

Esurance is an online insurance provider that has been writing personal automobile insurance since 2000. Esurance attempts to leverage technology to reduce costs in order to offer its products at competitive prices. The company markets its products through a multi-channel approach, with the

majority of its policies sold directly to consumers. Most customer interaction with the company takes place through Esurance's website, *www.esurance.com*, where customers can get real-time online quotes and purchase their policies. Esurance also offers policyholders 24-hour customer service and claims handling, along with online account management.

By predominantly interacting with customers through the internet, Esurance is able to collect detailed underwriting information in real-time. This real-time access to customer information has allowed Esurance to develop its own highly segmented, tiered pricing model.

During 2002, substantially all of the business generated by Esurance was directly written or assumed by subsidiaries of White Mountains. The underwriting results of this business are included in the underwriting unit that ultimately retains the risk under the policies written through Esurance. Esurance increased its direct written premium volume from $17.4 million in 2001 to $52.6 million in 2002.

Esurance is headquartered in San Francisco and has operated as an independent subsidiary of Folksamerica since October 2000, when Folksamerica purchased 80% of the company for $9.0 million. During the fourth quarter of 2001, Folksamerica purchased the remaining outstanding stock for $1.4 million. As of December 31, 2002, Folksamerica owned 99.1% of Esurance's outstanding stock. For the years ended December 31, 2002 and 2001, Esurance had total assets of $38.2 million and $16.9 million, total revenues of $10.9 million and $3.1 million and an accumulated shareholder's deficit of $24.9 million and $8.9 million.

The Company and its Intermediate Holding Companies

The Company's intermediate holding companies include Fund American Companies, Inc. ("Fund American") and Fund American Enterprises Holdings, Inc. ("FAEH"), both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in Barbados.

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

- Fund American borrowed $825.0 million in June 2001 from a banking syndicate arranged by Lehman Brothers, Inc. (the "Bank Facility"). Fund American subsequently entered into a series of interest rate swaps with large financial institutions that were undertaken to achieve a fixed interest rate on $700.0 million of the borrowings under the Bank Facility.

- Fund American issued $300.0 million in face value of cumulative non-voting preferred stock to Berkshire Hathaway, Inc. ("Berkshire") (the "Berkshire Preferred Stock") for $225.0 million.

- FAEH issued a $260.0 million seller note to Aviva (the "Seller Note"). The Seller Note was repaid on November 29, 2002.

- FAEH issued $20.0 million in face value of cumulative non-voting preferred stock to Zenith Insurance Company ("Zenith") (the "Zenith Preferred Stock").

INVESTMENTS

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

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

At December 31, 2002, White Mountains' consolidated investment portfolio consisted of $6,669.1 million (75%) of fixed maturity investments, $1,790.6 million (20%) of short-term investments and $439.7 million (5%) of common equity securities and other investments. White Mountains' fixed maturity portfolio at December 31, 2002 consisted principally of corporate debt securities (49%), U.S. government and agency securities (32%), mortgage-backed securities (14%) and preferred equity securities, foreign government obligations and municipal bonds (5%).

White Mountains' investment philosophy is to invest all assets with a view towards maximizing its after-tax total return over extended periods of time. Under this approach, each dollar of after-tax investment income, realized and unrealized gains and losses is valued equally. White Mountains' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to perceived credit risks. White Mountains generally manages the interest rate risk associated with holding fixed maturity investments by actively monitoring and maintaining the average duration of the portfolio with a view towards achieving an adequate after-tax total return without subjecting the portfolio to an unreasonable level of interest rate risk. At December 31, 2002, the duration of White Mountains' fixed maturity portfolio and short-term investments was approximately 3.4 years.

REGULATION

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

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

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

policies an insurer is required to accept is based on its market share of voluntary business in the state. Underwriting results related to assigned risk plans are typically adverse. Accordingly, OneBeacon may be required to underwrite policies with a higher risk of loss than it would otherwise accept.

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

The insurance laws of many states generally provide that property and casualty insurers doing business in those states belong to a statutory property and casualty guaranty association. The purpose of these guaranty associations is to protect policyholders by requiring that solvent property and casualty insurers pay certain insurance claims of insolvent insurers. These guaranty associations generally pay these claims by assessing solvent insurers proportionately based on the insurer's share of voluntary written premiums in the state. While most guaranty associations provide for recovery of assessments through rate increases, surcharges or premium tax credits, there is no assurance that insurers will ultimately recover these assessments. At December 31, 2002, the reserve for such assessments at OneBeacon totalled $24.7 million, of which $7.7 million related to the insolvency of Reliance Insurance Company.

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

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

White Mountains' U.S. insurance subsidiaries are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. White Mountains investment portfolio at December 31, 2002 complied with such laws and regulations in all material respects.

One of the primary sources of cash inflows for the Company and certain of its intermediary holding companies is dividends received from its operating subsidiaries. Under the insurance laws of the jurisdictions under which White Mountains' insurance subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities. In a given calendar year, the insurance subsidiaries can generally dividend up to the greater of 10% of their statutory surplus at the beginning of the year or the prior year's statutory net income without prior regulatory approval, subject to the availability of unassigned funds (the statutory accounting equivalent of retained earnings). Larger dividends generally can be paid only upon

regulatory approval. Accordingly, there is no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future. During 2002, White Mountains' first-tier insurance subsidiaries declared and paid $172.6 million in dividends to Fund American. White Mountains' first tier insurance subsidiaries have the ability to pay dividends of approximately $261.5 million to Fund American in 2003 without approval of regulatory authorities.

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

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

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

RATINGS

Insurance and reinsurance companies are evaluated by various rating agencies in order to measure each company's financial strength. Higher ratings generally indicate financial stability and a stronger

ability to pay claims. A.M. Best currently rates OneBeacon's principal operating insurance subsidiaries "A" (Excellent, the third highest of fifteen ratings), Folksamerica's principal reinsurance operating subsidiary "A-" (Excellent, the fourth highest of fifteen ratings) and Fund American Re "A-" (Excellent, the fourth highest of fifteen ratings). White Mountains believes that strong ratings are important factors in the marketing of insurance and reinsurance products to agents and consumers.

EMPLOYEES

As of December 31, 2002, White Mountains employed 5,115 persons (consisting of 12 persons at the Company and its intermediate holding companies, 10 persons at WMU, 70 persons at Fund American Re and 5,023 persons at OneBeacon and its subsidiaries, including Folksamerica and its subsidiaries). Management believes that White Mountains has satisfactory relations with its employees.

AVAILABLE INFORMATION

The Company is subject to the informational reporting requirements of the Exchange Act. In accordance therewith, the Company files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). The Company will provide to any shareholder, upon request and without charge, copies of all documents (excluding exhibits unless specifically requested) filed by the Company with the SEC. Written or telephone requests should be directed to the Corporate Secretary, White Mountains Insurance Group, Ltd., 80 South Main Street, Hanover, New Hampshire 03755, telephone number (603) 640-2200. Additionally, all such documents are physically available at the Company's registered office at Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda and are available for viewing at www.whitemountains.com shortly after such material is electronically filed with or furnished to the SEC.

Item 2. Properties

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

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

Item 3. Legal Proceedings

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

On December 20, 2002, a jury in Federal District Court in Arkansas returned a verdict against OneBeacon in a case involving a claim by an insurance agent that its agency agreement had been improperly terminated in 1999. The award against OneBeacon consisted of $1.2 million in compensatory damages and $32.6 million in punitive damages. OneBeacon strongly believes there are meritorious grounds for setting aside the verdict and intends to vigorously pursue those matters with the District Court. If necessary, OneBeacon will appeal to the U.S. Court of Appeals for the Eighth Circuit.

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

In December 2001, American Centennial filed for arbitration against Gerling Global International Reinsurance Company ("Gerling"), a reinsurer of American Centennial, based on Gerling's failure to pay American Centennial amounts due under a reinsurance contract. At December 31, 2002, American Centennial had recorded $22.6 million in recoverables from Gerling under this reinsurance contract, of which $10.2 million is currently due. Approximately $16.7 million of this obligation is collateralized. Gerling may owe American Centennial significantly greater amounts in the future should additional losses which are covered by the reinsurance contract emerge. Gerling has requested the arbitration panel to rescind the contract as of December 31, 2000 based upon, among other things, White Mountains' acquisition of American Centennial in 1999. White Mountains, American Centennial and their counsel believe that Gerling's claims are meritless and intend to pursue collection of any and all amounts due under the Gerling reinsurance contract.

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

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

There were no matters submitted to a vote of the Company's shareholders during the fourth quarter of 2002.

PART II

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

As of March 21, 2003, there were 467 registered holders of Common Shares of the Company, par value $1.00 per share.

During each of 2002 and 2001 the Company declared and paid cash dividends on Common Shares of $1.00 per Common Share. The Company's dividend payment policy provides for an annual dividend

payable in the first quarter of each year, dependent on the Company's financial position and the regularity of its cash flows.

Common Shares (symbol WTM) are listed on the New York Stock Exchange. The quarterly range of the daily closing price for Common Shares during 2002 and 2001 is presented below:

	2002		2001	
	High	**Low**	**High**	**Low**
Quarter ended:				
December 31	**$ 334.50**	**$ 284.50**	$ 369.99	$ 330.00
September 30	**340.00**	**285.00**	376.00	315.50
June 30	**378.00**	**316.50**	391.00	304.01
March 31	**352.98**	**326.50**	328.50	290.00

Item 6. Selected Financial Data

Selected consolidated income statement data and ending balance sheet data for each of the five years ended December 31, 2002, follows:

	Year Ended December 31,				
$ in millions, except share and per share amounts	**2002**	**2001(a)**	**2000(b)**	**1999(c)**	**1998(d)**
Income Statement Data:					
Revenues	**$ 4,185**	$ 3,234	$ 851	$ 548	$ 366
Expenses	**4,066**	3,662	493	418	311
Pretax earnings (loss)	**119**	(428)	358	130	55
Income tax (provision) benefit	**(11)**	179	(43)	(42)	(20)
Accretion and dividends on preferred stock of subsidiaries	**(41)**	(23)			
Equity in earnings (loss) of unconsolidated affiliates	**14**	1	(2)	20	16
Net income (loss) from continuing operations	**81**	(271)	313	108	51
Net income from discontinued operations			95	13	28
Cumulative effect of changes in accounting principles	**660(l)**				
Extraordinary gains	**7**	12			
Net income (loss)	**$ 748**	$ (259)	$ 408	$ 121	$ 79
Net income (loss) from continuing operations per share:					
Basic	**$ 7.47**	$ (86.52)	$ 53.08	$ 19.25	$ 8.71
Diluted	**$ 6.80**	$ (86.52)	$ 52.84	$ 17.66	$ 7.75
Balance Sheet Data:					
Total assets	**$ 16,034**	$ 16,610	$ 3,545	$ 2,049	$ 2,164
Short-term debt	**33**	358		4	52
Long-term debt	**760**	767	96(e)	203	186
Deferred credits	**(l)**	683(f)	92	101(g)	37
Convertible preference shares	**219**				
Mandatorily redeemable preferred stock of subsidiaries	**181**	170			
Common shareholders' equity (h)	**2,408**	1,445	1,046	614	703
Book value per share (i)	**$ 254.52**	$ 160.36	$ 177.07	$ 103.32	$ 109.68
Fully converted tangible book value per share (j)	**$ 258.82**	$ 225.81	$ 187.65	$ 120.23	$ 115.11

	Year Ended December 31,				
Share Data:					
Cash dividends paid per Common Share	**$ 1.00**	$ 1.00	$ 1.20	$ 1.60	$ 1.60
Ending Common Shares (000's)	**8,351**	8,245	5,880	5,946	5,829
Ending equivalent Common Shares (000's)(k)	**2,455**	1,803	81		1,002
Ending Common and equivalent Common Shares (000's)	**10,806**	10,048	5,961	5,946	6,831

(a)

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

(b)

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

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(c)

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

(d)

Includes the interim results and ending balance sheet of Folksamerica which was initially consolidated by the Company during 1998.

(e)

Reflects a significant repayment of debt by Folksamerica during 2000.

(f)

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

(g)

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

(h)

Reflects reductions in common shareholders' equity resulting from significant repurchases of Common Shares from 1998 to 1999 and an increase in common shareholders' equity in 2001 resulting from capital raising activities undertaken in connection with the Acquisition. See Note 2. Also reflects an increase in shareholders' equity in 2002 resulting from the recognition of $660 million in net deferred credits as a result of a change in accounting principles. See Note 1.

(i)

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

(j)

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

(k)

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

(l)

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

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

Within the following discussion, "Investment results" represents comprehensive net income provided by after-tax investment income, realized and unrealized investment gains and losses. "Underwriting results" represents comprehensive net income (losses) provided by after-tax insurance and/or reinsurance results only (i.e., earned premiums and other revenues related to insurance and reinsurance operations less losses and LAE, insurance and reinsurance acquisition expenses and general and administrative expenses). References made to OneBeacon's operations relating to periods prior to the Acquisition have been made solely to illustrate significant trends and changes in OneBeacon's business that have occurred post-Acquisition. White Mountains' reported results for periods prior to June 1, 2001 did not include the financial results of OneBeacon.

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 and 2000

A tabular summary of White Mountains' consolidated financial results for the years ended December 31, 2002, 2001 and 2000 follows:

	Year Ended December 31,		
Millions, except per share amounts	**2002**	**2001(1)**	**2000**
Total revenues	**$ 4,185.4**	$ 3,234.4	$ 850.9
Total expenses	**4,066.0**	3,661.9	492.8
Net income (loss)	**748.1**	(259.3)	407.9
Comprehensive net income (loss)	**950.4**	(301.8)	447.6
Diluted net income (loss) per share:	**$ 80.75**	$ (84.75)	$ 68.89

(1) Includes OneBeacon's results from June 1, 2001, the date of the Acquisition.

White Mountains' management believes that the annualized percentage change in the Company's fully converted tangible book value per share represents a better measure of the increase in shareholder value than book value per share because fully converted tangible book value more closely reflects the intrinsic value of the Company. Book value per share is derived by dividing the Company's total GAAP shareholders' equity as of a given date by the number of Common Shares outstanding as of that date, including the dilutive effects of outstanding options and warrants to acquire Common Shares. Fully converted tangible book value per share is derived by expanding the book value per share calculation to include (i) the effects of assumed conversion of all convertible securities and (ii) any

remaining unamortized goodwill or deferred credits as of the applicable date. A table showing the details of White Mountains' fully converted tangible book value per share follows:

	December 31, 2002	December 31, 2001	December 31, 2000
Book value per share numerators (in millions):			
Common shareholders' equity	$ 2,407.9	$ 1,444.6	$ 1,046.5
Proceeds from assumed exercise of outstanding Warrants	300.0	300.0	
Benefits to be received from share obligations under employee benefit plans	8.8	16.5	9.0
Remaining accretion of subsidiary preferred stock to face value	(139.1)	(149.7)	
Book value per share numerator	2,577.6	1,611.4	1,055.5
Assumed conversion of convertible preference shares to Common Shares	219.0		
Unamortized deferred credits and goodwill		657.7	63.1
Fully converted tangible book value per common and equivalent share numerator	$ 2,796.6	$ 2,269.1	$ 1,118.6
Book value per share denominators (in thousands):			
Common Shares outstanding	8,351.4	8,264.7	5,880.1
Common Shares issuable upon exercise of outstanding Warrants	1,714.3	1,714.3	
Share obligations under employee benefit plans	61.9	69.2	81.0
Book value per share denominator	10,127.6	10,048.2	5,961.1
Assumed conversion of convertible preference shares to Common Shares	678.0		
Fully converted tangible book value per common and equivalent share denominator	10,805.6	10,048.2	5,961.1
Book value per share	$ 254.52	$ 160.36	$ 177.07
Fully converted tangible book value per common and equivalent share	258.82	225.81	187.65

White Mountains ended 2002 with a fully converted tangible book value per Common Share of $258.82, which represents a 15% increase over the fully converted tangible book value per Common Share of $225.81 as of December 31, 2001 (which includes the recognition of unamortized deferred credit and goodwill balances at that time). Investment gains and improved underwriting results in its insurance and reinsurance subsidiaries contributed to White Mountains' increase in book value and in fully converted tangible book value during 2002. White Mountains' return on equity in 2002 was 15.1% as measured by the Company's growth in its fully converted tangible book value per share plus dividends.

OneBeacon's results for the year ended December 31, 2002 reflected improvements over 2001 results. Steps taken since June 1, 2001 to improve the business, favorable market conditions and good weather have all contributed to this improvement. OneBeacon's overall trade ratio (as discussed and reconciled to OneBeacon's GAAP combined ratio of 107% in the "Summary of Operations by Segment, OneBeacon, Underwriting Results" section below) improved to 109% for 2002, versus 120% (123% GAAP combined ratio) for the year ended December 31, 2001 (which included approximately three points as a result of the terrorist attacks of September 11, 2001, "the Attacks"). OneBeacon's core trade ratio, which is also discussed and reconciled below, improved to 98% for 2002, versus 116% for the year ended December 31, 2001 (which included approximately five points as a result of the

Attacks). White Mountains expects OneBeacon's operations, particularly its core operations, will continue to improve in 2003 as the effects of better pricing, underwriting and claims management continue to emerge and as business subject to the Renewal Rights Agreement continues to be reduced. In 2003, OneBeacon expects to generate an underwriting profit by taking advantage of its strong balance sheet and the hard market which exists in many sectors.

Folksamerica's statutory combined ratio improved to 103% for 2002, from 125% for 2001 (which included twelve points of catastrophe losses, including approximately six points as a result of the Attacks). A statutory combined ratio is calculated by adding (i) the ratio of incurred loss and LAE to earned premiums (the "loss and LAE ratio") and (ii) the ratio of commissions, premium taxes and other underwriting expenses, including general and administrative expenses, to written premiums, as determined in accordance with accounting principles and practices prescribed or permitted by insurance authorities. Since every insurance and reinsurance company must report to insurance authorities under statutory accounting principles, Folksamerica's management believes the statutory combined ratio to be a widely accepted measure of an insurance or reinsurance company's underwriting profitability and, as such, uses the statutory combined ratio to measure its own performance.

Folksamerica's statutory combined ratios do not take into account the full favorable impact of the retroactive coverage provided by certain reinsurance contracts or the indemnification of losses associated with certain of Folksamerica's acquisitions. Folksamerica's statutory combined ratio, as adjusted for retroactive reinsurance, improved to 99% for 2002, from 120% for 2001. The statutory combined ratio for 2002 included three points of catastrophe losses, mainly due to $9.7 million of additional losses related to the Attacks and $6.6 million of net incurred losses related to European floods during the third quarter of 2002. Aside from the lower level of incurred catastrophe losses, the improvement in Folksamerica's 2002 results is attributable to the continuing positive trends in reinsurance pricing, terms and conditions that began before, and became more dramatic after, the Attacks. White Mountains expects the favorable trends in Folksamerica's operations to continue in 2003 as the effects of better prices, terms and conditions are further reflected in its underwriting results. White Mountains also expects to experience favorable results in 2003 from its other reinsurance operations (consisting of Fund American Re, WMU and its investment in Montpelier) as they continue to develop under favorable market conditions.

A summary of White Mountains' after-tax comprehensive net income for the years ended December 31, 2002, 2001 and 2000 follows:

	Year Ended December 31,		
Millions	**2002**	**2001**	**2000**
Underwriting results by segment:			
OneBeacon	**$ (137.3)**	$ (426.3)	$
Reinsurance	**23.1**	(87.3)	(59.6)
Other operations	**(29.8)**	(27.4)	(1.1)
Consolidated underwriting results	**(144.0)**	(541.0)	(60.7)
Investment results by segment:			
OneBeacon	**439.5**	220.9	
Reinsurance	**156.5**	31.5	64.7
Other operations	**(15.1)**	19.8	32.0
Consolidated investment results	**580.9**	272.2	96.7
Holding company and financing activities other operations	**(153.8)**	(141.2)	370.2
Recognition of net deferred credits by segment:			
Reinsurance	**27.2**	30.7	19.3
Other operations	**640.1**	77.5	22.1
Consolidated recognition of net deferred credits	**667.3**	108.2	41.4
Comprehensive net income (loss) by segment:			
OneBeacon	**302.2**	(205.4)	
Reinsurance	**206.8**	(25.1)	24.4
Other operations	**441.4**	(71.3)	423.2
Consolidated comprehensive net income (loss)	**$ 950.4**	$ (301.8)	$ 447.6

I. Summary of Operations By Segment

White Mountains conducts its operations through three distinct segments: (i) "OneBeacon" (consisting solely of the operations of OneBeacon), (ii) "Reinsurance" (consisting of Folksamerica, Fund American Re, WMU and White Mountains' investment in Montpelier) and (iii) "Other Operations" (consisting of Peninsula, American Centennial, British Insurance Company, Esurance and the operations of the Company and its intermediate subsidiary holding companies). White Mountains' segment information is presented in Note 13 to the Consolidated Financial Statements. White Mountains manages all of its consolidated investments through its wholly owned subsidiary, White Mountains Advisors LLC ("WM Advisors"), therefore, a discussion of White Mountains' consolidated investment results is provided below after the segmented operating results discussion.

OneBeacon

OneBeacon reported comprehensive net income of $302.2 million for the year ended December 31, 2002, consisting of $439.5 million of comprehensive net income from investment results, offset by a net underwriting loss of $137.3 million. OneBeacon's comprehensive net loss was $205.4 million for the seven months ended December 31, 2001, which consisted of a net underwriting loss of $426.3 million, offset by $220.9 million in comprehensive net income from investment results.

Underwriting Results

The following tables provide the underwriting results of OneBeacon's four underwriting sub-segments for the twelve months ended December 31, 2002 and for the seven months ended December 31, 2001:

	OneBeacon					
Twelve Months Ended December 31, 2002 **Millions**	**Personal**	**Commercial**	**Specialty**	**Total Core**	**Non-Core**	**Total**
Net written premiums	$ 1,092.1	$ 454.6	$ 284.1	$ 1,830.8	$ 692.0	$ 2,522.8
Earned insurance premiums	$ 1,015.5	$ 527.4	$ 253.4	$ 1,796.3	$ 1,074.6	$ 2,870.9
Loss and LAE	(714.3)	(351.9)	(143.3)	(1,209.5)	(921.8)	(2,131.3)
Insurance acquisition expenses	(160.4)	(75.2)	(67.6)	(303.2)	(325.9)	(629.1)
Other underwriting expenses	(103.5)	(72.2)	(28.2)	(203.9)	(120.0)	(323.9)
Net pre-tax underwriting gain (loss)	**$ 37.3**	**$ 28.1**	**$ 14.3**	**$ 79.7**	**$ (293.1)**	**$ (213.4)**
Income tax benefit from underwriting results						76.1
Comprehensive net loss from underwriting						$ (137.3)

	OneBeacon					
Seven Months Ended December 31, 2001 **Millions**	**Personal**	**Commercial**	**Specialty**	**Total Core**	**Non-Core**	**Total**
Net written premiums	$ 513.2	$ 358.0	$ 139.8	$ 1,011.0	$ 867.2	$ 1,878.2
Earned insurance premiums	$ 521.5	$ 427.5	$ 127.0	$ 1,076.0	$ 1,132.2	$ 2,208.2
Loss and LAE	(444.7)	(449.6)	(79.9)	(974.2)	(1,099.6)	(2,073.8)
Insurance acquisition expenses	(87.5)	(77.8)	(26.3)	(191.6)	(211.6)	(403.2)
Other underwriting expenses	(53.1)	(100.6)	(16.0)	(169.7)	(238.8)	(408.5)
Net pre-tax underwriting gain (loss)	$ (63.8)	$ (200.5)	$ 4.8	$ (259.5)	$ (417.8)	$ (677.3)
Income tax benefit from underwriting results						251.0
Comprehensive net loss from underwriting						$ (426.3)

OneBeacon

The following tables provide OneBeacon's trade ratios for the twelve months ended December 31, 2002 and comparative trade ratios for the twelve months ended December 31, 2001:

	OneBeacon					
Twelve Months Ended December 31, 2002	**Personal**	**Commercial**	**Specialty**	**Total Core**	**Non-Core**	**Total**
Trade Ratios						
Loss and LAE	69%	67%	57%	66%	86%	74%
Expense	29%	36%	33%	32%	40%	35%
Total	**98%**	**103%**	**90%**	**98%**	**126%**	**109%**

	OneBeacon					
Twelve Months Ended December 31, 2001	**Personal**	**Commercial**	**Specialty**	**Total Core**	**Non-Core**	**Total**
Trade Ratios						
Loss and LAE	84%	92%	64%	85%	90%	88%
Expense	26%	35%	35%	31%	34%	32%
Total	110%	127%	99%	116%	124%	120%

A GAAP combined ratio is calculated by adding (i) the ratio of incurred loss and loss adjustment expenses ("LAE") to earned premiums (the "loss and LAE ratio") and (ii) the ratio of commissions,

premium taxes and other underwriting expenses recognized under GAAP, including general and administrative expenses, to earned premiums (the "expense ratio").

OneBeacon's trade ratio is a modified statutory combined ratio. A statutory combined ratio is calculated by adding (i) the loss and LAE ratio and (ii) the ratio of commissions, premium taxes and other underwriting expenses recognized under statutory accounting principles, including general and administrative expenses, to written premiums (the "expense ratio"). In calculating OneBeacon's trade ratio, the statutory expense ratio is modified by dividing certain other underwriting expenses not directly associated with producing premiums, including general and administrative expenses, by earned premiums rather than written premiums. OneBeacon believes that the trade ratio is the best measure of the underwriting performance of its business because it links the elements of the expense ratio relating to the cost of producing the business to written premiums and the elements relating to the costs of operating the business to earned premiums.

The GAAP combined ratio primarily differs from the trade ratio in the expense ratio calculation. The differences between the GAAP expense ratio and the trade expense ratio include differences between statutory accounting principles and GAAP.

The following tables reconcile OneBeacon's trade ratios to GAAP combined ratios for each respective underwriting sub-segment and in total for the twelve months ended December 31, 2002 and provide a comparative reconciliation of trade ratios to GAAP combined ratios for the twelve months ended December 31, 2001.

Twelve Months Ended December 31, 2002	**Personal**	**Commercial**	**Specialty**	**Total Core**	**Non-Core**	**Total**

Twelve Months Ended December 31, 2002	Personal	Commercial	Specialty	Total Core	Non-Core	Total
Loss and LAE ratio	69%	67%	57%	66%	86%	74%
Expense ratio Trade	29%	36%	33%	32%	40%	35%
Pension and post-retirement benefits(1)	(1)%	(1)%	(1)%	(1)%		(1)%
Policyholder dividends(2)		(2)%		(1)%	(1)%	(1)%
Deferred acquisition costs(3)	(1)%				1%	
Expense ratio GAAP	27%	33%	32%	30%	40%	33%
Total Trade Ratio	**98%**	**103%**	**90%**	**98%**	**126%**	**109%**
Trade to GAAP adjustments	(2)%	(3)%	(1)%	(2)%		(2)%
Total GAAP Combined Ratio	**96%**	**100%**	**89%**	**96%**	**126%**	**107%**

Twelve Months Ended December 31, 2001	Personal	Commercial	Specialty	Total Core	Non-Core	Total
Loss and LAE ratio	84%	92%	64%	85%	90%	88%
Expense ratio Trade	26%	35%	35%	31%	34%	32%
Pension and post-retirement benefits (1)						1%
Deferred acquisition costs (3)		1%			1%	1%
Holding company expenses (4)	1%	1%	1%	1%	1%	1%
Expense ratio GAAP	27%	37%	36%	32%	36%	35%
Total Trade Ratio	110%	127%	99%	116%	124%	120%
Trade to GAAP adjustments	1%	2%	1%	1%	2%	3%
Total GAAP Combined Ratio	111%	129%	100%	117%	126%	123%

(1) On a statutory basis, the expenses related to the establishment of certain pension and post-retirement benefits are not recognized until vested. On a GAAP basis, these expenses are recognized when incurred. In addition, GAAP curtailment gains recorded during the fourth quarter of 2002 relating to OneBeacon's pension and retiree health care plans are not included in the trade ratio, but are included in the GAAP combined ratio.

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(2) On a statutory basis, policyholder dividends are expensed when declared. On a GAAP basis, these expenses are accrued when it is more likely than not that they will be paid in the future. The adjustment for policyholder dividends during 2002 represents a reduction in previously accrued policyholder dividends for GAAP purposes.

(3) On a statutory basis, acquisition costs are expensed when the associated premiums are written. On a GAAP basis, these expenses are deferred and amortized ratably as the associated premiums are earned.

(4) Represents charges incurred in connection with White Mountains' acquisition of OneBeacon on June 1, 2001, the majority of which are related to severance. These charges are not reflected in the statutory combined ratio as they are recorded in a legal entity that is not part of the combined insurance group which is required to be reported on for statutory purposes.

OneBeacon's underwriting results for the year ended December 31, 2002 improved from those for the seven months after the date of the Acquisition. Improved pricing and other market conditions, mild weather and actions taken since the Acquisition have contributed to the improvements. Additionally, OneBeacon shifted its commercial lines business mix away from historically less profitable lines, such as workers compensation and its contractors book within commercial multiple peril. Workers compensation represented 14% of OneBeacon's total commercial lines net written premiums in 2002, down from 20% in 2001. OneBeacon's contractors book represented 17% of total commercial multiple peril lines net written premiums in 2002, down from 21% in 2001. Regional premium writings declined further during 2002 as the book continued to be repositioned for improved profitability. Concentrations of value in New York City, other urban areas and the Atlantic seacoast were decreased to reduce OneBeacon's exposure to terrorism and coastal wind damage. Specialty and AutoOne Insurance premium writings grew and are expected to continue to grow in 2003. The trade ratio for core operations was 98% for the year ended December 31, 2002 compared to 116% for all of 2001. Net written premiums and earned premiums for core operations were both $1.8 billion for the year ended 2002 and $1.8 billion and $1.9 billion, respectively, for all of 2001, as price increases were offset by reductions in volume necessary to re-underwrite the book and reduce exposure to catastrophe claims.

OneBeacon's total trade ratio, including non-core business, was 109% for the year ended December 31, 2002 compared to 120% for all of 2001. Net written premiums and earned premiums on OneBeacon's total business were down to $2.5 billion and $2.9 billion, respectively, in 2002 from $3.5 billion and $3.9 billion, respectively, for all of 2001, as premiums from non-core operations continued to run-off.

Loss and LAE totalled $2.1 billion for both the year ended December 31, 2002 and for the seven months ended December 31, 2001. A full year over year comparison showed a decrease of $1.4 billion from $3.5 billion in 2001, which is primarily due to the drop in business volume resulting from the Renewal Rights Agreement. Loss and LAE for 2002 included $57.4 million of reserve strengthening recorded during the fourth quarter of 2002 after OneBeacon completed a detailed study on its non- asbestos and environmental reserves. As previously described, OneBeacon has A&E coverage under the NICO Cover. Management believes the NICO Cover will be adequate to cover all of its A&E obligations. Reserves for accident years 2000 and prior were increased by $97.4 million, while reserves for accident year 2001 were reduced by $40.0 million. Reserve increases for 2000 and prior accident years primarily relate to increases in reserves for workers compensation coverages reduced by decreases in reserves for unallocated LAE**.** Workers compensation reserves for accident years 2000 and prior (primarily 2000, 1999 and 1998) increased $155.3 million (on reserves of $1.2 billion as of December 31, 2001).

The 2002 reserve increases related primarily to a continuing unfavorable trend of increases in workers compensation medical claims and indemnity costs. Based on a study provided by the National Council on Compensation Insurance ("NCCI"), a not-for-profit rating, statistical and data management

services organization and a significant source for workers compensation data, medical claims costs rose an average of 14% during 2002, compared with an average of 12% during 2001. Increases of this magnitude were not expected when setting 2001 reserves. Average workers compensation indemnity costs rose 11% during 2002 compared with an increase of 9% during 2001. Decreases in reserves for unallocated LAE resulted from completion of an activity-based-cost study which indicated future claim servicing costs were less than originally projected. This decrease primarily related to multiple peril and general liability coverages. The reduction in reserves for accident year 2001 was due in large part to favorable development on property losses from the Attacks.

During the fourth quarter of 2001, OneBeacon increased net reserves for prior accident years by $64.6 million ($426.0 million before recoveries of approximately $361.4 million under the GRC Cover). These increases in net reserves related to long-tail lines of business, primarily for accident years 1998 through 2000. Reserve increases before recoveries under the GRC Cover were primarily from $205.4 million for workers compensation (on reserves as of December 31, 2000 of $998.2 million), $34.0 million for general liability (on reserves as of December 31, 2000 of $1.2 billion), $152.2 million for multiple peril (on reserves as of December 31, 2000 of $1.3 billion) and $58.9 million for commercial automobile liability (on reserves as of December 31, 2000 of $676.1 million). As further described in Amendment No. 3 to Form S-3 (filed March 14, 2003), these increases in reserves reflected the impact of external factors as well as OneBeacon-specific factors. External factors included the emergence of construction defect losses, medical inflation, a general deterioration in market pricing, terms and conditions, adverse judicial rulings and higher-than-anticipated legal costs. These external factors were also experienced throughout the property and casualty insurance industry as evidenced by adverse development reported since 2000 by other property and casualty insurers. A significant portion of the 2001 reserve increases is attributable OneBeacon-specific factors including changes in the mix of business written by General Accident and, to a lesser extent, Commercial Union during the mid-1990s that along with being adversely impacted by external factors, in hindsight, was poorly written and priced. White Mountains has taken significant actions with respect to OneBeacon since it completed the Acquisition including (1) shedding non-core businesses through the Renewal Rights Agreement, (2) increasing prices, (3) reevaluating the risks, terms and conditions associated with renewing certain policies (and in appropriate cases declining to issue a renewal policy), (4) eliminating unprofitable products, accounts and agents, (5) improving the claims adjudication, settlement administration and processing functions and (6) improving management information systems and deploying new technology to contribute to process improvement and overall results. See **"Loss and Loss Adjustment Expense Reserves"** within the **"ONEBEACON"** section of Item 1 of this report.

Insurance acquisition expenses, which consist primarily of commission expenses, totalled $629.1 million for the year ended December 31, 2002. For the seven months ended December 31, 2001, insurance acquisition expenses totalled $403.2 million. A full year over year comparison showed a decrease of $124.9 million from $754.0 million in 2001, which is principally due to the decrease in business volume resulting from the Renewal Rights Agreement. General and administrative expenses totalled $323.9 million for the year ended December 31, 2002. For the seven months ended December 31, 2001, general and administrative expenses totalled $408.5 million. A full year over year comparison showed a decrease of $282.2 million from $606.1 million in 2001.

Recurring general and administrative expenses did not decrease proportionately to the reduction in OneBeacon's premiums in 2002, as the costs related to overhead and other administrative functions which previously supported the book of business transferred to Liberty Mutual are being reduced more slowly than the corresponding premium volume. General and administrative expenses for 2003 will eventually reflect the elimination of overhead functions that will no longer be needed to support the business transferred to Liberty Mutual. Management expects that its general and administrative expenses will continue to decrease in 2003 as it takes further cost reduction initiatives. During 2002, OneBeacon's cost-reduction initiatives included the curtailment of its pension and retiree medical plan

and a reduction in costs related to headcount, excluding costs relating to new operations such as AutoOne Insurance and OBPP. As a result of the curtailment of OneBeacon's pension plan and retiree health benefits, general and administrative expenses in 2002 include a pre-tax gain of $35.1 million. Effective January 1, 2003, OneBeacon adopted an employee stock ownership plan, which is a OneBeacon-funded, qualified retirement plan. Management believes that its employee benefits plans are now aligned with the interests of White Mountains' shareholders, as its plans are now performance oriented, not entitlement oriented.

Core Underwriting Results

Core operations consist of personal and commercial lines sold through agents in the Northeast, and specialty businesses underwritten in various geographic areas. Core operations do not include business transferred to Liberty Mutual through the Renewal Rights Agreement and certain other insurance operations.

Personal Lines. OneBeacon writes the majority of its personal business in New York, Massachusetts, New Jersey and Maine. New York, Massachusetts and New Jersey are all states with difficult automobile regulatory environments and significant involuntary market loads. A dedicated staff with expertise in the unique regulatory aspects of each state manages each business.

Throughout its personal lines business, OneBeacon has focused on improving its underwriting results. OneBeacon improved premium adequacy in 2002 through rate increases approved by regulators, re-underwriting efforts, aggressive rate pursuit actions and continued improvement in insurance-to-value programs in its homeowners line. As a result, OneBeacon achieved price increases of 19% and 22% in automobile and homeowners, respectively, during 2002, compared with increases of 4% and 7% in 2001. OneBeacon's mix of personal lines products for automobile, homeowners and Custom-Pac products was 62%, 18% and 15%, respectively, of personal lines net written premium for 2002, compared with 61%, 16% and 15% for all of 2001. OneBeacon's personal lines written premium volume from core operations for 2002 increased 27% as compared to all of 2001 due primarily to new business produced by AutoOne Insurance. Excluding AutoOne Insurance written premium and LAD servicing fees, written premium volume decreased 9% from written premium for all of 2001. This decrease is due to actions to reduce exposure to windstorms on property located in coastal areas, a decision to reduce exposure to the private passenger automobile business in Massachusetts due to unfavorable market conditions and the formation of a reciprocal insurance carrier in New Jersey. In 2003, personal lines written premium relating to the private passenger automobile business in New Jersey will continue to decline due to the transfer of OneBeacon's business to a newly formed reciprocal carrier, New Jersey Skylands Insurance Association (see **"New Jersey Skylands"** within the **"ONEBEACON"** section of Item 1 of this report).

AutoOne Insurance, a division of OneBeacon, became a limited assignment distribution carrier in late 2001 in order to capitalize on significant market opportunities created by the growth of the NYAIP. During 2002, AutoOne Insurance wrote premiums and billed LAD fees of approximately $203 million for policies written for third parties. AutoOne Insurance has completed its LAD contracting for 2003, with 21 third parties committed for approximately $162 million of NYAIP quota premium and LAD fees. The Automobile Insurance Plans Service Office ("AIPSO"), a management organization and service provider for various insurance industry groups, has projected that total NYAIP quota premiums for 2003 will be relatively flat compared to 2002 at between $1.1 billion and $1.2 billion. Rate increases implemented in the NYAIP program during 2002, along with overall improved loss ratios due to changes in plan mix (a higher percentage of standard risks flowing into the assigned risk pool) associated with growth in NYAIP volume, have led to better pricing and resulted in a decrease in the average LAD fee for contracts covering the 2003 year. Such decreases in LAD fees were expected and management believes that the margins in the program remain adequate for the coming year and that underwriting results will remain acceptable.

Commercial Lines. Commercial lines underwriting results significantly improved in 2002 due to the positive impact of underwriting and pricing initiatives as well as good weather. However, they fell short of OneBeacon's target due to the effects of large losses and a significant decrease in OneBeacon's premium base. Premium written for 2002 decreased 33% from all of 2001 primarily due to actions to reduce the concentration of risks subject to terrorism exposure, as well as continued efforts to re-underwrite the commercial book, terminate underperforming accounts and agencies and tighten credit terms toward market standards. 2001's trade ratio includes approximately 13 points of losses attributable to the Attacks. OneBeacon's mix of commercial lines products for multiple peril, commercial automobile and workers compensation was 52%, 29% and 14% of OneBeacon's commercial lines net written premium for 2002, compared with 46%, 22% and 20% during all of 2001. Price increases of 21% were achieved for business written during 2002 as compared to 16% for all of 2001.

Specialty Lines. Overall underwriting results for specialty businesses were excellent with written premiums growing due to rate increases, favorable weather conditions, high renewal retentions and new business. During 2002, OneBeacon wrote Specialty lines premiums of $284.1 million, a 28% increase as compared to $221.6 million written during all of 2001. The 2002 written premium includes $109.0 million from IMU and $103.0 million from Agri, representing 18% and 11% increases in written premium, respectively, as compared to all of 2001. Specialty lines written premium also includes $28.7 million of new written premiums during 2002 from D&O, professional liability and medical provider excess markets coverages written by OBPP, which commenced operations in February 2002.

Non-core Underwriting Results

Results for OneBeacon's non-core businesses during 2002 were worse than expected. Written premiums decreased to $692.0 million in 2002, from $1.7 billion for all of 2001, generating a pre-tax underwriting loss of $293.1 million for 2002. For the seven months ended December 31, 2001, non-core business generated a pre-tax underwriting loss of $417.8 million.

Non-core operations include the results of business subject to the reinsurance provisions of the Renewal Rights Agreement. For 2002, written premiums on business subject to the Renewal Rights Agreement decreased to $496.7 million from $1.4 billion for all of 2001. In 2002, OneBeacon also recognized a $22.8 million pretax write-off of deferred acquisition costs associated with its business subject to the Renewal Rights Agreement.

In accordance with the Renewal Rights Agreement, a reinsurance agreement pro-rates results so that OneBeacon assumed approximately two-thirds of the operating results and cash flows from renewals through October 31, 2002 and assumes approximately one-third of the operating results and cash flows from renewals from November 1, 2002 to October 31, 2003. Beyond November 1, 2003, net written premiums from business subject to the Renewal Rights Agreement will be nil, although OneBeacon has an option to assume 10% of all of Liberty Mutual's regional agency markets business for the years 2004 to 2006 on a *pari passu* basis with Liberty Mutual. In addition, OneBeacon will receive commissions of 3% of written premiums on policies transferred to Liberty Mutual that are renewed in the year after the Renewal Rights Agreement expires.

The Renewal Rights Agreement was undertaken so that OneBeacon could exit a substantial portion of its non-core businesses and further strengthen and focus on its core commercial and personal lines located in the Northeast and its core specialty operations where it historically had better operating results. The underwriting performance of the business subject to the Renewal Rights Agreement historically had, and for the remainder of the Renewal Rights Agreement is expected to continue to have, a higher relative underwriting loss than that of OneBeacon's core businesses. Therefore, although OneBeacon's premium levels have declined, and are expected to continue to decline, as a result of the Renewal Rights Agreement, OneBeacon's future results of operations and

financial position are expected to improve from what OneBeacon would have expected had the agreement not been executed.

Liberty Mutual has control over a variety of factors which could impact the underwriting performance of Renewal Rights Agreement business, such as pricing adequacy, actual renewal premium volume, claims management, catastrophe exposures and other considerations. Management believes Liberty Mutual has done an acceptable job in each of these areas except for the handling of pre-November 1, 2001 claims. Pursuant to the Renewal Rights Agreement, Liberty Mutual assumed control of OneBeacon's claims offices in the regions subject to the Renewal Rights Agreement and is responsible for servicing claims from the OneBeacon policies written prior to November 1, 2001, as well as policies which have renewed in those regions since that date. Service agreements were put in place in connection with the Renewal Rights Agreement, through which Liberty Mutual became a TPA for those claims. Upon review of claims information during the third and fourth quarters of 2002, OneBeacon's management determined that average paid claims in offices where Liberty was acting as a TPA were higher than expected. As a result, management has begun a process to directly handle more of those claims related to policies written prior to the Renewal Rights Agreement and expects that substantially all such claims will be handled directly by OneBeacon by the end of 2003.

Reinsurance

Folksamerica. Folksamerica reported comprehensive net income of $106.3 million for 2002, consisting of $75.2 million of comprehensive net income from investment results, a net underwriting gain of $3.9 million and $27.2 million from the recognition of net deferred credits. Folksamerica reported a comprehensive net loss of $25.5 million for 2001, which consisted of a net underwriting loss of $86.4 million, offset by $33.2 million in comprehensive net income from investment results and $27.7 million from the recognition of net deferred credits. Folksamerica reported comprehensive net income of $24.4 million for 2000, which consisted of $64.7 million in comprehensive net income from investment results and $19.3 million from the recognition of net deferred credits, offset by a net underwriting loss of $59.6 million.

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Underwriting results

A summary of Folksamerica's underwriting results for the years ended December 31, 2002, 2001 and 2000 follows:

	Year Ended December 31,		
Dollars in millions	**2002**	**2001**	**2000**
Net written premiums by line of business:			
Liability	**$ 381.6**	$ 310.6	$ 208.4
Property	**205.3**	93.5	91.6
Accident and Health	**68.1**	25.1	26.4
Other	**23.7**	29.7	6.2
Net written premiums	**$ 678.7**	$ 458.9	$ 332.6
Earned premiums	**620.5**	421.5	312.5
Other revenues	**11.7**	3.2	.9
Losses and LAE	**(431.9)**	(385.0)	(271.2)
Reinsurance acquisition expenses(1)	**(147.5)**	(124.6)	(98.0)
General and administrative expenses	**(52.2)**	(44.0)	(30.0)
Interest expense	**(2.0)**	(.4)	(8.2)
Pre-tax net underwriting loss	**(1.4)**	$ (129.3)	$ (94.0)
Income tax benefit on underwriting results	**5.3**	42.9	34.4
Comprehensive net income (loss) from underwriting results	**$ 3.9**	$ (86.4)	$ (59.6)
Statutory combined ratios:			
Loss and LAE ratio	**74%**	91%	88%
Expense ratio	**29**	34	38
Statutory combined ratio	**103%**	125%	126%
Effects of retroactive reinsurance and acquisition protection	**(4)**	(5)	(9)
Adjusted statutory combined ratio	**99%**	120%	117%

(1) The 2002 reinsurance acquisition expenses exclude $7.9 million in intra-segment commissions paid to WMU and $4.6 million in inter-segment commissions paid to Esurance, all of which are eliminated in White Mountains' consolidated results.

Folksamerica's statutory combined ratios do not take into account the full favorable impact of the retroactive coverage provided by certain reinsurance contracts or the indemnification of losses associated with certain of Folksamerica's acquisitions. The benefit recorded from retroactive reinsurance recoverables for adverse development on prior years' reserves and the indemnification of losses associated with certain of Folksamerica's acquisitions are not included in Folksamerica's combined ratio under statutory accounting principles as they are required to be recorded as a component of other income. However, adverse development on loss and LAE reserves covered by the retroactive reinsurance or the acquisition indemnifications are included in the statutory combined ratio. Folksamerica's management believes that the adjusted statutory combined ratio is a better measure of the results of its reinsurance business than the statutory combined ratio because it matches the protection received from Folksamerica's retroactive reinsurance and acquisition indemnifications with the loss and LAE reserve increases which caused such protection to be used.

Folksamerica's comprehensive net income from underwriting results of $3.9 million for 2002 was an improvement of $90.3 million over the comprehensive net loss from underwriting results of $86.4 million for 2001. Folksamerica's financial results improved during 2002 and are expected to continue to

improve in 2003 as the effects of favorable reinsurance conditions are recognized in underwriting results. In 2002, Folksamerica experienced significant rate increases and improved terms across virtually all lines of business written.

Folksamerica's gross and net written premiums were $965.3 million and $678.7 million for 2002, respectively, representing an approximately 50% and 48% increase over 2001. The increase was due to increased pricing on Folksamerica's expiring and renewed contracts, increased shares on renewed contacts and new contracts resulting from the increased demand of reinsurance buyers for placing reinsurance with responsible, well-capitalized reinsurers. White Mountains expects this trend to continue for the foreseeable future, particularly considering the announced withdrawal from the market of several reinsurers and the potential effect of negative rating agency actions in regard to certain other reinsurers in the last several months. Also, contributing to the increase in net written premiums was Folksamerica's new relationship with WMU, which has resulted in referrals of international reinsurance placements to Folksamerica. Additionally, under a new quota share agreement, Folksamerica cedes up to 75% of substantially all underwritten business referred to it by WMU and 75% of substantially all its short-tailed, non-casualty excess of loss business to Olympus. Folksamerica also receives an override commission on all premiums ceded to Olympus. The additional capacity provided by the quota share relationship with Olympus and the $400 million cash contribution it received from OneBeacon in December 2001 enhanced Folksamerica's ability to provide significant reinsurance capacity in 2002, a period of strengthening prices. Folksamerica's significant increase in premiums for 2001 versus 2000 was primarily attributable to additional writings across most lines in response to improved terms and conditions in the overall reinsurance market.

Folksamerica's 2002 losses and LAE include $6.6 million, net of reinstatement premiums, related to European Floods during the third quarter of 2002 as well as $9.7 million of additional losses related to the Attacks. These catastrophe losses accounted for 3 points of Folksamerica's adjusted statutory combined ratio of 99% for 2002. Folksamerica's 2002 comprehensive net income from underwriting also includes $11.7 million of other revenues, of which $7.3 million related to the take down of certain accruals established in connection with its acquisition of PCA. Folksamerica's losses and LAE for 2002 included $17.0 million related to prior accident years. This prior year development consisted primarily of (i) additional losses of $9.7 million relating to the Attacks, (ii) additional losses of $7.3 million from aviation insurance coverage, in relation to the Risk Capital business, (iii) reserve additions relating to asbestos and environmental losses of $11.4 million, (iv) $3.5 million of adverse development relating to the remaining business from the USF Re acquisition, offset by (v) $17.0 million of net income recorded during the first quarter from the reversal of an allowance for doubtful reinsurance recoveries related to PCA. These losses, with exception of the those relating to the Attacks, are covered under the Imagine Cover, and were partially offset by amortization of the deferred gain related to retroactive reinsurance (see below).

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

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

Folksamerica's underwriting results do not take into account the full favorable impact of the retroactive coverage provided by the Imagine Cover or the indemnification of losses associated with

certain of Folksamerica's acquisitions in recent years. The reinsurance benefit recorded on recoverables for adverse development on prior years' reserves are deferred and recognized into income over the expected settlement period of the underlying claims. The reinsurance benefits obtained from this contract totaled $21.7 million and $22.2 million for 2002 and 2001, respectively. The adverse loss development ceded under the retroactive reinsurance agreement in 2002 included A&E losses of $11.4 million and losses relating to the business acquired with Risk Capital of $7.3 million. There is approximately $9.9 million of coverage remaining under this contract.

Montpelier. As of December 31, 2002, White Mountains' investment in Montpelier consists of common shares, which are accounted for under the equity method, and warrants to acquire additional common shares at a fixed price, which are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). Through its holdings of common shares and warrants, White Mountains owned approximately 21% of Montpelier on a fully-converted basis as of December 31, 2002. Pre-tax amounts recorded by White Mountains relating to its investment in Montpelier as of and for the periods ended December 31, 2002 and 2001 follow:

Millions	**Common shares**	**Warrants**	**Total**
Original cost of White Mountains' investment in Montpelier as of December 6, 2001	$ 180.0	$	$ 180.0
Equity in loss from Montpelier common shares	(3.0)		(3.0)
Equity in net unrealized investment gains from Montpelier's investment portfolio	.4		.4
White Mountains' investment in Montpelier as of December 31, 2001	$ 177.4	$	$ 177.4
Realized gains from Montpelier warrants	**$**	**$ 58.0**	**$ 58.0**
Equity in earnings from Montpelier common shares	**30.7**		**30.7**
Equity in net unrealized investment gains from Montpelier's investment portfolio	**5.7**		**5.7**
White Mountains' investment in Montpelier as of December 31, 2002	**$ 213.8**	**$ 58.0**	**$ 271.8**
Fair value of White Mountains' investment in Montpelier as of December 31, 2002	**$ 311.0**	**$ 58.0**	**$ 369.0**

As of December 31, 2002, Montpelier's shareholders' equity totalled approximately $1.3 billion versus $860.7 million as of December 31, 2001. Montpelier wrote net premiums of $565.9 million for 2002. Earned premiums totalled $329.9 million for 2002.

During 2002, Montpelier reported net income of $152.0 million, with comprehensive net income of $185.7 million. Montpelier's 2002 reported return on equity on a diluted basis was 18% and its GAAP combined ratio was 67%.

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

WMU. WMU generated comprehensive net income of $24.7 million for 2002. WMU receives management fees on reinsurance placements referred to Olympus and is entitled to a profit commission on net profits on referred business. During 2002, WMU placed $120.2 million in written premiums with Olympus and recorded $14.4 million and $21.3 million of management fees and profit commissions from Olympus. WMU generated a net loss of $.3 million for 2001, representing start-up costs in its first month of operations.

Fund American Re. Fund American Re reported a comprehensive net loss of $5.8 million for 2002, consisting of a net underwriting loss of $6.1 million, offset by a net investment return of $.3 million. Fund American Re's 2002 underwriting results were primarily comprised of $55.3 million of earned premiums ($62.5 million written) offset by loss and LAE of $46.9 million (includes $3.7 million of incurred losses related to European floods during the third quarter of 2002), acquisition expenses of $13.6 million and general and administrative expenses of $6.8 million. Fund American Re's underwriting results also includes $4.6 million in service fee revenues and $1.6 million in adverse development losses related to contracts acquired as part of Fund American Re's purchase of the international reinsurance operations of Folksam International in December 2001. Under terms of a note issued to Folksam in connection with the purchase, Fund American Re was able to reduce the face value of that note during 2002 by the $1.6 million in adverse loss development, with a corresponding amount recorded as other revenues. At December 31, 2002, the remaining balance on the note was $1.7 million.

Fund American Re reported comprehensive net income of $2.4 million for 2001, consisting of a net underwriting loss of $.6 million and a $3.0 million extraordinary gain on the purchase of the net assets of Folksam in December 2001.

Other Operations

White Mountains' other operations are comprised of the Company, the International American Group, Esurance and the Company's intermediate holding companies. A summary of White Mountains' after-tax comprehensive net income from its other operations for the years ended December 31, 2002, 2001 and 2000 follows:

	Year Ended December 31,		
Millions	**2002**	**2001**	**2000**
Underwriting results	**$ (29.8)**	$ (27.4)	$ (1.1)
Investment results	**(15.1)**	19.8	32.0
Holding company and financing activities	**(153.8)**	(141.2)	370.2
Recognition of net deferred credits	**640.1**	77.5	22.1
Comprehensive net income (loss) from other operations	**$ 441.4**	$ (71.3)	$ 423.2

Underwriting Results. Comprehensive net losses from underwriting results for 2002 and 2001 primarily consist of Esurance's after-tax underwriting losses during its start up and development stage of $19.5 million and $15.2 million, respectively, and after-tax underwriting losses at the International American Group of $10.3 million and $12.2 million, respectively.

During 2002, substantially all of the business generated by Esurance was directly written or assumed by subsidiaries of White Mountains. The underwriting results of this business are included in the underwriting unit that ultimately retains the risk under the policies written through Esurance. The

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following table summarizes Esurance's results on an enterprise-wide basis (i.e., including the underwriting results of business written within the OneBeacon and Reinsurance segments):

	Year Ended December 31,	
Millions	**2002**	**2001**

	Year Ended December 31,	
Net written premiums	**$ 52.6**	$ 17.4
Earned premiums	**40.8**	13.3
Other revenues	**1.6**	.3
Losses and LAE	**(36.7)**	(13.7)
Acquisition expenses	**(13.8)**	(8.7)
General and administrative expenses	**(18.2)**	(13.8)
Pre-tax net underwriting loss	**(26.3)**	$ (22.6)
Income tax benefit from underwriting results	**9.2**	7.9
Comprehensive net loss from underwriting results of Esurance	**$ (17.1)**	$ (14.7)

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

White Mountains' holding companies recorded $39.2 million of other revenues during 2002, which consisted primarily of (i) gains from sales of certain real estate assets that had previously been written-off as part of purchase accounting for the Acquisition and (ii) interest income recorded on amounts due resulting from Internal Revenue Service examinations which were finalized during the period. White Mountains' holding companies recorded other revenues of $25.6 million during 2001, which consisted primarily of net gains on the sales of certain insurance subsidiaries and net gains on sales of certain real estate assets that had previously been written-off as part of purchase accounting for the Acquisition. White Mountains holding companies recorded other revenue during 2000 of $386.3 million, which consisted almost entirely of the gain resulting from the FSA Sale.

Interest expense at White Mountains' holding companies totalled $69.8 million for 2002 versus $45.3 million for 2001 and $7.9 million for 2000. The increase in interest expense from 2001 to 2002 resulted from the effect of a full twelve months of borrowings outstanding under the Bank Facility as opposed to only seven months in 2001. Interest expense from the Seller Note increased from $10.3 million in 2001 to $12.3 million in 2002 as declining interest rates partially offset the effect of four additional months of interest in 2002. The increase in interest expense from 2000 to 2001 resulted from borrowings under the Bank 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 (described below). White Mountains has entered into various interest rate swap agreements which were undertaken to achieve a fixed interest rate on a portion of the Bank Facility. The swap program resulted in a weighted average fixed rate of 7.1% on $700.0 million of its total borrowings under the Bank Facility.

In connection with purchase accounting for the Acquisition, White Mountains was required to discount OneBeacon's loss and LAE reserves and the related reinsurance recoverables by $646.9 million and $346.9 million, respectively, on OneBeacon's balance sheet at June 1, 2001. This net reduction to loss and LAE reserves of $300.0 million is being accreted through an income statement charge ratably with and over the period that the claims are expected to be settled. As a result, White

Mountains recognized $79.8 million and $56.0 million of accretion to loss and LAE reserves during 2002 and 2001, respectively. White Mountains will accrete the remaining $164.2 million over the future periods in which the claims are settled, which is expected to be seven or eight years from the Acquisition.

Other holding company expenses consisted primarily of share-based compensation expenses of holding company employees, including performance shares, options to acquire Common Shares ("Options") and restricted Common Shares ("Restricted Shares"). See "Share-Based Compensation" on page 59.

On June 1, 2001, Berkshire purchased from the Company, for $75.0 million in cash, warrants (the "Warrants") to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share. Of the total Warrants purchased by Berkshire, Warrants to purchase 1,170,000 Common Shares (the "Series A Warrants") were immediately exercisable and Warrants to purchase 544,285 Common Shares (the "Series B Warrants") became exercisable upon shareholder approval at the 2001 Annual Meeting. 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 August 23, 2001 Annual Meeting, the Series B Warrants were reclassified to common shareholders' equity.

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

Net income of $95.0 million from discontinued operations was recorded during 2000 related to a tax reserve release associated with the sale of Fireman's Fund Insurance Company ("Fireman's Fund") in 1991.

II. Investment results.

White Mountains manages all of its consolidated investments through its wholly-owned subsidiary, WM Advisors. A breakdown of White Mountains' consolidated investment results for the years ended December 31, 2002, 2001 and 2000 follows:

	Year Ended December 31,		
Millions	**2002**	**2001**	**2000**
Net investment income	**$ 352.7**	$ 284.5	$ 85.9
Net realized investment gains (losses)	**156.0**	173.1	(8.8)
Pre-tax investment income and realized gains (losses)	**508.7**	457.6	77.1
Income taxes on investment income and realized gains (losses)	**(144.1)**	(143.3)	(18.0)
After-tax unrealized investment gains (losses)	**202.3**	(42.5)	39.7
After-tax equity in earnings (loss) of unconsolidated affiliates	**14.0**	.4	(2.1)
Comprehensive net income from investments	**$ 580.9**	$ 272.2	$ 96.7

Overview

White Mountains' investment philosophy is to invest all assets with a view towards maximizing its after-tax total return over extended periods of time. Under this approach, each dollar of after-tax investment income, realized and unrealized gains and losses is valued equally. White Mountains' overall

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fixed maturity investment strategy is to purchase securities that are attractively priced in relation to perceived credit risks. White Mountains generally manages the interest rate risk associated with holding fixed maturity investments by actively monitoring and maintaining the average duration of the portfolio with the goal of achieving an adequate after-tax total return without subjecting the portfolio to an unreasonable level of interest rate risk. White Mountains' investment portfolio mix as of December 31, 2002 was focused on capital preservation and consisted in large part of high-quality, fixed maturity investments and short-term investments.

A breakdown of White Mountains' investment portfolio as of December 31, 2002 and 2001 follows:

	December 31,			
$ in millions	**2002**		**2001**	
Fixed maturity investments	**$ 6,669.1**	**75%**	$ 6,128.3	68%
Short-term investments	**1,790.6**	**20**	2,545.8	28
Common equity securities	**275.0**	**3**	173.6	2

	December 31,			
Other investments	**164.7**	**2**	158.0	2
Total investments	**$ 8,899.4**	**100%**	$ 9,005.7	100%

White Mountains' fixed maturity portfolio avoided the significant credit problems experienced throughout the public markets during 2002. As of December 31, 2002, the duration of the fixed maturity portfolio, including short-term investments, was approximately 3.4 years. During 2002, OneBeacon began to purchase a modest amount of common equity securities and convertible securities, primarily in the electric utility industry.

Under current market conditions, WM Advisors has been gradually accumulating value equities in response to a fairly valued stock market, and gradually shortening White Mountains' fixed maturity portfolio in response to historically low rates.

Results

White Mountains was pleased with its overall investment results during 2002. White Mountains' fixed maturity portfolios achieved returns while avoiding credit problems and its investments in common equities generated gains for the year despite large losses generally experienced in the U.S. markets.

White Mountains' net investment income is comprised primarily of interest income associated with its substantial portfolio of fixed maturity investments and dividend income from its equity investments. The significant increase in investment income from 2001 to 2002 was due primarily to the inclusion of a full year of investment income generated by OneBeacon's assets in the 2002 results as compared to the seven months of OneBeacon's post-Acquisition investment activity included in the 2001 results.

White Mountains recorded $156.0 million of realized investment gains during 2002, compared to $173.1 million during 2001, principally from sales of fixed maturity investments during both periods. During 2002, the Company recognized a $58.0 million gain on its Montpelier warrants in its GAAP financial statements. It recognized a $47.4 million loss related to its interest rate swap agreements due to the decrease in market interest rates during the year. During 2001, White Mountains sold a large portion of its fixed maturity investment portfolio, including its portfolio of mortgage-backed securities, and subsequently reinvested the proceeds in fixed maturity and short-term investments.

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

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Other-than-temporary impairment

The following table presents an analysis of the continuous periods during which White Mountains has held investment positions which were carried at an unrealized loss as of December 31, 2002 (excluding short-term investments):

	December 31, 2002			
$ in millions	**0-6 Months**	**6-12 Months**	**> 12 Months**	**Total**
Fixed maturity investments:				
Number of positions	77	11	25	113
Market value	$ 423.1	$ 22.5	$ 13.5	$ 459.1
Amortized cost	$ 442.5	$ 22.7	$ 15.2	$ 480.4
Unrealized loss	$ (19.4)	$ (.2)	$ (1.7)	$ (21.3)
Common equity securities:				
Number of positions	48	2	1	51

	December 31, 2002			
Market value	$ 119.0	$ .6	$ .3	$ 119.9
Amortized cost	$ 139.8	$ .7	$ .4	$ 140.9
Unrealized loss	$ (20.8)	$ (.1)	$ (.1)	$ (21.0)
Other investments:				
Number of positions	4	2	6	12
Market value	$ 5.5	$ 5.8	$ 6.8	$ 18.1
Amortized cost	$ 6.5	$ 6.9	$ 10.6	$ 24.0
Unrealized loss	$ (1.0)	$ (1.1)	$ (3.8)	$ (5.9)
Total:				
Number of positions	129	15	32	176
Market value	$ 547.6	$ 28.9	$ 20.6	$ 597.1
Amortized cost	$ 588.8	$ 30.3	$ 26.2	$ 645.3
Unrealized loss	$ (41.2)	$ (1.4)	$ (5.6)	$ (48.2)
% of total gross unrealized losses	**85%**	**3%**	**12%**	**100%**

Management believes that the gross unrealized losses recorded on White Mountains' fixed maturity investment portfolio at December 31, 2002 resulted primarily from increases in market interest rates from the dates that certain investments within that portfolio were acquired as opposed to fundamental changes in the credit quality of the issuers of such securities. Therefore, these decreases in values are viewed as being temporary as White Mountains has the intent and ability to retain such investments for a period of time sufficient to allow for any anticipated recovery in market value. Management also believes that the gross unrealized losses recorded on White Mountains' portfolio of common equity and other investments at December 31, 2002 resulted primarily from decreases in quoted market values from the dates that certain investments securities within that portfolio were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. Therefore, these decreases are also viewed as being temporary. As of December 31, 2002, no single investment security within White Mountains' investment portfolio had an after-tax unrealized loss of more than $5.0 million.

White Mountains assesses other-than-temporary impairments based on security-specific facts, circumstances and intentions as of the balance sheet date. During 2002, White Mountains experienced $9.6 million in pretax other-than-temporary impairment charges. Of the charge recorded in 2002, $4.9 million related to White Mountains' investment in Insurance Partners and $3.5 million was related to its investment in the Conning Connecticut Insurance Fund. Both of these investments are limited partnerships that are carried in other investments in White Mountains' consolidated balance sheet.

White Mountains did not experience any material impairment charges relating to any other individual investment security during any of the three years ended December 31, 2002.

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

III. Discussion of Other Consolidated Items

Share-Based Compensation

White Mountains' share-based compensation plans, consisting primarily of performance shares, are designed to maximize shareholder value over long periods of time by aligning the financial interests of its management with those of its owners. The Board of Directors (the "Board") believes that share-based compensation for its key employees should be payable in full only if the Company achieves superior returns for its owners. Performance shares are payable upon achievement of pre-defined business goals and are valued based on the market value of Common Shares at the time awards are earned. Performance shares are typically paid in cash, though they may be paid in Common Shares at the election of the Board. The target of White Mountains' performance share programs is linked to achievement of an overall annualized return of at least equal to the market yield available from a ten- year U.S. Treasury note plus 700 basis points at the time of grant (11% for the 2003 grant). White Mountains' policy is to expense all its share-based compensation, including its outstanding Options. As a result, the Company's calculation of return includes the full expense of all outstanding share-based compensation awards.

During 2002, 2001 and 2000, White Mountains recorded compensation charges of $63.5 million, $31.6 million and $25.8 million, respectively, for outstanding performance shares. In addition, White Mountains issued 94,500 Restricted Shares in 2001 and issued a one-time award of 81,000 Options during 2000. During 2002 and 2001, White Mountains recorded compensation charges relating to Options of $.7 million and $9.5 million, respectively, and recorded compensation expense charges relating to Restricted Shares of $16.2 million and $10.4 million, respectively.

Deferred Credits

In June 2001, the FASB issued SFAS No. 141 and SFAS No. 142, which affected the way the Company had previously recognized deferred credits and goodwill. Unamortized deferred credits arising from business combinations prior to July 1, 2001 were recognized through the income statement as a change in accounting principle on January 1, 2002. Deferred credits arising from business combinations on or after July 1, 2001 have been recognized immediately upon completion of the combination through the income statement as an extraordinary gain. Finally, goodwill is no longer systematically amortized over a perceived benefit period and a write down to goodwill is now recognized when it is considered to be impaired.

On January 1, 2002, in accordance with SFAS No. 141, White Mountains recognized all its unamortized deferred credits, which amounted to $641.4 million at its holding companies, entirely related to its acquisition of OneBeacon, and $41.1 million at its reinsurance segment, primarily from Folksamerica's acquisition of PCA. White Mountains also recognized a $22.3 million transitional impairment loss in accordance with SFAS No. 142, primarily related to goodwill associated with Folksamerica's acquisition of Risk Capital. All of these items were recognized through the income statement as a cumulative effect of a change in accounting principle.

In accordance with SFAS No. 141, for the years ended December 31, 2002 and 2001, White Mountains recognized extraordinary gains of $7.1 million and $16.6 million, respectively, at its reinsurance segment representing the excess of fair value of net assets acquired over their costs for acquisitions made after June 30, 2001. Folksamerica recognized $7.1 million during the second quarter of 2002 in connection with its acquisition of Imperial in April 2002 and $13.6 million during the third quarter of 2001 in connection with its acquisition of C-F. Fund American Re recognized $3.0 million during the fourth quarter of 2001 in connection with its acquisition of the net assets of the international reinsurance operations of Folksam in December 2001.

Prior to its adoption of SFAS Nos. 141 and 142, White Mountains recognized $91.6 million and $41.4 million during 2001 and 2000, respectively, in income from the amortization of deferred credits.

Income Taxes

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

The income tax provision related to pretax earnings for 2002, 2001 and 2000 represents an effective tax rate of 9.8%, 41.9% and 12.0%, respectively. White Mountains' effective tax rate for 2002 and 2000 was lower than the U.S. statutory rate of 35% primarily from income generated in jurisdictions other than the United States. White Mountains' effective tax rate for 2001 (resulting from a net loss reported during the period) was greater than the U.S. statutory rate of 35% primarily as a result of the effects of deferred credit amortization.

LIQUIDITY AND CAPITAL RESOURCES

Operating cash and short term investments

The primary sources of cash inflows for the Company and certain of its intermediate holding companies are investment income, sales of investment securities, dividends and tax sharing payments received from the operating subsidiaries. Under the insurance laws of the states and jurisdictions under which the holding companies of 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 can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future. In 2003, the Company's first tier insurance subsidiaries have the ability to pay dividends of approximately $261.5 million to Fund American without approval of regulatory authorities.

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

As a result of the Renewal Rights Agreement, OneBeacon will run-off the claims on business transferred to Liberty Mutual. Therefore, OneBeacon will need to periodically liquidate invested assets to fund the payment of these claims and will manage its short-term liquidity needs accordingly.

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

provided by the Bank Facility are adequate to meet expected cash requirements for the foreseeable future.

Financing

The following table summarizes White Mountains' capital structure as of December 31, 2002 and 2001:

Millions	December 31, 2002	December 31, 2001
Bank Facility	**$ 746.4**	$ 825.0
Seller Note		260.0
Other debt	**46.8**	40.4
Total debt	**$ 793.2**	$ 1,125.4
Common shareholders' equity	**2,407.9**	1,444.6
Convertible preference shares	**219.0**	
Mandatorily redeemable preferred stock of subsidiaries	**180.9**	170.3
Total capitalization	**$ 3,601.0**	$ 2,740.3

On October 31, 2002, Fund American completed an amendment of the Bank Facility, which included the issuance of a new $143.8 million Tranche C term loan that was utilized to refinance a portion of the existing $228.8 million Tranche A term loan. The new Tranche C term loan has nominal amortization until its final maturity in March 2007. The refinancing reduces the amount of quarterly amortization payments Fund American must make over the next four years. The applicable eurodollar rate margin on the new Tranche C term loan is 87.5 basis points higher than the margin on the existing Tranche A term loan, and the applicable eurodollar rate margin on the existing and otherwise unchanged Tranche B term loan was increased by 12.5 basis points. In connection with the amendment, certain financial and other covenants that governed the Bank Facility were relaxed or eliminated, thereby increasing the Company's operational and financial flexibility.

On October 24, 2002, White Mountains sold $225.0 million of its equity securities in private transactions. Investment funds managed by Franklin Mutual Advisers, LLC, already large shareholders of White Mountains, purchased 677,966 convertible preference shares of the Company at a price of $200.0 million ($295.00 per share), which had the effect of increasing the Franklin Mutual-managed investment funds' ownership in White Mountains from 12% to 17% on a fully converted basis. The convertible preference shares bear an annual dividend of $2.95 per share, payable in installments on June 30 and December 31, and will be automatically converted into 677,966 Common Shares of the Company upon approval by shareholders. White Mountains intends to seek shareholder approval at its 2003 Annual Meeting. If shareholder approval has not been obtained prior to March 31, 2005, each holder of convertible preference shares will thereafter have the right to require the Company to repurchase for cash the convertible preference shares on an "as converted" basis at the then-current market price of a Common Share. In addition, investment funds managed by Highfields Capital Management LP purchased 84,745 Common Shares for $25.0 million ($295.00 per Common Share). The proceeds from these private equity issuances, along with cash on hand, were used to repay the $260.0 million Seller Note on November 29, 2002.

Management believes that White Mountains' financial strength provides the flexibility and capacity to obtain funds externally as needed through debt or equity financing on both a short-term and long-term basis. White Mountains has primarily accessed the debt and equity markets in connection with

acquisitions, most notably the acquisition of OneBeacon in June 2001. To fund the Acquisition, White Mountains undertook the following capital raising activities:

(a) Issued convertible preference shares for $437.6 million (which were retired and converted to Common Shares in August 2001) and issued to Berkshire, for $75.0 million in cash, Warrants to acquire 1,714,285 Common Shares at an exercise price of $175.00 per Common Share. The Warrants have a term of seven years from the date of issuance, although the Company has the right to call the Warrants for $60.0 million in cash commencing on the fourth anniversary of their issuance. As a result of White Mountains' private equity issuances in the fourth quarter of 2002, customary anti-dilution provisions applicable to the Warrants increased the number of Common Shares purchasable on exercise of the Warrants to 1,724,200 and decreased the exercise price per Common Share of the Warrants to $173.99.

(b) Issued two separate classes of subsidiary preferred stock. For $225.0 million in cash, Berkshire purchased cumulative non-voting subsidiary preferred stock with a face value of $300.0 million, which is entitled to a dividend of 2.35% per quarter and is mandatorily redeemable seven years after issuance. Zenith purchased $20.0 million in cumulative non-voting subsidiary preferred stock, which is entitled to a dividend of 2.5% per quarter through June 30, 2007 and a dividend of 3.5% per quarter thereafter. This preferred stock is mandatorily redeemable ten years after issuance, and may be called by White Mountains at par commencing June 30, 2007.

(c) Borrowed $825.0 million under the Bank Facility, which was comprised of two term loan facilities (subsequently refinanced into three term loan facilities) and a revolving credit facility. The original term loan facilities were comprised of a $300.0 million amortizing Tranche A term loan with a five-year maturity and a $400.0 million amortizing Tranche B term loan with a six-year maturity. See the discussion above for the terms of the refinanced term loan facilities. 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. As of December 31, 2002, $50.0 million was available under the revolving credit facility.

(d) Issued the Seller Note to Aviva. The $260.0 million Seller Note was repaid on November 29, 2002 in cash, provided in part by the private equity issuances that White Mountains completed in October 2002.

Contractual Obligations and Covenants

Below is a schedule of White Mountains' material contractual obligations and commitments as of December 31, 2002:

December 31, 2002 **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	$ 33.4	$ 31.3	$ 59.2	$ 139.5	$ 529.8	$ 793.2
Mandatorily redeemable preferred stock					320.0	320.0

December 31, 2002 millions	Due in One Year or Less	Due in Two Years	Due in Three Years	Due in Four Years	Due After Four Years	Total
Operating leases	35.6	29	26.7	25.5	46.1	162.9
Total contractual obligations	$ 69.0	$ 60.3	$ 85.9	$ 165.0	$ 895.9	$ 1,276.1

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For comparative purposes, set forth below is a schedule of White Mountains' material contractual obligations and commitments as of December 31, 2001:

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	$ 102.1	$ 528.1	$ 1,125.4
Mandatorily redeemable preferred stock					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	$ 118.9	$ 891.2	$ 1,587.4

During 2002, through the refinancing of the Bank Facility and the repayment of the Seller Note, White Mountains significantly reduced its near-term obligations. White Mountains' debt due in one-year or less as of December 31, 2002 includes $5.1 million in other indebtedness, which was subsequently repaid in February 2003, and scheduled principal amortization of $28.3 million under the Bank Facility.

The Bank Facility contains various affirmative, negative and financial covenants which are customary for such borrowings and include requirements to meet 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, 2002, White Mountains was in compliance with all of the covenants under the Bank Facility, and anticipates it will continue to meet the financial covenants under the Bank Facility for the foreseeable future.

There are no provisions within White Mountains' leasing agreements that would trigger acceleration of future lease payments. 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.

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

Detailed information concerning White Mountains' liquidity and capital resource activities during 2002, 2001 and 2000 follows:

For the year ended December 31, 2002

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

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

In October 2002, White Mountains amended the Bank Facility and issued $225.0 million of equity securities. See "**Financing**" above for a detailed discussion of these transactions.

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

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

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

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

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

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

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

For the year ended December 31, 2001

In December 2001, White Mountains filed a "shelf" registration statement with the SEC for offerings of up to $1.0 billion of various types of debt and preferred equity securities. To date, White Mountains has not offered any securities for sale pursuant to this shelf registration.

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

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

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

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

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

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

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

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

In connection with the Acquisition, the Company issued convertible preference shares for $437.6 million (which were retired and converted to Common Shares in August 2001) and issued the Warrants 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 $300.0 million in face value of cumulative non-voting subsidiary preferred stock for $225.0 million in cash. The Berkshire Preferred Stock is entitled to a dividend of no less than 2.35% per quarter and is mandatorily redeemable after seven years. Zenith purchased $20.0 million in cumulative non-voting subsidiary preferred stock. The Zenith Preferred Stock is entitled to a dividend of no less than 2.5% per quarter through June 30, 2007 and a dividend of no less than 3.5% thereafter and is mandatorily redeemable after ten years.

In connection with the Acquisition, White Mountains borrowed $825.0 million under the Bank Facility. The Bank 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. The Bank Facility was refinanced during 2002 See "**Financing**" above for a detailed discussion.

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

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

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

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

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

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

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

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

For the year ended December 31, 2000

In December 2000, White Mountains provided $259.6 million of capital to Folksamerica through the contribution of American Centennial and British Insurance Company and through the issuance of a $195.0 million intercompany note which was forgiven during 2001. Folksamerica subsequently contributed American Centennial 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.

In July 2000, White Mountains concluded the FSA Sale for proceeds of $620.4 million.

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

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 LAE reserves.

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.

RELATED PARTY TRANSACTIONS

Berkshire

NICO and GRC, which have provided the NICO Cover and the GRC Cover to subsidiaries of White Mountains, are wholly-owned subsidiaries of Berkshire (see **"Reinsurance Protection"** within the **"ONEBEACON"** section of Item 1 of this report). Through the Warrants, at December 31, 2002, Berkshire has the right to acquire 1,724,200 Common Shares at an exercise price of $173.99 per Common Share, which represented approximately 16.1% of the total outstanding Common Shares on a fully-converted basis. Reinsurance recoverable from, and preferred stock of White Mountains' subsidiaries owned by, Berkshire are shown as separate line items in White Mountains' consolidated balance sheet.

Olympus

In January 2002, Folksamerica entered into a quota share retrocessional arrangement with Olympus. Under the quota share treaty, Folksamerica cedes 75% of substantially all of its property and marine excess of loss business to Olympus. During 2002, Folksamerica ceded approximately $229.7 million in written premiums and approximately $54.4 million in losses and LAE to Olympus.

White Mountains, through either Folksamerica or WMU, receives fee income on reinsurance placements referred to Olympus and is entitled to additional fees based on net underwriting profits on referred business. During 2002, White Mountains earned $48.9 million from management and service fee revenues on business referred to Olympus.

In June 2002, OneBeacon supplemented its existing catastrophe reinsurance protection through a new contract with Folksamerica which was subsequently reinsured to Olympus through the 75% quota share retrocessional arrangement. Pursuant to the terms of this arrangement, Folksamerica and Olympus are responsible for 25% and 75%, respectively, of the first $25 million of any losses in excess of $100 million incurred by OneBeacon related to a catastrophic event. Under this arrangement, Olympus has received $2.6 million in premiums. All balances related to the Folksamerica portion of the reinsurance cover have been eliminated in consolidation.

Certain directors, officers and affiliates of White Mountains own approximately 5% of the common shares of Olympus Holdings. Mr. Joseph S. Steinberg, a director of the Company, is Chairman of Olympus Holdings. White Mountains does not have an ownership stake in Olympus Holdings.

Montpelier

In December 2001, White Mountains invested $180.0 million in Montpelier, which was formed to respond to the favorable underwriting and pricing environment in the reinsurance industry with approximately $1.0 billion of capital. As of December 31, 2002, as adjusted for stock splits, White Mountains' investment in Montpelier consisted of 10,800,000 common shares and warrants to acquire 4,781,572 common shares at $16.67 per share that are exercisable until December 6, 2011. Through its holdings of common shares and warrants, White Mountains owns approximately 21% of Montpelier on a fully-converted basis, as adjusted for its initial public offering ("IPO").

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

Other relationships

Mr. Howard Clark, a Director of the Company, is Vice Chairman of Lehman 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 Bank Facility. In addition, Fund American paid Lehman approximately $1.5 million in fees related to the October 2002 refinancing of the Bank 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 and Deputy Chairman of the Company and President of WM Advisors, May continue his active involvement with Prospector Partners, LLC ("Prospector"), so long as Mr. Gillespie devotes the requisite time required to fulfill his responsibilities to WM Advisors. The agreement specifies procedures pursuant to which Prospector's funds have the ability to invest first in opportunities appropriate for both White Mountains and such funds. Pursuant to revenue sharing agreements, Mr. Gillespie has agreed to pay White Mountains a portion of the revenues and distributions allocable to him in connection with Prospector, in return for White Mountains agreeing to pay the operational expenses of his investment management companies. At December 31, 2002, White Mountains had $64.9 million invested in funds managed by Prospector.

In September 2001, White Mountains entered into a five-year lease at a market-based rate for a building partially owned by Mr. John Gillespie and trusts for the benefit of members of his family (the "Gillespie Trusts"). For 2002, the rental payments attributable to Mr. Gillespie's ownership in the

building totalled approximately $13,000 and the rental payments attributable to the Gillespie Trusts' ownership in the building totalled approximately $104,000.

Mr. John Gillespie indirectly through general and limited partnership interests holds a 44% interest in Dowling & Partners Connecticut Fund III, LP ("Fund III"). OBPP and Folksamerica Specialty Underwriting, Inc. ("FSUI") have borrowed approximately $8 million and $7 million, respectively, from Fund III in connection with an incentive program sponsored by the State of Connecticut known as the Connecticut Insurance Reinvestment Act (the "Act"). The loans mature in April 2007 and bear interest at the option of OBPP and FSUI at either (1) the greater of (a) the prime rate minus 1% and (b) the federal funds rate minus 0.50% or (2) the eurodollar rate plus 0.325%. The Act provides for Connecticut income tax credits to be granted for qualifying investments made by approved fund managers. The loans made by Fund III to OBPP and FSUI are qualifying investments and, together, have the potential to generate up to $15 million of tax credits that would be shared equally between Fund III on the one hand and OBPP and FSUI on the other. As a result of his interest in Fund III, Mr. Gillespie could realize up to $3.3 million from the tax credits, although any such amount would be subject to the revenue sharing agreements with White Mountains described above.

Mr. Zankel is Senior Managing Member of the General Partner of High Rise Capital Advisors LLC, which is the General Partner of High Rise Partners, L.P. At December 31, 2002, White Mountains had $8.8 million in limited partnership investment interests in High Rise Partners, L.P. and White Mountains owned $36.6 million in investments that are managed by High Rise Capital Advisors LLC.

WM Advisors provides investment advisory and management services to Montpelier Re and Olympus. Montpelier Re and Olympus pay investment management fees based on month-end market values of investments held under custody to WM Advisors. The fees, which vary depending on the amount of assets under management, are between 0.15% and 0.30%. This agreement May be terminated by either party upon 30 days written notice. At December 31, 2002, WM Advisors had $1.4 billion and $653.9 million of assets under management from Montpelier Re and Olympus, respectively. During 2002, WM Advisors had received $2.1 million and $1.1 million in fees from Montpelier Re and Olympus, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Loss and Loss Adjustment Expenses

Insurance

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

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

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

Loss and LAE reserve estimates at OneBeacon are subject to additional uncertainty as a consequence of numerous factors that occurred prior to White Mountains' acquisition of OneBeacon on June 1, 2001. As previously discussed, OneBeacon is the result of the 1998 merger of the U.S. operations of General Accident and Commercial Union, two companies with different underwriting and claims management philosophies and practices. Beginning in the mid-1990s, and continuing through the Merger, the subsequent operational integration of General Accident plc and Commercial Union plc and the Acquisition, OneBeacon experienced an environment of significant change, both in its business and operations. Generally accepted actuarial techniques used to estimate reserves rely in large degree on projecting historical trends (such as patterns of claim development (i.e., reported claims and paid losses)) into the future. Accordingly, estimating reserves becomes more uncertain if business mix, case reserve adequacy, claims payment rates, coverage limits and other factors change over time. The

breadth and depth of the business and operational changes that occurred at OneBeacon (1) led to a wider range in the reserve estimates produced by a variety of actuarial loss reserving techniques, especially those that rely upon consistent claim development patterns, and (2) introduced greater complexity to the judgments required to be made by management in determining the impact of the business and operational changes on the development patterns used to estimate reserves.

OneBeacon's net loss and LAE reserves by line of business at December 31, 2002 and 2001 were as follows:

OneBeacon net loss and LAE reserves by line of business ($ in millions)	**December 31, 2002**	**December 31, 2001**
Workers compensation	**$ 977.3**	$ 958.7
Personal automobile liability	**909.4**	847.0
Multiple peril	**802.7**	1,037.1
Commercial automobile liability	**567.9**	762.0
General liability	**493.8**	713.8
Homeowners/Farmowners	**191.4**	207.2
Other	**127.4**	289.7
Total	**$ 4,069.9**	$ 4,815.5

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

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

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

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

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

For OneBeacon, the range of reserve estimates at December 31, 2002 was evaluated to consider the strengths and weaknesses of the actuarial methods applied against OneBeacon's historical claims experience data. The following table shows the recorded reserves and the high and low ends of OneBeacon's range of reasonable loss reserve estimates at December 31, 2002. The high and low ends of OneBeacon's range of reserve estimates in the table below are based on the results of various actuarial methods described above. The recorded reserve for each line is the result of the actuarial method that management believes to be most appropriate based on known facts and trends.

OneBeacon net loss and LAE reserves by line of business Range and recorded reserves ($ in millions)	**December 31, 2002**		
	Low	**Recorded**	**High**
Workers compensation	$ 730	**$ 977.3**	$ 1,050
Personal automobile liability	860	**909.4**	930
Multiple peril	790	**802.7**	1,000
Commercial automobile liability	520	**567.9**	570
General liability	470	**493.8**	540
Homeowners/Farmowners	180	**191.4**	230
Other	110	**127.4**	130
Total	$ 3,660	**$ 4,069.9**	$ 4,450

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

The factors that led management to believe that the recorded reserves are the best estimate of loss and LAE reserves by line of business are discussed as follows:

For automobile liability, both personal and commercial, in recent quarters paid loss development methods have indicated that ultimate losses would be lower than previously expected due, we believe, to improved claims handling practices. However, we have tempered the reduction in recorded reserves in these lines pending further confirmation of the degree of this improvement because, as noted above, of the leveraged nature of historical paid loss development methods.

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For workers compensation, higher levels of medical costs in recent quarters have caused us to select reserves higher in the range of indications.

For multiple peril and general liability, we have selected recorded reserves by giving greater weight to adjusted paid loss development methods, which are not dependent on the consistency of case reserving practices, rather than methods that rely on incurred losses, because of the increased adequacy of case reserving by OneBeacon's claim staff in the recent past.

OneBeacon A&E Reserves

Immediately prior to White Mountains' acquisition of OneBeacon, OneBeacon purchased a reinsurance contract with NICO under which OneBeacon is entitled to recover from NICO up to $2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising from business written by OneBeacon in 1987 and prior, and certain other exposures. Under the terms of the NICO Cover, NICO receives the economic benefit of Third Party Recoverables in existence at the time the NICO Cover was executed. As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Any amounts uncollectible from third party reinsurers due to dispute or the reinsurers' financial inability to pay are covered by NICO under its agreement with OneBeacon.

OneBeacon estimates that on an incurred basis it has exhausted approximately $1,771 million of the coverage provided by NICO at December 31, 2002. Due to the inherent difficulties in estimating ultimate A&E exposures, OneBeacon does not estimate a range for these incurred losses. Approximately $419 million of the estimated $1,771 million of incurred losses have been paid by NICO through December 31, 2002, with $106.3 million paid in 2002. The estimate of incurred losses represents management's best estimate, based on information currently available, of its ultimate liabilities that it is entitled to recover under the NICO Cover. Accordingly, OneBeacon believes the NICO Cover will be adequate to cover all of its A&E obligations. However, as case law expands, medical and clean-up costs increase and industry settlement practices change, OneBeacon May be subject to asbestos and environmental losses beyond currently estimated amounts. Therefore, OneBeacon cannot guarantee that its remaining coverage under the NICO Cover will be sufficient to cover additional liability arising from any such unfavorable developments.

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

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

OneBeacon also incurred A&E losses via its participation in industry pools and associations. The most significant of these pools was ECRA, which provided excess liability reinsurance to U.S. insurers from 1950 until the early 1980s. ECRA incurred significant liabilities for A&E, of which OneBeacon bears approximately a 4.7% share, or $68 million at year end 2002.

More recently, since the 1990s, OneBeacon has experienced an influx of claims from commercial insureds, including many non-Fortune 500-sized accounts written during the 1970s and 1980s, who are named as defendants in asbestos lawsuits. As a number of large well-known manufacturers of asbestos

and asbestos-containing products have gone into bankruptcy, plaintiffs have sought recoveries from peripheral defendants, such as installers, transporters or sellers of such products, or from owners of premises on which exposure to asbestos allegedly occurred.

Historically, most asbestos claims have been asserted as product liability claims. Recently, insureds who have exhausted the available products liability limits of their insurance policies have sought payment for asbestos claims under the premises and operations coverage of their liability policies. It is more difficult for plaintiffs to establish losses as stemming from premises and operations exposures, which requires proof of the defendant's negligence, rather than products liability under which strict legal liability applies. Hence, there are fewer of such claims and settlements are generally for smaller amounts. There are currently active claims under 79 of OneBeacon's policies without available product liability coverage asserting operations or premises coverage.

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

The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

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

OneBeacon A&E Claims Activity

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

	Year Ended December 31,	
A&E Claims Activity	**2002**	**2001**
Asbestos		
Policies with asbestos claims at the beginning of the year	566	553
Policies reporting asbestos claims during the year	52	54
Policies on which asbestos claims were closed during the year	(29)	(41)
Policies with asbestos claims at the end of the year	589	566
Environmental		
Policies with environmental claims at the beginning of the year	795	844
Policies reporting environmental claims during the year	49	88
Policies on which environmental claims were closed during the year	(105)	(137)
Policies with environmental claims at the end of the year	739	795
Total		
Total policies with A&E claims at the beginning of the year	1,361	1,397
Policies reporting A&E claims during the year	101	142
Policies on which A&E claims were closed during the year	(134)	(178)
Total policies with A&E claims at the end of the year	1,328	1,361

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Reinsurance

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

Reinsurance loss and LAE reserve estimates reflect the judgment of both the ceding companies and White Mountains, based on the experience and knowledge of their respective claims personnel, regarding the nature and value of the claims. The ceding companies may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made. Upon notification of a loss from a ceding company, White Mountains establishes case reserves, including LAE reserves, based upon White Mountains' share of the amount of reserves established by the ceding company and White Mountains' independent evaluation of the loss. In cases where available information indicates that reserves established by the ceding company are inadequate, White Mountains establishes reserves in excess of its share of the reserves established by the ceding company.

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

White Mountains' net loss and LAE reserves for its Reinsurance segment by class of business at December 31, 2002 and 2001 were as follows:

Net loss and LAE reserves by class of business ($ in millions)	**December 31, 2002**	**December 31, 2001**
Liability (excluding A&E)	**$ 528.4**	$ 496.5
Property	**131.6**	103.1
A&E	**55.6**	51.5
Accident & Health and Other	**77.5**	54.3
Fund American Re	**56.2**	25.8
Total	**$ 849.3**	$ 731.2

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

For prior accident years, White Mountains' Reinsurance segment gradually replaces this expected loss ratio approach with estimates based on historical loss reporting patterns. For both current and

prior accident years estimates change when new information becomes available, such as changing loss emergence patterns, or claim and underwriting audits.

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

The following table illustrates White Mountains' recorded net loss and loss adjustment expense reserves for its Reinsurance segment, and high and low estimates for those classes of business for which a range is calculated, at December 31, 2002.

Net loss and LAE reserves by class of business ($ in millions)	**December 31, 2002 Low**	**Recorded**	**High**
Liability (excluding A&E)	$ 440	**$ 528.4**	$ 630

	December 31, 2002		
Property	100	**131.6**	150
Accident & Health and Other	60	**77.5**	80
Sub-total	$ 600	**$ 737.5**	$ 860
A&E		**55.6**	
Fund American Re		**56.2**	
Total		**$ 849.3**	

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

Reinsurance Segment A&E Reserves

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

Folksamerica's A&E exposure is primarily from reinsurance contracts written between 1974 through 1985 by predecessor companies (MONY Reinsurance and Christiania General). The exposures are predominately higher layer excess of loss treaty and facultative coverages with relatively low limits

exposed for each claim. Net incurred loss activity for asbestos and environmental in the last two years was as follows:

Net incurred loss and LAE activity ($ in millions)	December 31, 2002	December 31, 2001
Asbestos	**$ 6.4**	$ 4.9
Environmental	**4.4**	2.6
Total	**$ 10.8**	$ 7.5

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

Folksamerica's 2002 loss development for environmental exposures was related mostly to one large settlement for a first party property coverage that responds to numerous first party sites. Folksamerica does not expect other situations like this to materialize.

Folksamerica sets up claim files for each reported claim by each cedent for each individual insured. In many instances, a single claim notification from a cedent could involve several years and layers of coverage resulting in a file being set up for each involvement. Precautionary claim notices are submitted by the ceding companies in order to preserve their right to pursue coverage under the reinsurance contract. Such notices do not contain an incurred loss amount to Folksamerica, accordingly, an open claim file is not established. As of December 31, 2002, Folksamerica had approximately 1,069 open claim files for asbestos and 768 open claim files for environmental exposures.

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

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

Reinsurance Segment A&E Claims Activity

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

	Year ended December 31,	
A&E Claims Activity	**2002**	**2001**
Asbestos		
Total asbestos claims at the beginning of the year	965	906
Asbestos claims reported during the year	186	131
Asbestos claims closed during the year	(82)	(72)
Total asbestos claims at the end of the year	1,069	965
Environmental		
Total environmental claims at the beginning of the year	731	755
Environmental claims reported during the year	93	64
Environmental claims closed during the year	(56)	(88)
Total environmental claims at the end of the year	768	731
Total		
Total A&E claims at the beginning of the year	1,696	1,661
A&E claims reported during the year	279	195
A&E claims closed during the year	(138)	(160)
Total A&E claims at the end of the year	1,837	1,696

Reinsurance Transactions

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

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

"Reinsurance Protection" within the **"ONEBEACON"**and **"REINSURANCE"** sections of Item 1 of this report for additional information on White Mountains' reinsurance programs.

Pension and Post-Retirement Medical Plans

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

Through December 31, 2002, OneBeacon provided pension and retiree medical plans for the benefit of its employees. The majority of OneBeacon's pension and retiree medical plans were curtailed in the fourth quarter of 2002. The OneBeacon Pension Plan will no longer add new participants or increase benefits for existing participants. Non-vested participants already in the plan will continue to vest during their employment with OneBeacon, this effectively causes the projected benefit obligation to equal the accumulated benefit obligation. Retirees are also eligible for medical benefits if they meet certain age and service requirements. However, due to the curtailment, the plan will no longer accept new participants after a transition period ending May 31, 2003. The majority of retiree medical costs are capped at defined dollar amounts, with retirees contributing the remainder.

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

A hypothetical 1% increase in the discount rate would result in a decrease in pension and retiree medical projected benefit obligations of approximately $55 million and $4 million, respectively, and would result in an increase in OneBeacon's total pretax pension/post-retirement expense of approximately $.4 million. A hypothetical 1% decrease in the discount rate would result in an increase in pension and retiree medical projected benefit obligations of approximately $55 million and $4 million, respectively, and would result in a decrease in OneBeacon's total pretax pension/post-retirement expense of approximately $.5 million.

Additionally, the rate of return that is assumed on plan assets affects OneBeacon's pension expense during a particular period. Since the retiree medical plan is unfunded, it is not affected by changes in the rate of return assumption. OneBeacon performed an analysis of expected long-term rates of return based on the allocation of its pension plan assets as of both December 31, 2001 and December 31, 2002 to develop expected rates of return for each significant asset class or economic indicator. A range of returns was developed based both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. Although the expected investment return assumption is long-term in nature, the range of reasonable returns has dropped over the past few years as a consequence of lower inflation and lower bond yields. As a result of the most recent review, for 2003 OneBeacon has reduced its expected return on its pension assets to 7.0%, from 7.5% used in 2002. At December 31, 2002, greater than half of the plan assets were invested in fixed maturity securities, one-third in equities and the remainder in cash, cash equivalents and convertible

securities. A hypothetical 1% increase or decrease in the assumed rate of return would result in a pretax change in OneBeacon's pension expense (or income as the case may be) for 2003 of approximately $5.0 million.

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 acquisitions and fully recognized its existing unamortized deferred credit balance of $682.5 million on January 1, 2002 as a change in accounting principle.

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

FORWARD-LOOKING STATEMENTS

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

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

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

a number of risks and uncertainties that could cause actual results to differ materially from expectations, including:

- the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to it and pursued;

competitive forces, including the conduct of other property and casualty insurers and reinsurers;

changes in domestic or foreign laws or regulations applicable to White Mountains, its competitors or its clients;

an economic downturn or other economic conditions adversely affecting its financial position;

loss reserves established subsequently proving to have been inadequate; and

other factors, most of which are beyond White Mountains' control.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

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

Indebtedness. White Mountains utilized a significant amount of variable rate debt financing (the Bank 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, 2002, 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 Bank Facility. Pursuant to SFAS No. 133, these contracts are carried at fair value in other investments on the balance sheet (which constituted an obligation by White Mountains of $52.2 million at December 31, 2002) 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 Bank 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.

$ in millions	Fair Value at December 31, 2002	Assumed Change in Relevant Interest Rate	Estimated Fair Value After Change in Interest Rate	After-Tax Increase (Decrease) in Carrying Value
Fixed maturity investments	**$ 6,669.1**	100 bp decrease	$ 6,962.1	$ 190.5
		50 bp decrease	6,817.3	96.3
		50 bp increase	6,533.6	(88.1)
		100 bp increase	6,392.2	(180.0)
Pension fixed maturity investments	**$ 297.8**	100 bp decrease	$ 314.2	$ 10.7
		50 bp decrease	305.7	5.1
		50 bp increase	288.7	(5.9)
		100 bp increase	280.0	(11.6)
Interest rate swaps(1)	**$ (52.2)**	100 bp decrease	$ (77.5)	$ (16.4)
		50 bp decrease	(64.7)	(8.3)
		50 bp increase	(40.1)	7.9
		100 bp increase	(28.4)	15.5

(1) The relevant interest rate for the assumed change in White Mountains' interest rate swaps is predicated upon assumed changes in the three-year or the ten-year U.S. Treasury yield, depending on the duration of the swap 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.

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 91 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 21, 2003)

Reported under the caption "Election of the Company's Directors" on pages 3 through 6 and "Compliance with Section 16(a) of the Exchange Act" on page 20 of the Company's 2003 Proxy Statement, herein incorporated by reference.

b. Executive Officers (as of May 13, 2003)

Name	Position	Age	Executive officer since(a)
Raymond Barrette	President and CEO	52	1997
John D. Gillespie	Deputy Chairman and President of WM Advisors	44	2001
Dennis P. Beaulieu	Treasurer and Corporate Secretary	55	2001
John P. Cavoores	Managing Director, President and Chief Operating Officer of OneBeacon	45	2002
Charles B. Chokel	Managing Director and Chief Administrative Officer of OneBeacon	49	2002
Steven E. Fass	President and CEO of Folksamerica	57	2002
David T. Foy	Executive Vice President and Chief Financial Officer	36	2003
J. Brian Palmer	Chief Accounting Officer	30	2001
Robert L. Seelig	General Counsel	34	2002

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

Mr. Gillespie has served as Deputy Chairman of the Company since January 2003, as Chairman and President of WM Advisors since March 2003 and has been a director of the Company since 1999. Previously, Mr. Gillespie was Managing Director of OneBeacon since June 2001. He is also the founder and Managing Partner of his own investment firm, Prospector Partners, LLC, 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 manager of OneBeacon and also serves as a director of Folksamerica and 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. 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. Chokel has served as Managing Director and Chief Administrative Officer of OneBeacon since January 2003 and as Managing Director since March 2002. Prior to joining OneBeacon, Mr. Chokel served as Executive Vice President and Chief Financial Officer of Conseco, Inc. from March 2001 to March 2002 and as Co-CEO of The Progressive Corporation from January 1999 to January 2001. Mr. Chokel was with Progressive since 1978. Mr. Chokel is a member of OneBeacon.

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

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

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

Mr. Seelig is the General Counsel of the Company. Prior to joining White Mountains in September 2002, Mr. Seelig was with the law firm of Cravath, Swaine & Moore.

Item 11. Executive Compensation

Reported under the captions "Compensation of Executive Officers" on pages 10 through 12, "Reports of the Committees on Executive Compensation" on pages 14 through 17, "Member Return Graph" on page 18 and "Compensation Plans" on page 13 of the Company's 2003 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 2003 Proxy Statement, herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions

Reported under the captions "Other Compensation Arrangements" on page 13, "Certain Relationships and Related Transactions" on pages 13 through 14 and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" on page 19 of the Company's 2003 Proxy Statement, herein incorporated by reference.

Item 14. Controls and Procedures

The Principal Executive Officer ("PEO") and the Principal Financial Officer ("PFO") of White Mountains have evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-14 of the Exchange Act) within 90 days prior to the filing of this report. Based on that evaluation, the PEO and PFO have concluded that White Mountains' disclosure controls and procedures are adequate and effective. There have been no significant changes in White Mountains' internal controls, or in factors that could significantly affect internal controls, subsequent to their most recent evaluation of such controls.

PART IV

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

a. Documents Filed as Part of the Report

The financial statements and financial statement schedules and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 91 of this report. A listing of exhibits filed as part of the report appear on pages 85 through 88 of this report.

b. Reports on Form 8-K

On October 24, 2002, the Company filed a Form 8-K (Item 5) which announced that it had executed a definitive agreement to sell $225 million in equity securities in private transactions.

On November 13, 2002, the Company filed a Form 8-K (Item 5) which announced that it had completed an amendment to the Bank Facility.

On November 25, 2002, the Company filed a Form 8-K (Item 9) which served to furnish information regarding certain changes in its senior management, including the election of Raymond Barrette as its President and Chief Executive Officer.

On December 30, 2002, the Company filed a Form 8-K (Item 9) which served to furnish information regarding a returned verdict against the Company in a case involving a claim by an insurance agent that its agency agreement had improperly terminated in 1999.

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)
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)	Amended and Restated Credit Agreement dated as of October 20, 2002, among Fund American Enterprises Holdings, Inc. and Fund American Companies, Inc. (as borrowers), Lehman Brothers, Inc. (as arranger), Fleet National Bank (as syndication agent), Bank of America, N.A. and Bank One, N.A. (as co-documentation agent), Lehman Commercial Paper Inc. (as administration agent) and the several lenders as parties thereto (incorporated by reference herein to Exhibit 99(a) of the Company's Report on Form 8-K dated October 31, 2002)
10(h)	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(i)	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(j)	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(k)	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(l)	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(m)	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)
10(n)	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(o)	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(p)	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(q)	Subscription Agreement for the purchase of Convertible Preference Shares of the Company and the related terms and conditions thereto, each dated as of October 23, 2002, among the investment funds managed by Franklin Mutual Advisors, LLC and the Company (incorporated by reference herein to Exhibits 99(a) and 99(b) of the Company's Report on Form 8-K dated October 24, 2002)
10(r)	Folksamerica Holding Company, Inc. Long-Term Incentive Plan (*) (**)
10(s)	Folksamerica Holding Company, Inc. White Mountains Performance Share Plan (*) (**)

10(t)	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(u)	White Mountains Insurance Group Executive Savings Plan (incorporated by reference herein to Exhibit 10(v) of the Company's 2001 Annual Report on Form 10-K)(**)
10(v)	OneBeacon Insurance Executive Savings Plan (incorporated by reference herein to Exhibit 10(w) of the Company's 2001 Annual Report on Form 10-K)(**)
10(w)	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(x)	Employment Agreement dated January 1, 2001 among John D. Gillespie and Fund American Companies, Inc. (incorporated by reference herein to Exhibit 10(y) of the Company's 2001 Annual Report on Form 10-K)(**)
10(y)	Revenue Sharing Agreement among John D. Gillespie, Fund American Companies, Inc. and Folksamerica Reinsurance Company (incorporated by reference herein to Exhibit 10(z) of the Company's 2001 Annual Report on Form 10-K)(**)
11	Statement Re Computation of Per Share Earnings (***)
21	Subsidiaries of the Registrant (*)
23(a)	Consent of PricewaterhouseCoopers LLP dated May 13, 2003 (*)
23(b)	Consent of PricewaterhouseCoopers dated May 13, 2003 relating to the Combined Financial Statements of Montpelier (*)
24	Powers of Attorney (*)
99(a)	PEO Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
99(b)	PFO Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)

99(c)	Text entitled "Non-Asbestos and Environmental Reserves" under the caption "Loss and Loss Adjustment Expense Reserves" (incorporated by reference herein to pages 31 through 43 of the Company's Form S-3 dated March 14, 2003)
99(d)	The Combined Financial Statements of Montpelier and the related Report of Independent Accountants as of December 31, 2002 and 2001, for the year ended December 31, 2002 and for the period from November 14, 2001 (its date of incorporation) to December 31, 2001

(*)
Included herein.

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

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

d. Financial Statement Schedules

The financial statement schedules and report of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 91 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: May 13, 2003 By: /s/ J. BRIAN PALMER

Chief Accounting Officer

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

Signature	Title	Date
/s/ RAYMOND BARRETTE Raymond Barrette	Director, President and CEO (Principal Executive Officer)	May 13, 2003
/s/ DAVID T. FOY David T. Foy	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	May 13, 2003
JOHN J. BYRNE* John J. Byrne	Chairman	May 13, 2003
MARK J. BYRNE* Mark J. Byrne	Director	May 13, 2003
HOWARD L. CLARK, JR.* Howard L. Clark, Jr.	Director	May 13, 2003
ROBERT P. COCHRAN* Robert P. Cochran	Director	May 13, 2003
STEVEN E. FASS* Steven E. Fass	Director	May 13, 2003
GEORGE J. GILLESPIE, III* George J. Gillespie, III	Director	May 13, 2003
JOHN D. GILLESPIE*	Director	May 13, 2003

Signature	Title	Date
John D. Gillespie		
K. THOMAS KEMP* K. Thomas Kemp	Director	May 13, 2003

GORDON S. MACKLIN* Gordon S. Macklin	Director	May 13, 2003
FRANK A. OLSON* Frank A. Olson	Director	May 13, 2003
/s/ J. BRIAN PALMER J. Brian Palmer	Chief Accounting Officer (Principal Accounting Officer)	May 13, 2003
JOSEPH S. STEINBERG* Joseph S. Steinberg	Director	May 13, 2003
ARTHUR ZANKEL* Arthur Zankel	Director	May 13, 2003

*By: /s/ RAYMOND BARRETTE

Raymond Barrette, Attorney-in-Fact

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Index to Consolidated Financial Statements and Financial Statement Schedules

CONSOLIDATED BALANCE SHEETS

	December 31,			
$ in millions, except share amounts		**2002**		**2001**
Assets				
Fixed maturity investments, at fair value (cost $6,407.5 and $6,156.5)	**$**	**6,669.1**	$	6,128.3
Short-term investments, at amortized cost (which approximated fair value)		**1,790.6**		2,545.8
Common equity securities, at fair value (cost $252.3 and $155.1)		**275.0**		173.6
Other investments (cost $142.3 and $150.0)		**164.7**		158.0
Total investments		**8,899.4**		9,005.7
Cash		**121.5**		67.4
Reinsurance recoverable on unpaid losses		**1,461.5**		1,486.7
Reinsurance recoverable on unpaid losses Berkshire Hathaway Inc.		**2,610.4**		2,716.8
Reinsurance recoverable on paid losses		**159.8**		138.5
Insurance and reinsurance premiums receivable		**830.5**		1,103.5
Accounts receivable on unsettled investment sales		**160.8**		75.2
Deferred tax asset		**430.0**		696.4
Deferred acquisition costs		**244.9**		313.3
Investments in unconsolidated insurance affiliates		**399.9**		311.1
Investment income accrued		**91.4**		99.9
Ceded unearned premiums		**163.9**		174.1
Other assets		**459.6**		420.9
Total assets	**$**	**16,033.6**	$	16,609.5
Liabilities				
Loss and LAE reserves	**$**	**8,875.3**	$	9,527.6
Unearned insurance and reinsurance premiums		**1,514.4**		1,814.5
Accounts payable on unsettled investment purchases		**495.2**		311.2
Debt		**793.2**		1,125.4
Deferred credits				682.5
Funds held under reinsurance treaties		**262.4**		361.7

	December 31,	
Other liabilities	**1,285.3**	1,171.7
Total liabilities	**13,225.8**	14,994.6
Convertible preference shares (677,966 shares issued and outstanding)	**219.0**	
Minority interest Mandatorily redeemable preferred stock of subsidiaries		
Berkshire Hathaway Inc. (redemption value $300.0)	**160.9**	150.3
Other mandatorily redeemable preferred stock of subsidiaries (redemption value $20.0)	**20.0**	20.0
Common shareholders' equity		
Common Shares at $1 par per share authorized 50,000,000 Common Shares, issued and outstanding 8,351,387 and 8,264,681 Common Shares	**8.4**	8.3
Paid-in surplus	**1,126.2**	1,098.3
Retained earnings	**1,071.9**	355.1
Accumulated other comprehensive income, after-tax	**206.7**	4.4
Unearned compensation Restricted Share awards	**(5.3)**	(21.5)
Total common shareholders' equity	**2,407.9**	1,444.6
Total liabilities, convertible preference shares, minority interest and common shareholders' equity	**$ 16,033.6**	$ 16,609.5

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year Ended December 31,		
Millions, except per share amounts	**2002**	**2001**	**2000**
Revenues			
Earned insurance and reinsurance premiums	**$ 3,576.4**	$ 2,656.1	$ 334.4
Net investment income	**352.7**	284.5	85.9
Net realized gains (losses) on investments	**156.0**	173.1	(8.8)
Amortization of deferred credits and other benefits		91.6	41.4
Other revenue	**100.3**	29.1	398.0
Total revenues	**4,185.4**	3,234.4	850.9
Expenses			
Losses and LAE	**2,638.2**	2,493.9	287.7
Insurance and reinsurance acquisition expenses	**806.3**	531.0	101.1
General and administrative expenses	**469.9**	476.5	87.9
Accretion of fair value adjustment to loss and LAE reserves	**79.8**	56.0	
Interest expense	**71.8**	45.7	16.1
Share appreciation expense for Series B Warrants		58.8	
Total expenses	**4,066.0**	3,661.9	492.8

	Year Ended December 31,		
Pretax earnings (loss)	**119.4**	(427.5)	358.1
Tax benefit (provision)	**(11.7)**	179.2	(43.1)
Net income (loss) before minority interest and equity in earnings of affiliates	**107.7**	(248.3)	315.0
Accretion of preferred stock of subsidiaries to face value	**(10.6)**	(5.1)	
Dividends on mandatorily redeemable preferred stock of subsidiaries	**(30.3)**	(18.1)	
Equity in earnings (loss) of unconsolidated affiliates	**14.0**	.4	(2.1)
Net income (loss) from continuing operations	**80.8**	(271.1)	312.9
Net income from discontinued operations			95.0
Net income (loss) before extraordinary items and changes in accounting principles	**80.8**	(271.1)	407.9
Cumulative effect of changes in accounting principles	**660.2**		
Excess of fair value of acquired net assets over cost	**7.1**	16.6	
Loss on early extinguishment of debt		(4.8)	
Net income (loss)	**748.1**	(259.3)	407.9
Net change in unrealized gains for investments held	**301.8**	(4.5)	56.3
Net change in foreign currency translation	**(4.5)**	(2.0)	(.7)
Reclassification of net gains included in net realized gains (losses) on investments	**(95.0)**	(36.0)	(15.9)
Comprehensive net income (loss)	**$ 950.4**	$ (301.8)	$ 447.6
Computation of net income (loss) available to common shareholders			
Net income (loss)	**$ 748.1**	$ (259.3)	$ 407.9
Redemption value adjustment and dividends on Convertible Preference Shares	**(19.4)**	(305.4)	
Net income (loss) available to common shareholders	**$ 728.7**	$ (564.7)	$ 407.9
Basic earnings per share			
Net income (loss) from continuing operations	**$ 7.47**	$ (86.52)	$ 53.08
Net income (loss)	**88.61**	(84.75)	69.19
Diluted earnings per share			
Net income (loss) from continuing operations	**$ 6.80**	$ (86.52)	$ 52.84
Net income (loss)	**80.75**	(84.75)	68.89

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

Millions	**Total**	**Common Shares and paid-in surplus**	**Retained earnings**	**Accumulated other comprehensive income**	**Unearned compensation**
Balances at January 1, 2000	$ 614.3	$ 72.9	$ 534.2	$ 7.2	$
Net income	407.9		407.9		

Millions	Total	Common Shares and paid-in surplus	Retained earnings	Accumulated other comprehensive income	Unearned compensation
Net change in unrealized investment gains	40.4			40.4	
Net change in foreign currency translation	(.7)				