WHITE MOUNTAINS INSURANCE GROUP LTD
Form S-3/A
March 14, 2003

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As filed with the Securities and Exchange Commission on March 14, 2003

Registration No. 333-88352

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3
TO
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact Name of Registrant as Specified in its Charter)

Bermuda	**94-2708455**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

80 South Main Street
Hanover, New Hampshire 03755-2053
(603) 640-2200
(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

J. Brian Palmer
White Mountains Insurance Group, Ltd.
28 Gates Street
White River Junction, Vermont 05001-7066
(802) 295-4500
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

William J. Whelan, III, Esq.	**Winthrop B. Conrad Jr., Esq.**
Cravath, Swaine & Moore	**Davis Polk & Wardwell**
825 Eighth Avenue	**450 Lexington Avenue**
New York, New York 10019-7475	**New York, New York 10017**
(212) 474-1000	**(212) 450-4000**

Approximate date of commencement of proposed sale to public:
As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section (8)(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS (Subject to Completion)

Issued March 14, 2003

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

1,000,000 Shares

WHITE MOUNTAINS INSURANCE GROUP, LTD.

COMMON SHARES

White Mountains Insurance Group, Ltd. is offering 1,000,000 common shares.

Our common shares are listed on the New York Stock Exchange under the symbol "WTM." On March 13, 2003, the reported last sale price of our common shares on the New York Stock Exchange was $321.00 per share.

Investing in our common shares involves risks. See "Risk Factors" beginning on page 11.

PRICE $ A SHARE

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to White Mountains***
Per Share	*$*	*$*	*$*
Total	*$*	*$*	*$*

White Mountains Insurance Group, Ltd. has granted the underwriters the right to purchase up to an additional 150,000 shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the common shares to purchasers on , 2003.

MORGAN STANLEY

BANC OF AMERICA SECURITIES LLC

CREDIT SUISSE FIRST BOSTON

LEHMAN BROTHERS

MERRILL LYNCH & CO.

, 2003

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PROSPECTUS SUMMARY

This summary highlights selected information about us and this offering and may not contain all the information that may be important to you. You should read the entire prospectus, including the information under "Risk Factors" beginning on page 11, our consolidated financial statements and the related notes and other information included in or incorporated by reference in this prospectus, before making an investment decision. Unless otherwise indicated or the context otherwise requires, references in this prospectus to "White Mountains," "we," "our," "us" or the "company" refer to White Mountains Insurance Group, Ltd. and its direct and indirect subsidiaries and references to "common shares" refers to common shares of White Mountains Insurance Group, Ltd., par value $1.00 per share.

Unless otherwise indicated, (i) the information in this prospectus assumes the underwriters have not exercised their over-allotment option and (ii) references to share ownership (a) treat as outstanding the 677,966 common shares issuable upon the conversion of convertible preference shares held by Franklin Mutual Advisers and (b) do not treat as outstanding the shares issuable upon the exercise of warrants held by Berkshire Hathaway.

WHITE MOUNTAINS

Overview

We provide a wide range of property and casualty insurance and reinsurance products. We believe we have one of the most experienced management teams in the industry with a strong track record of creating value for our shareholders. We operate through two primary insurance groups, OneBeacon Insurance Group and Folksamerica Holding Company, Inc. OneBeacon, which has roots dating back 170 years, focuses on being a premier provider of property and casualty insurance products in the Northeast United States and of certain specialty products offered throughout the United States. OneBeacon's broad range of personal, commercial and specialty insurance products are sold primarily through select property and casualty independent agents. Folksamerica is a multi-line reinsurer that provides property, casualty and marine reinsurance through independent brokers in the United States and throughout the world. We also have other subsidiaries and affiliates engaged in property and casualty insurance and reinsurance in the United States and internationally.

As of September 30, 2002, we had total assets of $17.1 billion and common shareholders' equity of $2.3 billion. OneBeacon and Folksamerica are rated "A" (Excellent) and "A-" (Excellent), respectively, for financial strength by A.M. Best Company and had a consolidated combined statutory surplus of $2.4 billion as of December 31, 2001.

Our Strengths

Experienced and Incentivized Management Team with History of Creating Shareholder Value

Our management team is led by Jack Byrne. Mr. Byrne is our Chairman and was our Chief Executive Officer during 2002 and for most of the eighteen years since we first went public. He has over 50 years of experience in the insurance industry, including serving as Chairman and Chief Executive Officer of GEICO and of Fireman's Fund, a predecessor of White Mountains. Mr. Byrne was named Insurance Leader of the Year in 2001 by The School of Risk Management, Insurance and Actuarial Science and leads a management team with broad-based operating experience at a variety of property and casualty insurance and reinsurance companies. Ray Barrette became President and Chief Executive Officer of White Mountains in January 2003. Mr. Barrette was Chairman and Chief Executive Officer of OneBeacon from June 2001 through December 2002 and the former President of White Mountains. He has over 29 years of insurance industry experience. John Gillespie was appointed Deputy Chairman of White Mountains in January 2003. Mr. Gillespie has also served as Chairman and President of White Mountains Advisors LLC, our investment and capital management arm, since March 2003. Mr. Gillespie served as Managing

Director of OneBeacon since June 2001. John Cavoores, the Managing Director, President and Chief Operating Officer of OneBeacon, joined our senior management team in 2001. Mr. Cavoores has over 20 years experience in the industry, having spent the majority of this time at Chubb Corporation. Chuck Chokel, OneBeacon's Managing Director and Chief Administrative Officer, has over 25 years of industry experience, the majority of which was spent at Progressive Insurance. Steve Fass, the President and Chief Executive Officer of Folksamerica, was a founding member of that company in 1980 and has over 32 years of insurance and reinsurance industry experience.

Additionally, our management's interests are aligned with our financial performance. Our Chairman and executive officers currently own 14% of the common shares of White Mountains including 12% held by Mr. Byrne. Our Chairman and executive officers also currently have an additional 3% economic interest in our company through various compensation plans, payable in cash or common shares, that are linked to specific performance targets.

Proven Track Record of Building Value

Our underwriting and operating philosophy is to maximize value per share for our shareholders. Our management has achieved an approximate 18% annualized return, including dividends and the spin-off of White River Corporation in 1993, as measured by the growth in our sales price per share since our initial public offering in 1985. During this period, we have grown our tangible book value per share, as adjusted for the dilutive effect of outstanding options and warrants, from approximately $22 per share at the time of our initial public offering in 1985 to $249.38 per share as of September 30, 2002, representing an approximate annualized return, including dividends and the spin-off of White River Corporation, of 18%. Jack Byrne has been our Chairman at all times during this period and our Chief Executive Officer for the majority of this period. Our current President and Chief Executive Officer, Ray Barrette, has been one of our senior executives for approximately 11 years during this period.

Significant Value Generation through Opportunistic Acquisitions, Asset Sales and Disciplined Operations

Our approach to acquisitions and investments has been opportunistic rather than strategic. We pursue acquisition and investment opportunities where the depth of our management and operational talent can be fully utilized to create value. By leveraging our operational expertise and focusing on building long-term value, we have been able to transform the operationally and financially challenged companies we have acquired into drivers of value growth. During 2001, we acquired OneBeacon and believe that it is providing us with another opportunity to create additional significant value for our shareholders. While the acquisition contributed significantly to our net loss from continuing operations of $271.1 million in 2001, it also created a $682.0 million deferred credit that was fully recognized in income by January 2002. A deferred credit represents the excess of the fair value of net assets acquired in the purchase of a business over the purchase price. In addition, we recently played a key role in the establishment and initial public offering of Montpelier Re Holdings Ltd. and the establishment of Olympus Reinsurance Ltd., two relatively new reinsurance operations created to capitalize on improving industry fundamentals.

We typically acquire businesses that we expect to hold for the long term, since we believe that a long-term investment horizon offers the greatest opportunity to create value through improvements in operations. However, because we have historically been successful in improving the operations of our acquired businesses, we have taken advantage of, when appropriate, opportunities to capture significant value for our shareholders through sales of those businesses.

Commitment to Our Fundamental Operating Principles

We manage our businesses based on the following four operating principles:

Underwriting Comes First. We focus our attention on minimizing our loss ratio, which represents the ratio of our loss and loss adjustment expenses to premiums earned. We strive to earn an underwriting

profit on all business we write by applying the professional insurance disciplines of pricing, underwriting and claims management. We focus on profitability rather than premium volume, growth or market share. Since our acquisition of OneBeacon, we have focused on improving its loss ratio by raising prices, re-underwriting its entire book of business and exiting certain lines of business and regions.

Maintain a Disciplined Balance Sheet. We strive to state assets and liabilities conservatively on our balance sheet. We believe that loss reserves must be stated properly in order for us to manage our business effectively. Pricing, marketing and underwriting decisions all depend on having an informed judgment of ultimate loss costs. Coincident with our acquisition of OneBeacon, we took significant actions to strengthen its balance sheet. Our recent investment posture has been conservative as we have become more comfortable with our newly acquired reserves, have worked to improve our underwriting results and have reduced our financial leverage.

Invest for Total Return. We strive to invest for the best after-tax total return over time without regard to whether the value is reported in our financial statements as investment income, realized capital gains or unrealized capital gains. Our philosophy is to invest policyholder funds (funds backing our insurance liabilities) in liquid, creditworthy fixed income securities and owner funds (shareholders' equity) in a broader range of securities, which may include equities, preferred stocks, convertible securities and other types of fixed income securities. After the acquisition of OneBeacon was announced, we immediately repositioned OneBeacon's investment portfolio by liquidating its significant position in large capitalization growth stocks and tax exempt bonds and replacing them with treasury bonds of an intermediate duration and investment grade corporate bonds.

Think Like Owners. Our executive officers and directors, who collectively own approximately 18% of the common shares of White Mountains, think like owners and are owners. We attract and motivate our employees through long term incentive programs that tie share-based compensation to the achievement of specific performance goals over overlapping three-year periods.

OneBeacon Acquisition

We acquired OneBeacon on June 1, 2001 for approximately $2.1 billion. At the time of the acquisition, OneBeacon was producing unsatisfactory underwriting results, and had done so for several years. In OneBeacon, we saw the opportunity to purchase an underperforming business at a discount to book value with the goal of implementing strategic and operating improvements. In addition to the $682 million deferred credit created by the acquisition, we believe that our purchase of OneBeacon will add significant additional value for our shareholders, provided we can complete the significant improvement of this business through the successful execution and completion of a series of initiatives we commenced in 2001. These initiatives included:

strengthening OneBeacon's balance sheet by requiring the purchase of reinsurance contracts for old asbestos and environmental claims and adverse development coverage on losses and selling off substantially all of OneBeacon's large portfolio of common stocks and municipal bonds prior to the acquisition and investing the proceeds in highly liquid, investment grade fixed income securities of an intermediate duration;

appointing a new management team, focused on building a culture based on our operating principles; and

implementing operating improvements including shedding non-core businesses through the Liberty Mutual transaction (described below), increasing prices, re-underwriting, eliminating unprofitable products, accounts and agents, improving the claims adjudication, settlement, administration, reporting and processing function by increasing staffing levels in certain key areas and introducing programs and tools geared toward controlling indemnity costs, establishing new performance

expectations based on the introduction of long-term incentive compensation tied closely to operating performance and improving management information systems.

Liberty Mutual Transaction. In order to further strengthen and focus the operations of OneBeacon in the Northeast, where it historically had better operating results and stronger agency relationships, on November 1, 2001, OneBeacon transferred its regional agency business, agents, employees, infrastructure and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group pursuant to a renewal rights agreement. A renewal rights agreement permits an insurer to transfer its right to renew insurance policies that expire after a certain date to another insurer. As is typical in a renewal rights arrangement, Liberty Mutual paid no consideration other than its agreement to service the renewals of these policies and we incurred no material accounting charges or liabilities except pursuant to related reinsurance arrangements. The renewal rights transferred to Liberty Mutual related to policies that accounted for $1.5 billion in written premiums, or approximately 45% of OneBeacon's total business in 2001. Under the terms of the renewal rights agreement, Liberty Mutual has agreed to perform all underwriting and claims processing with respect to the transferred policies. In accordance with the renewal rights agreement, through October 2003, the operating results and cash flows of the renewed policies are shared between OneBeacon and Liberty Mutual. Reinsurance agreements pro-rate results so that OneBeacon assumes approximately two-thirds of the operating results from renewals in the first year (ended October 31, 2002), one-third in the second year (ending October 31, 2003) and zero thereafter. Upon review of claims information with respect to the transferred and renewed policies during the third and fourth quarters of 2002, OneBeacon's management determined that average paid claims for this business were higher than expected. As a result, management has begun a process to directly handle more of the claims related to policies written prior to the renewal rights agreement with Liberty Mutual and expects that substantially all claims will be handled directly by OneBeacon by the end of 2003.

White Mountains Insurance Group, Ltd. was originally formed as a Delaware corporation in 1980. White Mountains became a public company in 1985 and sold its then principal operating subsidiary, Fireman's Fund Insurance Company, in 1991. In October 1999, we completed a corporate reorganization that changed our domicile from Delaware to Bermuda. Our headquarters is located at Crawford House, 23 Church Street, Hamilton HM 11, Bermuda, our principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

THE OFFERING

Common shares offered	1,000,000 common shares
Common shares to be outstanding after this offering	10,035,053 common shares
Use of proceeds	We estimate that we will receive net proceeds from this offering of approximately $304 million after deducting underwriting discounts and commissions and estimated offering expenses we will pay. We intend to use the net proceeds from our sale of common shares for general

	corporate purposes, including possible acquisitions.
New York Stock Exchange symbol	"WTM"

The number of common shares to be outstanding after this offering is based on 9,035,053 common shares outstanding as of March 13, 2003 and excludes:

- 56,265 common shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of $126.70 per common share;

- 1,230,000 common shares reserved for issuance to our employees under the following plans:

  OneBeacon Insurance Savings Plan: 500,000 common shares;

  OneBeacon Insurance Supplemental Plan: 200,000 common shares;

  White Mountains Long-Term Incentive Plan: 300,000 common shares;

  Certain other non-qualified, unfunded, deferred compensation plans of White Mountains and OneBeacon: 230,000 common shares; and

- 1,724,200 common shares issuable upon the exercise of outstanding warrants held by Berkshire Hathaway at an exercise price of $173.99 per common share.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table is a summary of our historical consolidated financial data for each of the three years in the period ended December 31, 2001 and for the nine months ended September 30, 2001 and 2002. The income statement data for the nine months ended September 30, 2001 and 2002 and the balance sheet data as of September 30, 2002, were derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. The financial information for each of the three years in the period ended December 31, 2001 was derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The interim information was prepared on a basis consistent with that used in preparing our audited financial statements with only such recurring adjustments as are necessary, in management's opinion, for a fair statement of the results for the periods presented. This table should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus. For pro forma financial data giving effect to the acquisition of OneBeacon and related transactions for the year ended December 31, 2001, we refer you to our Current Report on Form 8-K filed May 15, 2002. Our historical results are not necessarily indicative of our future results.

	Year Ended December 31,			Nine Months Ended September 30,	
	1999 (a)	**2000 (b)**	**2001 (c)**	**2001**	**2002**
	(dollars in millions, except share and per share amounts)				
Income Statement Data:					
Revenues	$ 579	$ 848	$ 3,234	$ 2,046	$ 3,197
Expenses	418	493	3,656	2,232	3,125

	Year Ended December 31,			Nine Months Ended September 30,	
Pretax earnings (loss)	161	355	(422)	(186)	72
Income tax benefit (provision)	(53)	(42)	174	67	(6)
Accretion and dividends on mandatorily redeemable preferred stock of subsidiaries			(23)	(13)	(30)
Net income (loss) from continuing operations before accounting changes	$ 108	$ 313	$ (271)	$ (132)	$ 36
Net income (loss) from continuing operations before accounting changes per share:					
Basic	$ 19.25	$ 53.08	$ (86.52)	$ (70.82)	$ 4.38
Diluted	$ 17.66	$ 52.84	$ (86.52)	$ (70.82)	$ 3.87
Cash dividends declared and paid per share	$ 1.60	$ 1.20	$ 1.00	$ 1.00	$ 1.00
Balance Sheet Data (end of period):					
Total investments	$ 1,219	$ 2,102	$ 9,006		$ 9,595
Total assets	2,049	3,545	16,493		17,070
Loss and loss adjustment expense reserves	851	1,556	9,528		9,133
Short-term debt	4		358		294
Long-term debt	203	96(d)	767(e)		753
Deferred credits	101	92	683(f)		
Minority interest mandatorily redeemable preferred stock of subsidiaries			170		178
Common shareholders' equity (g)	614	1,046	1,445		2,342
Book value per common share (h)	103.32	177.07	160.36		249.38
Tangible book value per common share (h)(i)	120.23	187.65	225.81		249.38
Common and equivalent shares (000's) (j)	5,946	5,961	10,048		10,064

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

(b) Includes the acquisitions of PCA Property & Casualty Insurance Company and the reinsurance operations of Risk Capital Reinsurance Company as well as the gain on the sale of White Mountains Holdings, Inc. and other assets to Dexia S.A.

(c) Includes the acquisition of OneBeacon on June 1, 2001 and its results of operations from that date. In connection with the acquisition of OneBeacon, White Mountains issued $1,085 million in debt. White Mountains also issued preferred stock of subsidiaries, convertible preference shares and warrants to acquire common shares for total proceeds of $758 million.

(d) Reflects a significant repayment of bank debt by Folksamerica during 2000.

(e) Reflects the incurrence of debt in connection with the acquisition of OneBeacon (see note (c), above).

(f) Deferred credits added during 2001 resulted from the purchase of OneBeacon.

(g) Reflects an increase in common shareholders' equity in 2001 resulting from capital raising activities undertaken in connection with the acquisition of OneBeacon and an increase in common shareholders equity in 2002 resulting from the recognition of deferred credits on January 1, 2002.

(h)

As adjusted for the dilutive effects of outstanding options and warrants to acquire common shares. See note 1 on page F-44 and F-45.

(i)

Tangible book value per share is calculated by taking book value per common share plus unamortized deferred credits less goodwill per common share. Deferred credits are added to book value to reflect the effects of SFAS No. 141, "Business Combinations," which requires the recognition of any excess of the fair value of the net assets over the purchase price paid for acquisitions occurring subsequent to July 1, 2001 and the full recognition of existing unamortized deferred credits on January 1, 2002. See note 1 beginning on page F-39.

(j)

Includes outstanding options and warrants to acquire common shares.

OTHER DATA

In analyzing our results at OneBeacon, we use a trade ratio, which is a modified statutory combined ratio. A statutory combined ratio is calculated by adding (i) the ratio of incurred loss and loss adjustment expenses to premiums earned (the "loss ratio") and (ii) the ratio of commissions, premium taxes and other underwriting expenses, including general and administrative expenses, to premiums written (the "expense ratio"). To calculate the trade ratio we modify the expense ratio by dividing commissions and premium taxes by premiums written but dividing other underwriting expenses, including general and administrative expenses, by premiums earned rather than premiums written (the "modified expense ratio"). We believe the trade ratio is a better measure of the underwriting performance of OneBeacon's business because it relates the cost of producing the business to premiums written and the cost of operating the business to premiums earned. Because other underwriting expenses, including general and administrative expenses, are generally a smaller proportion of expenses at Folksamerica than at OneBeacon, we do not use a trade ratio to evaluate Folksamerica's business.

	Year Ended December 31, 2001	Nine Months Ended September 30, 2002
OneBeacon		
Loss ratio	88%(a)	74%
Modified expense ratio	32%	35%
Trade ratio	120%	109%
Folksamerica		
Loss ratio	91%(a)	74%
Expense ratio	34%	29%
Statutory combined ratio	125%	103%
Adjustments to combined ratio (b)	(5)%	(4)%
Adjusted combined ratio	120%	99%

(a)

Includes the impact of the September 11 terrorist attacks of $105 million (3%) for OneBeacon and $25 million (6%) for Folksamerica.

(b)

Adjusted for Folksamerica's retroactive reinsurance that is not reflected in the statutory combined ratio. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Folksamerica."

RISK FACTORS

You should carefully consider each of the following risks and all of the other information set forth in this prospectus before deciding to invest in our common shares. If any of the following risks and uncertainties develop into actual events, our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of our common shares could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Unpredictable catastrophic events could adversely affect our financial condition or results of operations.

We write insurance and reinsurance policies that cover catastrophic events. Our policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, terrorist attacks and explosions. Claims from catastrophic events, particularly those occurring in the Northeastern United States, could reduce our earnings and cause substantial volatility in our financial results for any fiscal quarter or year and adversely affect our financial condition or results of operations. For example, as of September 30, 2002, our pretax gross losses associated with the September 11 terrorist attacks were approximately $366 million, $133 million net of reinsurance. Our ability to write new insurance and reinsurance policies could also be impacted. We believe that increases in the value of insured property and the effects of inflation may increase the severity of claims from catastrophic events in the future.

Our loss reserves may be inadequate to cover our ultimate liability for losses and as a result our financial results could be adversely affected.

We maintain reserves to cover our estimated ultimate liabilities for loss and loss adjustment expenses. These reserves are estimates based on actuarial and statistical projections of what we believe the settlement and administration of claims will cost based on facts and circumstances then known to us. Because of the uncertainties that surround estimating loss reserves, we cannot be certain that our reserves are adequate and actual claims and claim expenses paid might exceed our reserves. If our reserves are insufficient to cover our actual loss and loss adjustment expenses, we would have to strengthen our reserves and incur charges to our earnings. These charges could be material.

Following our acquisition of OneBeacon, we took significant actions to strengthen OneBeacon's balance sheet. An important part of those actions was to strengthen OneBeacon's loss reserves by acquiring full risk transfer coverage from National Indemnity Company for old asbestos and environmental claims, under which National Indemnity Company assumes substantially all liability for losses up to $2.5 billion (net of reinsurance). As of September 30, 2002, OneBeacon has used approximately $1.8 billion of this coverage on an incurred basis. Our reserves for asbestos and environmental losses as of September 30, 2002 represent management's best estimate of our ultimate liability based on information available as of such date. 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. We cannot reasonably estimate at the present time loss reserve additions arising from any such future unfavorable developments and we cannot be sure that our allocated loss reserves, plus our remaining capacity under the National Indemnity cover, will be sufficient to cover additional liability arising from any such unfavorable developments.

We may not be successful in achieving the intended benefits of the OneBeacon acquisition.

The acquisition of OneBeacon significantly changed the operations of our company. Risks associated with this acquisition include the following:

We may have difficulty improving the acquired operations. The process of improving the acquired operations may not be successful and may require significant management attention and additional resources.

We may fail to achieve our targeted returns. We cannot be sure that our expected returns will be achieved and such failure may adversely affect our business, financial condition, results of operations and cash flows.

We are working to improve OneBeacon's information systems. At the time of the acquisition, OneBeacon's management information systems were weak. This weakness limited the usefulness of certain important analyses and tools used to manage and operate the business. We need to further improve OneBeacon's management information systems and, until this work is satisfactorily completed, OneBeacon's ability to successfully manage its business may be limited.

OneBeacon's existing book of business is shrinking, and we may incur significant expenses associated with further business rationalization. Substantial lines of business, accounts and agents have been eliminated at OneBeacon and we continue to evaluate remaining specific accounts and agency relationships.

The acquisition of OneBeacon required significant attention and resources of our management team. The acquisition and integration of OneBeacon involved a significant commitment of time and resources from our senior management team. Such a commitment may be required again and this may adversely affect the ability of our senior management to focus on improving our profitability and pursuing other potential opportunities.

We have replaced OneBeacon's senior management team. OneBeacon's future operating performance is heavily dependent on its new senior management team. The new senior managers at OneBeacon have not worked together as a group and it is possible that it will take some time for them to develop an efficient working relationship. Our overall operating and financial results will be adversely affected if they fail to develop such relationships.

Our significant debt and debt service obligations could adversely affect our business.

We have significant amounts of outstanding indebtedness. As of September 30, 2002, after giving effect to (i) the satisfaction of the seller note relating to our acquisition of OneBeacon on November 29, 2002, and (ii) the amendment to our principal banking facility on October 31, 2002, we had approximately $787 million of indebtedness outstanding, approximately $66 million of which is due on or before December 31, 2004.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic and other factors. We will not be able to control many of these factors, such as economic conditions and governmental regulation. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt and meet our other obligations. If we do not have enough cash, we may be required to refinance all or part of our existing debt, sell assets, borrow more cash or sell equity. We cannot assure you that we will be able to accomplish any of these alternatives on terms acceptable to us, if at all. Our obligations under our primary credit facility are secured by a pledge of all of the assets of OneBeacon and Fund American Companies, Inc., including the capital stock of their direct insurance company subsidiaries and of their non-insurance company subsidiaries (other than A.W.G. Dewar).

We and our subsidiaries will be able to incur substantial additional indebtedness in the future. To the extent new debt and other obligations are added to our and our subsidiaries' currently anticipated debt levels, the substantial risks described in this paragraph would increase.

We are an insurance holding company with no direct operations and our insurance subsidiaries' ability to pay dividends to us is restricted by law.

As a holding company with no direct operations and whose only significant assets are the capital stock of our subsidiaries, we rely on investment income, cash dividends and other permitted payments from our subsidiaries to pay dividends on our common shares and other expenses. Our subsidiaries may not be able to generate cash flow sufficient to pay a dividend or distribute funds to us. In addition, applicable state law that regulates the payment of dividends by our insurance subsidiaries and certain contractual restrictions, including restrictions in the debt instruments of our subsidiaries, could prohibit such dividends or distributions. Under the insurance laws of the jurisdictions in which our 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, our insurance subsidiaries can generally dividend without prior regulatory approval up to the greater of 10% of their statutory surplus at the beginning of the year or the prior year's statutory net income, subject to the availability of unassigned funds (the statutory accounting equivalent of retained earnings). Larger dividends can be paid only upon regulatory approval. If our subsidiaries cannot pay dividends to us or to our intermediate holding companies, we may be unable to service our debt or pay dividends on our common shares or on our preferred stock held by third parties.

We believe we have sufficient cash and expected dividends from our subsidiaries to service our debt. As of September 30, 2002 we had approximately $255 million of cash and short term investments outside of our insurance subsidiaries. Further, our insurance subsidiaries have the ability to pay dividends of approximately $260 million in 2003 without prior approval of regulatory authorities.

We may not be able to successfully alleviate risk through reinsurance and retrocessional arrangements.

We attempt to limit our risk of loss through reinsurance and retrocessional arrangements. Retrocessional arrangements refer to reinsurance purchased by a reinsurer to cover its own risks assumed from primary ceding companies. The availability and cost of reinsurance and retrocessional protection is subject to market conditions, which are outside of our control. As a result, we may not be able to successfully alleviate risk through these arrangements. In particular, the recent hardening of the reinsurance market has led to increased prices or less favorable terms and, in some cases, both, during the renewal of some of our existing reinsurance arrangements. In addition, we are subject to credit risk with respect to our reinsurance and retrocessions because the ceding of risk to other insurance enterprises and reinsurers does not relieve us of our liability to our policyholders or ceding companies. We also may experience difficulties in the future in recovering material reinsurance receivables under our reinsurance and retrocessional arrangements if one or more of our reinsurers suffers financial deterioration. A number of reinsurers in the industry experienced such deterioration in the aftermath of the September 11 attacks. It is possible that one or more of our reinsurers will be significantly adversely affected by future significant loss events.

The property and casualty insurance and reinsurance industry is highly competitive and we may not be able to compete effectively in the future.

The property and casualty insurance industry is highly competitive and has experienced severe price competition over the last several years. OneBeacon competes with numerous international and domestic insurance companies in our core regions including Travelers Insurance Group, Zurich Insurance Group, Selective Insurance Group, The Hartford Financial Services Group, Acadia Insurance Company and Liberty Mutual Insurance Group. Some of these competitors have greater financial resources than we do. As of December 31, 2001, the most recent year for which market share statistics are available, OneBeacon's market share in its core 8 states was 3% for each of its personal and commercial lines of

business. During this period, OneBeacon's competitors identified above had a combined market share of 15% and 21% in personal and commercial lines of business, respectively. For the nine months ended September 30, 2002, OneBeacon's re-underwriting and pricing initiatives led to the reduction of its net written premium in its core 8 states by 26%, which reduced our market share. If we are unable to maintain our competitive position, our business may be adversely affected and we may not be able to compete effectively in the future.

The property and casualty reinsurance industry is also highly competitive. In addition, substantial new capital and competitors have entered the market recently, and we expect to face further competition in the future. There are 20 U.S.-based broker-market reinsurance companies that report operating data to the Reinsurance Association of America. Based on statutory surplus size as of September 30, 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. The companies or divisions with the largest portion of gross premiums in the nine-month period ended September 30, 2002 were: XL Reinsurance America (15%); Transatlantic Reinsurance Company (13%); and Everest Reinsurance Company (11%). Folksamerica wrote approximately 4% of gross premiums written by all broker-market reinsurance companies and reinsurance divisions of insurance companies for the nine-month period ended September 30, 2002.

Inadequate premium rates for property and casualty insurance and reinsurance could adversely affect our results.

Premium rates for property and casualty insurance and reinsurance are influenced by factors that are outside of our control, including market and competitive conditions, regulatory issues and claims inflation. Any significant decrease in the rates we can charge for property and casualty insurance or reinsurance would adversely affect our results. Until recently, the property and casualty insurance and reinsurance industry had experienced a prolonged period of downward pressure on prices caused by excess underwriting capacity and intense competition.

By 1998 and 1999, competitive factors had resulted in inadequate premiums, which caused disappointing underwriting results as evidenced by combined ratios for the U.S. property and casualty industry of 106% and 108% for 1998 and 1999, respectively, and combined ratios for the

U.S. reinsurance industry of 104% and 114% for 1998 and 1999, respectively, according to A.M. Best Company with respect to property and casualty and the Reinsurance Association of America with respect to reinsurance. During 2000, OneBeacon and Folksamerica were able to achieve modest rate increases although such increases, particularly with respect to OneBeacon, were not sufficient to adequately improve unsatisfactory underwriting results to any significant extent. During 2000, OneBeacon's operations in eight core states achieved aggregate rate increases of approximately 8%, 2% and 1% in its commercial, personal auto and personal homeowners lines, respectively, while Folksamerica's reinsurance operations experienced overall rate increases of approximately 8%.

During 2001, OneBeacon's operations in eight core states achieved aggregate rate increases of approximately 16%, 4% and 7% in its commercial, personal automobile and personal homeowners lines, respectively, while Folksamerica's reinsurance operations achieved overall rate increases of approximately 15%. During the first nine months of 2002, OneBeacon's operations in eight core states achieved aggregate rate increases of approximately 21% for commercial lines and approximately 6% and 7% in its personal automobile and personal homeowners lines, respectively, and Folksamerica's reinsurance operations achieved aggregate rate increases of approximately 35%.

Despite the fact that the premium rates we achieved during 2001 and 2002 are significantly improved over those achieved in prior years, an increase in competitive factors resulting from additional capital

entering into the property and casualty insurance and reinsurance markets may cause current favorable pricing trends to reverse. Any resulting increase in competition could affect our ability to attract or retain business or to write business at premium rates sufficient to cover costs. Further, we believe that a number of large market segments are still priced below adequate rate levels and we cannot assure you that adequate rate increases can be achieved in those segments.

We may not maintain favorable financial strength ratings which could adversely affect our ability to conduct business.

Third party rating agencies assess and rate the claims-paying ability of insurers and reinsurers. These financial strength ratings are used by insurers and reinsurers and insurance and reinsurance intermediaries as an important means of assessing the financial strength and quality of insurers and reinsurers. In addition, the rating of a company purchasing reinsurance may be adversely affected by an unfavorable rating or the lack of a rating of its reinsurer. These ratings are based upon criteria established by the rating agencies. Some of the criteria relate to general economic conditions and other circumstances outside the rated company's control. Periodically the rating agencies evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. The financial strength ratings assigned by rating agencies to insurance or reinsurance companies are based upon factors relevant to policyholders and are not directed toward the protection of investors. Financial strength ratings by rating agencies are not ratings of securities or recommendations to buy, hold, or sell any security and may be withdrawn or revised at any time at the discretion of the assigning agency. OneBeacon and Folksamerica are rated "A" (Excellent) and "A-" (Excellent), respectively, for financial strength by A.M. Best Company and have not been rated lower than these levels during the past five years. A downgrade or withdrawal of either of our ratings could severely limit or prevent us from writing any new insurance or reinsurance policies.

Our financial results may be adversely affected by Liberty Mutual's performance with respect to the transferred and renewed policies resulting from the Liberty Mutual transaction.

The operating results and cash flows of policies renewed from November 1, 2001 through October 31, 2003 pursuant to the Liberty Mutual transaction will be shared between Liberty Mutual and OneBeacon. Reinsurance agreements pro-rate results so that OneBeacon assumes approximately two-thirds of the operating results from renewals through October 31, 2002, one-third from renewals from November 1, 2002 through October 31, 2003 and zero from renewals thereafter. Liberty Mutual will perform all re-underwriting and claims processing with respect to the transferred and renewed policies. OneBeacon has established procedures to monitor the sufficiency of these activities. Upon review of claims information with respect to the transferred and renewed policies during the third and fourth quarters of 2002, OneBeacon's management determined that average paid claims for this business were higher than expected. As a result, management has begun a process to directly handle more of the claims related to policies written prior to the renewal rights agreement with Liberty Mutual and expects that substantially all claims will be handled directly by OneBeacon by the end of 2003.

Regulation may restrict our ability to operate.

The insurance and reinsurance industries are subject to extensive regulation under U.S. federal, state and foreign laws. Governmental agencies have broad administrative power to regulate many aspects of the insurance business, which include premium rates, marketing practices, advertising, the ability of an insurer to freely enter or exit a market, policy forms and capital adequacy. These agencies are concerned primarily with the protection of policyholders rather than shareholders. Insurance laws and regulations impose restrictions on the amount and type of investments, prescribe solvency standards that must be met and maintained and require the maintenance of reserves. In addition, state insurance holding company statutes generally require prior approval of changes of control of an insurer or its holding company.

Mandated market mechanisms may require us to underwrite policies with a higher risk of loss.

Our insurance and reinsurance operations are often required to directly or indirectly participate in mandatory shared market mechanisms as a condition of their licenses to do business in certain states. These markets, which are commonly referred to as "residual" or "involuntary" markets, generally consist of risks considered to be undesirable from a standard or routine underwriting perspective. For the nine-month period ended September 30, 2002, approximately 8% of OneBeacon's net written premium related to its participation in mandatory shared market mechanisms. Underwriting results related to assigned risk plans are typically adverse and, as a result, we underwrite some policies with a higher risk of loss than we would normally accept.

Each state dictates the levels of insurance coverage that is mandatorily assigned to participating insurers within these markets. The total amount of such business an insurer must accept in a particular state is generally based on that insurer's market share of voluntary business written within that state. For OneBeacon, participation in mandatory shared market mechanisms is principally in the states of Massachusetts, New Jersey and New York. In certain cases, such as in New York, OneBeacon is obligated to write business from shared market mechanisms at a future date based on its historical market share of all voluntary policies written within that state. As further described in "Business" beginning on page 23, the share of involuntary written premium for policies assigned by the New York Automobile Insurance Plan, a residual insurance market that obtains personal automobile insurance for those individuals who cannot otherwise obtain insurance in the voluntary insurance market, to a particular insurer in a given year is based on the proportion of the total voluntary writings in New York two years prior. OneBeacon has estimated the cost of discharging its obligation for its New York Automobile Insurance Plan assignments as of September 30, 2002 to be $108 million and has recorded this estimate as a liability in its financial statements. Our participation in assigned risk plans may result in greater liabilities than we anticipate and could materially affect our results.

Our investment portfolio may suffer reduced returns or losses which could adversely affect our results.

Investment returns are an important part of our overall profitability, and fluctuations in the fixed income or equity markets could impair our profitability, financial condition or cash flows. A significant period of time normally elapses between the receipt of insurance premiums and the disbursement of insurance claims. During this time, we generate investment income, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities, by investing our capital as well as insurance premiums allocated to support unpaid loss and loss adjustment expense reserves. We also generate investment gains and losses from sales of securities from our investment portfolio. The investment income and fair market value of our investment portfolio are affected by general economic and market conditions, including fluctuations in interest rates and volatility in the stock market. These conditions are outside of our control and could adversely affect the value of our investments and our results.

We depend on our key personnel to manage our business effectively and they may be difficult to replace.

Our performance substantially depends on the efforts and abilities of our management team and other executive officers and key employees. Furthermore, much of our competitive advantage is based on the expertise, experience and know-how of our key management personnel, which includes Jack Byrne, Ray Barrette, John Gillespie, John Cavoores, Chuck Chokel and Steve Fass. We do not have fixed term employment agreements with any of these key employees and the loss of one or more of these key employees could have a negative effect on our business, revenues, results of operations and financial condition. Our success also depends on the ability to hire and retain additional personnel. Difficulty in hiring or retaining personnel could adversely affect our future operating performance.

Potential U.S. federal tax law changes could increase our effective tax rate or could have other adverse effects on our business.

Legislation has been introduced in the U.S. Congress that, if enacted, would reduce or eliminate the tax advantages of "corporate inversion" transactions, which typically involve a U.S. corporation changing its legal structure so that it becomes organized in a low-tax jurisdiction, such as Bermuda. The legislation, if enacted, could cause Bermuda-based foreign corporations to be taxed as U.S. corporations or could have other adverse tax effects intended to deter these transactions. In October 1999, we completed a corporate reorganization that changed our domicile from Delaware to Bermuda. The legislation, if enacted, could be applicable to us and could result in an increase in our effective tax rate, the imposition of U.S. withholding taxes on any dividend distribution by us to our non-U.S. shareholders or other adverse tax effects.

Risks Relating to the Offering

Substantial sales of our common shares could cause our share price to decline.

If we issue, or our existing shareholders sell, a large number of our common shares or the public market perceives that we may issue, or our existing shareholders might sell, common shares, the market price of our common shares could significantly decline. All of the shares offered by this prospectus will be freely tradable without restriction or further registration under the federal securities laws unless purchased by an "affiliate" as that term is defined under the Securities Act. On the date of this prospectus, approximately 3,020,118 common shares, or 36% of our outstanding common shares, will be subject to lock up agreements with the underwriters and may be sold 90 days after the date of this prospectus.

Our share price may decline in the future, resulting in substantial losses for investors purchasing common shares in this offering. Investors may not be able to resell their shares at or above the price to the public.

The trading price of our common shares may decline in the future. The table on page 21 of this prospectus illustrates the volatility of the trading price of our common shares. Many factors may contribute to a decline in the trading price of our common shares, including, but not limited to:

- variations in our results of operations;
- perceptions about market conditions in the property and casualty insurance and reinsurance industry;
- a major catastrophe that affects the property and casualty insurance and reinsurance industry;
- changes in domestic or foreign governmental regulations;
- changes in marketing, pricing and sales strategies or development of new products by us or our competitors;
- quarterly earnings results that are below the published expectations of financial analysts, which could result from our management's focus on growth in value per share in preference to alternative measures of financial and operating performance such as growth in revenues, quarterly earnings and market share; and
- general economic and market conditions.

Moreover, the possibility exists that the stock market could experience extreme price and volume fluctuations unrelated to our operating performance. Such volatility makes it difficult to ascribe a stable valuation to a shareholder's holdings of our common shares.

Our relatively low trading volume may limit your ability to sell your shares.

Although our common shares are listed on the New York Stock Exchange, on many days in recent months the daily trading volume for our common shares was less than 10,000 shares. As a result, you may

have difficulty selling a large number of our common shares in the manner or at a price which would be attainable if our common shares were more actively traded.

Some aspects of our corporate structure and regulatory environment may discourage third party takeovers and other transactions.

Some provisions of our memorandum of continuance and of our bye-laws have the effect of making more difficult or discouraging unsolicited takeover bids from third parties. In particular, our bye-laws limit the voting rights of any person (subject to certain exceptions) who owns 10% or more of our common shares to 9.9%. The primary purpose of this restriction is to reduce the likelihood that we will be deemed a "controlled foreign corporation" within the meaning of the Internal Revenue Code for U.S. federal income tax purposes. However, this limit may also have the effect of deterring purchases of large blocks of common shares or proposals to acquire us, even if some or a majority of our shareholders might deem these purchases or acquisition proposals to be in their best interests.

In addition, our bye-laws provide for:

- a classified board of directors, the size of which is fixed and whose members may not be removed by our shareholders;
- restrictions on the ability of shareholders to nominate persons to serve as directors, submit resolutions to a shareholder vote and requisition special general meetings;
- a large number of authorized but unissued shares the issuance of which may be authorized by the board without further shareholder action; and
- a 75% shareholder vote to amend, repeal or adopt any provision inconsistent with several provisions of the bye-laws.

These bye-law provisions make it more difficult to acquire control of us by means of a tender offer, open market purchase, a proxy fight or otherwise. These provisions are designed to encourage persons seeking to acquire control of us to negotiate with our directors, which we believe would generally best serve the interests of our shareholders. However, these provisions could have the effect of discouraging a prospective acquiror from making a tender offer or otherwise attempting to obtain control of us.

Because we are an insurance holding company, the domiciliary states of our insurance subsidiaries impose regulatory application and approval requirements on acquisitions of our 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 our 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.

To the extent these provisions discourage takeover attempts, they could deprive shareholders of opportunities to realize takeover premiums for their common shares or could depress the market price of the common shares.

Differences in corporate law between Bermuda and the United States may afford less protection to holders of our common shares.

Holders of our common shares may have more difficulty in protecting their interests than would shareholders of a corporation incorporated in a jurisdiction within the United States. We are a Bermuda company and, accordingly, are governed by the Companies Act 1981 of Bermuda which differs in certain material respects from laws generally applicable to U.S. corporations and shareholders, including:

- *Interested director transactions.* Our bye-laws generally allow us to enter into any transaction or arrangement in which any of our directors has an interest. Directors may also participate in a board vote approving a transaction or arrangement in which they have an interest, so long as they, prior to

any such vote, have disclosed that interest. U.S. companies are generally required to obtain the approval of a majority of disinterested directors or the approval of shareholders before entering into any transaction or arrangement in which any of their directors have an interest, unless the transaction or arrangement is fair to the company at the time it is authorized by the company's board or shareholders.

- *Business combinations with interested shareholders.* U.S. companies in general may not enter into business combinations with interested shareholders, namely certain large shareholders and affiliates, unless the business combination had been approved by the board in advance or by a supermajority of shareholders or the business combination meets specified conditions. There is no similar law in Bermuda. However, our bye-laws do limit the opportunities for such business combinations.

Shareholder suits. The circumstances in which a shareholder may bring a derivative action in Bermuda are significantly more limited than in the United States. In general, under Bermuda law, derivative actions are permitted only when the act complained of is alleged to be beyond the corporate power of the company, is illegal or would result in the violation of the company's memorandum of association or bye-laws. In addition, Bermuda courts would consider permitting a derivative action for acts that are alleged to constitute a fraud against the minority shareholders or, for instance, acts that require the approval of a greater percentage of the company's shareholders than those who actually approved them.

Limitations on directors' liability. Our bye-laws provide that each shareholder agrees to waive any claim or right of action he or she may have, whether individually or in the right of the company, against any director, except with respect to claims or rights of action arising out of the fraud or dishonesty of a director. In general, U.S. companies may limit the personal liability of their directors as long as they acted in good faith and without knowing violation of law.

Investors may encounter difficulties in service of process and enforcement of judgments in the United States.

We are a Bermuda company and one of our directors is resident outside the United States. A portion of our and his assets is located outside of the United States. It may be difficult for you to effect service of process within the United States on that director or to recover against that director on judgments of U.S. courts predicated upon civil liabilities under the U.S. federal securities laws.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This prospectus includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated by reference in this prospectus which address activities, events or developments which we expect or anticipate 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 our:

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

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

- the risk factors discussed in this prospectus and in the documents we incorporate by reference;
- the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to and pursued by us;
- competitive forces, including the conduct of other property and casualty insurers and reinsurers;
- changes in domestic or foreign laws or regulations applicable to us, our competitors or our clients;
- an economic downturn or other economic conditions adversely affecting our financial position;
- loss reserves established by us subsequently proving to have been inadequate; and
- other factors, most of which are beyond our control.

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

INFORMATION ABOUT THIS PROSPECTUS

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained in or incorporated by reference in this prospectus. We are offering to sell, and seeking offers to buy, common shares only in jurisdictions where offers and sales are permitted. The information contained in or

incorporated by reference in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common shares.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $304 million ($352 million if the over-allotment option is exercised in full), after deducting the underwriting discounts and commissions and estimated offering expenses we will pay. We intend to use the net proceeds from our sale of common shares for general corporate purposes, including possible acquisitions.

PRICE RANGE OF COMMON SHARES

Our common shares are quoted on the New York Stock Exchange under the symbol "WTM." The following table presents, for the periods indicated, the daily high and low sale prices per common share as reported on the New York Stock Exchange.

	High	Low
2001:		
First quarter	$ 328.50	$ 285.04
Second quarter	392.00	302.01
Third quarter	377.99	305.05
Fourth quarter	372.99	328.01
2002:		
First quarter	$ 356.96	$ 325.01
Second quarter	379.50	316.50
Third quarter	343.00	282.00
Fourth quarter	334.50	283.50
2003:		
First quarter (through March 13, 2003)	$ 330.00	$ 307.00

On March 13, 2003, the reported last sale price of our common shares on the New York Stock Exchange was $321.00 per share. As of December 31, 2002, there were approximately 484 holders of record of our common shares.

DIVIDEND POLICY

In 1999 and the first three quarters of 2000, we paid a dividend of $.40 per share each calendar quarter. Since 2001, in accordance with our new dividend policy, we have paid an annual dividend of $1.00 per share in the first quarter of each year. The payment of any cash dividends in the future will be at the discretion of our board of directors. The declaration and amount of any dividends will depend on a number of factors, including our financial condition, capital requirements, funds and dividends from operations, future business prospects and such other factors as our board of directors may deem relevant.

CAPITALIZATION

The following table shows our cash and total capitalization as of September 30, 2002, (1) on an actual basis, (2) on a pro forma basis giving effect to (i) the issuance of 677,966 convertible preference shares at $295 per share to Franklin Mutual Advisers, LLC on October 24, 2002 and the assumed conversion thereof, (ii) the issuance of 84,745 common shares at $295 per share to Highfields Capital Management LP on October 24, 2002, (iii) the amendment to our principal bank facility on October 31, 2002, which included the issuance of a new $143.8 million Tranche C term loan that was used to refinance a portion of the existing $228.8 million Tranche A term loan (leaving approximately $85 million remaining outstanding under the Tranche A term loan), and (iv) the repayment in full of the Seller Note on November 29, 2002, and (3) on a pro forma as adjusted basis to give effect to our sale of 1,000,000 common shares (assuming the shares were sold at the last reported sale price on March 13, 2003 of $321.00 per share) in this offering and the application of the net proceeds.

More information on the Seller Note, the issuance of convertible preference shares to Franklin Mutual Advisers, LLC and the amendment to the bank facility can be found in the section, "Management's Discussion and Analysis of Financial Condition and Results of Operations Nine Months Ended September 30, 2002 and September 30, 2001 Liquidity and Capital Resources". You should read the table in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of September 30, 2002		
	Actual	Pro Forma	Pro Forma As Adjusted
	(dollars in millions except per share amounts)		
Cash and short-term investments	$ 2,399.6	$ 2,339.1	$ 2,643.1

	As of September 30, 2002		
Debt (including current portion):			
Revolving credit facility(1)	$ 125.0	$ 125.0	$ 125.0
Tranche A loans	228.8	85.0	85.0
Tranche B loans	394.0	394.0	394.0
Tranche C loans		143.8	143.8
Other debt	39.4	39.4	39.4
Seller Note	260.0		
Total debt	1,047.2	787.2	787.2
Minority interest mandatorily redeemable preferred stock of subsidiaries	178.0	178.0	178.0
Common shareholders' equity:			
Common shares at $1.00 par value per share; 50,000,000 common shares authorized; 8,285,981 common shares issued and outstanding, actual; 9,048,692 common shares issued and outstanding, pro forma; 10,048,692 common shares issued and outstanding, pro forma as adjusted(2)	8.3	9.1	10.1
Paid-in-surplus	1,102.4	1,326.6	1,629.6
Retained earnings	1,050.0	1,050.0	1,050.0
Accumulated other comprehensive income (loss), after-tax	190.4	190.4	190.4
Unearned compensation restricted share awards	(9.3)	(9.3)	(9.3)
Total shareholders' equity	2,341.8	2,566.8	2,870.8
Total capitalization	$ 3,567.0	$ 3,532.0	$ 3,836.0
Fully converted book value per common share(3)	$ 249.38	$ 252.59	$ 256.94

(1) At March 10, 2003, we had $50.0 million of undrawn capacity under a $175.0 million revolving credit facility.

(2) Treats as outstanding the 677,966 common shares issuable upon the conversion of convertible preference shares held by Franklin Mutual Advisers, LLC. The conversion of these convertible preference shares requires the approval of our shareholders to be sought at our 2003 annual meeting.

(3) As adjusted for the dilutive effect of outstanding options and warrants. Assumes conversion of the convertible preference shares to common equity.

BUSINESS

General

We were originally formed as a Delaware corporation in 1980. In October 1999, we completed a corporate reorganization that changed our domicile from Delaware to Bermuda (the "Redomestication"). Our principal businesses are conducted through our subsidiaries and affiliates in the business of property and casualty insurance and reinsurance. Our headquarters are located at Crawford House, 23 Church Street, Hamilton, Bermuda HM 11, our principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and our registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM DX.

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

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group ("Liberty Mutual") pursuant to a renewal rights agreement (the "Renewal Rights Agreement"). This transfer amounted to approximately $1.5 billion in written premiums, or approximately 45% of OneBeacon's total business. The operating results and cash flows of policies renewed through October 31, 2003 will be shared between OneBeacon and Liberty Mutual. A reinsurance agreement pro-rates results so that OneBeacon assumed approximately two-thirds of the operating results from renewals in the first year ended on October 31, 2002 and assumes approximately one-third of the operating results from renewals in the second year ending on October 31, 2003. Since entering the Renewal Rights Agreement, OneBeacon has been focused on becoming a premier provider of property and casualty insurance products in the Northeast and of certain specialty products offered on a national basis. Under the Renewal Rights Agreement, OneBeacon has a one-time option to assume a 10% quota share of Liberty Mutual's regional agency operations book of business for the years 2004-2006 on a pari passu basis with Liberty Mutual.

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 UK 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" and, together with General Accident, the "legacy companies"), were merged to form CGU Corporation (the "Merger"). We 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 is rated as "A" (Excellent) by A.M. Best.

At the time of the Acquisition, OneBeacon was producing unsatisfactory underwriting results, and had done so for several recent years. In OneBeacon, we saw the opportunity to purchase an underperforming business at a discount to its net asset value with the goal of implementing strategic and operational improvements that would result in increased shareholder value. During our due diligence, it became apparent that:

- OneBeacon's underwriting and pricing disciplines were poor;
- while relatively the same size, the legacy companies had different underwriting and claims management practices and their integration had created ongoing operational challenges in the underwriting and claims departments;

- certain types of business and certain agents used by OneBeacon produced unprofitable business; and

- the legacy companies had products with differing risk characteristics.

On June 1, 2001, we took significant actions to strengthen OneBeacon's balance sheet. In connection with the Acquisition, CGNU caused OneBeacon to purchase reinsurance contracts with two reinsurance companies rated "AAA" (Extremely Strong) by Standard & Poor's and "A++" (Superior) by A.M. Best; a full risk-transfer cover from National Indemnity Company ("National Indemnity") for up to $2.5 billion in old asbestos and environmental claims (the "National Indemnity Cover") and an adverse development cover from General Reinsurance Corporation ("General Reinsurance") for up to $400.0 million on losses occurring in years 2000 and prior (the "General Reinsurance Cover").

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

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

Property and Casualty Insurance Overview

As a property and casualty insurance company, OneBeacon writes insurance policies in exchange for premiums paid by its customers (the insured). An insurance policy is a contract between OneBeacon and

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

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

- *Automobile:* consists of physical damage and liability coverage. 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.

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

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

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

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

Ocean marine: covers losses to an insured's vessel and/or its cargo as a result of collision, fire, piracy and other perils.

OneBeacon derives substantially all of its revenues from premiums earned, investment income and net gains and losses from sales of investment securities. Premiums earned 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 and writedowns of securities from OneBeacon's investment portfolio.

OneBeacon incurs a significant amount of its total expenses from policyholder losses, which are commonly referred to as "claims". In settling policyholder losses, various loss adjustment expenses ("LAE") are incurred, such as insurance adjusters' fees and litigation expenses. In addition, OneBeacon

incurs policy acquisition expenses such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including salaries for professional and clerical staff.

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

Lines of Business

OneBeacon writes three core lines of business consisting of personal and commercial lines in the Northeast and certain specialty lines. Premiums from other "non-core" lines, including business assumed from Liberty Mutual in connection with the Renewal Rights Agreement and certain non-core or runoff operations, will continue to diminish as OneBeacon's obligations under the Renewal Rights Agreement decrease and policies in run-off expire. For the nine months ended September 30, 2001, OneBeacon's net written premiums and trade ratios by line of business were as follows:

Net written premiums and trade ratio by line of business	Net Written Premiums for the Nine Months Ended September 30, 2002		Trade Ratios for the Nine Months Ended September 30, 2002
	(dollars in millions)		
Personal	$ 877.5	43%	102%
Commercial	362.5	18	107
Specialty	214.7	10	92
Other non-core lines	583.5	29	119
Total	2,038.2	100%	109%

OneBeacon's personal lines include automobile, homeowners and Custom-Pac products (combination policies offering home and automobile coverage with optional umbrella, boatowners and other coverages), which for the nine months ended September 30, 2002 represented 64%, 17% and 15%, respectively, of personal lines net written premium. OneBeacon's commercial lines include package (combination policies offering property and liability coverage), commercial automobile and workers compensation, which for the nine months ended September 30, 2002 represented 49%, 28% and 15%, respectively, of commercial lines net written premium. Specialty products principally include ocean marine, agricultural, professional liability and other specialty products, such as tuition reimbursement, which for the nine months ended September 30, 2002 represented 39%, 35%, 8% and 18%, respectively, of OneBeacon's specialty net written premium. For the nine months ended September 30, 2002, other non-core products included premiums generated from business assumed from Liberty Mutual in connection with the Renewal Rights Agreement ($462.2 million), premiums generated from National Farmers Union ($127.3 million), premiums generated from national programs and national accounts and certain other insurance products in run-off ($17.6 million).

New York Automobile Insurance Plan

OneBeacon writes voluntary 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 ("NY Auto Plan"), a residual insurance market that provides 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 NY Auto Plan 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 NY Auto Plan. Alternatively, an insurance company can contractually transfer its NY Auto Plan obligation to another insurance company for a fee in satisfaction of its NY Auto Plan obligation. This process is called limited assigned distribution, and the companies that assume this obligation are called limited assigned distribution servicing carriers. Limited assigned distribution servicing carriers are paid fees (referred to as buy-out fees) to assume the insurance risk of NY Auto Plan obligations. The fees are typically a percentage of the total premiums the limited assigned distribution servicing carrier must write to fulfill the NY Auto Plan obligation of the transferor company. In return, the limited assigned distribution servicing carrier is contractually obligated to pay all loss and loss adjustment and other underwriting expenses related to the NY Auto Plan assigned premiums of the transferor company, with no recourse to the transferor. OneBeacon's obligation related to its future NY Auto Plan assignments as of September 30, 2002 was $108.0 million.

AutoOne. In the last few years, NY Auto Plan assignments and limited assigned distribution fees have both increased significantly. In order to mitigate its own exposure to the cost of future NY Auto Plan assignments and to take advantage of rapidly rising limited assigned distribution servicing fees, in October 2001, OneBeacon established a wholly- owned subsidiary, General Assurance Company, to act as a limited assigned distribution servicing carrier. This company, which does business as "AutoOne", has written 18 limited assigned distribution contracts with third parties that are expected to result in approximately $83 million of assigned written premium and approximately $123 million of total limited assigned distribution fees in 2002. AutoOne wrote approximately $68 million in premium for third parties and billed approximately $92 million of limited assigned distribution fees to third parties for the nine months ended September 30, 2002. OneBeacon believes that AutoOne's current business strategy will enable it to capitalize on continued demand for limited assigned distribution services and improve the results of OneBeacon's overall New York automobile business by reducing its cost of obtaining limited assigned distribution services. AutoOne is operated as a separate division of OneBeacon. To the extent that assigned risk rates are increased by New York, the resulting additional premium, along with the limited assigned distribution fee, provides for a significant profit opportunity.

Limited assigned distribution servicing contracts between AutoOne and other insurers are for a period of one year. Once an assigned risk policy has been written, AutoOne is obligated to provide insurance for two more years unless the insured departs from the NY Auto Plan, regardless of whether the limited assigned distribution contract is renewed. This risk can be somewhat mitigated through (i) renewal of the limited assigned distribution contract in the subsequent year; (ii) through "disengagement" fees due to AutoOne from non-renewal of the limited assigned distribution servicing contract; and (iii) through utilization of various credits offered by New York to those insurers who voluntarily provide coverage to individuals in the NY Auto Plan, the largest of which are referred to as "take-out credits". In recent years, insurers and limited assigned distribution servicing carriers have not utilized credits to a large extent as the costs to generate these credits outweighed the benefits. Under the credit programs in effect for NY Auto Plan assignments written in 2002, an insurer generally could reduce its future NY Auto Plan assignments by one dollar for every dollar of NY Auto Plan premium voluntarily written by the insurer. These credits often could not be used to reduce NY Auto Plan assignments for up to two years.

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OneBeacon Professional Partners

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

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

Geographic Concentration

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

Premiums by State	**Nine Months Ended September 30, 2002**
New York	43%
Massachusetts	25
New Jersey	12
Maine	9
Connecticut	6
Other	5[1]
Total	100%

(1) Consists of three states, Vermont, New Hampshire and Rhode Island, related to our core personal and commercial lines business.

Marketing

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

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

OneBeacon's specialty businesses are located in separate locations, logistically appropriate to their target markets. International Marine Underwriters 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. Agricultural insurance has centralized operations in Lenexa, Kansas and distributes its products through independent agencies that focus on the farm and

ranch marketplace. For both of these specialty businesses, OneBeacon leverages its knowledge about these markets to provide products and services tailored to meet customer needs.

Underwriting and Pricing

OneBeacon's current management believes that there must be a realistic expectation of underwriting profit on all business written, and a demonstrated fulfillment of that expectation over time. Pricing pressures can be caused by many factors such as: (1) insurance companies selling their products at less than adequate rates, because they either underestimate ultimate claim costs or overestimate the amount of investment income they will earn on premiums before the claims are paid; (2) insurance companies utilizing direct--response marketing methods versus marketing their products through independent agents; (3) 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 our management and 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 focused on expense savings brought about numerous changes in business practices and philosophy, as well as in processes and systems. The operational integration of 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 two 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 to ensure that the 1999 and subsequent financial statements were prepared in accordance with accounting principles generally accepted in the United States ("GAAP"); 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 in 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, 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 our ability to estimate reserves for losses and loss adjustment expenses in accordance with GAAP.

Since the Acquisition, OneBeacon has focused significant attention on pricing and underwriting. Commercial lines pricing increased 16% in 2001. Personal lines pricing increased 5% in 2001. Price increases of 21% were achieved in commercial lines for the nine months ended September 30, 2002. Price increases of 6% and 7% were achieved in personal automobile and personal homeowners, respectively, for the same period, primarily through rate reclassification and coverage actions. In addition, OneBeacon has ceased writing policies on certain historically unprofitable product lines such as its national programs and national accounts and has reduced or eliminated writings through historically unprofitable agents. Further, as a result of the Renewal Rights Agreement, OneBeacon is focusing its efforts on improving the ongoing operations in the Northeast, where it believes historical results were closer to profit targets.

On November 1, 2001, Liberty Mutual assumed control over the underwriting and pricing of business subject to the Renewal Rights Agreement. Through the related reinsurance agreement, OneBeacon assumed approximately two-thirds of Liberty Mutual's operating results from renewals in the first year (ended October 31, 2002) and will assume one-third of Liberty Mutual's operating results from renewals in the second year (ending October 31, 2003). Under the Renewal Rights Agreement, OneBeacon has an option to assume a 10% quota share of Liberty Mutual's regional agency operations book of business for the years 2004-2006 on a pari passu basis with Liberty Mutual. Failure of Liberty Mutual to adequately control the renewal underwriting and pricing of the transferred business could adversely impact the financial results of OneBeacon, as well as those of Liberty Mutual, during the transitional reinsurance period.

Competition

Property and casualty insurance is highly competitive and extensively regulated by state insurance departments. OneBeacon competes in the United States with numerous regional and national insurance companies, most notably Travelers Insurance Group, Zurich Insurance Group, Selective Insurance Group, the Hartford Financial Services Group, Acadia Insurance Company and Liberty Mutual Insurance 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 its use of independent agents is a competitive advantage over direct-response writers. OneBeacon is able to offer independent agents broader product offerings (including both commercial and personal lines) and greater financial strength than many smaller carriers who are its primary competitors in the independent agent channel. As a sizable regional insurance company, OneBeacon expects that it can continue to provide broad product offerings yet believes that its significant use of independent agents will allow OneBeacon to provide more responsive and comprehensive service to its agents and customers. OneBeacon has nurtured close relationships with its agents thereby reinforcing doing business on a personal level. OneBeacon is able to offer its independent agents products with terms desired by the insureds and greater financial strength than many smaller Northeast regional carriers, and with more personalized service than larger national carriers.

Claims

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

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

Pursuant to the Renewal Rights Agreement, Liberty Mutual assumed control of OneBeacon's claims offices in the regions subject to the Renewal Rights Agreement, and will service claims from OneBeacon policies written prior to November 1, 2001 in those regions. Service agreements were put in place in connection with the Renewal Rights Agreement through which Liberty Mutual has become a third party administrator for those claims. Upon review of claims information with respect to the transferred and renewed policies during the third and fourth quarters of 2002, OneBeacon's management determined that average paid claims were higher than expected. As a result, management has begun a process to directly handle more of its claims related to policies written prior to the Renewal Rights Agreement with Liberty Mutual and expects that substantially all claims will be handled directly by OneBeacon by the end of 2003.

OneBeacon also uses third party administrators for certain other claims, especially in the national accounts and national programs now in run-off. Additionally, National Indemnity is handling the claims processing for claims ceded under the National Indemnity Cover under a third party administrator agreement. OneBeacon's claims staff performs on-site claim audits of its third party administrators to ensure the propriety of the controls and processes over claims serviced by the third party administrator on behalf of OneBeacon.

Employees

We have brought a new management team to OneBeacon to improve operating results in the short term and established practices for sustaining acceptable underwriting results going forward. To encourage staff to evolve toward a results-oriented culture, all OneBeacon employees were awarded two White Mountains common shares and a new performance-based compensation program was introduced for managers and key employees. Managers now see greater emphasis on incentive compensation with payouts based on corporate and individual goal achievements. OneBeacon supports continuous learning to achieve effectiveness and flexibility and encourages its staff to think like owners and take accountability to effect change. In connection with the Renewal Rights Agreement and other actions, OneBeacon reduced its workforce from approximately 7,300 to 4,200 during 2001.

Loss and Loss Adjustment Expense Reserves

Non-Asbestos and Environmental Reserves

Summary

OneBeacon establishes loss and loss adjustment expense reserves ("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 and related reinsurance recoverables 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 the Acquisition. 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, as further described under "Changes in Business & Operations Mix of Business, the Merger and the Acquisition" below. 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 increased net reserves for prior accident years by $818 million during the fourth quarter of 2000 (primarily for accident years 1998 and prior) and $65 million ($426 million before recoveries of approximately $361 million under the General Reinsurance Cover) during the fourth quarter of 2001 (primarily for accident years 1998 through 2000). These increases in net reserves reflected the impact of

external factors, such as 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 loss development reported since 2000 by other property and casualty insurers. In addition, as further described below under "Changes in Business & Operations Mix of Business, the Merger and the Acquisition", during the mid-1990s, there was a significant change in the mix of business written by General Accident and, to a lesser extent, Commercial Union. A significant portion of the reserve increases recorded in 2000 and 2001 is attributable to this business which, along with being adversely impacted by external factors, in hindsight, was poorly underwritten and priced.

Reserves recorded in the years prior to the Acquisition reflect prior management's estimate of ultimate losses using all available information considered relevant at that time. Reserves for years prior to the Merger that are reflected in OneBeacon's ten-year loss development table (which follows under the heading "Additional Loss and Loss Adjustment Expense Information") are the sum of the reserves estimated separately by each of the legacy companies. Following the Merger, (1) accident years 1998 and prior claims data continued to be maintained separately for the two legacy companies, providing consistency in establishing and revising reserves for the separate businesses and (2) as part of the integration of the two businesses, claims data for 1999 and subsequent accident years were recorded on a combined basis.

Beginning in 1999, post-Merger initiatives led to changes in case reserving philosophy and the speed of claim payments, especially for business written by General Accident. These changes impacted the loss development patterns of OneBeacon causing reported and paid losses to be higher than that which would have been predicted from historical experience. By affecting development patterns, these internal operational factors made it more difficult than usual for management, its actuaries and independent actuaries to estimate reserves at the end of 1999. After reviewing the then current claims data and performing additional tests to evaluate the impact of the internal operational changes, prior management concluded that the apparent increase in claim development activity (i.e., the dollar amounts of reported claims and paid losses) in

1999 was largely the result of the post-Merger operational initiatives and accordingly an increase in reserves for prior accident years was not warranted. Further, industry information available at the time, in general, did not provide strong evidence of deteriorating results. In 2000 and 2001, as more claim development information became available with respect to the emergence of external factors, changes in business mix and the impact of internal operational changes in OneBeacon's business, management increased reserves on prior accident years.

Prior to June 1, 2001 White Mountains did not own OneBeacon and therefore did not establish OneBeacon's reserves. In addition, because there has been nearly complete turnover of senior management at OneBeacon since the Acquisition, White Mountains has primarily relied on reviews of prior actuarial studies, discussions with in-house actuaries and accountants who were with OneBeacon prior to the Acquisition and OneBeacon's independent auditors to determine the factors, described herein, that led to and caused the adverse development related to prior accident years that was recorded in 2000.

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, (5) improving the claims adjudication, settlement, administration and processing functions and (6) improving management information systems. Management believes that OneBeacon's reserves as of September 30, 2002 are reasonably stated; however, ultimate loss and loss adjustment expenses for past accident years may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Further adverse development, if any, would impact OneBeacon's future results of operations.

Estimating Loss 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, so-called incurred but not reported reserves ("IBNR"), which include a provision for expected future development on case reserves. Case reserves are estimated based on the experience and knowledge of the 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 loss adjustment expenses and case reserves from estimates of ultimate loss and loss adjustment expenses. Actuaries estimate ultimate loss and loss adjustment expenses 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 loss adjustment expenses are generally obtained 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 loss adjustment expenses 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. When examining its claims experience, OneBeacon segments the data to the extent possible into homogeneous categories, consisting of claims likely to exhibit similar development patterns. External data, available from organizations such as statistical bureaus, consulting firms and reinsurance companies, are sometimes used to supplement or corroborate OneBeacon's own experience, and are 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 early development of an accident year are 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 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 loss adjustment expenses, 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 loss adjustment expenses, 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 loss adjustment expenses 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, directors' and officers' liability, multiple peril coverage, medical

malpractice and workers compensation, can be especially long as claims are often reported and ultimately paid or settled years after the related loss events occur. The $818 million and $65 million ($426 million before recoveries of approximately $361 million under the General Reinsurance Cover) of development recorded in 2000 and 2001, respectively, related to long-tailed lines.

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 to a prior accident year 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.

Changes in Business & Operations Mix of Business, the Merger and the Acquisition

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. The timeline below identifies events that occurred during this period that were significant or have led to more uncertainty in the estimation of reserves at OneBeacon:

Mid-to-late 1990s: Changing mix of business, deterioration in underwriting/pricing and increased complexity of exposures at General Accident impacted consistency of historical claim development patterns and resulting loss ratios

1998: Merger of Commercial Union and General Accident (separate claim operations and data maintained for each company)

1999: Integration of claim operations; Changes in claim settlement practices implemented (company-wide adoption of Commercial Union case reserving philosophy and acceleration of claim payments); 1999 accident year claims data captured on a combined basis; Accident year 1998 and prior claims data continued to be maintained separately for each legacy company; Closed claim and average paid loss studies performed to determine the impact on claims development activity of changes in claim settlement practices

2000: OneBeacon put up for sale; White Mountains due diligence performed; Definitive sale agreement signed; Actuarial consulting firm conducted non-asbestos and environmental reserve study

June 1, 2001: OneBeacon purchased by White Mountains; Reserve guarantees provided by Seller through reinsurance

Changing Mix of Business / Deterioration in Underwriting and Pricing. Changes in the mix of business and complexity of exposures written by General Accident beginning in the mid-1990s created greater uncertainty than usual in the reserve estimation process. This period was a soft market (i.e., a highly competitive environment with inadequate pricing and poor terms and conditions) and during this period General Accident and, to a lesser extent, Commercial Union increasingly wrote business in territories and of types where they had little expertise. Of particular significance was new National Accounts and National Programs business initiated in this period by General Accident. National Accounts business primarily involved the provision of workers compensation, general liability and commercial automobile coverages to large clients with complicated risks. National Programs business primarily involved the provision of multiple peril, workers compensation and commercial automobile and some general liability coverages to trade associations and groups. Those groups included national wholesalers, regional railroads, building contractors, travel agents and tour operators, transporters, towing companies, automobile and truck auctions, automobile dealerships and New York livery (limousines).

Prior management set initial reserves for these new programs and lines of business after considering the information used in pricing the policies and available industry pricing data, as well as assuming that, after considering potential lower and higher risks of this new business compared with those of the existing book of business, claim emergence patterns for the new business would not materially depart from historical experience. The new business subsequently proved to have higher risk characteristics than the existing book of business, with much higher loss ratios and more susceptibility to large losses than prior products written by General Accident. This new business was responsible for a significant portion of the loss reserve development taken in 2000 and 2001. White Mountains has since discontinued these new businesses.

As further described under "Reserve Activity" below, existing lines also produced worsening results, implying deterioration in the quality of the book of business. In hindsight, pricing was inadequate and terms, conditions and underwriting selection were poorer with exposures to claims growing much faster than premiums. White Mountains has since re-underwritten and re-priced these underperforming lines.

The Merger. The Merger was effected December 31, 1998. Separate historical case reserve and claim payment records continued to be maintained for each legacy company. Accordingly, each company had separate case reserving philosophies and claim settlement speeds. Reserves for the year ended 1998 were estimated separately for Commercial Union and General Accident, then totaled to estimate reserves for OneBeacon as a whole.

During 1999, as part of Merger-related claims initiatives, the merged company consolidated the formerly separate General Accident and Commercial Union into a unified operation and the 1999 accident year data for General Accident and Commercial Union were recorded on a combined basis. Separate records continued to be maintained for each company for 1998 and prior accident years.

In 1999, senior management became increasingly aware that the two former claims organizations had different claims handling and case reserving approaches. The Commercial Union case reserving guidelines encouraged field adjusters to reserve cases to ultimate exposure (i.e., what they expected the case to ultimately settle for). On the other hand, the General Accident reserving practice was to reserve each case to the damages that were known and proven. The General Accident approach, as compared to the Commercial Union approach, had the effect of making case reserves slower to reflect the full exposure of the claims. Former General Accident management adopted this approach under the belief that lower case reserves encouraged better case management. In both cases, IBNR reserves reflected the difference between management's estimates of ultimate losses and amounts reserved for known cases. After evaluating the situation, OneBeacon claims officers decided in 1999 to adopt the Commercial Union case reserving approach for all parts of the merged companies. As a result, case reserve activity (i.e., the amounts of case reserve increases that field claims adjusters processed on hundreds of thousands of working claims) increased significantly through 1999. These actions also contributed to an acceleration of payments in 1999 across all business lines, but particularly for large losses for General Accident business.

Although separate historical claim payments and case reserves records continued to be maintained for each legacy company for 1998 and prior accident years, management recognized that the post-Merger operational initiatives (most importantly, the adoption of the Commercial Union case reserving philosophy) introduced changes to claim development patterns for the business written by General Accident prior to the Merger. For example, the dollar amounts of reported and paid losses recorded in 1999 with respect to business written by General Accident were greater than what would have been expected based on historical claim development activity for business written by General Accident because of the previously described changes in case reserving and claims processing. While these changes did not impact the sufficiency and reliability of the underlying data available for establishing reserves, the changes required management and the actuaries to exercise judgment to determine how much of the apparent increase in claims development activity was the result of these changes and how much, if any, was the result of inadequate pricing, poorer terms and conditions and external factors that would indicate a true increase in

ultimate losses. To assist in exercising this judgment, management supplemented its normal reserving analysis by conducting closed claim and average paid loss studies. These studies were used to measure the impact of changes in claim settlement practices. Based on all available information considered relevant at the time, prior management concluded that no significant reserve changes were needed for prior accident years.

The Acquisition In February 2000, CGNU plc, the parent company in London, announced that, as part of its merger agreement with Norwich Union, it would dispose of its U.S. property and casualty operations. White Mountains formed a team of staff and consultants to perform due diligence on OneBeacon. The due diligence took place in the April-July 2000 period. As part of White Mountains' due diligence, two actuarial consulting firms performed independent but coordinated analyses of non-asbestos and environmental reserves under the direction of experienced White Mountains staff. White Mountains' due diligence team performed extensive file reviews of large claims and paid special attention to the adequacy of case reserves based on the experience of the reviewers. The reviewers noted that claim cost pressures due to external factors, such as construction defect claims in the western United States and labor law claims in the state of New York, were having an increasing impact on OneBeacon. As a result of this file review, the actuarial reserve projections produced an unusually wide range of estimates of overall reserve adequacy. After reviewing the actuarial studies, White Mountains structured the Acquisition and its financing under the assumption that a reserve deficiency of $500 million to $700 million could emerge on non-asbestos and environmental reserves.

During the fourth quarter of 2000, a third actuarial consulting firm that had been retained by OneBeacon's prior management completed its review of non-asbestos and environmental reserves as of June 30, 2000. The actuarial consulting firm estimated that reserves for 1999 and prior accident years were inadequate by approximately $800 million. The review by the outside actuaries, whose conclusions were studied and concurred with by OneBeacon's internal actuaries and independent auditors, revealed that: (1) the frequency and severity of claims was higher than management had expected at the time the business was underwritten and the related reserves were initially established; (2) the integration of the claims organization was producing poorer claims settlements than prior management had anticipated; and (3) recent claim payments and case reserve trends were indicating higher loss ratios than those used when the business was underwritten. Following this review, OneBeacon increased reserves in 2000 for 1999 and prior accident years by $818 million.

Using the actuarial report commissioned by OneBeacon and its own due diligence activities, White Mountains determined that the reasonable range of estimates was a deficiency of $800 million to $1.2 billion (before consideration of the $818 million development recorded in 2000). As a result, White Mountains required the Seller to purchase a $400 million reserve guarantee, which obligation was fulfilled through the Seller's purchase of the General Reinsurance Cover immediately prior to the closing of the Acquisition.

In 2001, based on payment projection methods and additional actuarial studies undertaken at the direction of current management to review trends in historical claim development, such as the adequacy level of case reserves, the speed of claim payments and claim closings reflected in incurred and paid claims through 2001, management increased reserves for 2000 and prior accident years by $426 million gross of the General Reinsurance Cover. After application of approximately $361 million of recoveries under the General Reinsurance Cover, this action resulted in a net reserve increase of $65 million. While the recording of $426 million of development in 2001, in addition to the $818 million recorded by prior management in 2000, exceeded management's earlier best estimate of reserves recorded in the Acquisition balance sheet by approximately $44 million, or 3.7%, this subsequent increase in reserves was generally consistent with the possible outcomes considered in securing the coverage provided by the General Reinsurance Cover.

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Reserve Activity

OneBeacon increased reserves for prior accident years by $818 million during 2000 and $65 million during 2001 ($426 million before recoveries of approximately $361 million under the General Reinsurance Cover). The reserve increases recorded in 2000 and 2001 were for long-tail lines of business as illustrated in the following table and discussed in more detail below. The table below also includes December 31, 1999 reserve balances (net of reinsurance) which consist of reserves for accident years 1999 and prior and December 31, 2000 reserve balances (net of reinsurance) which consist of reserves for accident years 2000 and prior.

(dollars in millions)	**Reserves as of December 31, 1999**	**Reserve Increases Recorded in 2000**	**Reserves as of December 31, 2000**	**Reserve Increases Recorded in 2001**
Workers compensation	$ 846	$ 176	$ 998	$ 205
General liability	1,081	318	1,238	34
Multiple peril	1,110	152	1,287	152
Commercial automobile liability	548	111	676	59
Other lines	1,498	61	1,507	(24)
	$ 5,083	$ 818	$ 5,706	$ 426
General Reinsurance Cover recoveries	N/A	N/A	N/A	(361)
Total reserves	$ 5,083	$ 818	$ 5,706	$ 65

(dollars in millions)	Reserves as of December 31, 1999	Reserve Increases Recorded in 2000	Reserves as of December 31, 2000	Reserve Increases Recorded in 2001
Less: asbestos and environmental reserves	(956)		(787)	
Non-asbestos and environmental reserves	$ 4,127		$ 4,919	

Workers Compensation. Workers compensation provides coverage for an employer's obligations for injuries, disability or death of employees. The cost of settling claims in this line is significantly influenced by the cost of providing medical and rehabilitation care to injured workers and is impacted by inflation of the costs of medical services, as well as the introduction of new, and often more expensive, medical procedures. Loss reserve projections attempt to incorporate the effects of these items, as well as the impact of cost-containment efforts, such as managed care. From a reserving standpoint, it is particularly challenging to estimate the rate at which cases may become severe and achieve life pension status. Such claims, while few in number relative to total claims, account for a significant portion of the line's ultimate cost.

In the early- to mid-1990s, managed care, safety programs and return to work initiatives had helped the industry and OneBeacon to reduce the overall frequency and severity of claims, as well as reduce the number and cost of claims reaching litigation. These factors mitigated the cost of inflation, which was relatively modest in that period. Both the industry and OneBeacon expected these trends to continue and aggressively pursued growth. As described below, market conditions subsequently deteriorated and, in hindsight, reserve projections were too low.

For workers compensation through 2001, the 1997 to 2000 accident years for the industry have developed adversely. The 1998 and 1999 accident years, for example, had deteriorated with industry loss ratios increasing by 6.3% and 8.6%, respectively. Both the industry and OneBeacon's recorded reserves reflected the trend toward increasing losses, but they did not initially reflect the magnitude of the worsening loss ratios that had actually occurred. In fact industry rating bureaus were filing rate decreases with state insurance departments with an average annual rate decrease of approximately 5% filed from 1994 to 1999, reflecting the industry's misperception of the actual status of this line of business.

Stability in indemnity and medical costs through the mid-1990s contributed to consistency in workers compensation combined ratios during that period. However, as the rate of change in indemnity and medical costs began to increase, so did combined ratios. Increases in the rate of change of costs resulted from the exhaustion of the beneficial effects of substantial cost-containment efforts within the industry, such as managed care. To illustrate, the average annual change in indemnity claims costs had been relatively stable, averaging a decrease of 0.2% from 1991 to 1995. However, it then rose to an annual increase of 6.6% from 1996 to 2001, with increases of 9.9% and 6.0% in 2000 and 2001, respectively. The average annual increase in medical costs increased from 3.2% for 1991 to 1995 to 7.5% for 1996 to 2001, with increases of 8.1% and 11% in 2000 and 2001, respectively. In the late 1990s, prior management expected increases in medical costs to continue to be relatively modest, and consistent with general inflation, due to continuing cost-containment efforts, such as managed care. However, as described above, in the late 1990s, the beneficial effects of cost-containment efforts had been exhausted and the increase in medical costs greatly exceeded management's expectations.

OneBeacon's legal costs are substantial for its workers compensation line, as well as other long-tailed lines, which in many cases do not limit defense costs. As a consequence, defense costs can sometimes substantially exceed the indemnity exposure. Industry studies indicate that the increasingly litigious legal environment has inflated the severity of workers compensation claims in recent years.

In addition, as previously discussed, company-specific business and operational changes impacted the claims development patterns and made it more difficult than usual for management, its actuaries and independent actuaries to estimate reserves. The impact of the operational changes is described under "Changes in Business & Operations Mix of Business, the Merger and the Acquisition". The impact of the business changes, specifically General Accident's expansion into National Accounts and National Programs business is described below for each of the lines of business in this Section.

In the mid-1990s, OneBeacon actively expanded into National Accounts and National Programs, including workers compensation. Prior management set initial reserves for these programs using a selected loss ratio after considering the information used in the pricing of the policies and available industry data. As discussed above in "Estimating Loss Reserves", the pricing of policies is the key element in the determination of appropriate selected loss ratios to estimate loss reserves early in the development of an accident year for long-tailed business like workers compensation. Several factors contributed to pricing of these programs that was, with the benefit of hindsight, clearly too low. Primary among these is that the mid-1990s was a soft market (i.e., a highly competitive environment). General Accident had commenced a strategy of pursuing premium growth, and the competition for these large accounts was keen. While the pricing ultimately proved to be inadequate, prior management used competitors's pricing and terms as a point of reference in concluding at the time that pricing was adequate. In addition, because these large programs and accounts were new to OneBeacon, prior management had to make many new assumptions regarding the impact of potentially offsetting factors on the ultimate development of this business. On the one hand, employers who participated in these National Accounts and National Programs were generally regarded as more sophisticated, more safety conscious, with full-time risk management personnel. All this suggested a lower risk profile. On the other hand, these policies were often written with higher deductibles (and therefore lower aggregate dollar premiums), the covered employees might be viewed as more likely to make claims, and some of the underwriting and claims handling responsibilities were outsourced, all suggesting a higher risk profile. Finally, the statutory benefit rates and medical treatments under workers compensation coverage would generally be expected to be the same whether the injured employee was employed by an employer that is a large national enterprise or a small local enterprise. In the end, prior management did not expect that the loss experience for the workers compensation portion of these new programs would be materially different than the rest of the workers compensation business. As it turned out, the frequency and the severity of the claims in these programs were significantly higher than initially expected. Moreover, because claims in this long-tailed business were reported over an extended period of time, it took time for management to recognize the significant adverse development in this business. Also,

because management assumed that this business would have similar loss experience as its existing business, claims data for National Accounts and National Programs business were not segregated, for purposes of establishing aggregate reserves, from data for the existing book of business, further masking the adverse development. Beginning with the 2001 reserving process, management was able to segment claims data for National Accounts and National Programs and estimate reserves by respective account or program and line of business.

For each of the lines of business written by General Accident described in this section, National Accounts produced loss ratios ranging from 72% for accident year 1994 to 188% for accident year 2000 with deteriorating results for each accident year from 1996 to 2000. National Programs produced loss ratios of 104% to 137% for the 1996 through 2000 accident years with loss ratios deteriorating in every accident year from 1997 to 2000. Together, for accident years 1994 through 2000, National Accounts and National Programs added 2 to 20 percentage points of additional loss ratio to the individual lines of business for each accident year. For workers compensation, National Accounts and National Programs added between 2 and 10 percentage points per year to 1995-2001 accident year loss ratios. Initial loss ratios were recorded at levels in line with the workers compensation line as results for these programs were expected to have similar loss experience as the rest of the book of workers compensation business. In hindsight, the results produced by these programs were far worse than prior management's expectations as evidenced by accident year loss ratios up to 80 percentage points higher than the rest of the line by accident year 2000.

An additional impact of the Merger was that the aggregate book of business was highly influenced by General Accident risks written in New York, particularly general liability and workers compensation coverages. New York was and is a difficult legal environment due higher rates of litigation by claimants and much longer-tail claims due to protracted resolution of cases in the legal system. In summary, the claim settlement patterns are more extended than in other states and the loss experience is typically much worse.

Based on the industry's reported results through 2001, there was a strong correlation between OneBeacon's loss emergence and deterioration in results and that of the industry during accident years 1996 through 2000. The industry did not begin to recognize, report or respond to the worsening loss cost trends until 2000 and 2001. Therefore, industry actions prior to 2000 did not provide warning signals for OneBeacon's actuaries that external factors, such as medical cost inflation and increased legal defense costs, were leading to deficiencies in reserves. The deterioration in the quality and mix of business, particularly due to National Accounts and National Programs and a heavy concentration of risks in New York, as well as changes in claim settlement practices discussed above in "Changes in Business & Operations Mix of Business, the Merger and the Acquisition", each contributed to the reserve additions recorded in 2000 and 2001.

General Liability. General liability covers businesses for any liability resulting from bodily injury and property damage arising from its general business operations and accidents on its premises. The costs of claims for this line are influenced by the ultimate cost of providing medical care to third parties, general inflation, litigation and the impact of legal and social trends (legal and social trends include changes in attitudes toward litigation, changes in jury attitudes, new theories of liability and a push towards larger punitive damages). This line has also been influenced by latent exposures, such as an increasing number of claims for construction defect, and the impact of New York labor laws, none of which was anticipated when the policies were written.

As mentioned above, the general liability line of business has 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 increased 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.

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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). 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.

OneBeacon, through the commercial general liability and multiple peril coverages provided to residential and commercial construction companies and sub-contractors, had significant exposure to these new construction defect claims, particularly in the western United States. At the time of the Merger, 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. During 1999 and, to a greater extent, 2000, management 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.

Prior to 2001, management did not separately segment construction defect claims in its records, although they had been tracking these claims from coverages written in certain states. As claims for construction defect exposure spread to other states and losses emerged, management determined that all construction defect claim data should be separately tracked and segmented for reserve analysis. Prior to that time, case reserves and IBNR reserves that related to construction defect claims were established within the respective lines of business to which the coverages related rather than on a separate basis. Additionally, due to long reported tails and long paid loss tails associated with construction defect claims, little historical claim data for those claims were available. As latent construction defect exposures further emerged, management used new information provided by reported and paid losses, as well as industry information, to obtain better insight and to improve its judgment regarding construction defect losses.

The emergence of claims resulting from changes in New York labor laws has also impacted the general liability line of business. Unlike other states where workers compensation is the exclusive remedy for work related injuries, New York labor laws, collectively referred to as "Safe Place to Work Laws", impose additional liability on owners and general contractors for practically all accidents occurring on construction sites regardless of supervision or control. These laws, as refined in 1997, created an unintended exposure under general liability policies to workers' injuries occurring in New York.

These New York labor law claims began to be reported in late 1999 on policies written in years 1997 through 1999. OneBeacon revised its underwriting criteria in 2000 relating to construction business in New York to: (1) withdraw business from classes of contractors primarily engaged in work that exposed their own employees to falls from heights, (2) establish higher underwriting and pricing standards for all construction business, (3) verify acceptable risk transfer mechanisms on all general contractors, and (4) cease to be a market for any new construction business beginning in early 2001.

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Further, industry studies note that increased medical costs and a more litigious environment impacted general liability coverages in the late 1990s. As with workers compensation, increases in the U.S. claim cost indices for physician services, hospital services and legal costs exceeded the increase in the Consumer Price Index and led to higher general liability claim costs in the period from 1995 to 2001. OneBeacon experienced the most significant development in general liability lines in these accident years. As described under the workers compensation line above, the beneficial effects of cost-containment efforts in medical costs that management had expected to continue in the late 1990s had been exhausted, and the increase in medical costs greatly exceeded management's expectations.

In addition, new business, particularly National Accounts, and deterioration in the quality of the existing book of business, changed the historical exposure mix, loss development trends and profitability of the general liability line. While with hindsight National Accounts experience contributed an additional 8 to 20 percentage points of loss to the line for accident years 1996 to 2000, at the time this new business was written, prior management did not expect a meaningful divergence in loss development between the new business and the existing business. For reasons similar to those described above for the workers compensation business in the National Accounts policies, initial reserves were established in an environment of extremely competitive pricing pressures and were based upon perceptions about the relative risk characteristics of the new business compared to the existing business. Specifically, the types of participants in the National Accounts program suggested a lower risk profile because the severity of claims were expected to be lower than that of claims in the existing business, although perhaps with a higher frequency. For example, a number of participants in these programs were apartment buildings and complexes where injuries resulting in liability would be expected to be less severe than in industrial or commercial settings. However, management also considered potentially higher risk aspects of these new policies, such as OneBeacon's inexperience in writing certain accounts and its resulting heavier than usual reliance on available industry data. When prior management evaluated the relevant factors, and viewed them in the context of industry pricing for similar products, they expected that the new business would not exhibit loss development trends materially different from that of the existing business and that therefore pricing for these new coverages was adequate. As it turned out, the frequency and severity of the claims made under the National Accounts policies were significantly worse than for the existing business**.**

As described above, following the Merger, the aggregate book of business was also highly influenced by General Accident risks written in New York. The general liability line was impacted in particular by claims relating to New York Labor Laws which greatly expanded employers' liability for workers' injuries.

Based on the industry's reported results through 2001, there was some correlation between OneBeacon's loss emergence and loss trends and that of the industry for accident years 1992 through 1994, with both the industry and OneBeacon experiencing reserve decreases. However, beginning in 1995, OneBeacon's experience deteriorated badly as compared to only a modest worsening for the industry. OneBeacon's deterioration, in hindsight, was due in part to National Accounts business which was reporting losses faster and paying claims sooner than other general liability products. External factors, such as construction defects and the impact of New York Labor Laws described above also contributed to OneBeacon's experience. The industry ultimately reported favorable development on accident years 1995 through 1997, while OneBeacon ultimately recognized double digit percentage increases in loss ratios. For accident years 1998 through 2000, the industry initially reported improving loss ratios, although in hindsight results actually were deteriorating. During this time, OneBeacon's experience continued to worsen with loss ratios exceeding that of the industry. The industry generally did not begin to report the worsening losses until 2000 and 2001.

Multiple Peril. Multiple peril is a package policy sold to small-to mid-sized insureds or to members of trade associations or other groups. The coverage includes general liability insurance and commercial property insurance, which covers loss to a business' premises, inventory and equipment as a result of any peril or perils specific to the policy. The line is influenced by many of the same external factors noted above for general liability; however, the impact of these external factors on actual experience (i.e., incurred

losses and loss adjustment expenses) on these two business lines varies depending on the particular risks underwritten, the specific insureds, the normal randomness of loss events and the terms and coverage limits applicable to specific policies.

The emergence of new exposures, such as construction defect and claims resulting from changes in New York labor laws, as well as rising medical costs associated with commercial liability coverages and an increasing propensity to litigate have impacted the severity of multiple peril claims and have contributed to the circumstances leading to reserve increases being recorded for multiple peril in 2000 and 2001.

Similar to the general liability line of business, the multiple peril line of business has been significantly impacted by an increasing number of construction defect claims, the reporting of which can be quite delayed. As described above**,** prior to 2001 management did not separately segment construction defect claims in its records. Case reserves and IBNR reserves that related to construction defect claims were established within the respective lines of business to which the coverages related rather than on a separate basis. As latent construction defect exposures further emerged, management used new information provided by reported and paid losses, as well as industry information, to obtain better insight and to improve its judgment regarding construction defect losses. Based on review of segmented construction defect data, the multiple peril line has experienced a greater proportion of construction defect losses than that experienced in the general liability line.

Changes in New York labor laws also impacted general liability coverages under multiple peril policies by creating an unintended exposure to workers' injuries occurring in New York. As in the general liability line, these types of claims began to be reported in late 1999. The dollar amount of loss development in the multiple peril line as a result of these claims was greater than the amount in general liability.

Further, as described above for general liability, increases in the U.S. claim cost indices for physician services, hospital services and legal costs exceeded the increase in the Consumer Price Index and led to higher claim costs in general liability coverages provided under multiple peril policies in the period from 1995 to 2001.

The emergence of new exposures, such as construction defect, rising medical costs associated with commercial liability coverages and an increasing propensity to litigate have impacted the severity of multiple peril claims. Inflation in the costs of physician services, hospital services and legal costs significantly exceeded the general rate of inflation from 1990 to 2000, which has also led to more severe multiple peril claims. Changes in mix of business have also impacted this line. National Programs added up to 4 percentage points to the accident year loss ratios for the line from 1996 to 2001. When OneBeacon wrote these new multiple peril coverages in expansion into National Programs, prior management did not expect the loss development experience to depart in any material manner from the historical loss experience for other multiple peril coverages. Multiple peril policies were not written for National Accounts. As noted above for similar new National Accounts and National Programs coverages for workers compensation and for general liability, prior management evaluated aspects of these new coverages that suggested both higher risks (such as the relatively high volume of business written in California, a state in which litigation was more frequent) and lower risks (such as the access to high quality historical loss information made available by some of the trade associations for which large policies were written) than those in the existing multiple peril coverages. When evaluated against available industry pricing data and coverage terms that indicated competitors were not pricing these coverages on a basis suggesting an overall higher risk profile, management determined that reserves based on historical loss experience for other multiple peril policies would be appropriate. Ultimately, this assumption proved incorrect, as the severity and frequency of claims in the National Programs coverages were significantly higher than that for the existing multiple peril business.

Commercial Automobile Liability. Commercial 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.

The bodily injury aspect of this line is long-tailed and is significantly influenced by medical costs and legal and social trends.

With hindsight, inflation and legal costs have impacted the adequacy of reserving for commercial automobile liability coverage. The industry experienced increased medical costs inflation, far in excess of the rate of change in general inflation, for the period 1990 to 2000. In addition, as described under the workers compensation line above, the beneficial effects of cost-containment efforts in medical costs that management had expected to continue in the late 1990s had been exhausted, and the increase in medical costs greatly exceeded management's expectations. Also, the propensity for insureds to litigate claims has been increasing. Industry studies indicate that medical costs continued to increase 14% into 2002 and that the average dollar amount of settlements of personal and commercial automobile liabilities increased 236% from 1993 to 1999. Increases in medical costs, combined with more frequent litigation, have led to escalating severity of bodily injury losses.

National Accounts experience for commercial automobile coverage was poor, with losses ranging from 83% for accident year 1997 to approximately 200% for accident year 2000. A larger impact came from National Programs. These programs produced losses in excess of what would have been anticipated by historical trends. These programs had loss ratios of 116-185%, while OneBeacon's aggregate loss ratios were in the mid-70% to mid-80% range. For commercial automobile, National Accounts and National Programs added 2 to 8 points to accident year loss ratios for each year 1996 through 2001. At the time these policies were written, prior management did not expect that the loss experience would depart materially from that of existing commercial automobile coverages. While some aspects of these programs suggested a lower risk profile, such as larger, more sophisticated companies that were likely to place a greater emphasis on safety training, other aspects, such as the outsourcing of certain claims handling responsibilities and the potential higher severity of long-haul trucking accidents, suggested a higher risk profile. This assumption was supported by the pricing of other carriers in this very competitive market, which suggested that competitors were not underwriting these coverages as having higher risk characteristics than existing coverages. As it turned out, the severity and frequency of claims in the National Account and National Programs were significantly higher than those for existing commercial automobile policies.

Based on the industry's reported results through 2001, there was a strong correlation between OneBeacon's loss emergence and deteriorating results and industry results during the accident years 1994 through 1999. The industry initially reported relatively stable loss ratios for 1994-1999 while actual losses were deteriorating significantly beginning with accident year 1996. The industry had recognized some degree of adverse development through 1999 on 1996-1998 accident years. However, significant development emerged for 1998-2000 accident years that, consistent with OneBeacon, was not recorded until 2000 and 2001. Additional worsening within the industry was recorded for accident years 1996-1997 in 2000 and 2001 as well. Estimating reserves for commercial automobile was also influenced by the changes in mix of business described under "Changes in Business & Operations Mix of Business, the Merger and the Acquisition" above.

Asbestos and Environmental Reserves

OneBeacon's reserves include provisions made for claims that assert damages from asbestos and environmental 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. In addition to the factors described above under the heading "Non-Asbestos and Environmental Reserves Summary" regarding the reserving process, OneBeacon estimates its asbestos and environmental reserves based upon several factors, including facts surrounding reported cases and exposures to claims (such as policy limits and deductibles), current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies.

Immediately prior to the Acquisition, CGNU caused OneBeacon to purchase a reinsurance contract with National Indemnity for a premium of $1.3 billion under which OneBeacon is entitled to recover from National Indemnity up to $2.5 billion for asbestos claims arising from business written by OneBeacon prior to 1992, environmental claims arising from business written by OneBeacon prior to 1987 and certain other exposures, all net of other third party reinsurance recoveries. As a result of the National Indemnity Cover, there was no change in the net reserve balance.

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

During the fourth quarter of 2001, OneBeacon increased its estimate of gross asbestos and environmental loss reserves to more conservatively reflect the ultimate cost of settling these exposures and so that its reserve levels were more closely aligned with industry-wide survival ratios. A survival ratio is determined by dividing a company's reserves by its historical yearly loss payments for such claims. This ratio measures how many more years of payments the reserves can support, assuming future yearly payments are equal to historical yearly payments. Substantially all of this gross reserve increase was covered under the National Indemnity Cover, therefore there was no change in the net reserve balance. OneBeacon believes that, as a result of the National Indemnity Cover and the increase in gross reserves that was recorded in 2001, OneBeacon should not experience a material financial loss from old asbestos and environmental exposures under current coverage interpretations and that its survival ratio is generally consistent with industry survival ratios. OneBeacon's survival ratio for gross asbestos and environmental reserves, based on its average loss payments for the last year and three years, was approximately 12.7 and 7.7, respectively, at December 31, 2001.

Our reserves for asbestos and environmental losses at September 30, 2002 represent management's best estimate of our ultimate liability based on information currently available. However, as case law expands, OneBeacon may be subject to asbestos and environmental losses in excess of amounts intended by policy coverage. Loss reserve additions arising from any such future unfavorable case law interpretations cannot be reasonably estimated at the present time. OneBeacon estimates that, as of September 30, 2002, on an incurred basis, it had used approximately $1,771 million of the $2.5 billion coverage provided by the National Indemnity Cover. Approximately $395 million of the estimated $1,771 million of incurred losses has been paid by National Indemnity through September 30, 2002. To the extent OneBeacon's estimate of ultimate asbestos and environmental losses and National Indemnity's third-party recoverables differs from actual experience, the amount of coverage remaining under the National Indemnity Cover could be higher or lower than $729 million.

Additional Loss and Loss Adjustment Expense Information

The following information presents (1) OneBeacon's loss reserve development over the preceding ten years and (2) a reconciliation of loss and loss adjustment expense reserves in accordance with accounting principles and practices prescribed or permitted by insurance statutory 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 loss adjustment expenses. The liability represents the estimated amount of losses and loss adjustment expenses for claims that were unpaid at the balance sheet date, including incurred but not reported reserves. In accordance with GAAP, the liability for unpaid losses and loss adjustment expenses 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 loss adjustment expenses outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under ceded 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 loss adjustment expenses 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, 2001. Section IV shows reconciliation of net liability re-estimated as of the end of the latest re-estimation period. Section V shows the cumulative net liabilities paid of such previously recorded liabilities.

OneBeacon Loss and Loss Adjustment Expenses(1)
Years Ended December 31,

(dollars in millions)	1991(2)	1992	1993	1994	1995	1996	1997	1998(3)	1999	2000	2001
I. Liability for unpaid losses and LAE:											
Gross balance	$	$ 5,652.8	$ 5,562.5	$ 5,535.4	$ 5,844.4	$ 5,804.4	$ 5,655.9	$ 6,944.0	$ 6,368.8	$ 6,982.7	$ 8,425.2(4)
Less: reins. recoverables on unpaid losses and LAE		(1,392.6)	(1,191.6)	(1,069.8)	(1,307.4)	(1,260.4)	(1,159.2)	(1,651.9)	(1,285.6)	(1,276.4)	(3,609.7)
Net balance	$ 3,638.2	$ 4,260.2	$ 4,370.9	$ 4,465.6	$ 4,537.0	$ 4,544.0	$ 4,496.7	$ 5,292.1	$ 5,083.2	$ 5,706.3	$ 4,815.5(4)
II. Net liability re-estimated as of:											
1 year later	3,782.7	4,365.9	4,411.5	4,494.1	4,584.7	4,627.8	5,370.1	5,305.3	5,901.2	4,815.8	
2 years later	3,904.4	4,413.4	4,450.3	4,552.1	4,667.1	5,476.0	5,424.7	5,985.4	5,013.5		
3 years later	3,992.2	4,510.5	4,501.0	4,642.8	5,460.6	5,549.0	5,965.0	5,002.8			
4 years later	4,147.5	4,610.3	4,602.8	5,406.5	5,510.6	5,924.8	4,980.5				
5 years later	4,257.6	4,705.8	5,353.2	5,431.8	5,779.5	4,948.0					
6 years later	4,356.3	5,446.4	5,353.5	5,632.0	4,794.7						
7 years later	5,093.6	5,439.2	5,523.8	4,658.7							
8 years later	5,080.7	5,587.1	4,569.2								
9 years later	5,217.2	4,638.5									
10 years later	4,276.0										
III. Cumulative net (deficiency)/ redundancy	$ (637.8)	$ (378.3)	$ (198.3)	$ (193.1)	$ (257.7)	$ (404.0)	$ (483.8)	$ 289.3	$ 69.7	$ 890.5	$
Percent (deficient)/ redundant	(17.5)%	(8.9)%	(4.5)%	(4.3)%	(5.7)%	(8.9)%	(10.8)%	5.5%	1.4%	15.6%	%
IV. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see II. above):											
Gross re-estimated liability		$ 9,297.2	$ 8,984.6	$ 8,941.2	$ 8,840.2	$ 8,889.6	$ 8,853.1	$ 8,911.9	$ 8,835.2	$ 8,677.8	
Less: gross re-estimated reins.		(4,658.7)	(4,415.4)	(4,282.3)	(4,045.5)	(3,941.6)	(3,872.6)	(3,909.1)	(3,821.7)	(3,862.0)	

OneBeacon Loss and Loss Adjustment Expenses(1)
Years Ended December 31,

recoverable											
Net liability re-estimated		$ 4,638.5	$ 4,569.2	$ 4,658.7	$ 4,794.7	$ 4,948.0	$ 4,980.5	$ 5,002.8	$ 5,013.5	$ 4,815.8	
V. Cumulative net amount of liability paid through:											
1 year later	1,075.7	1,461.0	1,367.3	1,390.1	1,476.6	1,591.9	1,687.3	1,815.2	1,966.5	2,007.9	
2 years later	1,928.3	2,254.8	2,152.5	2,240.8	2,372.6	2,621.3	2,735.4	2,954.8	3,136.2		
3 years later	2,438.5	2,761.5	2,711.5	2,821.9	3,083.3	3,331.1	3,518.0	3,709.2			
4 years later	2,734.0	3,135.8	3,089.5	3,328.3	3,571.3	3,872.2	4,044.0				
5 years later	2,994.5	3,394.6	3,464.3	3,672.7	3,961.5	4,233.4					
6 years later	3,182.3	3,693.0	3,720.2	3,978.3	4,225.4						
7 years later	3,434.1	3,882.1	3,979.3	4,186.9							
8 years later	3,591.6	4,122.9	4,159.7								
9 years later	3,813.0	4,283.2									
10 years later	3,959.9										

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

(2)
For 1991 liabilities are shown net of reinsurance recoverables, as was the accounting practice prior to the implementation of Statement of Financial Accounting Standard ("SFAS") No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts".

(3)
In 1998, OneBeacon acquired Houston General and National Farmers Union. All liabilities related to these entities have been shown from the acquisition date forward in this table.

(4)
For 2001, gross and net liabilities for unpaid losses and loss adjustment expenses include $567.8 million and $244.0 million, respectively, of balances recorded as fair value adjustments in purchase accounting. See note 2 to the Financial Statements beginning on page F-46.

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

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

The following table reconciles OneBeacon's loss and loss adjustment expense reserves on a Statutory basis to those on a GAAP basis for each of the years in the three-year period ended December 31, 2001:

	1999	2000	2001
	(dollars in millions)		
Statutory reserve for losses and LAE	$ 5,115.7	$ 5,730.1	$ 6,795.8
GAAP adjustments:			
Reinsurance recoverable on unpaid losses and LAE(1)	1,285.6	1,276.4	1,606.5
Purchase accounting adjustment(2)			(567.8)
Other(3)	(32.5)	(23.8)	22.9
GAAP reserve for losses and LAE	$ 6,368.8	$ 6,982.7	$ 7,857.4

(1) Represents adjustments made to add back reinsurance recoverables that are netted against loss and loss adjustment expense reserves under the statutory basis of accounting.

(2) Represents fair value adjustment to loss and LAE reserves recorded in purchase accounting. See Note 2 to the Financial Statements beginning on page F-45.

(3) Represents long-term workers compensation loss and loss adjustment expense reserve discount recorded of $47.0 million, $42.1 million and $42.2 million in 1999, 2000 and 2001, respectively, primarily offset by incremental guaranty fund assessments required to be recorded under GAAP.

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 explicitly contemplated the risk of substantive terrorist attacks when underwriting their policies. In light of the Attacks, OneBeacon and other property and casualty insurance companies have sought to mitigate the risk associated with any future terrorist attacks by seeking to exclude coverage for such losses from their policies.

On November 26, 2002, President Bush signed the Terrorism Risk Reinsurance Act (the "Terrorism Act") establishing a program 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 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 to be approximately $100 million. 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 applicable retention levels. The Terrorism Act is scheduled to 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.

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 written in the largest metropolitan areas in which OneBeacon writes insurance. 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.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon's operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is both a function of the amount and type of insured exposure in an area affected by the event and the severity of the event. OneBeacon continually assesses and implements programs to manage its exposure to catastrophe losses through individual risk selection, by limiting its concentration of insurance written in catastrophe-prone areas, such as coastal regions. OneBeacon's largest single natural catastrophe risk is 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 uses probable maximum loss forecasting ("PML") 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. OneBeacon entered into a property catastrophe reinsurance program for the first four months of 2003 with lower levels of coverage than in past periods in recognition of the fact that catastrophic Northeast windstorms are seasonal. OneBeacon anticipates purchasing additional reinsurance effective May 1, 2003 that will provide adequate protection against a 1 in 250 Northeast windstorm PML.

Under OneBeacon's current property catastrophe reinsurance program, which is in effect through May 1, 2003, the first $125.0 million of losses resulting from any single catastrophe are retained by OneBeacon. Property catastrophe losses from a single event in excess of $125.0 million, up to $325.0 million, are reinsured with a group of reinsurers. 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. 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 losses resulting from nuclear, biological or chemical attacks.

As described in "Asbestos and Environmental Reserves" above, in connection with the Acquisition, OneBeacon obtained the National Indemnity Cover under which OneBeacon is entitled to recover up to $2.5 billion in ultimate losses and loss adjustment expenses incurred related to asbestos claims arising from business written by OneBeacon prior to 1992, environmental claims arising from business written by OneBeacon prior to 1987 and certain other exposures. Under the terms of the National Indemnity Cover, National Indemnity receives the benefit of reinsurance recoverables from certain of OneBeacon's third party reinsurance coverages in existence at the time the National Indemnity Cover was executed. Third party reinsurance collected on the claims covered by this agreement helps to preserve the $2.5 billion of National Indemnity coverage for the benefit of OneBeacon. OneBeacon estimates that on an incurred basis it has exhausted approximately $1,771 million of the coverage provided by the National Indemnity Cover after estimating amounts that will be recovered by National Indemnity from other third party reinsurers at September 30, 2002. approximately $395 million of the estimated $1,771 million of incurred losses has been paid by National Indemnity through September 30, 2002. To the extent that OneBeacon's estimate of ultimate asbestos and environmental losses and National Indemnity's third-party recoverables differs from actual experience, the amount of coverage remaining under the National Indemnity Cover could be higher or lower than $729 million.

In connection with the Acquisition, OneBeacon obtained the General Reinsurance 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 million of reserves ceded as of the date of the Acquisition. Pursuant to the General Reinsurance Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by General Reinsurance more quickly than anticipated at the time the contract was signed. As a result, OneBeacon has recorded $531.7 million in recoverables due from General Reinsurance at both September 30, 2002 and December 31, 2001, which represents management's best estimate of the total ultimate recoveries under the General Reinsurance Cover based on payment patterns established at those times. OneBeacon will only seek reimbursement from General Reinsurance for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the General Reinsurance Cover. The economic cost of not submitting certain other eligible claims to General Reinsurance is primarily the investment spread between the rate credited by

General Reinsurance and the rate achieved by OneBeacon on its own investments. This cost, if any, is not expected to be material.

At September 30, 2002, OneBeacon had $70.4 million of reinsurance recoverable on paid losses and $3,658.2 million that will become recoverable if claims are paid in accordance with current loss reserves estimates. Reinsurance recoverables from Berkshire Hathaway, Inc. ("Berkshire") (National Indemnity and General Reinsurance's ultimate parent) under the National Indemnity Cover and the General Reinsurance Cover together represented 61% of White Mountains' total reinsurance recoverables at September 30, 2002. 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.

Folksamerica

Folksamerica, through its wholly owned subsidiary, Folksamerica Reinsurance Company (a New York-domiciled reinsurance company), is a multi-line broker-market reinsurer which provides reinsurance to insurers of property and casualty and accident and health risks in the United States, Canada, Continental Europe (in 2002), Latin America and the Caribbean. Folksamerica became a wholly owned

subsidiary of White Mountains during 1998. Folksamerica Reinsurance Company is rated "A-" (Excellent) by A.M. Best. During the 2000 fourth quarter and the 2001 second quarter, we contributed certain of our insurance operating subsidiaries to Folksamerica. These operations, which are described separately under "Other Insurance and Reinsurance Operations of Folksamerica", are excluded from the following discussion of Folksamerica unless otherwise noted.

In December 2001 Folksamerica received a $400.0 million cash capital contribution from OneBeacon, which was provided to increase Folksamerica's capacity to capitalize on improved pricing trends which accelerated after the Attacks. As a result, Folksamerica is now among the largest U.S.-domiciled property and casualty reinsurers as measured by statutory surplus. At September 30, 2002, Folksamerica had total assets of $3.2 billion and shareholder's equity of $977.9 million.

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 several 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 bu