

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

**FORM 10-K**

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

**For the fiscal year ended December 31, 2012**

**OR**

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

**For the transition period from        to**

**Commission file number 1-8993**

**WHITE MOUNTAINS INSURANCE GROUP, LTD.**

(Exact name of Registrant as specified in its charter)

**Bermuda**

(State or other jurisdiction of  
incorporation or organization)

**80 South Main Street**

**Hanover, New Hampshire**

(Address of principal executive offices)

**94-2708455**

(I.R.S. Employer  
Identification No.)

**03755-2053**

(Zip Code)

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

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

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

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

**None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2012, was \$3,254,686,935.

As of February 28, 2013, 6,316,210 common shares, par value of \$1.00 per share, were outstanding (which includes 95,380 restricted common shares that were not vested at such date).

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to the Registrant's Annual General Meeting of Members scheduled to be held May 24, 2013 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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## PART I

### Item 1. Business

#### GENERAL

White Mountains Insurance Group, Ltd. (the “Company” or the “Registrant”) is an exempted Bermuda limited liability company whose principal businesses are conducted through its insurance and reinsurance subsidiaries. Within this report, the term “White Mountains” is used to refer to one or more entities within the consolidated organization, as the context requires. The Company’s headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains’ reportable segments are OneBeacon, Sirius Group, HG Global/BAM and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (“OneBeacon Ltd.”), an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies (collectively, “OneBeacon”). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. As of December 31, 2012, White Mountains owned 75.2% of OneBeacon Ltd.’s outstanding common shares. In October 2012, OneBeacon entered into a definitive agreement to sell its runoff business and in February 2012, OneBeacon sold its AutoOne Insurance business (“AutoOne”). Accordingly, the runoff business and AutoOne are presented as discontinued operations in White Mountains’ financial statements.

The Sirius Group segment consists of Sirius International Insurance Group, Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, “Sirius Group”). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation (“Sirius International”), Sirius America Insurance Company (“Sirius America”) and Lloyd’s Syndicate 1945 (“Syndicate 1945”). Sirius Group also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division.

The HG Global/BAM segment consists of White Mountains’ investment in HG Global Ltd. (“HG Global”) and the consolidated results of Build America Mutual Assurance Company (“BAM”). During the third quarter of 2012, White Mountains capitalized HG Global with approximately \$600 million to fund the start-up of BAM. BAM is a municipal bond insurer domiciled in New York that was established to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of \$503 million of surplus notes issued by BAM (the “BAM Surplus Notes”). HG Global, through its wholly-owned subsidiary, HG Re Ltd. (“HG Re”), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of December 31, 2012, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, accounting principles generally accepted in the United States (“GAAP”) requires White Mountains to consolidate BAM's results in its financial statements. BAM's results do not affect White Mountains' adjusted book value per share and are attributed to non-controlling interests.

White Mountains’ Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (“WM Advisors”), White Mountains’ variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (“WM Life Re”), which is in runoff, as well as various other entities not included in other segments.

On October 7, 2011, White Mountains completed its sale of Esurance Holdings, Inc. and its subsidiaries (“Esurance Insurance”) and Answer Financial Inc. and its subsidiaries (“AFI”) (collectively, “Esurance”). Accordingly, Esurance is no longer a reportable segment and is included in discontinued operations in White Mountains’ financial statements.

## White Mountains' Operating Principles

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

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

**Maintain a Disciplined Balance Sheet.** The first concern here is that insurance liabilities must always be fully recognized. Loss reserves and expense reserves must be solid before any other aspect of the business can be solid. Pricing, marketing and underwriting all depend on informed judgment of ultimate loss costs and that can be managed effectively only with a disciplined balance sheet.

**Invest for Total Return.** Historical insurance accounting has tended to hide unrealized gains and losses in the investment portfolio and over reward reported investment income (interest and dividends). Regardless of the accounting, White Mountains must invest for the best growth in value over time. In addition to investing our bond portfolios for total after-tax return, that will mean prudent investment in equities consistent with leverage and insurance risk considerations.

**Think Like Owners.** Thinking like owners has a value all its own. There are stakeholders in a business enterprise and doing good work requires more than this quarter's profit. But thinking like an owner embraces all that without losing the touchstone of a capitalist enterprise.

## ONEBEACON

OneBeacon, with its U.S. corporate headquarters in Minnetonka, Minnesota, is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. As a specialty underwriter, OneBeacon believes that it will generate superior returns as compared to an underwriter that takes a more "generalist" underwriting approach and that its knowledge regarding its specialized insurance products, targeted industries, classes of business and risk characteristics provides it with a competitive edge when determining the terms and conditions on individual accounts. OneBeacon's products relate to: professional liability, marine, energy, entertainment, sports and leisure, excess property, excess environmental, group accident, property and inland marine, public entities, technology, surety and tuition refund. Additionally, OneBeacon wrote collector cars and boats insurance through an exclusive underwriting agreement with Hagerty Insurance Agency ("Hagerty") that was terminated effective January 1, 2013. See *Collector Cars and Boats* on page 5.

OneBeacon also has assets, liabilities and capital related to non-specialty business that it no longer writes, principally non-specialty commercial lines and certain other runoff business, including nearly all of its asbestos and environmental reserves ("Runoff Business"). On October 17, 2012, OneBeacon entered into a definitive agreement to sell the Runoff Business (the "Runoff Transaction"). Upon completion of the Runoff Transaction, which is expected to occur in the second half of 2013 subject to regulatory approval, OneBeacon will be focused exclusively on specialty business. See **Discontinued Operations** on page 24 for a description of the Runoff Transaction.

At December 31, 2012 and 2011, OneBeacon had \$5.4 billion and \$5.8 billion of total assets and \$1.0 billion and \$1.1 billion of common shareholders' equity, respectively. At December 31, 2012 and 2011, White Mountains reported \$251 million and \$273 million of non-controlling interest related to its ownership in OneBeacon. OneBeacon wrote \$1.2 billion and \$1.1 billion in net written premiums in 2012 and 2011, respectively.

The following table presents the financial strength ratings assigned to OneBeacon’s principal insurance operating subsidiaries that support its ongoing specialty insurance operations (the “Ongoing Subsidiaries”), and OneBeacon’s subsidiaries that contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the Runoff Business (the “Runoff Subsidiaries”) as of February 28, 2013:

	A.M. Best <sup>(1)</sup>	Standard & Poor’s <sup>(2)</sup>	Moody’s <sup>(3)</sup>	Fitch <sup>(4)</sup>
<b>Ongoing Subsidiaries:</b>				
Rating	“A” (Excellent)	“A-” (Strong)	“A2” (Good)	“A” (Strong)
Outlook	Stable	Stable	Stable	Stable
<b>Runoff Subsidiaries <sup>(5)</sup>:</b>				
Rating	“A” (Excellent)	Unrated	“A2” (Good)	“A” (Strong)
Outlook	Under Review - Negative	N/A	Negative	Rating Watch - Negative

<sup>(1)</sup> “A” is the third highest of sixteen financial strength ratings assigned by A.M. Best Company (“A.M. Best”).

<sup>(2)</sup> “A-” is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor’s Financial Services LLC (“Standard & Poor’s”).

<sup>(3)</sup> “A2” is the sixth highest of twenty-one financial strength ratings assigned by Moody’s Investor Service (“Moody’s”).

<sup>(4)</sup> “A” is the sixth highest of nineteen international financial strength ratings assigned by Fitch Ratings (“Fitch”).

<sup>(5)</sup> Following OneBeacon’s announcement of the Runoff Transaction, A.M. Best, Fitch, Moody’s and Standard & Poor’s each issued a press release regarding the ratings implications. A.M. Best placed the Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody’s assigned a negative outlook. Standard & Poor’s downgraded and subsequently, at the request of OneBeacon, withdrew its rating on the Runoff Subsidiaries. All four ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable outlook.

### Property and Casualty Insurance Overview

Generally, property and casualty insurance companies write insurance policies in exchange for premiums paid by their customers (the insured). An insurance policy is a contract between the insurance company and the insured where the insurance company 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.

OneBeacon writes both property insurance and casualty insurance. Property insurance generally covers the financial consequences of accidental losses to the insured’s property, such as a business’ building, inventory and equipment or personal property. 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. Premiums from ocean and inland marine, private passenger auto, fire and allied lines and certain commercial multiple peril and auto policies generally represent OneBeacon’s property lines of business, and claims from such business are typically reported and settled in a relatively short period of time. Premiums from general liability, workers compensation, commercial and personal auto liability and certain commercial multiple peril policies generally represent OneBeacon’s casualty lines of business, and claims from such business can take years, even decades, to settle.

OneBeacon's net written premiums by line of business for the years ended December 31, 2012, 2011 and 2010 consist of the following:

Net written premiums by line of business Millions	Year Ended December 31,		
	2012	2011	2010 <sup>(1)</sup>
<b>Property lines:</b>			
Ocean and inland marine	\$ 214.2	\$ 210.7	\$ 208.6
Private passenger auto	99.7	92.8	87.1
Commercial multi peril and auto	52.7	39.7	31.5
Fire and allied	50.5	57.7	57.4
Total property lines	417.1	400.9	384.6
<b>Casualty lines:</b>			
General liability	\$ 418.1	\$ 372.7	\$ 356.6
Workers compensation	71.9	50.8	42.4
Automobile liability	74.8	63.9	55.0
Other casualty	38.2	30.7	25.4
Total casualty lines	603.0	518.1	479.4
<b>Other lines <sup>(2)</sup></b>	\$ 159.1	\$ 143.7	\$ 124.0
<b>Total</b>	\$ 1,179.2	\$ 1,062.7	\$ 988.0

<sup>(1)</sup> Excludes \$179.7 in net written premiums associated with personal lines that were sold in 2010.

<sup>(2)</sup> Consists of group accident & health and credit insurance products.

OneBeacon derives substantially all of its revenues from earned premiums, investment income and net realized and unrealized investment gains and losses on investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that 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, OneBeacon invests the premiums, earns investment income and generates net realized and unrealized gains and losses on investment activities.

Insurance companies incur a significant amount of their 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, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including their employees' compensation and benefits. The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company's combined ratio under GAAP is calculated by adding the ratio of incurred loss and LAE to earned premiums (the "loss and LAE ratio") and the ratio of policy acquisition and other underwriting expenses to earned premiums (the "expense ratio"). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

## Insurance Business

OneBeacon's insurance business is comprised of thirteen underwriting units that are aggregated into two insurance divisions: Specialty Products and Specialty Industries. OneBeacon's Specialty Products division offers distinct products and tailors coverages and services to a broad customer base across the United States. OneBeacon's Specialty Industries division focuses on solving the unique needs of targeted industry groups on a national scale. OneBeacon has added, and expects to continue to add, new businesses both organically and through acquisition, guided by its focus on profitable growth while prudently managing underwriting risk. OneBeacon's net written premiums by division for the years ended December 31, 2012, 2011 and 2010 consist of the following:

Division Millions	Year Ended December 31,		
	2012	2011	2010 <sup>(1)</sup>
Specialty Products	\$ 630.9	\$ 571.2	\$ 556.8
Specialty Industries	548.3	491.5	431.2
Total	\$ 1,179.2	\$ 1,062.7	\$ 988.0

<sup>(1)</sup> Excludes \$179.7 in net written premiums associated with personal lines that were sold in 2010.

## Specialty Products

For the years ended December 31, 2012, 2011 and 2010, OneBeacon's Specialty Products net written premiums by underwriting unit were as follows:

Underwriting Unit Millions	Year Ended December 31,		
	2012	2011	2010
Professional Insurance	\$ 340.7	\$ 314.9	\$ 320.7
Collector Cars and Boats	179.7	166.6	153.3
Tuition Reimbursement	65.1	60.6	59.7
Other Specialty Products	45.4	29.1	23.1
Total Specialty Products	\$ 630.9	\$ 571.2	\$ 556.8

A description of business written by each underwriting unit in OneBeacon's Specialty Products follows:

### OneBeacon Professional Insurance ("Professional Insurance")

Professional Insurance specializes in professional liability products for a specialized customer base, including hospitals, managed care organizations, long-term care facilities, medical facilities, physician groups, media organizations, lawyers, design professionals, financial services and technology providers. Additionally, Professional Insurance provides employment practices liability, management liability and other tailored products for complex organizations including health care provider excess insurance and HMO reinsurance. General liability, property and workers compensation coverages are also available for financial institutions. Professional Insurance policies are primarily issued on a "claims made" basis, which generally covers claims that are made against an insured during the time period when a liability policy is in effect, regardless of when the event causing the loss occurred. This coverage differs from "claims occurrence" basis policies, which generally cover losses on events that occur during a period specified in the policy, regardless of when the claim is reported.

### Collector Cars and Boats

Through its exclusive partnership with Hagerty, OneBeacon offered tailored coverages for collectible vehicles and wooden boats, automotive museums and restoration shops. Notable features included agreed value for the insured vehicle or boat, flexible usage, and overseas shipping/foreign touring coverage supported by in-house claims expertise. In January 2013, OneBeacon and Hagerty terminated their relationship and OneBeacon sold Essentia Insurance Company ("Essentia"), an indirect wholly-owned subsidiary that wrote OneBeacon's Hagerty collector car and boat business, to Markel Corporation. OneBeacon will recognize a \$23 million pre-tax gain on sale (\$15 million after tax) in the first quarter of 2013.

### Tuition Reimbursement

A.W.G. Dewar, Inc. ("Dewar") has been a leading provider of tuition reimbursement insurance since 1930. Dewar's product, classified as credit insurance, protects both schools and parents from the financial consequences of a student's withdrawal or dismissal from school. OneBeacon owns approximately 82% of Dewar.

### Other Specialty Products:

#### *OneBeacon Specialty Property (“Specialty Property”)*

Specialty Property provides excess property and inland marine solutions that augment primary policies or provide coverage in excess of self-insured retentions. Target classes of business include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale, education and public entities. Specialty Property products are sold primarily through surplus lines wholesalers.

#### *OneBeacon Excess and Surplus (“Excess and Surplus”)*

Excess and Surplus was established in July 2010 to support OneBeacon’s current businesses and write selectively in the excess and surplus market. Excess and Surplus includes OneBeacon Environmental, which specializes in environmental risk solutions designed to address a variety of exposures for a broad range of businesses, including multiline casualty placements for the environmental industry. The product suite includes commercial general liability, contractors environmental liability, professional services liability, environmental premises liability, products pollution liability, follow-form excess and commercial auto.

#### *OneBeacon Program Group (“Programs”)*

Formed in 2012, Programs provides a full range of multi-line package insurance solutions for select specialty programs overseen by dedicated agencies that perform all policy administration functions. Products are available on an admitted and nonadmitted basis. Programs works primarily with managing general agents and managing general underwriters, commonly referred to as program administrators.

#### *OneBeacon Surety Group (“Surety”)*

Formed in 2012, Surety offers a broad range of commercial, custom and miscellaneous surety bonds targeting middle-market, Fortune 2500 companies written through a network of independent agencies, brokers and wholesalers. Business is serviced through eight regions throughout the United States.

### **Specialty Industries**

For the years ended December 31, 2012, 2011 and 2010, OneBeacon’s Specialty Industries net written premiums by underwriting unit were as follows:

<b>Underwriting Unit</b> <b>Millions</b>	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
International Marine Underwriters	\$ <b>160.1</b>	\$ 180.0	\$ 188.9
Technology	<b>121.0</b>	94.3	75.3
Accident	<b>102.0</b>	86.8	66.9
Entertainment	<b>71.4</b>	61.2	56.2
Other Specialty Industries	<b>93.8</b>	69.2	43.9
Total Specialty Industries	\$ <b>548.3</b>	\$ 491.5	\$ 431.2

A description of business written by each underwriting unit in OneBeacon’s Specialty Industries follows:

#### *International Marine Underwriters (“IMU”)*

IMU traces its roots to the early 1900s, and offers a full range of ocean and inland marine insurance solutions. Ocean marine products include, but are not limited to, commercial hull and marine liabilities at both the primary and excess levels; ocean and air cargo with coverage extensions such as inland transit, warehousing and processing; yachts; and several marine “package” products with comprehensive property, auto and liability coverage. Inland marine solutions include builders' risks, contractors' equipment, energy, installation floaters, fine arts, motor truck cargo, transportation, miscellaneous articles floaters, warehousemen's legal liability and other inland marine opportunities. During 2012, OneBeacon merged its Property Inland Marine underwriting unit into IMU.



### *OneBeacon Technology Insurance (“Technology”)*

OneBeacon’s Technology unit provides insurance solutions for specific technology industries including: infotech, medtech, telecommunications, electronic manufacturing, integration contractors, instrument manufacturers and clean tech/solar. Tailored products and coverages include property, general liability, business auto, commercial umbrella, workers compensation, international, technology errors or omissions, data privacy and communications liability. Specialized technology insurance expertise, innovation and service are delivered through dedicated underwriting, risk control and claims staff.

### *OneBeacon Accident Group (“Accident”)*

OneBeacon’s Accident unit provides tailored accident solutions for the transportation industry and corporate accident marketplace, while also developing specialized accident insurance programs. The Accident product suite includes accidental death and dismemberment, occupational accident, sports accident, non-truckers liability, vehicle physical damage and other accident coverages. Accident also provides employers and affinity groups with access to services including a discounted prescription drug program, identity theft management services and travel assistance services.

### *OneBeacon Entertainment (“Entertainment”)*

Entertainment provides specialized commercial insurance, including professional liability protection, for the entertainment, sports and leisure industries. Coverages include film and television portfolio, producers portfolio, theatrical package, event cancellation, premises liability, event liability and participant liability.

### *Other Specialty Industries:*

### *OneBeacon Government Risks (“Government Risks”)*

Government Risks provides solutions for mid-sized municipalities and counties, special districts including water and sanitation, non-rail transit authorities and other publicly funded agencies. Government Risks products cover property and casualty risks, employment practices liability and professional liability for law enforcement and public officials. Government Risks products are offered on a fully insured, deductible, self-insured retention or assumed reinsurance basis.

### *OneBeacon Energy Group (“Energy”)*

Energy, a business OneBeacon decided to exit (except for certain inland marine accounts that were transferred to IMU) commencing in the fourth quarter of 2012, focused on middle-market upstream and midstream conventional energy businesses, alternative and renewable energy producers, alternative fuel producers and related service and manufacturing enterprises. Energy offered a full array of property, inland marine and casualty insurance, including property damage, boiler and machinery breakdown, general liability, auto liability and umbrella liability. Energy did not offer offshore energy products.

### **Geographic Concentration**

Substantially all of OneBeacon’s net written premiums are derived from business produced in the United States. For the years ended December 31, 2012, 2011 and 2010, business was produced in the following states:

<b>Net written premiums by state</b>	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010 <sup>(2)</sup></b>
California	<b>16%</b>	14%	13%
New York	<b>9</b>	9	9
Texas	<b>7</b>	7	7
Florida	<b>5</b>	5	6
District of Columbia	<b>5</b>	4	2
Massachusetts	<b>4</b>	5	5
Other <sup>(1)</sup>	<b>54</b>	56	58
<b>Total</b>	<b>100%</b>	100%	100%

<sup>(1)</sup> No individual state is greater than 5% of specialty net written premiums for the years ended December 31, 2012, 2011 and 2010.

<sup>(2)</sup> Excludes net written premiums associated with personal lines that were sold in 2010.

## Marketing and Distribution

OneBeacon offers its products through a network of independent agents, regional and national brokers and wholesalers. Overall, OneBeacon has approximately 2,700 distribution relationships across the country. In recent years, OneBeacon has expanded its distribution channels to include select managing general agencies (“MGAs”), either through acquisitions or exclusive relationships. These MGAs focus on a particular customer group with tailored products and services, and related expertise.

OneBeacon protects the integrity of its franchise value by selectively appointing distribution partners that demonstrate business and industry knowledge and geographic profiles that align with its target markets and specialized capabilities. OneBeacon believes in the added value provided by independent distribution partners as they conduct more complete assessments of their clients’ needs, which result in more appropriate coverages and prudent risk management. OneBeacon also believes that independent insurance agencies and brokers will continue to be a significant force in overall industry premium production.

## Underwriting and Pricing

OneBeacon believes there must be a realistic expectation of attaining an underwriting profit on all the business it writes, as well as a demonstrated fulfillment of that expectation over time. Consistent with the “underwriting comes first” operating principle, adequate pricing is a critical component for achieving an underwriting profit. OneBeacon underwrites its book with a disciplined approach towards pricing its insurance products and is willing to forgo a business opportunity if it believes it is not priced appropriately to the exposure.

OneBeacon actively monitors pricing activity and measures usage of tiers, credits, debits and limits. In addition, OneBeacon regularly updates base rates to achieve targeted returns on capital and attempts to shift writings away from lines and classes where pricing is inadequate. To the extent changes in premium rates, policy forms or other matters are subject to regulatory approval (see “**REGULATION—United States**” on page 26 and “**Risk Factors—Regulation may restrict our ability to operate**” on page 38), OneBeacon proactively monitors its pending regulatory filings to facilitate, to the extent possible, their prompt processing and approval. Lastly, OneBeacon expends considerable effort to measure and verify exposures and insured values.

## Competition

Property and casualty insurance is highly competitive. OneBeacon’s businesses each compete against a different subset of companies. In general terms, OneBeacon competes in one or more of its businesses with most of the large multi-line insurance companies, such as ACE, AIG, Chubb Group, CNA, Liberty Mutual, Travelers and Zurich Insurance Group. OneBeacon also competes with most of the specialty companies, such as Allied World Assurance Company, HCC Insurance Holdings, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. Lastly, OneBeacon competes in certain of its businesses with various local and regional insurance companies.

The more significant competitive factors for most insurance products OneBeacon offers are price, product terms and conditions, agency and broker relationships and claims service. OneBeacon’s underwriting principles and dedication to independent distribution partners are unlikely to make it the low-cost provider in most markets. While it is often difficult for insurance companies to differentiate their products, OneBeacon believes that by providing superior specialty products to satisfy market needs and relying on agents and brokers who value its targeted expertise, superior claims service, and disciplined underwriting, it establishes a competitive advantage. The continued existence of carriers operating with lower cost structures places ongoing pressure on OneBeacon’s pricing and terms and conditions, which may impact its ability to compete.

## Claims Management

Effective claims management is a critical factor in achieving satisfactory underwriting results. OneBeacon maintains an experienced staff of appraisers, medical specialists, managers and field adjusters strategically located throughout its operating territories. OneBeacon also maintains a special investigative unit designed to detect insurance fraud and abuse and support efforts by regulatory bodies and trade associations to curtail fraud.

Claims operations are organized into ongoing claims and runoff claims, with specific claims resources supporting the respective operations. This approach allows OneBeacon to better identify and manage claims handling costs. In addition, a shared claims service unit manages costs related to all claims staff and vendors. OneBeacon has adopted a total claims cost management approach that gives equal importance to controlling claims handling expenses, legal expenses and claims payments, enabling it to lower the sum of the three. This approach requires the utilization of a considerable number of conventional metrics to monitor the effectiveness of various programs implemented to lower total loss costs. OneBeacon utilizes the metrics to guard against implementation of expense containment programs that will cost more than it expects to save.

OneBeacon's claims department utilizes a claims workstation to record reserves, payments and adjuster activity and, with support from expert tools, assists each claim handler in identifying recovery potential, estimating property damage, evaluating claims and identifying fraud. OneBeacon's commitment and performance in fighting insurance fraud has reduced claim costs and aided law enforcement investigations.

### **Catastrophe Risk Management and Reinsurance Protection**

In the normal course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third-party reinsurers in order to minimize loss from large losses 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 a function of the amount and type of insured exposure in the area affected by the event as well as the severity of the event. OneBeacon uses models (primarily AIR Worldwide ("AIR") Version 12) to estimate the probability of the occurrence of a catastrophic event as well as potential losses under various scenarios. OneBeacon uses this model output in conjunction with other data to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures.

OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective May 1, 2012, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2013. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first \$25 million of losses resulting from any single catastrophe are retained and the next \$155 million of losses resulting from the catastrophe are reinsured in three layers, although OneBeacon retains a co-participation of 55% of losses from \$25 million to \$40 million, 15% of losses from \$40 million to \$80 million and 10% of losses from \$80 million to \$180 million. Thus, for a \$180 million loss, OneBeacon would retain \$49 million. Any loss above \$180 million would be retained in full. In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium. OneBeacon anticipates that the \$180 million limit is sufficient to cover its Northeast windstorm losses with a modeled 0.4% probability of occurrence (1-in-250-year event). This \$180 million limit was reduced from the \$225 million limit that OneBeacon's previous catastrophe reinsurance program provided, as a result of lower catastrophe exposure as a specialty-focused company.

In addition to the corporate catastrophe reinsurance protection that it secures, OneBeacon may also purchase dedicated reinsurance protection for specific businesses. In 2012, OneBeacon purchased insurance to protect its collector cars and boats business from catastrophic losses. This treaty covered losses in excess of \$2.5 million up to \$25 million in two layers. The first layer, \$2.5 million in excess of \$2.5 million, carried a 5% co-participation. The company had a 20% co-participation on the second layer, \$20 million in excess of \$5 million. Catastrophe losses above \$25 million are retained in full. Reinstatement premiums are paid if the coverage is attached.

OneBeacon also purchased a per-occurrence treaty for IMU that protects against large occurrences, whether a single large claim or a catastrophe. The IMU treaty attaches at \$2 million per occurrence. Coverage is provided up to \$60 million. The first layer of the marine treaty is \$5 million in excess of \$2 million, with an annual aggregate deductible of \$1.5 million for large losses and \$5 million for catastrophes losses. For losses in the second layer, \$10 million excess of \$50 million, OneBeacon retains half of the loss. Losses above \$60 million are retained in full. Reinstatement premiums are paid in full or in part depending on the layer and the occurrence if the coverage is attached. The corporate catastrophe treaty provides coverage for losses retained under both the collector cars and boats and marine reinsurance treaties.

OneBeacon also purchases property-per-risk reinsurance coverage to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of \$10 million up to \$100 million. Individual risk facultative reinsurance may be purchased above \$100 million where OneBeacon deems it appropriate. Under the property-per-risk program, OneBeacon retains a co-participation of 10% for losses in excess of \$20 million up to \$50 million and a co-participation of 20% for losses in excess of \$50 million. The property-per-risk program also provides one limit of reinsurance protection for losses in excess of \$10 million up to \$100 million on an individual risk basis for foreign terrorism losses. However, any nuclear events, or biological, chemical or radiological terrorist attacks are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual policies involving general liability, automobile liability, professional liability or umbrella liability. OneBeacon's healthcare professional liability treaty covers losses in excess of \$5 million up to \$20 million in two layers. The first layer, \$5 million in excess of \$5 million, has a 20% co-participation. All other casualty business is covered in a separate treaty covering losses in excess of \$5 million up to \$21 million. This treaty has a 22.5% co-participation in the first layer (\$6 million in excess of \$5 million) and a 10% co-participation in the second layer (\$10 million in excess of \$11 million). OneBeacon purchases a treaty to protect against large workers compensation losses that covers 100% of the loss in excess of \$1 million up to \$10 million per person. In addition, for casualty losses involving more than one insured, OneBeacon maintains a treaty that covers up to \$40 million in excess of a \$10 million retention.

OneBeacon's property catastrophe reinsurance program does not cover property losses resulting from any nuclear events or biological, chemical or radiological terrorist attacks or losses resulting from acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002 (the "Terrorism Act" or "TRIA"), as amended, committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as well as domestic acts of terrorism. See "**Terrorism**" below.

Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectibility of balances due from reinsurers is critical to OneBeacon's financial strength. See **Note 4—"Third-Party Reinsurance"** of the accompanying consolidated financial statements.

## **Terrorism**

Since the terrorist attacks of September 11, 2001, OneBeacon has sought to mitigate the risk associated with any future terrorist attacks by limiting the aggregate insured value of policies in geographic areas with exposure to losses from terrorist attacks. This is accomplished by either limiting the total insured values exposed, or, where applicable, through the use of terrorism exclusions.

In December 2007, the U.S. government extended the Terrorism Act until December 31, 2014. The Terrorism Act established a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended, the law now also covers domestic acts of terrorism. The law limits the industry's aggregate liability by requiring the federal government to share 85% of certified losses once a company meets a specific retention or deductible as determined by its prior year's direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at \$100 billion. In exchange for this "backstop," primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the Terrorism Act: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage.

OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately \$100 million in 2013. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon's or the industry's retention levels in 2013, up to a total of \$100 billion.

OneBeacon's current property and casualty catastrophe reinsurance programs provide coverage for both "certified" and "non-certified" events as defined under the Terrorism Act provided such losses are not the result of a nuclear, biological, chemical or radiological terrorist attack, or for "certified" acts committed by an individual or individuals acting on behalf of any foreign person or foreign interest. See "**Catastrophe Management and Reinsurance Protection**" above.

OneBeacon closely monitors and manages its concentration of risk by geographic area. OneBeacon's guideline is to control its exposures so that its total maximum expected loss from a likely terrorism event within any half-mile radius in a metropolitan area or around a target risk will not exceed \$200 million, or \$300 million in all other areas, before considering the Terrorism Act. Reports monitoring OneBeacon's terrorism exposures are generated quarterly, and the exposure of potential new business located in areas of existing concentration or that individually present significant exposure is evaluated during the underwriting process. As a result, OneBeacon believes that it has taken appropriate actions to limit its exposure to losses from terrorist attacks and will continue to monitor its terrorism exposure in the future. Nonetheless, risks insured by OneBeacon, including those covered by the Terrorism Act, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material.

## **Loss and Loss Adjustment Expense Reserves**

OneBeacon establishes loss and LAE reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See "**CRITICAL ACCOUNTING ESTIMATES — Loss and LAE Reserves — OneBeacon**" on page 75 for a full discussion regarding OneBeacon's loss reserving process.

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

Section I of the 10 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 loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including incurred but not reported ("IBNR") reserves. In accordance with GAAP, the liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III 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 loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency (the average number of claims submitted per policy during a given period of time) and severity (the average value of claims submitted per policy during a given period of time) patterns, becomes known. Section IV 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, 2012. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2012. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2012.

(\$ in millions)	OneBeacon Loss and LAE <sup>(1)</sup> Year ended December 31,										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
I. Liability for unpaid loss and LAE:											
Gross balance	\$ 78.9	\$ 130.3	\$ 211.4	\$ 376.7	\$ 436.1	\$ 480.2	\$ 627.1	\$ 702.1	\$ 835.1	\$ 868.5	\$ 1,000.0
Less reinsurance recoverable on unpaid losses and LAE	(12.0)	(15.7)	(14.5)	(46.8)	(30.6)	(24.3)	(49.6)	(43.8)	(53.6)	(61.6)	(107.3)
Net balance	66.9	\$ 114.6	\$ 196.9	\$ 329.9	\$ 405.5	\$ 455.9	\$ 577.5	\$ 658.3	\$ 781.5	\$ 806.9	\$ 892.7
II. Cumulative amount of net liability paid through:											
1 year later	32.5	48.7	58.1	126.8	96.6	97.8	154.8	219.4	306.3	339.0	
2 years later	49.0	62.3	76.6	168.7	132.3	159.4	235.2	357.0	474.4		
3 years later	55.8	74.3	95.4	185.4	167.2	197.3	294.4	436.3			
4 years later	61.2	81.2	101.2	205.1	183.9	230.3	331.4				
5 years later	64.5	82.5	105.0	214.1	195.3	244.7					
6 years later	65.0	84.1	106.6	218.7	199.6						
7 years later	65.9	84.5	106.9	221.4							
8 years later	66.3	84.3	108.7								
9 years later	66.0	82.8									
10 years later	64.5										
III. Net Liability re-estimated as of:											
1 year later	74.7	109.7	179.9	325.9	308.1	391.1	492.9	630.2	751.7	799.5	
2 years later	67.9	102.3	152.4	269.6	267.8	335.4	459.3	595.8	743.8		
3 years later	69.3	100.0	128.1	243.1	243.2	318.8	416.1	589.6			
4 years later	69.5	91.7	119.1	238.8	227.1	297.4	413.5				
5 years later	68.1	87.2	118.2	228.8	224.8	294.3					
6 years later	67.6	86.2	111.8	229.5	221.6						
7 years later	67.3	86.3	110.1	230.2							
8 years later	67.4	86.1	111.2								
9 years later	66.9	84.5									
10 years later	65.3										
IV. Cumulative net (deficiency)/redundancy											
	\$ 1.6	\$ 30.1	\$ 85.7	\$ 99.7	\$ 183.9	\$ 161.6	\$ 164.0	\$ 68.7	\$ 37.7	\$ 7.4	
Percent (deficient)/redundant	2.4%	26.3%	43.5%	30.2%	45.4%	35.4%	28.4%	10.4%	4.8%	0.9%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):											
Gross re-estimated liability	\$ 71.2	\$ 107.9	\$ 130.8	\$ 305.7	\$ 251.2	\$ 328.4	\$ 458.6	\$ 629.5	\$ 787.2	\$ 843.8	
Less: gross re-estimated reinsurance recoverable	(5.9)	(23.4)	(19.6)	(75.5)	(29.6)	(34.1)	(45.1)	(39.9)	(43.4)	(44.3)	
Net re-estimated liability	\$ 65.3	\$ 84.5	\$ 111.2	\$ 230.2	\$ 221.6	\$ 294.3	\$ 413.5	\$ 589.6	\$ 743.8	\$ 799.5	
VI. Cumulative gross (deficiency)/redundancy											
	\$ 7.7	\$ 22.4	\$ 80.6	\$ 71.0	\$ 184.9	\$ 151.8	\$ 168.5	\$ 72.6	\$ 47.9	\$ 24.7	
Percent (deficient)/redundant	9.8%	17.2%	38.1%	18.8%	42.4%	31.6%	26.9%	10.3%	5.7%	2.8%	

<sup>(1)</sup> The 10-year table consists of activity related to OneBeacon's loss and LAE reserves from Specialty Products and Specialty Industries. As a result, the 10-year table excludes the Runoff Business, AutoOne and loss and LAE reserves related to the personal lines business that OneBeacon sold in 2010.

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

Millions	Year Ended December 31,		
	2012	2011	2010
Regulatory reserves	\$ 2,299.1	\$ 2,604.6	\$ 2,681.7
Reinsurance recoverable on unpaid losses and LAE <sup>(1)</sup>	107.3	61.6	53.6
Runoff Business <sup>(2)</sup>	(1,406.4)	(1,717.8)	(1,800.1)
AutoOne <sup>(3)</sup>	—	(64.7)	(77.3)
Other <sup>(4)</sup>	—	(15.2)	(22.8)
GAAP reserves	\$ 1,000.0	\$ 868.5	\$ 835.1

<sup>(1)</sup> Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under regulatory accounting.

<sup>(2)</sup> Represents loss and LAE reserves related to the Runoff Business which are presented as liabilities held for sale in the December 31, 2012 balance sheet and have been excluded from this table for the prior periods presented to conform to the current presentation. Also includes adjustments made for certain reinsurance recoverables on unpaid losses that have a different presentation for statutory than for GAAP.

<sup>(3)</sup> Represents loss and LAE reserves related to AutoOne, which are presented as liabilities held for sale in the December 31, 2011 balance sheet and have been excluded from the 10-year table for all periods presented.

<sup>(4)</sup> Represents long-term workers compensation loss and LAE reserve discount recorded in excess of statutorily defined discount. As of December 31, 2012, the GAAP discount on long-term workers compensation loss and LAE reserves was equal to the statutorily defined discount.

## OneBeacon's Senior Notes

### 2012 OBH Senior Notes

In November 2012, OneBeacon U.S. Holdings, Inc. ("OBH"), an intermediate holding company of OneBeacon, issued \$275 million face value of senior unsecured debt (the "2012 OBH Senior Notes") through a public offering, at an issue price of 99.9%. The net proceeds from the issuance of the 2012 OBH Senior Notes were used to repurchase OBH's existing outstanding senior notes, the 2003 OBH Senior Notes (as defined below). The OBH 2012 Senior Notes, which are fully and unconditionally guaranteed as to the payment of principal and interest by OneBeacon Ltd., bear an annual interest rate of 4.6%, payable semi-annually in arrears on May 9 and November 9 until maturity on November 9, 2022. See **Note 6 - Debt** for more details regarding the 2012 OBH Senior Notes.

### 2003 OBH Senior Notes

In May 2003, OBH issued \$700 million face value of senior unsecured debt (the "2003 OBH Senior Notes") through a public offering, at an issue price of 99.7%. The 2003 OBH Senior Notes had an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, and were scheduled to mature on May 15, 2013.

From 2008 through 2011, OneBeacon repurchased a total of \$430 million of the face value of its outstanding 2003 OBH Senior Notes through various transactions. In the fourth quarter of 2012, in connection with the issuance of the 2012 OBH Senior Notes, OBH purchased and retired the remaining \$270 million aggregate principal amount of outstanding 2003 OBH Senior Notes for \$276 million.

## SIRIUS GROUP

Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture, and certain other exposures on a worldwide basis through its subsidiary, Sirius International. Sirius International, which is the largest reinsurance company domiciled in Scandinavia based on gross written premiums, owns Sirius America and sponsors Syndicate 1945. Sirius Group also specializes in the acquisition and management of runoff liabilities for insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division. See "**White Mountains Solutions**" on page 15.

Sirius Group has offices in Australia, Belgium, Bermuda, Connecticut, Copenhagen, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich. At December 31, 2012 and 2011, the Sirius Group segment had \$6.0 billion and \$5.3 billion of total assets and \$1.6 billion and \$1.3 billion of common shareholder's equity, respectively. The Sirius Group segment wrote \$948 million and \$916 million in net written premiums in 2012 and 2011, respectively.

The following table presents the financial strength ratings assigned to the principal reinsurance operating subsidiaries of Sirius Group as of February 28, 2013. On September 25, 2012, Fitch upgraded the insurer financial strength rating of Sirius Group from “A-” (Stable) to “A” (Stable).

	<b>A.M. Best <sup>(1)</sup></b>	<b>Standard &amp; Poor's <sup>(2)</sup></b>	<b>Moody's <sup>(3)</sup></b>	<b>Fitch <sup>(4)</sup></b>
Rating	“A” (Excellent)	“A-” (Strong)	“A3” (Good)	“A” (Strong)
Outlook	Stable	Stable	Stable	Stable

<sup>(1)</sup> “A” is the third highest of sixteen financial strength ratings assigned by A.M. Best.

<sup>(2)</sup> “A-” is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's.

<sup>(3)</sup> “A3” is the seventh highest of twenty-one financial strength ratings assigned by Moody's.

<sup>(4)</sup> “A” is the sixth highest of nineteen international financial strength ratings assigned by Fitch.

## Reinsurance Overview

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

Reinsurance is generally written on a treaty or facultative basis. Treaty reinsurance is an agreement whereby the reinsurer assumes a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of the agreement, usually one year. When underwriting treaty reinsurance, the reinsurer does not evaluate each individual risk and generally accepts the original underwriting decisions made by the ceding company. Treaty reinsurance is typically written on either a proportional or excess of loss basis. A proportional reinsurance treaty is an arrangement whereby a reinsurer assumes a predetermined proportional share of the premiums and losses generated on specified business. An excess of loss treaty is an arrangement whereby a reinsurer assumes losses that exceed a specific retention of loss by the ceding company. Facultative reinsurance, on the other hand, is underwritten on a risk-by-risk basis, which allows the reinsurer to determine pricing for each exposure.

Sirius Group writes treaty and facultative reinsurance, as well as primary direct business. The majority of Sirius Group's premiums are derived from excess of loss and proportional reinsurance contracts, which in 2012 amounted to 63% and 19%, respectively, of its total net written premiums, while primary direct business represented 18% of total net written premiums.

A significant period of time normally elapses between the receipt of reinsurance premiums and the payment of reinsurance claims. While premiums are generally paid to the reinsurer upon inception of the underlying coverage, the claims process is delayed and generally begins upon the occurrence of an event causing an insured loss followed by: (1) the reporting of the loss by the insured to its broker or agent; (2) the reporting by the broker or agent to the ceding company; (3) the reporting by the ceding company to its reinsurance intermediary or agent; (4) the reporting by the reinsurance intermediary or agent to the reinsurer; (5) the ceding company's adjustment and payment of the loss; and (6) the payment to the ceding company by the reinsurer. During this time, reinsurers invest the premiums and earn investment income and generate net realized and unrealized investment gains and losses on investments. The period of time between the receipt of premiums and the payment of claims is typically longer for a reinsurer than for a primary insurer.

## Classes of Business

The following table shows Sirius Group's net written premiums by class of business for the years ended December 31, 2012, 2011 and 2010:

Business class Millions	Year Ended December 31,		
	2012	2011	2010
Accident and health	\$ 270.0	\$ 245.8	\$ 211.4
Other property	248.5	216.8	243.7
Property catastrophe excess	236.5	201.5	185.4
Trade credit	62.5	79.6	51.5
Aviation and space	53.8	60.8	58.1
Marine	42.2	45.3	41.8
Agriculture	21.5	32.8	27.2
Contingency	11.3	15.1	13.9
Casualty	1.4	18.0	32.8
Total	\$ 947.7	\$ 915.7	\$ 865.8

For each of the years ended December 31, 2012, 2011 and 2010, 82%, 85%, and 86%, respectively, of Sirius Group's net written premiums were for reinsurance products, with the remainder being insurance products. Sirius Group is expanding its primary direct business in the United States for the accident and health line, which could result in increased direct insurance business for years 2013 and forward.

### Accident and Health

Sirius Group is an insurer of direct accident and health insurance business in the U.S., either on an admitted or surplus lines basis, as well as international medical business written through International Medical Group, Inc. ("IMG"), which is the largest agent writing on Sirius Group's behalf. In 2012, Sirius Group had \$114 million in gross written premiums through IMG. Sirius Group also writes proportional and excess treaties covering employer medical stop loss for per person (specific) and per employer (aggregate) exposures. In addition, Sirius Group writes some medical, health and personal accident coverages written on a treaty and facultative basis.

### Other Property

Sirius Group is a leader in the broker market for property treaties written on a proportional and excess of loss basis. For its international business, the book consists of treaty, written on both a proportional and excess of loss basis, facultative, and direct business, primarily in Europe. In the United States, the book predominantly centers on significant participations on proportional and excess of loss treaties for carefully chosen partners in the excess & surplus lines segment of the market.

### Property Catastrophe Excess

Property catastrophe excess of loss treaties cover losses from catastrophic events. Sirius Group writes a worldwide portfolio with the largest concentration of exposure in Europe and the United States, and seeks to set prices and terms on treaties wherever possible. The U.S. book written in Bermuda has a national account focus supporting principally the lower and/or middle layers of large capacity programs. Additionally, Stockholm writes a U.S. portfolio mainly consisting of select small regional and standard lines carriers. The exposures written in the international portfolio are diversified across many countries, regions and perils.

### Trade Credit

Sirius Group writes credit and bond reinsurance, mostly on companies with worldwide operations. Most debtors are based in Europe, representing approximately 62% of Sirius Group's exposure. The bulk of the business is traditional short term commercial credit insurance, covering pre-agreed domestic and export sales of goods and services with typical coverage periods of 60 to 120 days. Losses under these policies (protection of undisputed debts against declared insolvency and protracted default) are correlated to adverse changes in a respective country's gross national product.

### Aviation and Space

Aviation insurance covers loss of or damage to an aircraft and the aircraft operations' liability to passengers, cargo and hull as well as to third parties. Additionally, liability arising out of non-aircraft operations such as hangars, airports and aircraft products can be covered. Space insurance covers loss of or damage to a satellite during launch and in orbit. The book consists of treaty, written on both on a proportional and excess of loss basis, facultative, and direct business.



## **Marine**

Sirius Group provides marine reinsurance, primarily written on an excess of loss and proportional basis. Coverage offered includes damage to ships and goods in transit, marine liability lines, and offshore energy industry insurance. Sirius Group also writes yacht business, both on a reinsurance and a direct basis. The marine portfolio is diversified across many countries and regions.

## **Agriculture**

Sirius Group primarily provides proportional and stop loss coverage to companies writing U.S. government-sponsored Multi-Peril Crop Insurance (“MPCI”). Sirius Group’s participation is net of the government’s stop loss reinsurance protection. Sirius Group also provides coverage for crop-hail and certain named perils when bundled with MPCI business. Sirius Group also writes some agriculture business outside of the United States.

## **Contingency**

Sirius Group underwrites contingency insurance, primarily for event cancellation and non-appearance, primarily on a direct policy and facultative reinsurance basis. Additionally, coverage for liabilities arising from contractual bonus, prize redemption and over-redemption is also offered. The contingency portfolio is diversified across many countries and regions.

## **Casualty**

Through 2011, Sirius Group’s casualty treaty division accepted reinsurance submissions for all lines of general casualty and professional liability business. Due to insufficient U.S. casualty premium rates and global interest rates, the overall casualty book of business has decreased over time and effective January 1, 2012, Sirius Group no longer writes casualty business other than incidental exposures. Sirius Group could resume writing casualty business if premium rates and contract terms improve to favorable levels.

## **Lloyd’s Syndicate**

In 2011, Sirius Group established Syndicate 1945, and focused on writing accident and health and contingency business. Effective in 2013, Syndicate 1945 licenses have been approved to include property and marine business. Syndicate 1945 began writing business effective July 1, 2011 and had gross written premiums net of commissions of \$58 million and \$5 million in 2012 and 2011, respectively. Syndicate 1945 has Lloyd’s approved net capacity for 2013 of £93 million (\$150 million based on the December 31, 2012 GBP to USD exchange rate).

## **White Mountains Solutions**

White Mountains Solutions is a Connecticut-based division of Sirius Group specializing in the acquisition and management of runoff liabilities for insurance and reinsurance companies both in the United States and internationally. The White Mountains Solutions team is comprised of a dedicated group of financial, actuarial and claims professionals experienced in the management and resolution of complex insurance liabilities as well as the structuring of transactions designed to enable owners to exit an insurance business and extract trapped capital. Acquisitions typically involve purchases at a significant discount to book value and undergo an extensive due diligence process. Sirius Group can derive value from these acquisitions not only from the discount purchase price, but also from the investment income on insurance float, the potential settlement of claims below the carried level of reserves and the harvesting of other embedded assets, including the value of shell companies and licenses.

Since its formation in 2004, White Mountains Solutions has executed eleven transactions, which have resulted in approximately \$163 million of cumulative after-tax income through December 31, 2012.

In November 2012, White Mountains Solutions completed the acquisitions of four runoff entities following receipt of regulatory approvals. The transactions entail the acquisition of Physicians Insurance Company of Ohio (“PICO”) and Citation Insurance Company (“Citation”) from PICO Holdings and also the acquisition of two American International Group, Inc. (“AIG”) runoff subsidiaries, American General Indemnity Company (“American General”) and American General Property Insurance Company (“American General Property”). White Mountains Solutions acquired 100% of the stock of PICO and Citation for a purchase price of \$15 million and 100% of the stock of American General and American General Property for a purchase price of \$35 million. In total, the transactions resulted in an after-tax gain of \$14 million recorded in other revenues.

In addition, on December 11, 2012, White Mountains Solutions announced the execution of a definitive agreement to acquire American Fuji Fire and Marine Insurance Company from AIG, and on February 15, 2013 executed a definitive agreement to acquire Empire Insurance Company from Leucadia National Corporation. Both of these transactions are expected to close during the first half of 2013 subject to receipt of regulatory approvals.

On December 30, 2011, Sirius Group completed a transaction led by White Mountains Solutions to acquire the runoff loss reserve portfolio of Old Lyme Insurance Company Ltd. (“Old Lyme”), a Bermuda reinsurer in runoff since 2008. Old Lyme’s loss reserves of approximately \$23 million were transferred via novation agreements into White Shoals Re Ltd. (“White Shoals”), a wholly-owned Bermuda reinsurance company established by Sirius Group earlier in 2011. The transaction resulted in an after-tax gain of \$7 million recorded in other revenues.

On February 26, 2010, White Mountains Solutions completed the acquisition of Central National from Drum Financial Corporation for \$5 million. Central National ceased writing business in 1989 and has operated under the control of the Nebraska Department of Insurance since 1990. The transaction resulted in an after-tax gain of \$13 million recorded in other revenues.

### Geographic Concentration

The following table shows Sirius Group's net written premiums by geographic region based on the location of the ceding company or reinsurer for the years ended December 31, 2012, 2011 and 2010:

Geographic region Millions	Year Ended December 31,		
	2012	2011	2010
United States	\$ 433.2	\$ 436.3	\$ 398.9
Europe	293.4	271.8	284.7
Canada, the Caribbean, Bermuda and Latin America	104.7	100.7	102.8
Asia and Other	116.4	106.9	79.4
Total	\$ 947.7	\$ 915.7	\$ 865.8

### Marketing and Distribution

Sirius Group obtains most of its reinsurance submissions from reinsurance intermediaries that represent the ceding company. The process of placing an intermediary reinsurance program typically begins when a ceding company enlists the aid of a reinsurance intermediary in structuring a reinsurance program. The ceding company and the reinsurance intermediary will often consult with one or more lead reinsurers as to the pricing and contract terms for the reinsurance protection being sought. Once the ceding company has approved the terms quoted by the lead reinsurer, the reinsurance intermediary will offer participation to qualified reinsurers until the program is fully subscribed. Sirius Group considers both the reinsurance intermediary and the ceding company to be its clients in any placement. Sirius Group has developed strong business relationships over a long period of time with the management of many of its ceding companies and reinsurance intermediaries.

Sirius Group pays ceding companies a ceding commission under most proportional reinsurance treaties and some excess of loss reinsurance treaties. The ceding commission is generally based on the ceding company's cost of acquiring and administering the business being reinsured (e.g., agent commissions, premium taxes and certain miscellaneous expenses). The ceding commissions paid to ceding companies constitute the majority of Sirius Group's total acquisition costs. Additionally, Sirius Group pays reinsurance intermediaries commissions based on negotiated percentages of the premium they produce.

During the years ended December 31, 2012, 2011 and 2010, Sirius Group received no more than 10% of its gross written premiums from any individual ceding company. During the years ended December 31, 2012, 2011, and 2010, Sirius Group received a majority of its gross reinsurance premiums written from three major, third-party reinsurance intermediaries as detailed in the following table:

Gross written premium by intermediary	Year Ended December 31,		
	2012	2011	2010
AON Re/Benfield	32%	31%	35%
Guy Carpenter	19	19	19
Willis Re	8	10	10
	59%	60%	64%

### Underwriting and Pricing

Sirius Group maintains a disciplined underwriting strategy which, while considering overall exposure, focuses on writing more business when market terms and conditions are favorable and reducing business volume during soft markets when terms and conditions become less favorable. Sirius Group offers clients a wide range of reinsurance products across multiple lines of business to satisfy their risk management needs.

Sirius Group derives its reinsurance business from a broad spectrum of ceding companies, including national, regional, specialty, and excess and surplus lines writers, both internationally and in the United States. Sirius Group prices its products by assessing the desired return on the expected capital needed to write a given contract and on the expected underwriting results of the contract. Sirius Group's pricing indications are based on a number of underwriting factors including historical results, analysis of exposure and estimates of future loss costs, a review of other programs displaying similar exposure characteristics and the ceding company's underwriting and claims experience. Additionally, in the United States, Sirius Group's underwriters, actuaries and claims personnel perform audits of certain ceding companies. Generally, ceding company audits are not customary outside the United States. Sirius Group's staff reviews the financial stability and creditworthiness of all ceding companies globally. Such reviews provide important input to support underwriting decisions.

Reinsurers do not have the stringent regulations with respect to contract terms and policy exclusions that are generally imposed on primary insurers. For example, the Terrorism Act is not applicable to reinsurers. As a result, terrorism exclusions on reinsurance contracts are dictated by the marketplace. Sirius Group evaluates terrorism exposure from its ceding companies and applies exclusions as it deems appropriate and as are permitted by market conditions. Reinsurance on U.S. commercial risks written by Sirius Group subsequent to the terrorist acts of September 11, 2001 generally contains clauses that exclude acts of terrorism certified under the Terrorism Act. Reinsurance on personal risks written by Sirius Group subsequent to the terrorist acts of September 11, 2001 generally contains exclusions related to nuclear, biological, radiological and chemical attacks.

### **Competition**

The worldwide insurance and reinsurance markets are highly competitive. Competition is influenced by a variety of factors, including price charged and other terms and conditions offered, financial strength ratings, prior history and relationships, as well as expertise and the speed at which the company has historically paid claims.

Sirius Group competes for business in Europe, Bermuda, the United States, and other international markets with numerous global competitors. Sirius Group's competitors include other insurance and reinsurance companies and underwriting syndicates at Lloyd's of London. Some of the companies that Sirius Group competes directly with include Allied World Assurance Company Holdings AG, Arch Capital Group Ltd., Aspen Insurance Holdings Ltd., Axis Capital Holdings, Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., General Reinsurance Corporation, Hannover Ruckversicherung AG, Montpelier Re Holdings, Ltd., Munich Re Group, Odyssey Re Holdings Corp., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., Renaissance Re Holdings Ltd., Scor Global P&C, Swiss Re Group, Transatlantic Holdings, Inc., Validus Holdings, Ltd., and XL Capital Ltd.

In addition, in recent years the persistent low interest rate environment and ease of entry into the reinsurance sector has led to increased competition in the property catastrophe excess reinsurance line. This alternative capital provides collateralized property catastrophe protection in the form of catastrophe bonds, industry loss warranties, sidecars and other vehicles that facilitate the ability for non-reinsurance entities, such as hedge funds and pension funds, to compete for property catastrophe excess reinsurance business outside of the traditional treaty market. Sirius Group has observed reduced pricing and/or reduced shares in certain property catastrophe excess reinsurance markets as a result.

### **Claims Management**

Sirius Group maintains a staff of experienced insurance and reinsurance claim specialists. Its reinsurance claims specialists work closely with intermediaries to obtain specific claims information from ceding companies. Where customary and appropriate, Sirius Group's claims staff performs selective on-site claim reviews to assess ceding companies' claim handling abilities and reserve techniques. In addition, Sirius Group's claims specialists review loss information provided by ceding companies for adequacy and accuracy. The results of these claim reviews are shared with the underwriters and actuaries to assist them in pricing products and establishing loss reserves.

Sirius Group also uses TPAs for certain claims, including claims arising from certain of Sirius Group's runoff claims related to certain acquired companies. Sirius Group's claims staff performs on-site claim audits of certain TPAs to ensure the propriety of the controls and processes over claims serviced by the TPAs.

### **Catastrophe Risk Management**

Sirius Group has exposure to losses caused by hurricanes, earthquakes, tornadoes, winter storms, windstorms, floods, tsunamis, terrorist acts and other catastrophic events. In the normal course of business, Sirius Group regularly manages its concentration of exposures to catastrophic events, primarily by limiting concentrations of exposure to what it deems acceptable levels and, if necessary, purchasing reinsurance. In addition, Sirius Group seeks to limit losses that might arise from acts of terrorism in its insurance and reinsurance contracts by exclusionary provisions where available.

Sirius Group licenses third-party global property catastrophe models from AIR Worldwide Corporation ("AIR") and Risk Management Solutions Inc. ("RMS"), which are two of the leading vendors of industry-standard catastrophe modeling software, as well as utilizing its own proprietary models to calculate expected probable maximum loss ("PML") from various property natural catastrophe scenarios. Sirius Group prices its property catastrophe contracts using the aforementioned third-party software and internal models and other methods. In 2012, Sirius Group started using a new proprietary property underwriting and pricing tool ("GPI"), which consolidates and reports on all its worldwide property exposures. GPI is used to calculate individual and aggregate PMLs by statistically blending multiple third-party and proprietary models. For business that Sirius Group determines to have exposure to natural catastrophic perils, as part of its underwriting process it models and assesses the exposure to assess whether there is an appropriate premium for the exposure.

The following table provides an estimate of Sirius Group's three largest PML zones on a per occurrence basis for 1-in-100 and 1-in-250 year events at January 2013 as measured by net after-tax exposure:

(\$ in millions)	Sirius Group Net After-Tax Loss					
	Modeled Industry Loss	Sirius Group Gross Loss	Net After Reinsurance and Reinstatements	Net After Tax	Net After-Tax as % of Adjusted GAAP Capital <sup>(1)</sup>	Net After-Tax as % of Adjusted GAAP Common Shareholder's Equity <sup>(1)</sup>
<b>1-in-100 year event</b>						
Southeast U.S.	\$ 130,477	\$ 354	\$ 325	\$ 245	11%	15%
Europe	37,736	470	219	171	7%	10%
West Coast U.S.	47,144	215	204	150	7%	9%
<b>1-in-250 year event</b>						
Southeast U.S.	250,892	470	430	324	14%	20%
Northeast U.S.	53,378	424	350	265	11%	16%
West Coast U.S.	158,911	381	348	263	11%	16%

<sup>(1)</sup> Adjusted GAAP capital and common shareholder's equity at December 31, 2012 for Sirius Group is determined on a legal-entity basis and excludes \$58 of equity in net unrealized gains from Symetra's fixed maturity portfolio, net of taxes.

In addition to the above, Sirius Group also has significant exposure to United States Gulf Coast windstorms (i.e., Florida to Texas), New Madrid earthquakes, and, to a lesser extent, Japanese, Latin American and Canadian windstorms and earthquakes.

AIR and RMS provide new versions of their models on a periodic basis, usually annually or every other year, which Sirius Group will implement for use upon appropriate testing and achieving comfort with the model enhancements. In 2011, RMS released Version 11, which significantly increased expected losses to the wind models in the United States and Europe. For example, expected U.S. and European RMS insured industry annual aggregate wind loss increased 35% and 65%, respectively, versus the prior RMS version. Two of the main drivers of the U.S. wind increases were slower inland decay of winds from the coast, which would cause larger losses farther inland, and updates to structure and contents vulnerability, especially for commercial lines. Key drivers of the European model change included a full spectrum of smaller storm events that significantly increased short-term losses and annual aggregate losses, and an improved clustering model. Clustering is defined as the heightened risk that many losses might occur in a single year based on atmospheric conditions.

Prior to January 2012, Sirius Group used AIR Version 12 to estimate its PMLs in the United States. With GPI, Sirius Group enhanced its PML reporting methodology for exposures in the United States to approximate an averaging of AIR and RMS, further adjusted for each treaty by underwriting judgment regarding the specific exposures underlying each cedent's portfolio. For exposures in countries other than the United States, Sirius Group chooses either AIR or RMS for PML reporting based on underwriting and actuarial assessment as to the integrity of the model by territory and underlying data availability. The model of choice is then further adjusted in GPI for each treaty by underwriting judgment regarding the specific exposures underlying each cedent's portfolio.

Catastrophe modeling is dependent upon several broad economic and scientific assumptions, such as storm surge (the water that is pushed toward the shore by the force of a windstorm), demand surge (the localized increase in prices of goods and services that often follows a catastrophe) and zone density (the percentage of insured perils that would be affected in a region by a catastrophe). Third-party modeling software also does not provide information for all territories or perils (e.g. tsunami) for which Sirius Group writes business.

Catastrophe modeling is inherently uncertain due to process risk (i.e. the probability and magnitude of the underlying event) and parameter risk (i.e. the probability of making inaccurate model assumptions). In particular, obtaining geographic and policy coverage data on the primary policies reinsured by Sirius Group is essential. Accordingly, Sirius Group's ability to develop its catastrophe exposure is dependent on the quality and accuracy of data obtained from its clients.

If Sirius Group's assumptions about any of the above variables are incorrect, the potential incurred losses from an actual catastrophe could be materially higher than the expectation of losses generated from modeled catastrophe scenarios; as a result, Sirius Group's results of operations and financial condition could be materially adversely affected.

Sirius Group does not believe that it can rely solely upon catastrophe modeling to measure its exposure to natural catastrophe risk. For example, the losses arising from hurricane Katrina for both Sirius Group and the industry were substantially in excess of losses previously predicted by third-party models from such an event. This was due to issues such as inadequate storm surge and demand surge assumptions in the models, as well as flooding from levees breaking which was not fully contemplated in these models. Sirius Group monitors gross and net property catastrophe occurrence limits by country and region globally. Occurrence limits for peak zones in Europe, Japan, and the United States are assessed versus modeled catastrophe risk as another measure in understanding total property catastrophe exposure to large events.

## Reinsurance Protection

Sirius Group's reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain property exposures. Sirius Group's proportional reinsurance programs provide protection for part of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East, and Australia. These reinsurance protections are designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events. Attachment points and coverage limits vary by region around the world. In addition to its proportional reinsurance, Sirius Group also purchases excess of loss reinsurance protection for \$15 million in excess of a retention of \$5 million for the facultative and direct property portfolios written by the Stockholm, Hamburg and London branches (excluding business written in the United States). For the facultative and direct property portfolios written by the Hamburg and Stockholm branches, an additional \$15 million of reinsurance protection in excess of the \$20 million coverage has been purchased for 2013. Sirius Group also has \$5 million of protection in excess of a retention of \$5 million for the London branch for facultative and direct U.S.-catastrophe exposed business (excluding Florida risks), which was renewed through June 30, 2013. As a result of hurricane Sandy in October 2012, Sirius Group recognized a full \$5 million recovery on this account.

In 2012, 2011 and 2010, Sirius Group has had in place group excess of loss retrocessional coverage for its non-U.S. and non-Japan earthquake-related exposures. This cover was renewed for one year at April 1, 2012, providing \$17 million of reinsurance protection through partially placed coverage of a \$40 million layer in excess of Sirius Group's retention of \$35 million. In addition, Sirius Group purchased two industry loss warranty ("ILW") contracts that provide \$10 million of coverage for a first event non-U.S. and non-Japan earthquake loss at a market loss event of \$7.5 billion or more, with \$5 million of additional coverage for a second market loss event at this level. Sirius Group also has \$38 million of New Madrid earthquake ILW coverage through March 2013 that provides reinsurance protection both on a first and second market event of \$20 billion.

In addition, Sirius Group has an ILW providing \$5 million of coverage for a first loss European windstorm and flood at a market loss event of \$5 billion, which expires March 2013. During the fourth quarter 2012, additional ILW protections providing \$40 million of reinsurance coverage were purchased at different market loss levels for wind, flood, and all natural perils in Europe or Scandinavia, with the majority of these covers expiring in March 2013.

As of December 31, 2012, losses incurred from the February 2011 New Zealand earthquake totaled \$47 million, \$2 million of which was covered by Sirius Group's non U.S. and non-Japan earthquake coverage. During 2010, as a result of the Chile Earthquake in February 2010 Sirius Group recovered \$65 million under its non U.S. and non-Japan earthquake coverage, which was a full limit loss.

Sirius Group's aviation reinsurance program is intended to reduce exposure to a frequency of small losses, a single large loss, or a combination of both. In 2013, for the proportional and facultative aviation portfolios, reinsurance protection purchases were generally for coverage on losses from events that cause a market loss in excess of \$150 million up to a full airline policy limit of \$2 billion, including clash coverage. This program is in effect through November 2013. For the non-proportional aviation portfolio, reinsurance protection includes a 15% quota share treaty. In addition, the non-proportional portfolio is protected by \$33 million in the form of first event ILWs, and \$5 million of available limit in the form of second event ILWs. The first event ILWs attach at industry loss levels between \$400 million and \$1 billion.

For the marine yacht portfolio written by the London branch, reinsurance coverage is in place for \$10 million in excess of a retention of \$250,000.

For accident and health, Sirius Group has excess of loss protection covering personal accident and life of €10 million (\$13 million based on the December 31, 2012 EUR to USD exchange rate) of protection in excess of a €5 million (\$7 million based on the December 31, 2012 EUR to USD exchange rate) retention for the Stockholm, Hamburg, Liege and Singapore branches.

For 2012, Sirius Group ceded 20% and 50% of its trade credit and bond business, respectively, under a quota share retrocession, which supported growth in this line. The treaty was renewed for 2013.

Almost all of Sirius Group's excess of loss reinsurance protections, excluding ILWs, include provisions that reinstate coverage at a cost of 100% or more of the original reinsurance premium.

At December 31, 2012, Sirius Group had \$15 million of reinsurance recoverables on paid losses and \$322 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group's reinsurers is critical to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis. See **Note 4 - "Third-party Reinsurance"** to the accompanying consolidated financial statements for a discussion of Sirius Group's top reinsurers.

## Loss and Loss Adjustment Expense Reserves

Sirius Group establishes loss and LAE reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See “**CRITICAL ACCOUNTING ESTIMATES — Loss and LAE Reserves — Sirius Group**” on page 86 for a full discussion regarding Sirius Group’s loss reserving process.

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

Section I of the 10 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 loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including IBNR reserves. In accordance with GAAP, the liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III 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 loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section IV 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, 2012. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2012. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2012.

Sirius Group Loss and LAE											
Year ended December 31,											
(\$ in millions)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
I. Liability for unpaid loss and LAE:											
Gross balance	\$ 1,588.4	\$ 1,699.4	\$ 3,864.3	\$4,308.8	\$ 3,708.8	\$ 3,252.3	\$ 2,735.5	\$ 2,444.4	\$ 2,441.3	\$ 2,343.7	\$ 2,168.9
Less reinsurance recoverable on unpaid losses and LAE	(809.8)	(741.1)	(1,149.8)	(1,633.6)	(1,142.5)	(806.4)	(555.0)	(578.6)	(450.5)	(339.7)	(321.6)
Net balance	\$ 778.6	\$ 958.3	\$ 2,714.5	\$ 2,675.2	\$ 2,566.3	\$ 2,445.9	\$ 2,180.5	\$ 1,865.8	\$ 1,990.8	\$ 2,004.0	\$ 1,847.3
II. Cumulative amount of net liability paid through:											
1 year later	250.7	321.5	941.0	949.4	721.7	726.2	637.4	276.2	475.3	561.1	
2 years later	420.8	521.8	1,369.4	1,442.9	1,302.0	1,164.5	760.8	533.0	794.6		
3 years later	559.1	710.8	1,684.9	1,942.5	1,645.2	1,207.4	972.5	789.2			
4 years later	690.9	834.7	2,052.4	2,225.6	1,649.2	1,486.6	1,200.3				
5 years later	804.5	941.0	2,246.0	2,192.3	1,804.3	1,693.8					
6 years later	885.7	1,015.7	2,170.9	2,325.5	1,997.3						
7 years later	926.5	901.6	2,265.1	2,499.2							
8 years later	807.1	910.7	2,430.7								
9 years later	812.3	997.3									
10 years later	893.8										
III. Net Liability re-estimated as of:											
1 year later	828.9	984.9	2,771.9	2,893.2	2,575.4	2,525.7	2,159.4	1,808.5	1,943.9	1,969.5	
2 years later	856.9	1,059.6	2,802.9	3,032.5	2,775.8	2,539.8	2,140.6	1,797.5	1,966.8		
3 years later	929.8	1,148.1	2,917.9	3,164.9	2,749.3	2,517.2	2,124.6	1,790.4			
4 years later	1,023.8	1,270.2	3,063.6	3,133.3	2,743.4	2,510.7	2,129.6				
5 years later	1,138.6	1,425.0	3,021.4	3,124.8	2,741.7	2,527.0					
6 years later	1,280.5	1,382.7	3,013.1	3,134.3	2,774.4						
7 years later	1,228.5	1,379.8	3,017.9	3,174.0							
8 years later	1,226.0	1,383.3	3,065.0								
9 years later	1,230.5	1,437.6									
10 years later	1,286.7										
IV. Cumulative net (deficiency)/redundancy											
\$ (508.1)	\$ (479.3)	\$ (350.5)	\$ (498.8)	\$ (208.1)	\$ (81.1)	\$ 50.9	\$ 75.4	\$ 24.0	\$ 34.5		
Percent (deficient)/redundant											
(65.3)%	(50.0)%	(12.9)%	(18.6)%	(8.1)%	(3.3)%	2.3%	4.0%	1.2%	1.7%		
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):											
Gross re-estimated liability	\$ 2,234.0	\$ 2,329.1	\$ 4,428.6	\$ 5,049.6	\$ 3,954.1	\$ 3,351.9	\$ 2,678.5	\$ 2,354.3	\$ 2,376.8	\$ 2,332.4	
Less: gross re-estimated reinsurance recoverable	(947.3)	(891.5)	(1,363.6)	(1,875.6)	(1,179.7)	(824.9)	(548.9)	(563.9)	(410.0)	(362.9)	
Net re-estimated liability	\$ 1,286.7	\$ 1,437.6	\$ 3,065.0	\$ 3,174.0	\$ 2,774.4	\$ 2,527.0	\$ 2,129.6	\$ 1,790.4	\$ 1,966.8	\$ 1,969.5	\$ —
VI. Cumulative gross (deficiency)/redundancy											
\$ (645.6)	\$ (629.7)	\$ (564.3)	\$ (740.8)	\$ (245.3)	\$ (99.6)	\$ 57.0	\$ 90.1	\$ 64.5	\$ 11.3		
Percent (deficient)/redundant											
(40.6)%	(37.1)%	(14.6)%	(17.2)%	(6.6)%	(3.1)%	2.1%	3.7%	2.6%	0.5%		

The cumulative net (deficiency)/redundancy in the table above includes adverse development from A&E claims. Sirius Group's exposure to A&E claims results mainly from asbestos claims arising from treaty and facultative contracts written prior to 1985 at two companies acquired by Sirius America—MONY Reinsurance Corporation in 1991 and Christiania General Insurance Corporation in 1996. As a result, the table above reflects reserve development on A&E business that was not underwritten by Sirius Group.

Sirius Group's net incurred losses from A&E claims have totaled \$253 million over the past ten years. Although losses arising from A&E claims were on contracts that were not underwritten by Sirius Group, Sirius Group is liable for any additional losses arising from such contracts. Accordingly, Sirius Group cannot guarantee that it will not incur additional A&E losses in the future. Refer to “**CRITICAL ACCOUNTING ESTIMATES**” in “**Management's Discussion and Analysis of Financial Condition and Results of Operations**” for further details of Sirius Group's A&E reserves.

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

Millions	December 31,		
	2012	2011	2010
Regulatory reserves	\$ 1,847.0	\$ 1,934.4	\$ 2,151.6
Reinsurance recoverable on unpaid losses and LAE <sup>(1)</sup>	760.4	1,177.4	1,190.4
Discount on loss reserves	3.5	9.1	16.4
Reserves allocated to Esurance	—	—	(286.9)
WM Life Re reserves <sup>(2)</sup>	(437.8)	(765.2)	(610.2)
Purchase accounting and other	(4.2)	(12.0)	(20.0)
GAAP reserves	\$ 2,168.9	\$ 2,343.7	\$ 2,441.3

<sup>(1)</sup> Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under regulatory accounting.

Includes recoverables from WM Life Re business and recoverables on intercompany treaties that are eliminated in consolidation.

<sup>(2)</sup> Sirius Group fronted the reinsurance contracts for, and is 100% reinsured by, WM Life Re. These instruments are reported as reinsurance contracts under Swedish statutory regulations. For GAAP purposes, the liabilities are transferred to WM Life Re and reported as derivative instruments.

### Sirius Group's Preference Shares and Senior Notes

In May 2007, Sirius International Group, Ltd. (“SIG”), an intermediate holding company of Sirius Group, issued \$250 million non-cumulative perpetual preference shares, with a \$1,000 per share liquidation preference (the “SIG Preference Shares”), and received \$246 million of proceeds, net of \$4 million of issuance costs and commissions. These shares were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. Holders of the SIG Preference Shares receive dividends on a non-cumulative basis when and if declared by SIG. See **Note 1 - Significant Accounting Policies - Non-controlling Interest** for more details regarding the SIG Preference Shares.

In March 2007, SIG issued \$400 million face value of senior unsecured notes (the “SIG Senior Notes”) at an issue price of 99.715%. The SIG Senior Notes, which were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933, bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017. See **Note 6 - Debt** for more details regarding the SIG Senior Notes.

### HG GLOBAL/BAM

BAM is domiciled in New York and was established to provide insurance on municipal bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. Members of BAM's senior management team have more than 25 years on average of experience in the bond insurance industry.

HG Global is domiciled in Bermuda and was established to fund the startup of BAM, and through its subsidiary, HG Re, to provide reinsurance to BAM. In 2012, HG Global was capitalized with \$609 million to purchase surplus notes in BAM and to fund HG Re.

White Mountains believes that municipal bonds insured by BAM have strong appeal to retail investors, who buy smaller, less liquid issues, have less portfolio diversification and have fewer credit differentiation skills and analytical resources. BAM focuses on underwriting small-to-medium sized investment grade bonds, primarily in the AA-, A and BBB categories. BAM seeks to provide insurance to the municipal bond market while building a relatively low risk insurance portfolio with conservative single risk limits (initially the aggregate par value of the insured bonds with a common revenue stream is limited to \$100 million).

BAM launched in July 2012 after securing an “AA/stable” rating from Standard & Poor's (“AA” is the third highest of twenty-one financial strength ratings assigned by Standard & Poor's). HG Global, together with its subsidiaries, funded the initial capitalization of BAM through the purchase of \$503 million of BAM Surplus Notes. BAM and HG Re entered into a first loss reinsurance treaty (“FLRT”), under which HG Re will provide first loss protection up to 15% of par outstanding on each bond insured by BAM in exchange for 60% of the premium, net of a ceding commission, charged by BAM.



HG Re's obligations under the FLRT are satisfied by the assets in two collateral trusts: a Regulation 114 Trust and a Supplemental Trust. Losses required to be reimbursed to BAM by HG Re are subject to an aggregate limit equal to the assets held in the collateral trusts at any point in time. The Regulation 114 Trust target balance is equal to ceded unearned premiums and unpaid ceded loss and LAE expenses, if any. The Supplemental Trust target balance is equal to approximately \$400 million. The collateral trust balances must be at target levels before excess capital can be distributed out of the Supplemental Trust to HG Re. At any point in time, if the sum of the Regulation 114 Trust balance and the Supplemental Trust balance equal zero, BAM may choose to terminate the FLRT on a runoff basis. However, HG Re can elect to continue the FLRT by depositing into the Regulation 114 Trust assets with a fair market value not less than the greater of (i) \$100 million or (ii) 10% of the then Regulation 114 Trust target balance. At inception, the Supplemental Trust contained \$300 million of BAM Surplus Notes and \$100 million of cash and fixed income securities. As the BAM Surplus Notes are repaid over time, the BAM Surplus Notes will be replaced in the Supplemental Trust by cash and fixed income securities.

The FLRT is perpetual with an initial term of 10 years. The FLRT can be amended after the first 10-year period and after each subsequent 5-year period on a prospective basis. If the parties are unable to mutually agree to amended terms, the dispute is resolved through arbitration, with the arbitrator determining amendments that would best achieve BAM and HG Global's joint expectation of certain basic principles including maintenance of BAM's rating, the provision to BAM of reliable first loss reinsurance, and HG Global achieving an equitable rate of return. Amended contract terms must be approved by the New York Department of Financial Services. Should BAM consider the amended terms to be unacceptable, it has the option to purchase HG Re, or cause another reinsurer to purchase HG Re, at fair value. Pursuant to the FLRT, BAM's underwriting guidelines may only be amended with the consent of HG Re. In addition, HG Global has the right to designate two directors for election to BAM's board of directors.

As of December 31, 2012, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. At December 31, 2012, HG Global had \$624 million of total assets and \$623 million of shareholders' equity, \$17 million of which is included in non-controlling interest. At December 31, 2012, BAM had \$493 million of total assets and \$(36) million of members' equity, all of which is included in non-controlling interest.

## **OTHER OPERATIONS**

White Mountains' Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary (WM Advisors) and its variable annuity reinsurance business (WM Life Re), which is in runoff, as well as various other entities not included in other segments.

### **WM Advisors**

WM Advisors is a registered investment adviser that manages White Mountains' investments in fixed income and equity securities, including hedge funds and private equities. WM Advisors also has investment management agreements with third parties, most notably with Symetra Financial Corporation ("Symetra"). At December 31, 2012, WM Advisors had approximately \$33.6 billion in assets under management, \$6.2 billion of which related to consolidated subsidiaries of White Mountains.

WM Advisors has a sub-advisory agreement with Prospector Partners LLC ("Prospector"), a registered investment adviser, under which Prospector manages most of White Mountains' publicly-traded common equity securities and convertible fixed maturity securities. At December 31, 2012, the value of White Mountains' common equity and convertible fixed maturity securities managed by Prospector totaled \$886 million, which represented 77% of White Mountains' total common equity and convertible fixed maturity portfolio. Prospector also provides consulting and advisory services to White Mountains through a separate agreement on matters such as asset allocation, hedge fund and private equity investments, capital management and mergers and acquisitions.

### **WM Life Re**

WM Life Re reinsures death and living benefit guarantees associated with certain variable annuities issued in Japan. Sirius Group fronted the reinsurance contracts for and is 100% reinsured by WM Life Re. WM Life Re is in runoff.

WM Life Re has assumed the risk related to a shortfall between the account value and the guaranteed value that must be paid by the ceding company to an annuitant or to an annuitant's beneficiary in accordance with the underlying annuity contracts. The guaranteed value of the annuity contracts is equal to the initial single premium paid by the annuitant. The annuity accounts are invested in four index funds: a Japanese government bond fund indexed to the Nomura Bond Performance Index ("Nomura BPI") (roughly 35%), a foreign government bond fund indexed to the Citi World Group Government Bond Index, excluding Japan ("WGBI") (roughly 35%), a Japanese equity fund indexed to the TOPIX Total Return Index (roughly 15%) and a foreign equity fund indexed to the MSCI Kokusai Total Return Index (roughly 15%). The account is rebalanced monthly to maintain these same investment allocations. As of December 31, 2012, annuity contracts mature within 3 years on average (with a maximum of 3½ years and a minimum of 2½ years remaining). The guarantee made by the ceding company to its annuitants was economically equivalent to guaranteeing that the underlying investment accounts would earn a return of approximately 2.7% per annum. The average account value of annuity contracts covered by WM Life Re was approximately 104% of their guarantee value at the inception of the reinsurance contracts. Accordingly, the guarantee made in WM Life Re's contracts was economically equivalent to guaranteeing that the underlying investment accounts would earn a return of approximately 2.3% per annum.

WM Life Re reinsured ¥200 billion (approximately \$1.7 billion at the then current exchange rate) of guarantees in September 2006 and an additional ¥56 billion (approximately \$0.5 billion at the then current exchange rate) in March 2007. WM Life Re has not subsequently written any additional business and the last policy reinsured under WM Life Re's existing contract will mature on June 30, 2016. As of December 31, 2012, the total guarantee value was approximately ¥230.0 billion (approximately \$2.7 billion at exchange rates on that date). The average annual premium charged by WM Life Re under these contracts is equal to 1.11% times the total guarantee value.

WM Life Re uses derivative instruments, including put options, interest rate swaps, total return swaps on bond indices, forward contracts and futures contracts on major equity indices, currency pairs and government bonds, to mitigate the market risks associated with changes in the fair value of the reinsured variable annuity guarantees. WM Life Re measures its net exposure to changes in relevant interest rates, foreign exchange rates, implied volatilities and equity markets on a daily basis and adjusts its economic hedge positions within risk guidelines established by a risk committee that contains members of White Mountains' and WM Life Re's senior management. WM Life Re continually fair values its liability and the related hedge assets. The guarantee is economically substantially similar to having sold put options on a basket of the four index funds. WM Life Re also monitors the effects of annuitant related experience against actuarial assumptions (surrender and mortality rates) on a weekly basis and adjusts relevant assumptions and economic hedge positions if required.

Under the terms of its reinsurance contracts, WM Life Re is required to hold eligible assets (generally cash, short-term investments, fixed income securities, and hedge assets such as options and futures) equal to the fair value of the liability, as defined in the reinsurance contracts, for the benefit of the cedant. Increases in the fair value of the liability in excess of the increase in value of the hedge assets, such as occurs in the case of decreases in surrender assumptions or underperformance of the hedging portfolio, must therefore be funded on a current basis while the actual amounts that must be paid to settle the contracts may not be known and generally will not become payable for a number of years. White Mountains contributed \$25 million, \$20 million and \$45 million into WM Life Re during 2012, 2011 and 2010, respectively, to fulfill this requirement.

See **"CRITICAL ACCOUNTING ESTIMATES - Fair Value Measurements"** on page 90 for a discussion of the sensitivity of WM Life Re's results to changes in market and annuitant-related variables.

### **Berkshire Exchange**

On October 31, 2008, White Mountains completed the transaction with Berkshire Hathaway Inc. ("Berkshire") that was announced on March 10, 2008, through which Berkshire exchanged substantially all of its 16.3% stake in White Mountains (1,634,921 of its 1,724,200 common shares) for 100% of a White Mountains subsidiary which held Commercial Casualty Insurance Company ("CCIC"), the International American Group, Inc. and \$708 million in cash (the "Berkshire Exchange"). Upon the closing of the exchange transaction, CCIC and the International American Group, Inc. had a combined fair value of \$85 million and a combined GAAP book value of \$59 million.

### **DISCONTINUED OPERATIONS**

#### **OneBeacon**

On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC, entered into the Runoff Transaction to sell the Runoff Business to Trebuchet US Holdings, Inc. ("Trebuchet"), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, "Armour"). Pursuant to the terms of the agreement, at closing, OneBeacon will transfer to Trebuchet all of the issued and outstanding shares of common stock of certain legal entities that will contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the runoff business as well as certain elements of the runoff business infrastructure, including staff and office space. Additionally, as part of the Runoff Transaction, OneBeacon may provide financing in the form of surplus notes. The transaction is subject to regulatory approvals and is expected to close in the second half of 2013. As a result of the Runoff Transaction, the Runoff Business is reported as discontinued operations in White Mountains' financial statements.

On February 22, 2012, OneBeacon completed the sale of AutoOne to Interboro Holdings, Inc. (“Interboro”). OneBeacon formed AutoOne in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey. OneBeacon transferred to the buyer AutoOne Insurance Company (“AOIC”) and AutoOne Select Insurance Company (“AOSIC”), which contained the assets, liabilities, including loss reserves and unearned premiums, and capital supporting the AutoOne business, and transferred substantially all of the AutoOne infrastructure including systems and office space as well as certain staff. As a result of the sale, AutoOne is reported as discontinued operations in White Mountains’ financial statements.

## Esurance

On October 7, 2011, White Mountains completed the sale of Esurance to Allstate for a cash payment of \$1.01 billion, which was equal to \$700 million plus the estimated pro forma tangible book value at closing of the legal entities sold of approximately \$310 million. As a result of the sale, Esurance is reported as discontinued operations in White Mountains’ financial statements.

Esurance Insurance wrote personal auto insurance in 30 states through its website and over the phone and also sold other lines of personal insurance for unaffiliated insurance companies. Esurance Insurance also wrote personal auto policies through select on-line agents and provided other insurance products through partnerships with industry leading online providers. The 30 states in which Esurance Insurance wrote business represent approximately 87% of the premium volume for the entire U.S. personal auto insurance market. AFI earned commissions by selling personal auto, homeowners, renters and condo insurance policies online and over the phone using a comparison quoting platform. AFI sold policies in 50 states and the District of Columbia for many insurance companies, including Esurance Insurance.

See **Note 20—“Discontinued Operations”** of the accompanying consolidated financial statements for details of amounts included in net assets held for sale, net income (loss) from discontinued operations and gains (losses) from sales of discontinued operations.

## INVESTMENTS

White Mountains’ investment philosophy is to maximize long-term total returns (after-tax) while taking prudent levels of risk and maintaining a diversified portfolio. Under White Mountains’ philosophy, each dollar of after-tax investment income or investment gains (realized or unrealized) is valued equally.

White Mountains’ investment portfolio mix as of December 31, 2012 consisted in large part of high-quality, short-duration, fixed maturity investments and short-term investments, but also included common equity securities, convertible fixed maturity securities and other long-term investments, such as hedge funds and private equities. White Mountains’ management believes that prudent levels of investments in common equity securities, convertible fixed maturity securities and other long-term investments are likely to enhance long-term after-tax total returns. See **“Portfolio Composition”** on page 60.

White Mountains’ overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to their investment risks. White Mountains also actively manages the average duration of the portfolio. Duration is about 2.4 years including short-term investments and about 2.7 years excluding short-term investments at December 31, 2012.

Prospector’s equity investment strategy is to maximize risk-adjusted absolute return through investments in a variety of equity and equity-related instruments, using a bottom-up, value investing approach. Preservation of capital is of the utmost importance. Prospector invests in the United States and other developed markets.

### *Prospector Funds*

White Mountains owns approximately 71% of the limited partnership interests in Prospector Offshore Fund, Ltd. and approximately 72% of the limited partnership interests in Prospector Turtle Fund (collectively, the “Prospector Funds”). These funds are managed by Prospector, a registered investment adviser, and are consolidated within White Mountains’ financial statements. The Prospector Funds are hedge funds that pursue investment opportunities in a variety of equity and equity-related instruments, chiefly in the financial services sector.

At December 31, 2012 and 2011, the Prospector Funds had \$239 million and \$217 million of total assets and accounted for \$103 million and \$98 million of White Mountains’ net assets.

## Symetra

In 2004, White Mountains, Berkshire and several other private investors capitalized Symetra in order to purchase the life and investment operations of Safeco Corporation for \$1.35 billion. The acquired companies focus mainly on group insurance, individual life insurance, structured settlements and retirement services. Symetra had an initial capitalization of approximately \$1.4 billion, consisting of \$1,065 million of common equity and \$315 million of debt. White Mountains invested \$195 million in Symetra in exchange for 17.4 million common shares, as adjusted for stock splits, of Symetra. In addition, White Mountains and Berkshire each received warrants to acquire an additional 9.5 million common shares of Symetra at \$11.49 per share, as adjusted for stock splits. One White Mountains designee and one member of White Mountains’ Board of Directors currently serves on Symetra’s seven member board of directors. White Mountains accounts for its investment in common shares of Symetra under the equity method and accounts for its Symetra warrants as a derivative investment at fair value.

In January 2010, Symetra completed an initial public offering at a price of \$12 per share, whereby 25.3 million primary shares were sold to the public and 9.7 million secondary shares were sold by existing shareholders. White Mountains did not sell any of its shares of Symetra in the offering. As a result of the offering, White Mountains' ownership in Symetra has decreased from 19% to 15% of the outstanding common shares of Symetra and from 24% to 20% of Symetra on a fully-converted basis including the warrants.

The following table presents the financial strength ratings assigned to Symetra's principal insurance operating subsidiaries as of February 28, 2013:

	A.M. Best <sup>(1)</sup>	Standard & Poor's <sup>(2)</sup>	Moody's <sup>(3)</sup>	Fitch <sup>(4)</sup>
Rating	"A" (Excellent)	"A" (Strong)	"A3" (Good)	"A+" (Strong)
Outlook	Stable	Negative	Stable	Negative

<sup>(1)</sup> "A" is the third highest of sixteen financial strength ratings assigned by A.M. Best.

<sup>(2)</sup> "A" is the sixth highest of twenty-one financial strength ratings assigned by Standard & Poor's.

<sup>(3)</sup> "A3" is the seventh highest of twenty-one financial strength ratings assigned by Moody's.

<sup>(4)</sup> "A+" is the fifth highest of nineteen international financial strength ratings assigned by Fitch.

Symetra's total revenues and net income for the years ended December 31, 2012, 2011 and 2010 were \$2,101 million and \$205 million, \$1,999 million and \$200 million, and \$1,879 million and \$201 million. As of December 31, 2012 and 2011, Symetra had total assets of \$29.5 billion and \$28.2 billion and shareholders' equity of \$3.6 billion and \$3.1 billion. Symetra's shareholders' equity excluding unrealized gains (losses) from its fixed maturity investments was \$2.3 billion and \$2.1 billion at December 31, 2012 and 2011.

As of December 31, 2012 and 2011, White Mountains' investment in Symetra common shares was \$288 million (excluding \$63 million of pre-tax equity in unrealized gains from Symetra's fixed maturity investments) and \$261 million. As of December 31, 2012 and 2011, White Mountains' investment in Symetra warrants was \$30 million and \$13 million. Since inception, White Mountains has received cash dividends from Symetra of \$58 million on its common share investment and \$32 million on its warrant investment.

During the fourth quarter of 2011, White Mountains recorded a GAAP other-than-temporary impairment write-down on its investment in Symetra common shares. White Mountains concluded that the accounting impairment on its investment in Symetra common shares arose due to the prolonged low interest rate environment in which life insurance companies currently operate and not due to reasons specific to Symetra. As a result, White Mountains does not believe that the accounting impairment equates to an impairment in Symetra's long-term intrinsic business value. See **CRITICAL ACCOUNTING ESTIMATES — White Mountains' Investment in Symetra Common Shares** on page 100 for a complete discussion of the methodology used to determine the GAAP other-than-temporary impairment on Symetra at December 31, 2011.

## REGULATION

### United States

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

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

The NAIC's Annual Financial Reporting Model Regulation, or the Model Audit Rule ("MAR"), includes provisions that are similar to certain Sarbanes-Oxley requirements for public companies and requires certain insurance companies to appoint audit committees to oversee accounting and financial reporting processes as well as the audit of the statutory financial statements of the insurer. Audit committees also are required to appoint independent auditors, among other things. The appointed audit committee receives reports regarding significant deficiencies, material weaknesses and solvency concerns at the insurance company level. Certain insurance companies are also required to annually file a management report on internal control over financial reporting.

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

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

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

Nearly all states have insurance laws requiring property and casualty insurance companies to file price schedules, policy or coverage forms, and other information with the state's regulatory authority. In most cases, such price schedules and/or policy forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that prices are adequate, not excessive and not discriminatory.

White Mountains' U.S.-based insurance and reinsurance operating subsidiaries are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. White Mountains' investment portfolio at December 31, 2012 complied with such laws and regulations in all material respects.

One of the primary sources of cash inflows for the Company and certain of its intermediate holding companies is dividends received from its insurance and reinsurance operating subsidiaries. Under the insurance laws of the states under which White Mountains' U.S.-based insurance and reinsurance operating 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. See **"Dividend Capacity"** on page 64 for further discussion.

White Mountains is subject to regulation under certain state insurance holding company acts. These regulations contain reporting requirements relating to the capital structure, ownership, financial condition and general business operations of White Mountains' insurance and reinsurance operating subsidiaries. These regulations also contain special reporting and prior approval requirements with respect to certain transactions among affiliates. Since the Company is an insurance holding company, the domiciliary states of its insurance and reinsurance operating subsidiaries impose regulatory application and approval requirements on acquisitions of White Mountains' common shares which may be deemed to confer control over those subsidiaries, as that concept is defined under the applicable state laws. Acquisition of 10% of White Mountains' common shares, or in some states as little as 5%, may be deemed to confer control under the insurance laws of some jurisdictions, and the application process for approval can be extensive and time consuming.

While the federal government does not directly regulate the insurance business, federal legislation and administrative policies affect the insurance industry. In addition, legislation has been introduced from time to time in recent years that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in 2010 and created the Federal Insurance Office ("FIO") within the Treasury Department, which is responsible for gathering information and monitoring the insurance industry to identify gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or U.S. financial system. The FIO can also recommend changes to state insurance laws and regulations. Although the deadline was in January 2012, the FIO's "Study and Report on the Regulation of Insurance" in the United States has not yet been released. White Mountains cannot predict whether the FIO will recommend any changes or whether states will adopt any such changes.

In addition, the U.S. government enacted the Terrorism Act in 2002 and established a federal “backstop” for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. In December of 2007, the Terrorism Act was extended until December 31, 2014. As extended, the law now covers domestic acts of terrorism. In exchange for this “backstop”, primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. OneBeacon is actively complying with the requirements of the Terrorism Act in order to ensure its ability to be reimbursed by the federal government for any losses it may incur as a result of future terrorist acts. (See “**ONEBEACON — Terrorism**” on page 10 for a further discussion of the Terrorism Act). A number of additional enacted and pending legislative measures could lead to increased consolidation and increased competition for business and for capital in the financial services industry. White Mountains cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect such measures may have on its insurance and reinsurance operations. The Terrorism Act expires in 2014, and there can be no assurance that it will be extended.

The NAIC’s 2010 amendment to the Model Insurance Company Holding Company System Regulatory Act (the “Model Law”) enhances the authority of state insurance regulators in the adopting state to regulate insurers as well as their affiliated entities, on an enterprise risk basis. The amendment to the Model Law requires the ultimate controlling person in an insurer’s holding company structure to identify and report to state insurance regulators material risks within the structure that could pose enterprise risk to the insurer. The amendment to the Model Law will need to be adopted by individual state legislatures before they become binding on any given state. States may also deviate from these Model Law revisions as states differ in their approaches on several requirements. White Mountains cannot predict whether states will adopt the amendment to the Model Law, or if adopted, whether the amendment will differ from the Model Law.

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

## **Europe**

### *Sweden*

Sirius International is subject to regulation and supervision by the Swedish Financial Supervisory Authorities (the “Swedish FSA”). As Sweden is a member of the European Union (the “EU”), the Swedish FSA supervision is recognized across all locations within the EU. Generally, the Swedish FSA has broad supervisory and administrative powers over such matters as licenses, standards of solvency, investments, methods of accounting, form and content of financial statements, minimum capital and surplus requirements, and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. White Mountains believes that it is in compliance with all applicable laws and regulations pertaining to its business that would have a material effect on its financial position in the event of non-compliance.

In accordance with provisions of Swedish law, Sirius International is permitted to transfer up to the full amount of its pre-tax income, subject to certain limitations, into an untaxed reserve referred to as a safety reserve, which equaled SEK 9.6 billion or \$1.5 billion at December 31, 2012. Under GAAP, an amount equal to the safety reserve, net of a related deferred tax liability established at the Swedish tax rate, is classified as shareholder’s equity. The tax rate in effect on December 31, 2011 was 26.3%. The tax rate utilized on December 31, 2012 was the new Swedish tax rate of 22.0%. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain predetermined levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International’s safety reserve (\$327 million at December 31, 2012) is included in solvency capital. Access to the safety reserve is restricted to coverage of reinsurance losses. Access for any other purpose requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, most major rating agencies generally include the \$1.5 billion balance of the safety reserve, without any provision for deferred taxes, in Sirius International’s regulatory capital when assessing Sirius International’s financial strength.

## *United Kingdom*

The financial services industry in the United Kingdom is regulated by the Financial Services Authority (“UK FSA”). The UK FSA regulates insurers, insurance intermediaries and Lloyd’s. The UK FSA and Lloyd’s have common objectives in ensuring that the Lloyd’s market is appropriately regulated. Lloyd’s is required to implement certain rules prescribed by the UK FSA by the powers it has under the Lloyd’s Act of 1982 (“Lloyd’s Act”) relating to the operation of the Lloyd’s market. In addition, each year the UK FSA requires Lloyd’s to satisfy an annual solvency test that measures whether Lloyd’s has sufficient assets in the aggregate to meet all the outstanding liabilities of its members.

Lloyd’s permits its corporate and individual members (“Members”) to underwrite insurance risks through Lloyd’s syndicates. Members of Lloyd’s may participate in a syndicate for one or more underwriting years by providing capital to support the syndicate’s underwriting. All syndicates are managed by Lloyd’s approved managing agents. Managing agents receive fees and profit commissions in respect of the underwriting and administrative services they provide to the syndicates. Lloyd’s prescribes, in respect of its managing agents and Members, certain minimum standards relating to their management and control, solvency and various other requirements.

Sirius Group participates in the Lloyd’s market through the 100% ownership of White Mountains Sirius Capital Ltd., a Lloyd’s corporate Member, which in turn provides underwriting capacity to Syndicate 1945. Syndicate 1945 commenced underwriting on July 1, 2011 and Asta Capital Ltd. is its managing agent. The Syndicate 1945 stamp capacity for 2013 is £93 million (\$150 million based on the December 31, 2012 GBP to USD exchange rate). Stamp capacity is a measure of the amount of net premium (premiums written less acquisition costs) that a syndicate is authorized by Lloyd’s to write.

A corporate Member of Lloyd’s is bound by the rules of the Society of Lloyd’s which are prescribed by the by-laws and requirements of the Council of Lloyd’s under powers conferred by the Lloyd’s Act. These rules govern Sirius Group’s corporate Member participation in Syndicate 1945 and among other things prescribe Syndicate 1945’s membership subscription and level of contribution to the Lloyd’s Central Fund (“Central Fund”).

The underwriting capacity of a Member of Lloyd’s must be supported by providing a deposit in the form of cash, securities or letters of credit (“Funds at Lloyd’s”) in an amount to be determined pursuant to the capital adequacy requirements set by the UK FSA. The amount of such deposit is calculated for each member through the completion of an annual capital adequacy exercise. Pursuant to these requirements Lloyd’s must demonstrate that each Member has sufficient assets to meet its underwriting liabilities plus a required solvency margin.

At the syndicate level, managing agents are required to calculate the capital resources requirement of the members of each syndicate they manage. They perform an Individual Capital Assessment (“ICA”) in accordance with the UK FSA criteria. During the ICA process the managing agent evaluates the risks faced by the syndicate, including insurance, operational, market, liquidity, and credit risks and assesses the amount of capital syndicate Members should hold against that risk. The ICA is reviewed annually by Lloyd’s. Each syndicate is also required to submit a business plan to Lloyd’s on an annual basis, which is subject to the review and approval of the Lloyd’s Performance Management Directorate.

Lloyd’s has wide discretionary powers to regulate a Member’s underwriting. For example, Lloyd’s may change the way that syndicate expenses are allocated or vary the Funds at Lloyd’s investment criteria. Any such change may affect the Member’s return on investment. If a Member is unable to pay its obligations to policyholders, such obligations may be payable by the Central Fund, which, in many ways, resembles a state guaranty fund in the United States. If Lloyd’s determines that the Central Fund needs to be increased, it may levy premiums on current Lloyd’s Members. The Council of Lloyd’s has discretion to assess up to 3% of a Member’s underwriting capacity in any one year as a Central Fund contribution.

## *Solvency II*

The European Commission, which is the executive body of the European Union, has proposed a directive on insurance regulation and solvency requirements known as Solvency II. The European Insurance and Occupational Pensions Authority (“EIOPA”) is an independent advisory body to the European Parliament and the Council of the European Union, and EIOPA is drafting the guidelines and standards to support the implementation of Solvency II. The Omnibus II Directive will set the date of entry into force of Solvency II. Many, including EIOPA have in the past adopted a working assumption for the timeline of Solvency II, setting January 1, 2014 as a basis for the entry into force of Solvency II. However, a definitive effective date for Solvency II regulation has not yet been established, but implementation could occur in the next couple of years. Sirius International is continuing to prepare for compliance with the upcoming Solvency II regulation, despite the uncertainty of the implementation date.

Solvency II has set the framework for the next generation of supervisory rules for insurance and reinsurance companies in the EU, and will impose economic risk-based solvency requirements across all EU Member States. The aim of the Solvency II framework is to ensure that insurance and reinsurance undertakings are financially sound and can withstand adverse events in order to protect policyholders and the stability of the financial system as a whole. In addition to quantitative requirements, such as capital requirements (Pillar 1), insurance and reinsurance companies will be required to meet qualitative requirements relating to governance and risk-management (Pillar 2), as well as to regularly disclose information to supervisors and to the public (Pillar 3). Sirius International and its wholly-owned subsidiary, Sirius America, will be required to comply with Solvency II requirements. In addition, it is possible that the NAIC could adopt part or all of Solvency II, including minimum capital requirements that could be in excess of the current minimum capital requirements for White Mountains' U.S.-based insurance and reinsurance subsidiaries established by state regulations. If the NAIC adopted Solvency II, White Mountains' U.S.-based insurance and reinsurance operating subsidiaries' businesses and results of operations could be materially impacted.

## **Bermuda**

### *Insurance Regulation*

The Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"), regulates the insurance businesses of the Bermuda branch of Sirius International, Star Re Ltd., White Shoals, WM Life Re and HG Re, and provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer under the Insurance Act by the Bermuda Monetary Authority ("BMA"). The BMA, in deciding whether to grant registration, has broad discretion to act as it thinks fit in the public interest. The BMA is required by the Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise to operate an insurance business. In addition, the BMA is required by the Insurance Act to determine whether a person who proposes to control 10 percent, 20 percent, 33 percent or 50 percent (as applicable) of the voting powers of a Bermuda registered insurer or its parent company is a fit and proper person to exercise such degree of control.

The continued registration of an applicant as an insurer is subject to the applicant complying with the terms of its registration and such other conditions as the BMA may impose from time to time. The Insurance Act also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies.

The Insurance Act imposes solvency and liquidity standards on Bermuda insurance companies, as well as auditing and reporting requirements. White Mountains believes that it is in compliance with all applicable laws and regulations pertaining to its business that would have a material effect on its financial position in the event of non-compliance.

### *Certain Other Bermuda Law Considerations*

The Company is an exempted company organized under the Companies Act 1981 of Bermuda (the "Companies Act"). As a result, the Company is required to comply with the provisions of the Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- (1) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (2) the realizable value of the company's assets would thereby be less than its liabilities.

Under the Company's bye-laws, each common share is entitled to dividends if, and when, dividends are declared by its board of directors, subject to any preferred dividend rights of the holders of any preference shares. Issued share capital is the aggregate par value of the company's issued shares, and the share premium account is the aggregate amount paid for issued shares over and above their par value. Share premium accounts may be reduced in certain limited circumstances. In addition, the Companies Act regulates return of capital, reduction of capital and any purchase or redemption of shares by the Company.

Although the Company is incorporated in Bermuda, it has been designated as a non-resident of Bermuda for exchange control purposes by the BMA. Pursuant to its non-resident status, the Company may hold any currency other than Bermuda dollars and convert that currency into any other currency, other than Bermuda dollars, without restriction.



Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 and the Exchange Control Act 1972, and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the BMA pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA in its policy dated June 1, 2005 provides that where any equity securities, including the Company's common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equity securities of such company remain so listed. The New York Stock Exchange is deemed to be an appointed stock exchange under Bermuda law. Notwithstanding the above general permission, the BMA has granted the Company permission to, subject to its common shares being listed on an appointed stock exchange, (a) issue and transfer its shares, up to the amount of its authorized capital from time to time, to persons resident and non-resident of Bermuda for exchange control purposes; (b) issue and transfer options, warrants, depositary receipts, rights, and other securities; and (c) issue and transfer loan notes and other debt instruments and options, warrants, receipts, rights over loan notes and other debt instruments to persons resident and non-resident of Bermuda for exchange control purposes.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place in Bermuda. As an exempted company, the Company may not, without the express authorization of the Bermuda legislature or under a license granted by the Bermuda Minister of Finance, participate in various specified business transactions, including

- the acquisition or holding of land in Bermuda, except land held by way of lease or tenancy agreement which is required for the Company's business and held for a term not exceeding 50 years, or which is used to provide accommodation or recreational facilities for the Company's officers and employees and held with the consent of the Bermuda Minister of Finance, for a term not exceeding 21 years;
- the taking of mortgages on land in Bermuda in excess of \$50,000;
- the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government or public authority securities; or
- subject to some exceptions, the carrying on of business of any kind in Bermuda for which the Company is not licensed in Bermuda.

Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian) is available who meets the minimum standard requirements for the advertised position. The Bermuda government's policy limits the duration of work permits to six years, with certain exemptions for key employees.

## RATINGS

Insurance and reinsurance companies are evaluated by various rating agencies in order to measure each company's financial strength. Higher ratings generally indicate financial stability and a stronger ability to pay claims. White Mountains believes that strong ratings are important factors in the marketing of insurance and reinsurance products and services to agents and consumers and ceding companies.

The following table presents the financial strength ratings assigned to White Mountains' principal insurance and reinsurance operating subsidiaries as of February 28, 2013:

	A.M. Best <sup>(1)</sup>	Standard & Poor's <sup>(2)</sup>	Moody's <sup>(3)</sup>	Fitch <sup>(4)</sup>
<b>OneBeacon Ongoing Subsidiaries</b>				
Rating	"A" (Excellent)	"A-" (Strong)	"A2" (Good)	"A" (Strong)
Outlook	Stable	Stable	Stable	Stable
<b>OneBeacon Runoff Subsidiaries <sup>(5)</sup></b>				
Rating	"A" (Excellent)	Unrated	"A2" (Good)	"A" (Strong)
Outlook	Under Review - Negative	N/A	Negative	Rating Watch - Negative
<b>Sirius Group</b>				
Rating	"A" (Excellent)	"A-" (Strong)	"A3" (Good)	"A" (Strong)
Outlook	Stable	Stable	Stable	Stable

<sup>(1)</sup> "A" is the third highest of sixteen financial strength ratings assigned by A.M. Best.

<sup>(2)</sup> "A-" is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's.

<sup>(3)</sup> "A2" is the sixth highest and "A3" is the seventh highest of twenty-one financial strength ratings assigned by Moody's.

<sup>(4)</sup> "A" is the sixth highest highest of nineteen international financial strength ratings assigned by Fitch.

<sup>(5)</sup> Following OneBeacon's announcement of the Runoff transaction, A.M. Best, Fitch, Moody's and Standard & Poor's each issued a press release regarding the ratings implications. A.M. Best placed the Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody's assigned a negative outlook. Standard & Poor's downgraded and subsequently, at the request of OneBeacon, withdrew its rating on the Runoff Subsidiaries. All four ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook.

## EMPLOYEES

As of December 31, 2012, White Mountains employed approximately 1,700 people (consisting of 45 people at the Company, its intermediate holding companies, and HG Global, 1,200 people at OneBeacon, 418 people at Sirius Group, 38 people at WM Advisors and 8 people at WM Life Re). Management believes that White Mountains has satisfactory relations with its employees.

## AVAILABLE INFORMATION

The Company is subject to the informational reporting requirements of the Exchange Act. In accordance therewith, the Company files reports, proxy statements and other information with the SEC. These documents are available at [www.whitemountains.com](http://www.whitemountains.com) shortly after such material is electronically filed with or furnished to the SEC. In addition, the Company's code of business conduct and ethics as well as the various charters governing the actions of certain of the Company's Committees of its Board of Directors, including its Audit Committee, Compensation Committee and Nominating and Governance Committee, are available at [www.whitemountains.com](http://www.whitemountains.com).

The Company will provide to any shareholder, upon request and without charge, copies of these documents (excluding any applicable exhibits unless specifically requested). Written or telephone requests should be directed to the Corporate Secretary, White Mountains Insurance Group, Ltd., 14 Wesley Street, Hamilton, HM 11 Bermuda, telephone number (441) 278-3160. Additionally, all such documents are physically available at the Company's registered office at Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda.

## Item 1A. Risk Factors

The information contained in this report may contain “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. See “**FORWARD-LOOKING STATEMENTS**” (page 102) for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements. The Company’s actual future results and trends may differ materially depending on a variety of factors including, but not limited to, the risks and uncertainties discussed below.

***Our investment portfolio may suffer reduced returns or losses which could adversely affect our results of operations and financial condition. Adverse changes in interest rates, foreign currency exchange rates, equity markets, debt markets or market volatility could result in significant losses to the fair value of our investment portfolio and could generate significant losses in our life reinsurance business.***

Our investment portfolio consists of fixed maturity securities, convertible fixed maturity securities, short-term investments, common equity securities and other long-term investments such as hedge funds and private equities. We invest to maximize long-term after-tax total risk-adjusted return subject to our investment guidelines and various regulatory restrictions. However, investing entails substantial risks. We cannot assure you that we will achieve our investment objectives, and our investment performance may vary substantially over time. Investment returns are an important part of our strategy to grow adjusted book value per share, and fluctuations in the fixed income or equity markets could impair our results of operations and financial condition. Investments generate both income, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities, and realized and unrealized investment gains on securities.

Both the investment income we generate and the fair market value of our investment portfolio are affected by general economic and market conditions, including fluctuations in interest rates, foreign currency exchange rates, debt market levels, equity market levels and market volatility. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we attempt to manage the risks of changes in interest rates, we may not be able to do so. In particular, a significant increase in interest rates could result in significant losses in the fair value of our investment portfolio and, consequently, could have an adverse effect on our results of operations and financial condition. We are exposed to changes in equity markets. A significant decline in the equity markets such as that experienced from September 2008 to March 2009 could have a material adverse effect on our results of operations and financial condition. Because a portion of our investment portfolio is invested in securities denominated in currencies other than U.S. dollar, the value of our portfolio is sensitive to changes in foreign currency rates. We are also exposed to changes in the volatility levels of various investment markets. The underlying conditions are outside of our control and could adversely affect the value of our investments and our results of operations and financial condition.

Our life reinsurance business has reinsured the risk related to a shortfall between the account value and the guaranteed value that must be paid in respect of certain Japanese variable annuity contracts. We use derivative instruments to mitigate the market risks associated with changes in the fair value of these guarantees. These derivative instruments include put options, interest rate swaps, total return swaps and futures contracts on major equity indices, currency pairs and government bonds. However, these derivatives may not fully mitigate our exposure to the changes in the fair value of the guarantees. For example, WM Life Re reported significant losses in 2008 because the increase in the fair value of its liabilities exceeded the increase in the fair value of the related derivative instruments.

The fair value of our life reinsurance contracts and the related derivative instruments is significantly affected by general economic and market conditions such as equity market returns and volatility, interest rate fluctuations and foreign currency exchange rates. These conditions are outside of our control and could generate significant losses that would adversely affect our results of operations and financial condition.

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

We write insurance and reinsurance policies that cover losses from catastrophic events. Our property lines policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires and explosions. In recent years, the frequency of major catastrophes has increased. We have significant exposure to a major earthquake or series of earthquakes in California, the Midwestern United States, Japan or Latin America and to windstorm damage in Northern Europe, the Northeast United States, the United States Atlantic Coast (i.e., Massachusetts to Florida) and the United States Gulf Coast (i.e., Florida to Texas) regions. In addition, we are exposed to losses from terrorist attacks, such as the attacks on the United States on September 11, 2001. We are also exposed to losses caused by the same types of catastrophic events in other lines of business such as marine, aviation, trade credit and accident and health.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Increases in the value and concentration of insured property or insured employees, the effects of inflation, changes in cyclical weather patterns and increased terrorism may increase the frequency and/or severity of claims from catastrophic events in the future. Claims from catastrophic events could materially adversely affect our results of operations and financial condition. Our ability to write new insurance and reinsurance policies could also be impacted as a result of corresponding reductions in our capital levels.

We seek to manage our exposure to catastrophic losses by limiting the aggregate insured value of policies in geographic areas with exposure to catastrophic events by estimating a PML for many different catastrophe scenarios and by buying reinsurance. To manage and analyze aggregate insured values and PML, we use a variety of tools, including external and internal catastrophe modeling software packages. Our estimates of PML are dependent on many variables, including assumptions about the demand surge and storm surge, loss adjustment expenses, insurance-to-value and storm intensity in the aftermath of weather-related catastrophes utilized to model the event, the relationship of the actual event to the modeled event and the quality of data provided to us by ceding companies (in the case of our reinsurance operations). Accordingly, if our assumptions about the variables are incorrect, the losses we might incur from an actual catastrophe could be materially higher than our expectation of losses generated from modeled catastrophe scenarios and our results of operations and financial condition could be materially adversely affected.

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

Third-party rating agencies assess and rate the financial strength, including claims-paying ability, of insurers and reinsurers. These ratings are based upon criteria established by the rating agencies and are subject to revision at any time at the sole discretion of the agencies. Some of the criteria relate to general economic conditions and other circumstances outside the rated company's control. These financial strength ratings are used by policyholders, agents and brokers as an important means of assessing the suitability of insurers and reinsurers as business counterparties and have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. These financial strength ratings do not refer to our ability to meet non-insurance obligations and are not a recommendation to purchase or discontinue any policy or contract issued by us or to buy, hold or sell our securities. The maintenance of an "A-" or better financial strength rating from A.M. Best and/or Standard & Poor's is particularly important to our ability to write new or renewal property and casualty insurance and reinsurance business in most markets, while the maintenance of an "AA" or better financial strength rating from Standard and Poor's is particularly important to BAM's ability to write municipal bond insurance. General creditworthiness ratings are used by existing or potential investors to assess the likelihood of repayment on a particular debt issue. The maintenance of an investment grade creditworthiness rating (e.g., "BBB-" or better from Standard & Poor's, "Baa3" or better from Moody's and "BBB-" or better from Fitch) is particularly important to our ability to raise new debt with acceptable terms. We believe that strong creditworthiness ratings are important factors that provide better financial flexibility when issuing new debt or restructuring existing debt.

Rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. See "**RATINGS**" on page 32 for a summary of financial strength ratings on our significant insurance and reinsurance operating subsidiaries. A downgrade, withdrawal or negative watch/outlook of our financial strength ratings could severely limit or prevent our operating subsidiaries from writing new policies or renewing existing policies, which could have a material adverse effect on our results of operations and financial condition. A downgrade, withdrawal or negative watch/outlook of our creditworthiness ratings could limit our ability to raise new debt or could make new debt more costly and/or have more restrictive conditions.

Additionally, some of Sirius Group's assumed reinsurance contracts contain optional cancellation, commutation and/or funding provisions that would be triggered if A.M. Best and/or Standard & Poor's were to downgrade the financial strength ratings of Sirius Group's significant reinsurance operating subsidiaries ratings below "A-". A client may choose to exercise these rights depending on, among other things, the reasons for such a downgrade, the extent of the downgrade, the prevailing market conditions, the degree of unexpired coverage, and the pricing and availability of replacement reinsurance coverage. We cannot predict in advance how many of our clients would actually exercise such rights in the event of such a downgrade but widespread exercise of these options could be materially adverse.

***There is no certainty that the Runoff Transaction will close.***

Consummation of the sale of the OneBeacon's Runoff Business pursuant is subject to conditions, primarily regulatory approval, that are outside of the control of the parties. There can be no assurance as to whether or when such conditions may be satisfied and a closing would occur. If the Runoff Transaction does not close, there can be no assurance that we will effectively manage the Runoff Business in the future.

***The property and casualty insurance and reinsurance industries are highly competitive and cyclical and we may not be able to compete effectively in the future.***

The property and casualty insurance and reinsurance industries are highly competitive and have historically been cyclical, experiencing periods of severe price competition and less selective underwriting standards (“soft markets”) followed by periods of relatively high prices and more selective underwriting standards (“hard markets”). In general terms, OneBeacon competes in one or more of its businesses with most of the large multi-line insurance companies, such as ACE, AIG, Chubb Group, CNA, Liberty Mutual, Travelers and Zurich Insurance Group. OneBeacon also competes with most of the specialty companies, such as Allied World Assurance Company, HCC Insurance Holdings, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. Lastly, OneBeacon competes in certain of its businesses with various local and regional insurance companies. Sirius Group competes with numerous reinsurance companies throughout the world, including Allied World Assurance Company Holdings AG, Arch Capital Group Ltd., Aspen Insurance Holdings Ltd., Axis Capital Holdings, Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., General Reinsurance Corporation, Hannover Ruckversicherung AG, Montpelier Re Holdings, Ltd., Munich Re Group, Odyssey Re Holdings Corporation, Partner Re Ltd., Platinum Underwriters Holdings Ltd., Renaissance Re Holdings Ltd., Scor Global P&C, Swiss Re Group, Transatlantic Holdings, Inc., Validus Holdings, Ltd. and XL Capital Ltd. Many of these competitors have greater resources than we do, have established long-term and continuing business relationships throughout the insurance and reinsurance industries and may have higher financial strength ratings, which can be a significant competitive advantage for them.

OneBeacon offers its products through a number of distribution partners, consisting of independent agents, regional and national brokers, wholesalers and MGAs. Many of OneBeacon’s distribution partners offer insurance products sold by other insurance companies in addition to OneBeacon’s insurance products. We could be adversely affected if these distribution partners place more of their business with other insurance companies as a result of price competition or other factors. Additionally, OneBeacon’s distribution partners compete with other independent agents, regional and national brokers, wholesalers and MGAs to place insurance products. We could be adversely affected if OneBeacon’s distribution partners are unable to maintain a competitive position in their respective markets.

Soft primary insurance market conditions could lead to a significant reduction in reinsurance premium rates, less favorable contract terms and fewer submissions for our reinsurance underwriting capacity. The supply of reinsurance is also related to the level of reinsured losses and the level of industry capital which, in turn, may fluctuate in response to changes in rates of return earned in the reinsurance industry. As a result, the reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted improvements in reinsurance rate levels and terms and conditions. For example, the industry experienced soft casualty market conditions of lower prices and less favorable terms from 1997 to 2001 during which profitability suffered, while the losses incurred from the terrorist attacks of September 11, 2001 and the 2005 U.S. hurricanes triggered price increases. In addition, in recent years the persistent low interest rate environment and ease of entry into the reinsurance sector has led to increased competition from third party capital in the property catastrophe excess reinsurance line. This alternative capital provides collateralized property catastrophe protection in the form of catastrophe bonds, industry loss warranties, sidecars and other vehicles that facilitate the ability for non-reinsurance entities, such as hedge funds and pension funds, to compete for property catastrophe excess reinsurance business outside of the traditional treaty market. We have observed reduced pricing and/or reduced shares in certain property catastrophe excess reinsurance markets as a result.

We expect to continue to experience the effects of the insurance and reinsurance industries’ cyclicity. If we are unable to maintain our competitive position throughout soft and hard market cycles, our insurance and reinsurance businesses may be adversely affected and we may not be able to compete effectively in the future.

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

We are required to maintain adequate reserves to cover our estimated ultimate liabilities for loss and loss adjustment expenses. Loss and LAE reserves are typically comprised of (1) case reserves for claims reported and (2) IBNR reserves for losses that have occurred but for which claims have not yet been reported which include a provision for expected future development on case reserves. These reserves are estimates based on actuarial, claims and underwriting assessments 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 ultimate loss and LAE reserves, we cannot be certain that our reserves are adequate and actual claims and claim expenses paid might exceed our reserves due to the uncertainties that surround estimating loss and LAE reserves. If we determine in the future that our reserves are insufficient to cover our actual losses and LAE, we would have to add to our reserves, which could have a material adverse effect on our results of operations and financial condition. For further discussion of our loss and LAE reserves, including our asbestos and environmental reserves, see “CRITICAL ACCOUNTING ESTIMATES - Loss and LAE Reserves” on page 74.

***We may not be able to successfully alleviate risk through reinsurance and retrocessional arrangements. Additionally, we may not be able to collect all amounts due from our reinsurers under our existing 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 ceding companies. The availability and cost of reinsurance and retrocessional protection is subject to market conditions, which are outside of our control. In addition, the coverage under our reinsurance and retrocessional arrangements may be inadequate to cover our future liabilities. As a result, we may not be able to successfully alleviate risk through these arrangements, which could have a material adverse effect on our results of operations and financial condition.

We are not relieved of our obligations to our policyholders or ceding companies by purchasing reinsurance. Accordingly, we are subject to credit risk with respect to our reinsurance and retrocessions in the event that a reinsurer is unable to pay amounts owed to us as a result of a deterioration in its financial condition. A number of reinsurers in the industry experienced such a deterioration in the aftermath of the 2001 terrorist attacks and the active 2005 hurricane season. To mitigate this risk, we annually review and periodically monitor our reinsurers' financial condition. While we believe that our reinsurers' financial condition is strong, it is possible that one or more of our reinsurers will be significantly adversely affected by future significant loss events, causing them to be unable to pay amounts owed to us. We also may be unable to recover amounts due under our reinsurance and retrocessional arrangements if our reinsurers choose to withhold payment due to a dispute or other factors beyond our control.

***Brokers, agents or policyholders may react negatively to the Runoff Transaction.***

Following OneBeacon's announcement of the Runoff Transaction, A.M. Best, Fitch, Moody's and Standard & Poor's each issued a press release regarding the ratings implications. A.M. Best placed the Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody's assigned a negative outlook. Standard & Poor's downgraded and subsequently, at the request of OneBeacon, withdrew its rating on the Runoff Subsidiaries. All four rating agencies affirmed the ratings on the Ongoing Subsidiaries with stable outlook.

The Runoff Subsidiaries have been underwriting specialty policies that have been ceded to the Ongoing Subsidiaries, and they will continue to do so on a limited basis up until the closing of the Runoff Transaction and for a limited time following the closing through a fronting and reinsurance agreement with Armour. It is possible that certain brokers, agents or policyholders dealing with specialty policies underwritten by the Runoff Subsidiaries could determine that the Runoff Subsidiaries no longer meet their placement standards and could cease placing business with the Runoff Subsidiaries. While OneBeacon believes that the Runoff Subsidiaries' financial strength is robust notwithstanding the Runoff Transaction, it intends to take various steps to provide assurances to the Runoff Subsidiaries' brokers, agents and policyholders. However, there is no assurance that the Runoff Subsidiaries will be successful in continuing to underwrite the specialty business on an interim basis, which may have an adverse impact on OneBeacon.

***Our reinsurance operations are largely dependent upon ceding companies' evaluation of risk.***

Sirius Group, like other reinsurance companies that write treaty reinsurance, generally does not evaluate separately each of the assumed individual insurance risks under our reinsurance contracts. As such, we are largely dependent upon the cedents' original underwriting decisions. We are subject to the risk that the cedents may not have adequately or accurately evaluated the risks that they have insured, and we have reinsured, and that the premiums ceded may not adequately compensate us for the risks we assume. If our reserves are insufficient to cover our actual loss and LAE arising from our treaty reinsurance business, we would have to strengthen our reserves and incur charges to our earnings. These charges could be significant and could have a material adverse effect on our results of operations and financial condition.

***We have significant foreign operations that expose us to certain additional risks, including foreign currency risks and political risk.***

Sirius Group conducts a significant portion of its business outside of the United States. As a result, a significant portion of our assets, liabilities, revenues and expenses are denominated in currencies other than the U.S. dollar and are therefore subject to foreign currency risk. Our foreign currency risk cannot be eliminated entirely and significant changes in foreign exchange rates may adversely affect our results of operations and financial condition.

Our foreign operations are also subject to legal, political and operational risks that may be greater than those present in the United States. As a result, our operations at these foreign locations could be temporarily or permanently disrupted.

***Our debt, preferred stock and related service obligations could adversely affect our business.***

As of December 31, 2012, we had approximately \$752 million face value of indebtedness and \$250 million face value of non-cumulative perpetual preference shares outstanding.

Our ability to meet our debt, preferred stock and related service obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors, many of which are beyond our control. We are also subject to restrictive financial covenants contained in our revolving credit facility that require us to maintain specified financial ratios and to satisfy financial condition tests. These covenants can restrict us in several ways, including our ability to incur additional indebtedness. A breach of these covenants could result in an event of default under our revolving credit facility which would allow lenders to declare any amounts owed under the revolving credit facility to be immediately due and payable. A failure by certain of our subsidiaries to pay principal and interest on a credit facility, mortgage or similar debt agreement (“covered debt”), where such a default results in the acceleration of at least \$75 million principal amount of covered debt, could trigger a cross acceleration provision contained in our revolving credit facility. A failure by OneBeacon Ltd. subsidiaries to pay principal and interest on covered debt, where such failure results in the acceleration of at least \$75 million principal amount of covered debt, could trigger the acceleration of the 2012 OBH Senior Notes. A failure by SIG subsidiaries to pay principal and interest on covered debt, where such failure results in the acceleration of at least \$25 million principal amount of covered debt, could trigger the acceleration of the SIG Senior Notes. If we do not have enough cash to repay accelerated debt, 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.

We could incur additional indebtedness and issue additional preferred stock in the future. To the extent new debt, new preferred stock and other obligations are added to our and our subsidiaries’ current debt and preferred stock levels, the risks described in the previous paragraph would increase.

***We are a holding company with no direct operations, and our insurance and reinsurance subsidiaries’ ability to pay dividends and other distributions to us is restricted by law.***

As a holding company with no direct operations, we rely on net investment income and dividends, tax sharing payments and other permitted payments from our subsidiaries to pay our expenses. Our subsidiaries may not be able to generate cash flow sufficient to pay a dividend or distribute funds to us. In addition, under the insurance laws of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled, an insurer or reinsurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities.

Our top tier regulated insurance and reinsurance operating subsidiaries have the ability to pay approximately \$1.2 billion of dividends and group contributions to us without prior approval of regulatory authorities during 2013. At December 31, 2012, the Company and its intermediate holding companies had \$132 million of net unrestricted cash, short-term investments and fixed maturity investments and \$618 million of common equity securities and other long-term investments outside of OneBeacon and Sirius Group and \$300 million available to be drawn from its revolving credit facility. In addition, at December 31, 2012, OneBeacon Ltd. and its intermediate holding companies had \$272 million of net unrestricted cash, short-term investments and fixed maturity investments and \$33 million of common equity securities and convertible fixed maturity investments outside of its regulated and unregulated insurance operating subsidiaries; Sirius Group and its intermediate holding companies had \$72 million of net unrestricted cash, short-term investments and fixed maturity investments and \$18 million of other long-term investments outside of its regulated and unregulated insurance and reinsurance operating subsidiaries. See **“Dividend Capacity”** on page 64. Management believes that our cash balances, cash flows from operations and cash flows from investments are adequate to meet expected cash requirements for the foreseeable future on both a holding company and operating subsidiary level. However, if our insurance and reinsurance subsidiaries cannot pay dividends in future periods or if we contribute additional funds to fulfill our obligations under our life reinsurance contracts, we may have difficulty servicing our debt, paying dividends on our common and preferred shares and meeting our holding company expenses. For additional information relating to insurance and reinsurance regulations governing our operations, see **“Regulation”** on page 26.

***We may suffer losses from unfavorable outcomes from litigation and other legal proceedings.***

In the ordinary course of business, we are subject to litigation and other legal proceedings as part of the claims process, the outcomes of which are uncertain. We maintain reserves for these legal proceedings as part of our loss and LAE reserves. We also maintain separate reserves for legal proceedings that are not related to the claims process. Additionally, we have agreed to indemnify Allstate in respect of certain litigation and other matters arising out of the operations of Esurance prior to the closing of the Esurance Sale. In the event of an unfavorable outcome in one or more legal matters, our ultimate liability may be in excess of amounts we have currently reserved for and such additional amounts may be material to our results of operations and financial condition. For a description of our significant ongoing non-claims related legal proceedings, see **“Legal Proceedings”** on page 41 and **Note 19 Commitments and Contingencies** on page F-74.

As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our results of operations and financial condition by either extending coverage beyond our underwriting intent or by increasing the number and size of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance and reinsurance contracts that are affected by the changes.

***Regulation may restrict our ability to operate.***

The insurance and reinsurance industries are subject to extensive regulation under U.S., 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, policy forms and capital adequacy. These governmental 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 our insurance underwriting, we rely heavily upon information gathered from third parties such as credit report agencies and other data aggregators. The use of this information is also highly regulated and any changes to the current regulatory structure could materially affect how we underwrite and price premiums.

Changes in laws and regulations may restrict our ability to operate and/or have an adverse effect upon the profitability of our business within a given jurisdiction. In addition, state and federal legislation has been proposed to establish catastrophe funds and underwriting in coastal areas which could impact our business.

In addition, the Dodd-Frank Act, which was enacted in 2010, created the FIO within the Treasury Department. The FIO is responsible for gathering information and monitoring the insurance industry to identify gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or U.S. financial system. The FIO also has the authority to recommend changes to state insurance laws and regulations. We cannot predict whether the FIO will recommend any such changes, whether any states will adopt any such changes, or what effect such changes may have on our insurance operations.

Our non-U.S. reinsurance companies are subject to foreign regulations, including Solvency II which regulates insurance firms that operate in the EU. A definitive effective date for Solvency II regulation has not yet been established, but implementation could occur in the next few years. Solvency II was enacted to reduce the risk that insurers would not be able to pay claims to policyholders as well as promote financial stability through minimum capital requirements as well as other requirements for the governance and risk management of insurers and the supervision of insurers. We cannot predict what regulations will be adopted to implement Solvency II nor the impact of such regulation upon our non-U.S. reinsurers or their wholly owned subsidiaries. In addition, it is possible that the NAIC could adopt part or all of Solvency II including minimum capital requirements that could be in excess of our current minimum capital requirements established by state regulations. If the NAIC adopted Solvency II including additional capital requirements, our business and results of operations could be materially impacted.

***We could be subject to litigation, regulatory enforcement action and damage to our reputation if confidential personally identifiable information is mishandled or stolen.***

Our operating entities collect and store personally identifiable information from consumers. If our data security measures fail and personally identifiable information is mishandled or stolen, we could be subject to litigation and regulatory enforcement action. Further, such a failure could damage our reputation, which could have an adverse effect on our business, results of operations and financial condition.

***Our profitability may be adversely impacted by inflation, legislative actions and judicial decisions.***

The effects of inflation could cause claim costs to rise in the future. In addition, legislative actions and judicial decisions continue to broaden liability and policy definitions and to increase the severity of claim payments, such as described above with respect to asbestos and environmental claims. To the extent inflation and these legislative actions and judicial decisions cause claim costs to increase above reserves established for these claims, we will be required to increase our loss and LAE reserves with a corresponding reduction in our net income in the period in which the deficiency is identified.

***We have successfully created shareholder value through acquisitions and dispositions of insurance and reinsurance entities. We may not be able to continue to create shareholder value through such transactions in the future.***

In past years, we have completed numerous acquisitions and dispositions of insurance and reinsurance entities, many of which have contributed significantly to our growth in adjusted book value. Failure to identify and complete future acquisition and disposition opportunities could limit our ability to achieve our target returns. Even if we were to identify and complete future acquisition or disposition opportunities, there is no assurance that such opportunities will ultimately achieve their anticipated benefits.



***We have significant deferred tax assets which we may be unable to utilize if we do not generate sufficient future taxable income.***

We have a deferred tax asset of \$146 million (net of a valuation allowance of \$36 million) related to net operating loss carryforwards, capital loss carryforwards and tax credit carryforwards at December 31, 2012 that are subject to carryforward limitations in the United States. We also have a deferred tax asset of \$317 million (net of a valuation allowance of \$192 million) related to net operating loss carryforwards in Luxembourg at December 31, 2012 that are not subject to limitation. The loss carryforwards in Luxembourg primarily relate to tax deductible write-downs in 2007 and 2008 of investments in U.S. subsidiaries held by Luxembourg subsidiaries. Utilization of these assets and other assets included in our worldwide net deferred tax asset of \$228 million (net of a valuation allowance of \$254 million) is dependent on generating sufficient future taxable income of the appropriate character (i.e. ordinary income or capital gains) in the appropriate jurisdiction. If it is determined that it is more likely than not that sufficient future taxable income will not be generated, we would be required to increase the valuation allowance in future periods, which would have an adverse effect on our results of operations and financial condition.

***Changes in tax laws or tax treaties may cause more of the income of certain non-U.S. companies in our group to become subject to taxes in the United States.***

The taxable income of our U.S. subsidiaries is subject to U.S. federal, state and local income tax and other taxes. The income of the non-U.S. companies in our group is generally subject to a lower effective tax rate than that imposed by the United States. Certain of our non-U.S. companies are eligible for the benefits of tax treaties between the United States and other countries. We believe our non-U.S. companies will continue to be eligible for treaty benefits. However, it is possible that factual changes or changes to U.S. tax laws or changes to tax treaties that presently apply to our non-U.S. companies could increase income subject to tax, or the tax rate on income, in the United States. For example, legislation has been introduced into Congress that would tax a corporation based on the domicile of its officers rather than the domicile of the corporation. Similarly, changes to the applicable tax laws, treaties or regulations of other countries could subject the income of members of our group to higher rates of tax outside the United States.

***We have significant deferred tax assets which we may be unable to utilize pursuant to the newly enacted Swedish tax legislation.***

On January 1, 2013, new tax legislation became effective in Sweden that limits the deductibility of interest paid on certain intra-group debt instruments. Uncertainty exists with respect to the interpretation of the legislation. Adverse interpretation of the legislation could cause us to write down some or all of the \$55 million in deferred tax assets related to intra-group debt instruments in our internal capital structure, which would have an adverse effect on our results of operations and financial condition.

***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. We do not have fixed term employment agreements with any of our key employees nor key man life insurance and the loss of one or more of these key employees could adversely affect our business, 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 results of operations and financial condition.

***Bermuda law differs from the laws in effect in the United States and may afford less protection to shareholders.***

We are organized under the laws of Bermuda, and a portion of our assets are located outside the United States. As a result, it may not be possible for our shareholders to enforce court judgments obtained in the United States against us based on the civil liability provisions of the federal or state securities laws of the United States, either in Bermuda or in countries other than the United States where we will have assets. In addition, there is some doubt as to whether the courts of Bermuda and other countries would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liabilities provisions of the federal or state securities laws of the United States or would hear actions against us or those persons based on those laws.

Our corporate affairs are governed by the Companies Act. The Companies Act differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including the provisions relating to interested directors, amalgamations, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of directors. Generally, the duties of directors and officers of a Bermuda company are owed to the company only. Shareholders of Bermuda companies generally do not have rights to take action against directors or officers of the company and may only do so in limited circumstances. Class actions and derivative actions are generally not available to shareholders under Bermuda law. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against non-controlling shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner that is oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company. Additionally, under our bye-laws and as permitted by Bermuda law, each shareholder has waived any claim or right of action against our directors or officers for any action taken by directors or officers in the performance of their duties, except for actions involving fraud or dishonesty. In addition, the rights of our shareholders and the fiduciary responsibilities of our directors under Bermuda law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States, particularly the State of Delaware. Therefore, our shareholders may have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction within the United States.

## **1B. Unresolved Staff Comments**

As of the date of this report, the Company had no unresolved comments from the Commission staff regarding its periodic or current reports under the Exchange Act.

## **Item 2. Properties**

The Company maintains two professional offices in Hamilton, Bermuda which serve as its headquarters and its registered office. The Company's principal executive office is in Hanover, New Hampshire. In addition, White Mountains maintains professional offices in Guilford, Connecticut, which house its investment and corporate finance functions, and Boston, Massachusetts, which house its corporate accounting, reporting and internal audit functions.

OneBeacon Ltd.'s headquarters are located in Hamilton, Bermuda and the headquarters of its U.S. operations and principal executive office are located in Minnetonka, Minnesota. OneBeacon also maintains branch offices in various cities throughout the United States.

Sirius International Insurance Group Ltd.'s headquarters are located in Hamilton, Bermuda and its principal executive office is located in New York, New York. Sirius International is headquartered in Stockholm, Sweden with various branch offices in Europe, Australia, Asia and Bermuda. Sirius America is headquartered in New York, New York with various offices in the United States and in Toronto, Canada.

The Company's headquarters, registered office, principal executive office, and corporate accounting, reporting and internal audit offices are leased. White Mountains owns its investment and corporate finance office in Connecticut. Sirius Group's home offices and substantially all of its branch offices are leased. OneBeacon owns a building in Canton, Massachusetts that houses certain of its shared services functions, while its principal executive office and branch offices are leased. Management considers its office facilities suitable and adequate for its current level of operations.

### **Item 3. Legal Proceedings**

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

#### ***Esurance Sale***

In 2011, the Company sold its Esurance and Answer Financial businesses (the "Transferred Companies") to The Allstate Corporation ("Allstate") for a purchase price of approximately \$1.01 billion. The purchase price consisted of \$700 million plus the tangible book value of the Transferred Companies at the closing, which was estimated to be \$308 million. Following closing, Allstate was required to prepare a final closing statement, including an audited balance sheet for the Transferred Companies as of the closing date. The Company is disputing Allstate's calculation of tangible book value in the closing statement. The amount in dispute is approximately \$20 million. The dispute principally relates to (i) the elimination of \$25 million (pre-tax) of deferred acquisition costs (\$16 million, after tax) and (ii) the inclusion of a liability equal to the costs associated with an Esurance extra-contractual ("ECO") matter settled in April 2012 of \$5 million (\$3 million, after tax). Per the agreement governing the sale of the Transferred Companies (the "Sale Agreement"), disputes over the closing statement are to be arbitrated by an independent accountant.

The Company believes this final closing statement was required to be prepared and audited no later than January 5, 2012. Allstate did not deliver the final closing statement to the Company until June 6, 2012, with an audit report dated June 1, 2012. As a result, in addition to the substantive disputes over the final closing statement, the Company also believes that Allstate's failure to have the final closing statement prepared and audited by the required date constituted a breach of Allstate's obligations under the Sale Agreement. The Company brought suit in the United States District Court for the Southern District of New York in connection with such breach. The court concluded that the Company's breach claim should also be arbitrated by the independent accountant under the Sale Agreement. That process is proceeding.

#### ***Tribune Company***

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as "Plaintiffs"), in their capacity as trustees for certain senior notes issued by the Tribune Company ("Tribune"), filed lawsuits in various jurisdictions (the "Noteholder Actions") against numerous defendants including OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the "LBO"). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the "Bankruptcy Court") and emerged from bankruptcy at the end of 2012 in a Chapter 11 reorganization. During the bankruptcy proceedings, the Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. Certain subsidiaries of White Mountains received a total of approximately \$39 million for Tribune common stock tendered in connection with the LBO.

In December 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate all of the Noteholder Actions for pretrial matters and transfer all such proceedings to the United States District Court for the Southern District of New York.

In addition, OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company, on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the "Committee Action"). The Committee Action has been consolidated with the Noteholder Actions.

In September 2012, a case management order was entered in the consolidated cases, setting forth, among other things, a briefing schedule for an omnibus motion to dismiss in the Noteholder Actions. The court is expected to hear oral argument on that motion in March 2013. Discovery and other motion practice (other than motions to amend the complaints) in the Committee Action and the Noteholder Actions is stayed until further order of the court.

**Ace American Insurance Company**

A subsidiary of OneBeacon, OBH, was sued in Federal Court in the Eastern District of Pennsylvania on August 17, 2012 by Ace American Insurance Company ("Ace"). The complaint alleges that OBH, through a professional recruiting firm, improperly hired a group of Ace employees from Ace's surety division. The complaint sought injunctive relief and unspecified damages. After court-ordered expedited discovery was completed, the claims for injunctive relief were resolved pursuant to a confidential agreement. The remaining claim against OBH is for damages only and is scheduled to be heard in April. After the claims against OBH for injunctive relief were resolved, Ace filed a Demand for Arbitration against five of the former Ace surety employees hired by OneBeacon, alleging breach of their duty of loyalty to Ace and misappropriation of Ace trade secrets. OneBeacon believes that Ace's damages claim against OBH and the claims against the individual employees are without merit and intends to vigorously defend both.

**Item 4. Mine Safety Disclosures**

None.

**Executive Officers of the Registrant and its Subsidiaries (As of February 28, 2013)**

Name	Position	Age	Executive officer since
Raymond Barrette	Chairman and CEO	62	2007
Reid T. Campbell	Managing Director of White Mountains Capital, Inc.	45	2007
David T. Foy	Executive Vice President and Chief Financial Officer	46	2003
T. Michael Miller	President and CEO of OneBeacon Ltd.	54	2005
Kernan V. Oberting	Managing Director of White Mountains Capital, Inc.	43	2013
J. Brian Palmer	Vice President and Chief Accounting Officer	40	2001
G. Manning Rountree	Managing Director of White Mountains Capital, Inc. and President of WM Advisors	40	2009
Robert L. Seelig	Managing Director and General Counsel	44	2002
Allan L. Waters	President and CEO of Sirius Group Ltd.	55	2007

All executive officers of the Company and its subsidiaries are elected by the Board for a term of one year or until their successors have been elected and have duly qualified. Information with respect to the principal occupation and relevant business experience of the Executive Officers follows:

**Mr. Barrette** has served as Chairman and CEO of the Company since January 2007. He served as a director of the Company from 2000 to 2005 and was re-appointed as a director in August 2006. He previously served as President and CEO of the Company from 2003 to 2005, as CEO of OneBeacon from 2001 to 2002, as President of the Company from 2000 to 2001 and as Executive Vice President and Chief Financial Officer of the Company from 1997 to 2000. Mr. Barrette also serves as a director of OneBeacon Ltd.

**Mr. Campbell** has served as a Managing Director of White Mountains Capital, Inc. since January 2004. He joined White Mountains in 1994 and has served in a variety of financial management positions with White Mountains. Prior to joining White Mountains, Mr. Campbell spent three years with KPMG LLP. Mr. Campbell also serves as a director of OneBeacon Ltd.

**Mr. Foy** was appointed Executive Vice President and Chief Financial Officer of the Company in April 2003. Prior to joining White Mountains in 2003, Mr. Foy served as Senior Vice President and Chief Financial Officer of Hartford Life Inc. and joined that company in 1993. Prior to joining Hartford Life, Mr. Foy was with Milliman and Robertson, an actuarial consulting firm. Mr. Foy also serves as a director of OneBeacon Ltd. and Symetra.

**Mr. Miller** was appointed President and CEO of OneBeacon in July 2005 and joined OneBeacon as its Chief Operating Officer in April 2005. Mr. Miller also serves as a director of OneBeacon Ltd. Prior to joining White Mountains, Mr. Miller spent 10 years at St. Paul Travelers, most recently as Co-Chief Operating Officer. Prior to joining St. Paul Travelers, Mr. Miller spent 14 years with The Chubb Corporation.

**Mr. Oberting** has served as a Managing Director of White Mountains Capital, Inc. since July 2012. From 2008 to 2012, Mr. Oberting was the founder and Managing Member of Oakum Bay Capital (f/k/a KVO Capital Management) and is presently its Non-Executive Chairman. From 2004 to 2008, Mr. Oberting served as Executive Vice President and Chief Financial Officer of Montpelier Re Holdings, Ltd.. Mr. Oberting previously worked for White Mountains entities from 1995 to 2004 in various capacities. Prior to White Mountains, Mr. Oberting was a trader at CS First Boston (Japan) from 1993 to 1995.

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

**Mr. Rountree** is a Managing Director of White Mountains Capital, Inc. and President of WM Advisors. He joined White Mountains in 2004. Prior to joining White Mountains, Mr. Rountree worked with both Putnam Investments and McKinsey & Company.

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

**Mr. Waters** was appointed President and CEO of Sirius Group Ltd. in March 2007. Mr. Waters served as a director of White Mountains from 2003 to 2004 and was re-elected as a director in November 2005. From 1998 to 2007, Mr. Waters was the founder and Managing Member of Mulherrin Capital Advisors, LLC. Mr. Waters formerly served as Senior Vice President and Chief Financial Officer of White Mountains from 1993 to 1997, and originally joined the Company in 1985.

## PART II

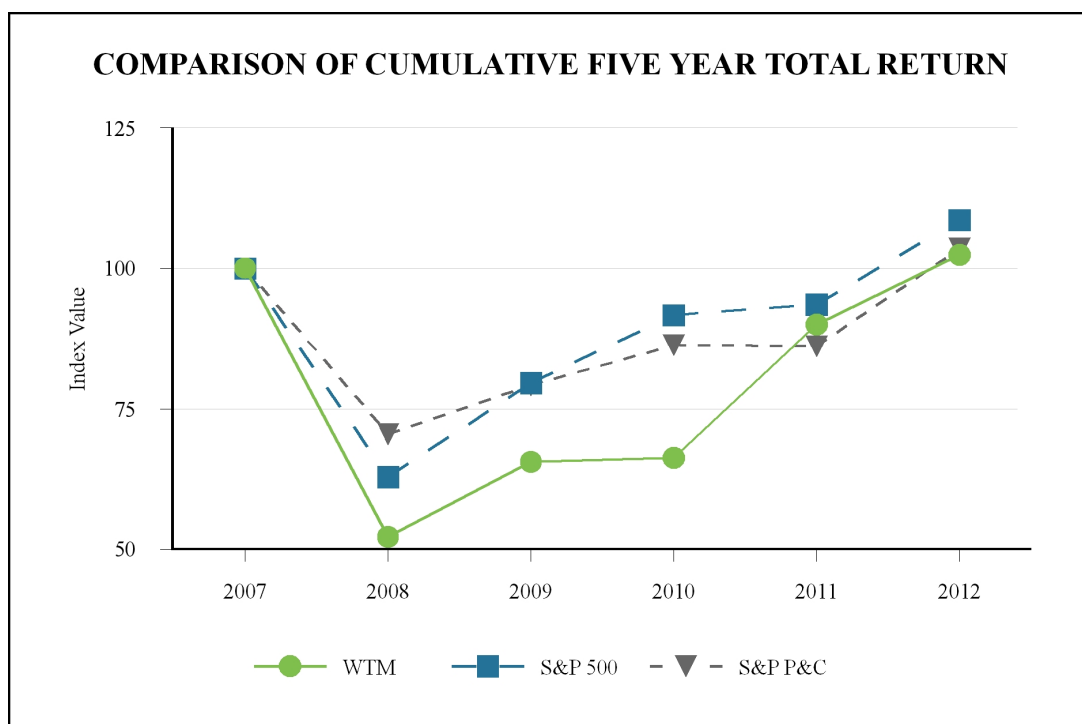
### Item 5. Market for the Company's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

White Mountains' common shares are listed on the New York Stock Exchange (symbol "WTM") and the Bermuda Stock Exchange (symbol "WTM-BH"). As of February 27, 2013, there were 320 registered holders of White Mountains common shares, par value \$1.00 per share. The quarterly range of the high and low sales price for common shares during 2012 and 2011 is presented below:

Quarter ended:	2012		2011	
	High	Low	High	Low
December 31	\$ 526.49	\$ 505.20	\$ 453.79	\$ 395.03
September 30	538.81	504.06	438.25	377.00
June 30	549.98	495.05	428.24	343.63
March 31	518.80	436.54	381.25	338.89

For information on securities authorized for issuance under the Company's equity compensation plans, see "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" on page 106.

The following graph shows the five-year cumulative total return for a shareholder who invested \$100 in common shares as of January 1, 2007, assuming re-investment of dividends. Cumulative returns for the five-year period ended December 31, 2012 are also shown for the Standard & Poor's 500 Stocks (Property & Casualty) Capitalization Weighted Index ("S&P P&C") and the Standard & Poor's 500 Stocks Capitalization Weighted Index ("S&P 500") for comparison.



#### ***Purchases of Equity Securities by the Company***

The following table provides information regarding common shares repurchased by the Company during the fourth quarter of 2012:

Months	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan <sup>(1)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plan <sup>(1)</sup>
October 1 - 31, 2012	—	—	—	970,496
November 1 - 30, 2012	—	—	—	970,496
December 1 - 31, 2012	292,449	\$ 518.89	285,000	685,496
Total	292,449	\$ 518.89	285,000	685,496

<sup>(1)</sup> On November 17, 2006, White Mountains' board of directors authorized the Company to repurchase up to 1,000,000 of its common shares, from time to time, subject to market conditions. On August 26, 2010 and May 25, 2012, White Mountains' board of directors authorized the Company to repurchase up to an additional 600,000 and 1,000,000, respectively, common shares, for a total authorization of 2,600,000 shares. Shares may be repurchased on the open market or through privately negotiated transactions. The repurchase authorization does not have a stated expiration.

## Item 6. Selected Financial Data

Selected consolidated income statement data and ending balance sheet data for each of the five years ended through December 31, 2012, follows:

\$ in millions, except share and per share amounts	Year Ended December 31,				
	2012	2011	2010	2009	2008 <sup>(a)</sup>
<b>Income Statement Data:</b>					
Revenues	\$ 2,436	\$ 2,173	\$ 2,334	\$ 2,926	\$ 1,440
Expenses	2,173	2,075	2,145	2,143	2,456
Pre-tax income (loss)	263	98	189	783	(1,016)
Income tax benefit (expense)	16	110	(30)	(209)	463
Non-controlling interest	14	(42)	(53)	(110)	74
Equity in earnings (losses) of unconsolidated affiliates	29	(20)	11	24	6
Discontinued operations, net of tax <sup>(b)</sup>	(115)	622	(30)	(18)	(86)
Net income (loss) before extraordinary items	207	768	87	470	(559)
Extraordinary gains	—	—	—	—	4
Net income (loss) attributable to White Mountains' common shareholders	\$ 207	\$ 768	\$ 87	\$ 470	\$ (555)
Earnings (loss) before extraordinary items attributable to White Mountains' common shareholders per share:					
Basic — continuing operations	\$ 47.41	\$ 18.56	\$ 13.63	\$ 55.13	\$ (45.82)
Basic — discontinued operations	(16.91)	78.88	(3.51)	(2.02)	(8.44)
Diluted — continuing operations	\$ 47.41	\$ 18.56	\$ 13.63	\$ 55.13	\$ (45.82)
Diluted — discontinued operations	(16.91)	78.88	(3.51)	(2.02)	(8.44)
<b>Balance Sheet Data:</b>					
Total assets	\$ 12,895	\$ 14,064	\$ 14,534	\$ 15,443	\$ 15,896
Debt <sup>(c)</sup>	751	678	819	1,051	1,362
Non-controlling interest—OneBeacon Ltd	251	273	295	351	284
Non-controlling interest—SIG Preference Shares	250	250	250	250	250
Non-controlling interest—HG Global <sup>(d)</sup>	17	—	—	—	—
Non-controlling interest—BAM <sup>(d)</sup>	(36)	—	—	—	—
Non-controlling interest—consolidated limited partnerships and A.W.G. Dewar	44	57	63	83	80
White Mountains' common shareholders' equity	3,732	4,088	3,653	3,657	2,899
Book value per share <sup>(e)</sup>	\$ 593.20	\$ 539.43	\$ 445.76	\$ 412.73	\$ 328.97
Adjusted book value per share <sup>(f)</sup>	\$ 587.63	\$ 542.11	\$ 440.59	\$ 416.52	\$ 353.07
<b>Share Data:</b>					
Cash dividends paid per common share	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 4.00
Ending common shares (000's) <sup>(g)</sup>	6,291	7,578	8,195	8,860	8,809
Ending equivalent common shares (000's) <sup>(h)</sup>	(39)	(38)	(37)	(57)	(37)
Ending common and equivalent common shares (000's)	6,252	7,540	8,158	8,803	8,772

<sup>(a)</sup> Due to the global financial crisis, during 2008 White Mountains experienced significant decreases in: realized and unrealized investment returns reported in revenues; net income; total assets; and adjusted book value per share.

<sup>(b)</sup> As a result of the Esurance Sale, the AutoOne Sale, and the Runoff Transaction, White Mountains has reclassified the results from these businesses for the past five years in the table above to discontinued operations, net of tax. In 2012, discontinued operations, net of tax, includes a \$91 loss related to the sale of the Runoff Business and a net loss of \$24 related to the operations of the Runoff Business. In 2011, discontinued operations, net of tax, includes a \$678 gain related to the Esurance Sale, a \$19 loss related to the AutoOne Sale, and a \$37 net loss related to the Runoff Business.

<sup>(c)</sup> At December 31, 2012, White Mountains had \$75 outstanding under its credit facility, which was repaid in January 2013. During 2011 and 2010, OneBeacon repurchased \$150 and \$187 face value of the OBH Senior Notes. At December 31, 2008, White Mountains had \$200 outstanding under its credit facility, which was repaid during 2009.

<sup>(d)</sup> During 2012, White Mountains capitalized HG Global with approximately \$600 to fund the start-up of BAM. At December 31, 2012, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. Accordingly, all of BAM's results are attributed to non-controlling interest.

<sup>(e)</sup> Includes the dilutive effects of outstanding incentive options to acquire common shares. Non-qualified options were not included in the diluted earnings per share denominator as their inclusion would be anti-dilutive for the periods presented.

<sup>(f)</sup> Adjusted book value per share is a non-GAAP measure which is derived by expanding the GAAP book value per share calculation to include the effects of assumed conversion of all in-the-money convertible securities and to exclude the net unrealized gains (losses) from Symetra's fixed maturity portfolio and unearned restricted common shares. See the reconciliation of adjusted book value per share to book value per share on page 47.

<sup>(g)</sup> During 2012, 2011 and 2010, White Mountains repurchased 1,329,640, 646,502 and 687,871, respectively, of its common shares through a combination of tender offers, open market transactions and other transactions.

<sup>(h)</sup> Includes outstanding options to acquire common shares, when applicable, and excludes unearned shares of restricted stock, the compensation of which, at the date of calculation, has yet to be amortized.

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

The following discussion contains "forward-looking statements". White Mountains intends statements that are not historical in nature, which are hereby identified as forward-looking statements, to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. White Mountains cannot promise that its expectations in such forward-looking statements will turn out to be correct. White Mountains' actual results could be materially different from and worse than its expectations. See "FORWARD-LOOKING STATEMENTS" on page 102 for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.

The following discussion also includes three non-GAAP financial measures, adjusted comprehensive income, adjusted book value per share and adjusted capital, that have been reconciled to their most comparable GAAP financial measures (see page 73). White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains' financial performance and condition.

### RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010

#### Overview—Year Ended December 31, 2012 versus Year Ended December 31, 2011

White Mountains ended 2012 with an adjusted book value per share of \$588, an increase of 8.6%, including dividends, from December 31, 2011. White Mountains reported adjusted comprehensive income of \$245 million in 2012 compared to adjusted comprehensive income of \$745 million in 2011, which included an after-tax gain of \$678 million from the Esurance Sale.

OneBeacon's book value per share decreased 0.8% during 2012, including dividends. OneBeacon's 2012 results included \$101 million of after-tax GAAP losses related to the sale of its Runoff Business, which resulted in a decrease of \$12 to White Mountains' adjusted book value per share (net of non-controlling interest). OneBeacon's GAAP combined ratio was 98% for 2012 compared to 92% for 2011. The increase was primarily driven by higher catastrophe losses, mainly from hurricane Sandy, lower favorable loss reserve development and higher expenses. Sirius Group's GAAP combined ratio was 90% for 2012 compared to 100% for 2011. Sirius Group's combined ratio for 2012 included 13 points of catastrophe losses, 11 points of which were from hurricane Sandy, compared to 24 points of catastrophe losses for 2011. Additionally, Sirius Group's combined ratio for 2012 included 3 points of losses from its agricultural line of business, primarily as a result of the drought in the midwestern United States.

Total net written premiums increased 8% to \$2,127 million in 2012 from \$1,978 million in 2011, due to higher net written premiums at both OneBeacon and Sirius Group. OneBeacon's net written premiums increased 11% to \$1,179 million in 2012, primarily due to new business and improved retention in several lines, particularly within the accident, government risk, energy and technology businesses. In January 2013, OneBeacon terminated its relationship with Hagerty and sold Essentia, the wholly owned subsidiary that wrote OneBeacon's Hagerty collector car and boat business, to Markel Corporation. Business written through Hagerty generated net written premiums of approximately 8% of White Mountains' consolidated net written premiums in each of 2012, 2011 and 2010. OneBeacon will recognize a \$23 million pre-tax gain on the sale of Essentia (\$15 million after tax) in the first quarter of 2013. Sirius Group's net written premiums increased 3% to \$948 million in 2012, primarily due to increases in the accident and health and property lines of business, partially offset by a decrease in the trade credit line of business.

White Mountains' GAAP investment return was 4.9% in 2012. The fixed income portfolio return (in local currencies) of 3.8% was higher than the Barclay's Intermediate Aggregate Bond Index return of 3.6%, despite significantly less duration risk, while the equity portfolio return was 7.7% compared to the S&P 500 Index return of 16.0%. In addition, adjusted book value per share increased \$10 in 2012 from share repurchases and \$3 from foreign currency translation.

Effective January 1, 2013, Sweden reduced its corporate tax rate from 26.3% to 22.0%, and Luxembourg increased its corporate tax rate from 28.8% to 29.2%. This resulted in a reduction in Sirius Group's net deferred tax liabilities in Sweden and an increase in Sirius Group's net deferred tax assets in Luxembourg at December 31, 2012. In addition, during the quarter Sirius Group had a net release of valuation allowances on deferred tax assets in Luxembourg and White Mountains established a valuation allowance on deferred tax assets of a group of U.S. companies reported in the Other Operations segment. In total, these changes resulted in an increase to adjusted book value per share of \$13 in the fourth quarter of 2012.



### Overview-Year Ended December 31, 2011 versus Year Ended December 31, 2010

White Mountains ended 2011 with an adjusted book value per share of \$542, an increase of 23%, including dividends, from December 31, 2010. White Mountains reported adjusted comprehensive income of \$745 million in 2011 compared to adjusted comprehensive income of \$141 million in 2010. The increase in adjusted book value per share in 2011 was driven by an \$89 increase from the gain from the Esurance Sale, net of transaction related expenses.

OneBeacon's book value per share increased 3% during 2011, including dividends. OneBeacon's GAAP combined ratio was 92% for 2011 compared to 96% for 2010. The decrease was primarily driven by improved current accident year results, partially offset by higher catastrophe losses. Sirius Group's GAAP combined ratio was 100% for 2011 compared to 94% for 2010. Both years were impacted by significant catastrophe losses as 2011 included 24 points of catastrophe losses compared to 23 points in 2010.

Total net written premiums decreased 3% to \$1,978 million in 2011 from \$2,034 million in 2010. Excluding the \$180 million of net written premiums in 2010 related to OneBeacon's personal lines business, net written premiums were up 7% in 2011, due to higher net written premiums at both OneBeacon and Sirius Group. OneBeacon's net written premiums increased 8% to \$1,063 million in 2011, primarily due to new business and improved retention in several lines, particularly within the accident, government risk, energy and technology businesses. Sirius Group's net written premiums increased 6% to \$916 million in 2011, primarily due to increases in the accident and health and trade credit lines of business and foreign currency translation.

White Mountains' GAAP investment return was 2.9% in 2011. The fixed income portfolio return (in local currencies) of 3.1% was lower than the Barclay's Intermediate Aggregate Bond Index return of 6.0%, as the fixed income portfolio trailed the longer-duration benchmark as rates declined. The equity portfolio return was 1.4% compared to the S&P 500 Index return of 2.1%.

In addition, adjusted book value per share increased \$17 in 2011 from the release of a valuation allowance against deferred tax assets in two Luxembourg subsidiaries and \$5 from share repurchases. Also, adjusted book value per share decreased \$6 in 2011 from a GAAP other-than-temporary impairment write-down on the investment in Symetra common shares. White Mountains concluded that the accounting impairment on its investment in Symetra common shares existed due to the prolonged low interest rate environment in which life insurance companies operate and not from reasons specific to Symetra itself. As a result, White Mountains does not believe that the accounting impairment equates to an impairment in Symetra's long-term intrinsic business value. See **CRITICAL ACCOUNTING ESTIMATES - White Mountains' Investment in Symetra Common Shares** on page 100 for a more detailed discussion. Foreign currency translation did not have a significant impact on adjusted book value per share in 2011.

### Adjusted Book Value Per Share

The following table presents White Mountains' adjusted book value per share, a non-GAAP financial measure, for the years ended December 31, 2012, 2011 and 2010 and reconciles this non-GAAP measure to the most comparable GAAP measure (See **NON-GAAP FINANCIAL MEASURES** on page 73):

	December 31,		
	2012	2011	2010
<b>Book value per share numerators (in millions):</b>			
White Mountains' common shareholders' equity	\$ 3,731.8	\$ 4,087.7	\$ 3,653.0
Equity in net unrealized gains from Symetra's fixed maturity portfolio	(57.7)	—	(58.5)
Adjusted book value per share numerator	\$ 3,674.1	\$ 4,087.7	\$ 3,594.5
<b>Book value per share denominators (in thousands of shares):</b>			
Common shares outstanding	6,291.0	7,577.9	8,194.9
Unearned restricted shares	(38.7)	(37.6)	(36.5)
Adjusted book value per share denominator	6,252.3	7,540.3	8,158.4
Book value per share	\$ 593.20	\$ 539.43	\$ 445.76
Adjusted book value per share	\$ 587.63	\$ 542.11	\$ 440.59
Dividends paid per share	\$ 1.00	\$ 1.00	\$ 1.00

## Review of Consolidated Results

A summary of White Mountains' consolidated financial results for the years ended December 31, 2012, 2011 and 2010 follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Gross written premiums	\$ 2,438.0	\$ 2,256.4	\$ 2,371.6
Net written premiums	\$ 2,126.9	\$ 1,978.4	\$ 2,033.5
<b>Revenues</b>			
Earned insurance and reinsurance premiums	\$ 2,063.6	\$ 1,924.5	\$ 2,029.0
Net investment income	153.6	184.5	208.9
Net realized and unrealized investment gains	118.2	74.1	77.6
Other revenue — foreign currency translation (losses) gains	39.9	(5.5)	27.6
Other revenue — Tuckerman Fund I <sup>(1)</sup>	24.1	24.3	23.3
Other revenue — Symetra warrants	17.7	(24.5)	(1.4)
Other revenue — other	18.6	(4.3)	(31.3)
Other revenue (losses)	100.3	(10.0)	18.2
Total revenues	2,435.7	2,173.1	2,333.7
<b>Expenses</b>			
Losses and LAE	1,193.9	1,174.3	1,216.6
Insurance and reinsurance acquisition expenses	430.2	402.2	419.6
Other underwriting expenses	321.8	268.1	295.9
General and administrative expenses	131.0	143.5	125.9
General and administrative expenses — Tuckerman Fund I <sup>(1)</sup>	21.0	23.5	20.6
General and administrative expenses — BAM	19.6	—	—
Accretion of fair value adjustment to loss and LAE reserves	10.6	8.3	8.5
Interest expense on debt	44.8	55.2	57.3
Total expenses	2,172.9	2,075.1	2,144.4
<b>Pre-tax income</b>	262.8	98.0	189.3
Income tax benefit (expense)	15.7	110.0	(29.6)
<b>Net income from continuing operations</b>	278.5	208.0	159.7
Net gain on sale of Esurance, net of tax	—	677.5	—
Net loss on sale of AutoOne, net of tax	(91.0)	(19.2)	—
Net loss from discontinued operations, net of tax	(24.0)	(36.7)	(30.1)
Equity in (losses) earnings of unconsolidated affiliates	29.9	(20.2)	9.9
<b>Net income</b>	193.4	809.4	139.5
Net loss (income) attributable to non-controlling interests	14.0	(41.5)	(53.0)
<b>Net income attributable to White Mountains' common shareholders</b>	207.4	767.9	86.5
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates	57.7	(58.5)	73.5
Change in foreign currency translation and other	36.7	(26.0)	56.1
<b>Comprehensive income</b>	301.8	683.4	216.1
Comprehensive loss (income) attributable to non-controlling interests	.8	2.8	(1.7)
<b>Comprehensive income attributable to White Mountains' common shareholders</b>	302.6	686.2	214.4
Change in net unrealized losses (gains) from Symetra's fixed maturity portfolio	(57.7)	58.5	(73.5)
<b>Adjusted comprehensive income <sup>(2)</sup></b>	\$ 244.9	\$ 744.7	\$ 140.9

<sup>(1)</sup> On December 31, 2011, Tuckerman Fund I was dissolved and all of the net assets of the fund, which consisted of the LLC units of Hamer and Bri-Mar, two small manufacturing companies, were distributed. As of October 1, 2012, Hamer and Bri-Mar are no longer consolidated and are accounted for as investments in unconsolidated affiliates.

<sup>(2)</sup> Adjusted comprehensive income is a non-GAAP measure. For a reconciliation to the most comparable GAAP measure (see **NON-GAAP MEASURES** on page 73).

### **Consolidated Results—Year Ended December 31, 2012 versus Year Ended December 31, 2011**

White Mountains' total revenues increased 12% to \$2,436 million in 2012 compared to \$2,173 million in 2011, primarily due to higher earned insurance and reinsurance premiums, foreign currency translation gains, higher net realized and unrealized investment gains and an improvement of the mark-to-market performance of the Symetra warrants, partially offset by lower net investment income. Earned premiums increased 7% to \$2,064 million in 2012, with an 11% increase at OneBeacon and a 3% increase at Sirius Group. Net investment income was down 17% to \$154 million in 2012, principally due to a lower invested asset base driven by share repurchases and lower fixed maturity yields. White Mountains reported net realized and unrealized investment gains of \$118 million in 2012 compared to \$74 million in 2011. Net realized and unrealized investment gains for both periods were impacted by foreign currency translation on U.S. dollar-denominated investments at Sirius International, the effects of which are offset in other comprehensive income (see **"Impact of Foreign Currency on Investment Returns"** on page 59). Other revenues increased to a gain of \$100 million in 2012 from a loss of \$10 million in 2011, due primarily to \$40 million in foreign currency translation gains and \$18 million in mark-to-market gains on the Symetra warrants in 2012, compared to \$6 million in foreign currency translation losses and \$25 million in mark-to-market losses on the Symetra warrants in 2011. Other revenues included a \$25 million loss from WM Life Re in 2012 compared to a \$16 million loss in 2011. See **Note 8 - Variable Annuity Reinsurance** for details regarding WM Life Re's total impact on White Mountains' statement of operations. Other revenues in 2012 also included a \$15 million pre-tax gain on Sirius Group's sale of IMG, \$14 million in pre-tax transaction gains from White Mountains Solutions' acquisitions that closed in 2012, a \$5 million pre-tax gain on OneBeacon's sale of a shell company and a \$6 million pre-tax loss from OneBeacon's repurchase of its remaining 2003 OBH Senior Notes. Other revenues in 2011 included a \$7 million pre-tax gain from Sirius Group's acquisition of Old Lyme.

White Mountains' total expenses increased 5% to \$2,173 million in 2012 compared to \$2,075 million in 2011. Losses and LAE expenses increased 2% and insurance and reinsurance acquisition expenses increased by 7%, driven by increased business volume. The increase in loss and LAE expenses was partially offset by lower catastrophe losses. Other underwriting expenses increased 20%, driven by increased business volume, start-up costs for new specialty businesses at OneBeacon and the migration of OneBeacon's corporate functions to Minnesota. General and administrative expenses were \$172 million in 2012, which includes \$20 million in expenses from the consolidation of BAM, compared to \$167 million in 2011. Excluding the \$20 million of expenses related to BAM, general and administrative expenses decreased 9% in 2012, primarily due to lower incentive compensation expenses. 2011 included a higher level of incentive compensation expenses as a result of the gain from the Esurance Sale and a 35% increase in White Mountains' stock price during 2011 compared to a 14% increase in 2012. Interest expense on debt decreased 19% to \$45 million in 2012 compared to \$55 million in 2011, primarily due to reductions of outstanding debt resulting from repurchases of the 2003 OBH Senior Notes.

### **Consolidated Results—Year Ended December 31, 2011 versus Year Ended December 31, 2010**

White Mountains' total revenues decreased 7% to \$2,173 million in 2011 compared to \$2,334 million in 2010, primarily due to lower earned insurance premiums, net investment income, net investment gains and other revenues. Earned premiums were down 5% to \$1,925 million in 2011, due primarily to a 14% decrease at OneBeacon, which was driven by the sale of its personal lines business in 2010. Excluding the \$202 million of earned premiums in 2010 related to OneBeacon's personal lines business, earned premiums were up 5% in 2011, with a 3% increase at OneBeacon and an 8% increase at Sirius Group. Net investment income was down 12% to \$185 million in 2011, due primarily to lower fixed maturity yields and a reduction in invested assets from the sale of OneBeacon's personal lines business in 2010, repurchases of a portion of the 2003 OBH Senior Notes and share repurchases. White Mountains reported net realized and unrealized investment gains of \$74 million in 2011 compared to \$78 million in 2010. Net realized and unrealized investment gains for both periods were significantly impacted by foreign currency translation on U.S. dollar-denominated investments at Sirius International, the effects of which are offset in other comprehensive income (see **"Impact of Foreign Currency on Investment Returns"** on page 59). Other revenues decreased to a loss of \$10 million in 2011 from a gain of \$18 million in 2010, due primarily to foreign currency translation losses and higher mark-to-market losses on the Symetra warrants, partially offset by lower losses reported by WM Life Re. Other revenues included a \$16 million loss from WM Life Re in 2011 compared to a \$45 million loss in 2010. Other revenues in 2011 also included a \$7 million pre-tax gain from Sirius Group's acquisition of Old Lyme, while other revenues in 2010 included a \$13 million pre-tax gain from Sirius Group's acquisition of Central National.

White Mountains' total expenses decreased 3% to \$2,075 million in 2011 compared to \$2,144 million in 2010. Excluding the \$218 million of expenses reported in 2010 related to OneBeacon's personal lines business, White Mountains' total expenses increased 8% in 2011, as losses and LAE expenses, insurance and reinsurance acquisition expenses and other underwriting expenses increased 10%, 6% and 2%, driven by increased business volume. The increase in loss and LAE expenses was also due to higher catastrophe losses. General and administrative expenses increased 14% to \$167 million in 2011 compared to \$147 million in 2010, due primarily to increased compensation expenses as a result of the gain from the Esurance Sale and to the 35% increase in White Mountains' stock price during 2011. Interest expense on debt decreased 4% to \$55 million in 2011 compared to \$57 million in 2010, primarily due to reductions of outstanding debt resulting from repurchases of the 2003 OBH Senior Notes.

## ***Income Taxes***

The Company and its Bermuda-domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law such that taxes are imposed, the Company and its Bermuda-domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company's subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Germany, Gibraltar, Luxembourg, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

White Mountains reported an income tax benefit of \$16 million in 2012 on pre-tax income of \$263 million. Effective January 1, 2013, Sweden reduced its corporate tax rate from 26.3% to 22.0% and Luxembourg increased its corporate tax rate from 28.8% to 29.2%. This resulted in a reduction in deferred tax liabilities in Sweden and an increase in deferred tax assets in Luxembourg at December 31, 2012. As a result, Sirius Group recognized \$73 million in tax benefits from these changes. In addition, during the quarter Sirius Group had a net release of valuation allowances on deferred tax assets in Luxembourg, resulting in a tax benefit of \$41 million, and White Mountains established a valuation allowance on deferred tax assets of a group of U.S. companies reported in the Other Operations segment, resulting in a tax expense of \$38 million. In total, White Mountains recognized \$76 million in overall net tax benefits from these changes. Excluding the impact of these changes, White Mountains effective tax rate for 2012 was 23%, which was lower than the U.S. statutory rate of 35% due primarily to income generated in jurisdictions other than the United States.

White Mountains reported an income tax benefit of \$110 million in 2011 on pre-tax income of \$98 million, due primarily to a \$130 million tax benefit from the release of a valuation allowance against certain deferred tax assets as a result of the reorganization of Sirius Group. In connection with the reorganization, which included Sirius Group's acquisition of a Luxembourg holding company from OneBeacon in January 2012, internal debt was contributed to holding companies that had large deferred tax assets offset by full valuation allowances. Because the reorganization created a future stream of income for these holding companies, White Mountains was required to reduce the valuation allowances by \$130 million in the fourth quarter of 2011. White Mountains also recorded a reclassification of \$3 million of equity from White Mountains' common shareholders' equity to non-controlling interest, which represents OneBeacon's minority shareholders' portion of the excess of the purchase price over the net assets of the Luxembourg holding company. Excluding the valuation allowance reduction, White Mountains effective tax rate for 2011 was 20%, which was lower than the U.S. statutory rate of 35% due primarily to income generated in jurisdictions other than the United States.

The income tax expense related to pre-tax income for 2010 represented an effective tax rate of 16.0%, which was lower than the U.S. statutory rate of 35% due primarily to income generated in jurisdictions other than the United States.

## ***Discontinued Operations***

On October 17, 2012, OneBeacon entered into an agreement to sell its runoff business to Armour and recorded \$101 million in after-tax losses related to the Runoff Transaction in 2012. These losses are composed of a \$92 million after-tax loss on sale and a \$9 million after-tax loss related to a reduction in the workers compensation loss reserve discount rate on reserves being transferred as part of the sale. The transaction is expected to close in the second half of 2013. On October 7, 2011, White Mountains completed the sale of Esurance to Allstate for cash equal to \$700 million plus the tangible book value at closing of the entities being sold and recorded a gain of \$678 million. In 2011, OneBeacon agreed to sell its AutoOne business to Interboro and recorded a charge of \$19 million after tax for the estimated loss on the sale. The AutoOne transaction closed in February 2012.

As a result of these transactions, the results of the Runoff Business, the Esurance and AutoOne businesses and related transaction gains and losses are reported in discontinued operations in White Mountains' GAAP financial statements.

## I. Summary of Operations By Segment

White Mountains conducts its operations through four segments: (1) OneBeacon, (2) Sirius Group, (3) HG Global/BAM and (4) Other Operations. While investment results are included in these segments, because White Mountains manages the majority of its investments through its wholly-owned subsidiary, WM Advisors, a discussion of White Mountains' consolidated investment operations is included after the discussion of operations by segment. White Mountains' segment information is presented in **Note 14 —“Segment Information”** to the Consolidated Financial Statements.

### OneBeacon

Financial results and GAAP combined ratios for OneBeacon for the years ended December 31, 2012, 2011 and 2010 follow:

Millions	Year Ended December 31,		
	2012	2011	2010
Gross written premiums	\$ 1,259.2	\$ 1,128.3	\$ 1,292.5
Net written premiums	\$ 1,179.2	\$ 1,062.7	\$ 1,167.7
Earned insurance and reinsurance premiums	\$ 1,132.0	\$ 1,012.2	\$ 1,181.1
Net investment income	53.6	71.4	96.6
Net realized and unrealized investment gains	55.7	10.6	74.6
Other revenue	(.5)	(12.4)	(.6)
Total revenues	1,240.8	1,081.8	1,351.7
Losses and LAE	650.0	548.3	685.6
Insurance and reinsurance acquisition expenses	249.4	221.2	252.1
Other underwriting expenses	205.2	162.3	196.1
General and administrative expenses	13.4	9.8	12.9
Interest expense on debt	16.9	20.5	29.6
Total expenses	1,134.9	962.1	1,176.3
<b>Pre-tax income</b>	<b>\$ 105.9</b>	<b>\$ 119.7</b>	<b>\$ 175.4</b>
<b>GAAP Ratios:</b>			
Loss and LAE	58%	54%	58%
Expense	40%	38%	38%
Combined	98%	92%	96%

The following table presents OneBeacon's book value per share.

(Millions, except per share amounts)	December 31,		
	2012	2011	2010
OneBeacon common shareholders' equity	\$ 1,014.5	\$ 1,099.8	\$ 1,229.0
OneBeacon Ltd. common shares outstanding	95.4	95.1	94.4
OneBeacon book value per common share	\$ 10.63	\$ 11.56	\$ 13.02
Dividends paid per common share	\$ 0.84	\$ 1.84	\$ 3.34

**OneBeacon Results—Year Ended December 31, 2012 versus Year Ended December 31, 2011**

OneBeacon ended 2012 with a book value per share of \$10.63, a decrease of 0.8%, including dividends (a quarterly dividend of \$0.21 per share) from December 31, 2011. The decrease in book value was driven by a \$92 million estimated after-tax loss on the Runoff Transaction and \$24 million of net after-tax operating losses from discontinued operations, which included a \$9 million after-tax charge related to the Runoff Transaction from a reduction in the workers compensation loss reserve discount rate. This negative impact to book value was partially offset by a \$14 million increase from the sale of OneBeacon Holdings (Luxembourg) S.à r.l. to Sirius Group. The transaction was recorded as an increase in OneBeacon's equity and was eliminated in White Mountains' consolidated financial statements. OneBeacon's GAAP return of investments was 4.4% for 2012.

OneBeacon's GAAP combined ratio increased to 98% for 2012 from 92% for 2011, primarily driven by lower favorable loss reserve development, higher catastrophe losses and higher expenses. Favorable loss reserve development for 2012 was \$7 million, or 1 point, compared to \$30 million, or 3 points, for 2011. The favorable reserve development for 2012 was primarily in the workers' compensation, multiple peril liability and general liability lines, mostly offset by adverse loss reserve development on excess property claims. The combined ratio for 2012 included 5 points of net catastrophe losses (\$56 million, including \$8 million of ceded reinstatement premiums), due primarily to the impact of hurricane Sandy, compared to 4 points (\$37 million) of catastrophe losses for 2011, primarily related to hurricane Irene, tornados in the southeastern and midwestern United States as well as storms and freezing weather in the northeastern and southwestern United States. The increase in the expense ratio is primarily the result of start up costs for new specialty businesses and costs associated with actions taken to migrate certain corporate functions to Minnesota in 2012.

OneBeacon's net written premiums increased 11% in 2012 to \$1,179 million, compared to \$1,063 million in 2011, primarily due to the growth in several underwriting units, particularly within the Professional Insurance, Technology and Accident units. In January 2013, OneBeacon terminated its relationship with Hagerty and sold Essentia, the wholly owned subsidiary that wrote OneBeacon's Hagerty collector car and boat business, to Markel Corporation. For the years ended December 31, 2012, 2011 and 2010, business written through Hagerty generated net written premiums of approximately 15%, 16% and 13%, respectively, of OneBeacon's consolidated net written premiums. OneBeacon will recognize a \$23 million pre-tax gain on the sale of Essentia (\$15 million after tax) in the first quarter of 2013.

OneBeacon's other revenues in 2012 included a \$6 million loss related to the repurchase of its 2003 OBH Senior Notes, offset in part by a \$5 million gain on the sale of a shell company, Pennsylvania General Insurance. OneBeacon's other revenues in 2011 included a \$12 million loss related to the partial redemption of a portion of the 2003 OBH Senior Notes.

OneBeacon's losses and LAE expenses increased 19% and insurance and reinsurance acquisition expenses increased by 13%, driven by increased business volume. The increase in loss and LAE expenses was also partially due to higher catastrophe losses, driven by hurricane Sandy. Other underwriting expenses increased 26%, driven by increased business volume, start-up costs for new specialty businesses at OneBeacon and the migration of OneBeacon's corporate functions to Minnesota. Interest expense decreased 18% to \$17 million in 2012, reflecting lower outstanding debt.

*Reinsurance protection.* OneBeacon purchases reinsurance in order to minimize loss from large risks or catastrophic events. OneBeacon also purchases individual property reinsurance coverage for certain risks to reduce large loss volatility through property-per-risk excess of loss reinsurance programs and individual risk facultative reinsurance. OneBeacon also maintains excess of loss casualty reinsurance programs that provide protection for individual risk or catastrophe losses involving workers compensation, general liability, automobile liability, professional liability or umbrella liability. The availability and cost of reinsurance protection is subject to market conditions, which are outside of management's control. Limiting risk of loss through reinsurance arrangements serves to mitigate the impact of large losses; however, the cost of this protection in an individual period may exceed the benefit.

OneBeacon's net combined ratio for 2012 was lower than its gross combined ratio by 1 point, primarily due to the significant amount of reinsurance cessions related to hurricane Sandy, which were partially off-set by the impact of the cost of facultative reinsurance and property reinsurance, and also the cost of catastrophe reinsurance and marine reinsurance. OneBeacon's net combined ratio for 2011 was higher than its gross combined ratio by 4 points, primarily due to the impact of the cost of facultative reinsurance and property reinsurance, and also the cost of catastrophe reinsurance and marine reinsurance.

**OneBeacon Results—Year Ended December 31, 2011 versus Year Ended December 31, 2010**

OneBeacon ended 2011 with a book value per share of \$11.56, an increase of 3%, including dividends (quarterly dividends of \$0.21 per share and a special dividend of \$1.00 per share paid in June 2011) from December 31, 2010. OneBeacon's GAAP investment return was 3.0% for 2011. OneBeacon's results for 2011 were adversely impacted by a decline in the value of investment assets in OneBeacon's pension plan, the loss resulting from a debt tender on the 2003 OBH Senior Notes, and the loss on the AutoOne sale.

OneBeacon's GAAP combined ratio for 2011 decreased to 92% from 96% for 2010, primarily due to better current accident year results, partially offset by higher catastrophe losses. OneBeacon experienced a number of large losses in its property and inland marine business during 2010. The GAAP combined ratio for 2011 included 4 points of catastrophe losses compared to 2 points in 2010. The GAAP combined ratio included 3 points of favorable loss reserve development for both years.

OneBeacon's net written premiums decreased 8% in 2011 to \$1,063 million from \$1,168 million in 2010. Excluding \$171 million of net written premiums in 2010 related to OneBeacon's personal lines business, which was sold in July of 2010, OneBeacon's net written premiums increased 8% in 2011, primarily due to new business and improved retention in several lines, particularly within the collector cars and boats, accident, government risk, energy and technology businesses.

OneBeacon's other revenues in 2011 included a \$12 million loss related to the repurchase of a portion of the 2003 OBH Senior Notes. OneBeacon's other revenues in 2010 included a \$9 million net gain on the sale of OneBeacon's personal lines business, partially offset by an \$11 million loss related to the repurchase of a portion of the 2003 OBH Senior Notes.

OneBeacon's policy acquisition expenses decreased 12% to \$221 million and other underwriting expenses decreased 17% to \$162 million in 2011. Excluding the personal lines business that OneBeacon sold in 2010, OneBeacon's policy acquisition expenses increased 4% and other underwriting expenses were essentially flat in 2011. Interest expense decreased 31% to \$21 million in 2011, reflective of lower outstanding debt.

*Reinsurance protection.* OneBeacon's net combined ratio for 2011 was higher than its gross combined ratio by 4 points, primarily due to the impact of the cost of facultative reinsurance and property reinsurance, and also the cost of catastrophe reinsurance and marine reinsurance. OneBeacon's net combined ratio for 2010 was higher than its gross combined ratio by 4 points, primarily due to the impact of the cost of catastrophe reinsurance and facultative reinsurance.

## Sirius Group

Financial results and GAAP combined ratios for Sirius Group for the years ended December 31, 2012, 2011 and 2010 follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Gross written premiums	\$ 1,178.8	\$ 1,128.1	\$ 1,079.1
Net written premiums	\$ 947.7	\$ 915.7	\$ 865.8
Earned insurance and reinsurance premiums	\$ 931.6	\$ 912.3	\$ 847.9
Net investment income	65.0	89.9	96.5
Net realized and unrealized investment gains (losses)	17.3	53.2	(14.8)
Other revenue—foreign currency translation gains (losses)	39.9	(5.5)	27.6
Other revenue	30.7	9.6	13.3
Total revenues	1,084.5	1,059.5	970.5
Losses and LAE	543.9	626.0	531.0
Insurance and reinsurance acquisition expenses	180.8	181.0	167.5
Other underwriting expenses	116.4	105.8	99.8
General and administrative expenses	35.3	25.8	23.1
Accretion of fair value adjustment to loss and LAE reserves	10.6	8.3	8.5
Interest expense on debt	26.2	31.6	26.6
Total expenses	913.2	978.5	856.5
<b>Pre-tax income</b>	<b>\$ 171.3</b>	<b>\$ 81.0</b>	<b>\$ 114.0</b>
<b>GAAP Ratios:</b>			
Loss and LAE	58%	69%	63%
Expense	32%	31%	31%
Combined	90%	100%	94%

### ***Sirius Group Results—Year Ended December 31, 2012 versus Year Ended December 31, 2011***

Sirius Group's GAAP combined ratio was 90% for 2012 compared to 100% for 2011. The decrease was primarily due to lower catastrophe losses, as the 2012 combined ratio included 13 points (\$117 million) of catastrophe losses net of reinsurance and reinstatement premiums, primarily due to \$98 million of losses from hurricane Sandy, compared to 24 points (\$218 million) in 2011, primarily due to the Japan earthquake and tsunami, the New Zealand earthquakes and the floods in Thailand. Additionally, the 2012 combined ratio included 3 points of agricultural losses principally as a result of the drought in the midwestern United States. Favorable loss reserve development was 4 points for 2012. The major reductions in loss reserve estimates were recognized in casualty runoff (\$32 million), property (\$28 million), marine/energy (\$12 million), trade credit (\$7 million) and aviation/space (\$5 million) lines, partially offset by a \$46 million increase in asbestos and environmental loss reserves and a \$4 million increase in accident and health. Favorable loss reserve development was 5 points for 2011 and was primarily attributable to \$41 million of favorable development on property lines, partially offset by asbestos and environmental increases of \$12 million.

Sirius Group's gross written premiums increased 4% (6% in local currencies) to \$1,179 million in 2012 from \$1,128 million for 2011, while net written premiums increased 3% (5% in local currencies) to \$948 million for 2012 from \$916 million in 2011. These increases were primarily from the property and accident and health lines of business, partially offset by decreases in the casualty and trade credit lines. Net written premiums for 2012 increased less than gross written premiums due to increased retrocessions on the property and accident and health lines of business. Net earned premiums increased 2% (4% in local currencies) to \$932 million for 2012 from \$912 million in 2011.

Sirius Group's other revenues primarily consisted of \$40 million of foreign currency translation gains recorded in 2012 compared to foreign currency translation losses of \$6 million in 2011. (See **Impact of Foreign Currency on Investment Returns** of on page 59.) Additionally, Sirius Group recorded pre-tax transaction gains of \$14 million from White Mountains Solutions' acquisitions of PICO, Citation, American General and American General Property and \$15 million on the sale of its interest in an affiliate, IMG, a managing general underwriter in the medical and travel business. In 2011, Sirius Group recorded a \$7 million pre-tax gain from White Mountains Solutions' acquisition of the loss reserve portfolio of Old Lyme.

Sirius Group's other underwriting expenses increased \$11 million in 2012, primarily due to higher incentive compensation costs and professional fees. General and administrative expenses increased \$10 million in 2012, primarily due to higher incentive compensation costs in addition to severance and separation costs as a result of a reduction in staff.

**Reinsurance protection.** Sirius Group's reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain accident and health and property exposures. Sirius Group's proportional reinsurance programs provide protection for part of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East and Australia. This reinsurance is designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events. Attachment points and coverage limits vary by region around the world.

Sirius Group's gross combined ratio was lower than the net combined ratio by 6 points for 2012 and 7 points for 2011. The higher net combined ratio for 2012 was primarily due to the cost of property retrocessions with limited ceded property loss recoveries. The higher net combined ratio for 2011 was due to the Japan and New Zealand earthquake losses, very little of which were ceded under Sirius Group's retrocessional reinsurance coverage, in addition to the cost of the property retrocessions.

### ***Sirius Group Results—Year Ended December 31, 2011 versus Year Ended December 31, 2010***

Sirius Group's GAAP combined ratio was 100% for 2011 compared to 94% for 2010. Both years were impacted by significant catastrophe losses as the 2011 GAAP combined ratio included 24 points of catastrophe losses compared to 23 points in 2010. For 2011, catastrophe losses included \$81 million (9 points) of losses from the Japan earthquake and tsunami, \$51 million (6 points) of losses from the February and June 2011 New Zealand earthquakes, \$34 million (4 points) from floods in Thailand, and \$25 million (3 points) of losses from severe weather and tornados in the Midwestern United States. Catastrophe losses for 2010 were primarily due to the Chile and New Zealand earthquakes, European floods and Deepwater Horizon. Favorable net loss reserve development for 2011 was 5 points, primarily attributable to \$41 million of favorable development on property lines, including \$13 million of loss reserve reductions for the 2010 Chile earthquake, partially offset by asbestos and environmental increases of \$12 million. Favorable loss reserve development for 2010 was 7 points, mostly from short-tailed lines of business, primarily property, accident and health, and marine. The increase in the 2011 GAAP combined ratio also reflects worse current accident year underwriting results in the accident and health, marine, and aviation lines, partially offset by improved underwriting results in the trade credit line.



Sirius Group's gross written premiums increased 5% (2% in local currencies) to \$1,128 million in 2011 from \$1,079 million in 2010, while net written premiums increased 6% (3% in local currencies) to \$916 million in 2011 from \$866 million in 2010. These increases were primarily due to increases in the accident and health and trade credit lines of business and foreign exchange translation. Earned premiums increased 8% (5% in local currencies) to \$912 million in 2011 from \$848 million in 2010. In addition to the changes noted above for written premiums, earned premiums increased due to a change in business mix. Trade credit and accident and health premiums, which have a longer earnings recognition period than Sirius Group's other writings, have been an increasingly higher percentage of Sirius Group's total written premiums in recent years.

Sirius Group's other revenues consisted primarily of \$6 million of foreign currency translation losses recorded in 2011 compared to \$28 million of foreign currency translation gains in 2010. Additionally, Sirius Group acquired the loss reserve portfolio of Old Lyme and recorded a pre-tax gain of approximately \$7 million in other revenues in 2011, which reflects the excess of the fair value of the net assets acquired over the consideration paid. In 2010, Sirius Group acquired Central National and recorded a pre-tax gain of approximately \$13 million in other revenues.

Sirius Group's other underwriting expenses increased \$6 million in 2011, primarily due to foreign exchange, higher professional fees mainly from systems initiatives, somewhat offset by lower incentive compensation costs.

*Reinsurance protection.* Sirius Group's net combined ratio for 2011 was higher than its gross combined ratio by 7 points and the net combined ratio was lower than the gross combined ratio by 6 points for 2010. The higher net combined ratio for 2011 was due to the Japan and New Zealand earthquake losses, very little of which were ceded under Sirius Group's retrocessional reinsurance coverage, in addition to the cost of the property retrocessions. The lower net combined ratio for 2010 was primarily due to significant retrocessional recoveries, including recovery of the full \$65 million limit under Sirius Group's non-U.S./non-Japan earthquake cover triggered by losses from the Chile earthquake.

## **HG Global/BAM**

*HG Global and BAM.* The following table presents the components of pre-tax income included in White Mountains' HG Global/BAM segment related to the consolidation of HG Global, which includes HG Re and its other wholly-owned subsidiaries, and BAM for the year ended December 31, 2012:

<b>Millions</b>	<b>Year Ended December 31, 2012</b>		
	<b>HG Global</b>	<b>BAM</b>	<b>Consolidated</b>
Net investment income	\$ .3	\$ 1.9	\$ 2.2
Net investment income - surplus note interest	18.4	(18.4)	—
Net realized and unrealized investment gains	—	—	—
Total revenues	18.7	(16.5)	2.2
Other underwriting expenses	—	.2	.2
General and administrative expenses	4.5	19.6	24.1
Total expenses	4.5	19.8	24.3
Pre-tax income (loss)	\$ 14.2	\$ (36.3)	\$ (22.1)

HG Global reported pre-tax income of \$14 million in 2012, which was driven by \$18 million of interest income on the BAM Surplus Notes, partially offset by startup and operational costs. BAM reported \$36 million in pre-tax losses in 2012 that were driven by \$18 million of interest expense on the BAM Surplus Notes and startup and operational costs. Since BAM is a mutual insurance company owned by its members, BAM's results do not affect White Mountains' adjusted book value per share as they are attributed to non-controlling interests.

The following table presents amounts from HG Global, which includes HG Re and its other wholly-owned subsidiaries, and BAM that are contained within White Mountains' consolidated balance sheet as of December 31, 2012:

Millions	As of December 31, 2012		
	HG Global	BAM	Consolidated
<b>Assets</b>			
Fixed maturity investments	\$ 98.2	\$ 467.3	\$ 565.5
Short-term investments	3.3	5.1	8.4
Total investments	101.5	472.4	573.9
Cash	.1	16.0	16.1
Other assets - BAM Surplus Notes <sup>(1)</sup>	503.0	(503.0)	—
Other assets - accrued interest on BAM Surplus Notes <sup>(2)</sup>	18.4	(18.4)	—
Other assets	.6	4.4	5.0
Total assets	\$ 623.6	\$ (28.6)	\$ 595.0
<b>Liabilities</b>			
Preferred dividends payable to non-controlling investors	\$ .5	\$ —	\$ .5
Other liabilities	.4	7.4	7.8
Total liabilities	.9	7.4	8.3
<b>Equity</b>			
White Mountains' common shareholders' equity	606.1	—	606.1
Non-controlling interests	16.6	(36.0)	(19.4)
<b>Total equity</b>	<b>\$ 622.7</b>	<b>\$ (36.0)</b>	<b>\$ 586.7</b>
<b>Total liabilities and equity</b>	<b>\$ 623.6</b>	<b>\$ (28.6)</b>	<b>\$ 595.0</b>

<sup>(1)</sup> Under GAAP, the BAM Surplus Notes are classified as debt by the issuer. Under Statutory accounting, they are classified as Surplus.

<sup>(2)</sup> Under GAAP, interest accrues daily on the BAM Surplus Notes. Under Statutory accounting, interest is not accrued on the BAM Surplus Notes until it has been approved for payment by insurance regulators.

## Other Operations

A summary of White Mountains' financial results from its Other Operations segment for the years ended December 31, 2012, 2011 and 2010 follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Net investment income	\$ 32.8	\$ 23.2	\$ 15.8
Net realized and unrealized investment gains	45.2	10.3	17.8
Other revenue—Tuckerman Fund I <sup>(1)</sup>	24.1	24.3	23.3
Other revenue—Symetra warrants	17.7	(24.5)	(1.4)
Other revenue	(11.6)	(1.5)	(44.0)
Total revenues	108.2	31.8	11.5
General and administrative expenses—Tuckerman Fund I <sup>(1)</sup>	21.0	23.5	20.6
General and administrative expenses	77.8	107.9	89.9
Interest expense on debt	1.7	3.1	1.1
Total expenses	100.5	134.5	111.6
<b>Pre-tax income (loss)</b>	<b>\$ 7.7</b>	<b>\$ (102.7)</b>	<b>\$ (100.1)</b>

<sup>(1)</sup> On December 31, 2011, Tuckerman Fund I was dissolved and all of the net assets of the fund, which consisted of the LLC units of Hamer and Bri-Mar, two small manufacturing companies, were distributed. As of October 1, 2012, Hamer and Bri-Mar are no longer consolidated and are accounted for as investments in unconsolidated affiliates.

**Other Operations Results—Year December 31, 2012 versus Year Ended December 31, 2011**

White Mountains' Other Operations segment reported pre-tax income of \$8 million in 2012 compared to a pre-tax loss of \$103 million in 2011. The improvement in the 2012 results was driven by an improvement in the mark-to-market performance of the Symetra warrants, higher pre-tax income from investments, lower incentive compensation expenses and lower losses from WM Life Re. 2011 included a higher level of incentive compensation expenses as a result of the gain from the Esurance Sale and a 35% increase in White Mountains' stock price during 2011 compared to a 14% increase in 2012. The value of White Mountains' investment in Symetra warrants increased \$18 million in 2012 compared to a decrease of \$25 million in 2011. WM Life Re reported pre-tax loss of \$19 million in 2012 compared to pre-tax loss of \$27 million in 2011. See **Note 8 - Variable Annuity Reinsurance** for details regarding WM Life Re's total impact on White Mountains' statement of operations.

*Share repurchases.* White Mountains repurchased and retired 1,329,640 of its common shares for \$669 million in 2012 at an average price per share of \$503.09, or approximately 86% of White Mountains' December 31, 2012 adjusted book value per share.

**Other Operations Results—Year Ended December 31, 2011 versus Year Ended December 31, 2010**

White Mountains' Other Operations segment reported pre-tax loss of \$103 million in 2011 compared to a pre-tax loss of \$100 million in 2010. The increase in the pre-tax loss in 2011 was driven by higher mark-to-market losses on the Symetra warrants and higher incentive compensation expenses, partially offset by lower losses from WM Life Re.

The value of White Mountains' investment in Symetra warrants decreased \$25 million in 2011 compared to a decrease of \$1 million in 2010. WM Life Re reported pre-tax losses \$27 million 2011 compared to \$61 million of pre-tax loss in 2010. During the fourth quarter of 2011, WM Life Re reported approximately \$13 million of losses from changes in assumptions used to calculate the value of its variable annuity guarantee liabilities, including a \$7 million loss due to lower surrender assumptions. During 2010, WM Life Re reported \$48 million in losses from reductions in surrender assumptions.

*Share repurchases.* White Mountains repurchased and retired 646,502 of its common shares for \$253 million in 2011 at an average share price of \$390, which was approximately 72% of White Mountains' December 31, 2011 adjusted book value per share.

**II. Summary of Investment Results**

For purposes of discussing rates of return, all percentages are presented gross of management fees and trading expenses in order to produce a better comparison to benchmark returns, while all dollar amounts are presented net of any management fees and trading expenses. A summary of White Mountains' consolidated pre-tax investment results for the years ended December 31, 2012, 2011 and 2010 follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Net investment income	\$ 153.6	\$ 184.5	\$ 208.9
Net realized and unrealized investment gains <sup>(1)</sup>	118.2	74.1	77.6
Net unrealized foreign currency gains (losses) on investments <sup>(2)</sup>	95.5	(41.7)	107.9
Pre-tax investment gains included in discontinued operations	—	12.7	32.9
Total GAAP pre-tax investment gains	\$ 367.3	\$ 229.6	\$ 427.3

(1) Includes foreign currency (losses) gains of \$(57.2), \$20.7 and \$(76.0).

(2) Excludes non-investment related foreign currency (losses) gains of \$(55.9), \$26.5 and \$(58.1).

	Year Ended December 31,		
	2012	2011	2010
Fixed maturity investments	4.9%	3.4 %	4.8%
Short-term investments	0.3%	1.0 %	0.1%
Total fixed maturity investments	4.4%	3.1 %	3.8%
Barclays U.S. Intermediate Aggregate Index	3.6%	6.0 %	6.1%
Common stocks	9.8%	0.7 %	15.6%
Convertible fixed maturity securities	6.0%	(6.2)%	9.4%
Other long-term investments	2.4%	6.2 %	9.6%
Total equities, convertible securities, and other long-term investments	7.7%	1.4 %	12.6%
S&P 500 Index (total return)	16.0%	2.1 %	15.1%
Total consolidated portfolio	4.9%	2.9 %	5.0%

#### Investment Returns—Year Ended December 31, 2012 versus Year Ended December 31, 2011

White Mountains' GAAP pre-tax total return on invested assets was 4.9% for 2012, which includes 0.5% of foreign currency gains, compared to 2.9% for 2011, which includes 0.2% of foreign currency losses. White Mountains' high-quality, short-duration, fixed income portfolio returned 4.4% (3.8% in local currencies) for 2012, outperforming the Barclays U.S. Intermediate Aggregate Index return of 3.6%. White Mountains' fixed income portfolio returned 3.1% for 2011, trailing the benchmark of 6.0% as rates declined during 2011. White Mountains' value-oriented equity portfolio, approximately 19% of GAAP invested assets at December 31, 2012, returned 7.7% for 2012, compared to the S&P 500 Index return of 16.0%, while the equity portfolio returned 1.4% in 2011, compared to the S&P 500 Index return of 2.1%. The underperformance against the benchmark in both periods reflects large positions in other long-term investments and convertible fixed maturity investments (as opposed to common equity securities), which tend to lag the index in strong markets. It also reflects underweight exposure in common equity and convertible securities to the technology, consumer discretionary, and industrial sectors and an overweight position in materials, in particular gold mining stocks, relative to the S&P 500 Index.

Net investment income was down 17% to \$154 million in 2012, due primarily to a lower invested asset base driven by share repurchases and lower fixed maturity yields.

WM Advisors has a sub-advisory agreement with Prospector, a registered investment adviser, under which Prospector manages most of White Mountains' publicly-traded common equity securities and convertible fixed maturity securities. Total annualized returns for White Mountains' equity portfolio managed by Prospector compared to the annualized total returns of the S&P 500 Index are as follows:

Annualized returns	Periods ending December 31, 2012			
	1-year	3-years	5-years	7-years
Prospector separate accounts	7.7%	8.2%	(0.2)%	4.2%
S&P 500 Index	16.0%	10.9%	1.7 %	4.1%

#### Investment Returns—Year Ended December 31, 2011 versus Year Ended December 31, 2010

White Mountains' GAAP pre-tax total return on invested assets was 2.9% for 2011, which includes 0.2% of foreign currency losses, compared to 5.0% for 2010, which includes 0.5% of foreign currency gains. White Mountains' fixed income portfolio returned 3.1% for 2011, lagging the Barclays U.S. Intermediate Aggregate Index return of 6.0%. White Mountains' high-quality, short-duration fixed income portfolio trailed the longer-duration benchmark as rates declined during 2011. White Mountains' equity portfolio, approximately 14% of GAAP invested assets at December 31, 2011, returned 1.4% for 2011, compared to the S&P 500 Index return of 2.1%, while the equity portfolio returned 12.6% in 2010, compared to the S&P 500 Index return of 15.1%. White Mountains' equity portfolio included convertible fixed maturity investments whose returns were hurt by rising credit spreads on the fixed maturity component of the instruments.

Net investment income was down 12% to \$185 million in 2011, due primarily to lower fixed maturity yields and a lower invested asset base in the first nine months of 2011, partially offset by the effect of the increase in invested assets during the fourth quarter of 2011 as a result of the Esurance Sale.

## Symetra Common Shares

During 2012, White Mountains recorded \$30 million in after-tax equity in earnings from its investment in Symetra's common shares, which increased the value of the investment in Symetra's common shares used in the calculation of White Mountains' adjusted book value per share to \$16.58 per Symetra common share at December 31, 2012, compared to Symetra's quoted stock price of \$12.98 and Symetra's book value per common share excluding unrealized gains and losses from its fixed maturity investment portfolio of \$18.97.

White Mountains accounts for its investment in common shares of Symetra using the equity method. Under the equity method, the GAAP carrying value of White Mountains' investment in Symetra common shares is normally equal to the percentage of Symetra's GAAP book value represented by White Mountains' common share ownership, which was 15% at December 31, 2012 and 2011. At December 31, 2011, White Mountains concluded that its investment in Symetra common shares was other-than-temporarily impaired and wrote down the GAAP book value of the investment to its estimated fair value of \$261 million, or \$15 per share at December 31, 2011, which resulted in \$46 million of after-tax equity in losses of unconsolidated affiliates and \$137 million of after-tax equity in net unrealized losses of unconsolidated affiliates. The write-down reduced adjusted book value per share by approximately \$6. Under GAAP, a decline in the fair value of an investment is considered to be other-than-temporary when the fair value of the investment is not expected to recover to its GAAP carrying value in the near term. White Mountains concluded that the accounting impairment on its investment in Symetra common shares existed due to the prolonged low interest rate environment in which life insurance companies currently operate and not from reasons specific to Symetra itself. As a result, White Mountains does not believe that the accounting impairment equates to an impairment in Symetra's long-term intrinsic business value. See **"White Mountains' Investment in Symetra Common Shares"** under **CRITICAL ACCOUNTING ESTIMATES** on page 100.

## Impact of Foreign Currency on Investment Returns

White Mountains' foreign assets and liabilities are valued using period-end exchange rates, and its foreign revenues and expenses are valued using average exchange rates over the period. Foreign currency exchange rate risk is the risk that White Mountains will incur losses on a U.S. dollar basis due to adverse changes in foreign currency exchange rates. See **"Foreign Currency Exchange Risk"** on page 105.

A summary of the impact of foreign currency translation on White Mountains' consolidated financial results for the years ended December 31, 2012, 2011 and 2010 follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Net unrealized investment (losses) gains — foreign currency <sup>(1)</sup>	\$ (48.6)	\$ 69.4	\$ (71.0)
Net realized investment (losses) gains — foreign currency <sup>(1)</sup>	(8.6)	(48.7)	(5.0)
Net realized and unrealized investment (losses) gains — foreign currency <sup>(1)</sup>	(57.2)	20.7	(76.0)
Other revenue - foreign currency translation gains (losses)	39.9	(5.5)	27.6
Total income tax (expense) benefit	(3.1)	(4.8)	14.8
Total foreign currency translation gains (losses) recognized through net income	(20.4)	10.4	(33.6)
Change in foreign currency translation on investments	95.5	(41.7)	107.9
Change in foreign currency translation on non-investment net liabilities	(55.9)	26.5	(58.1)
Total foreign currency translation (losses) gains recognized through other comprehensive income	39.6	(15.2)	49.8
Total foreign currency gains (losses) recognized through comprehensive income	\$ 19.2	\$ (4.8)	\$ 16.2

<sup>(1)</sup> Component of net realized and unrealized investments gains on the income statement.

At December 31, 2012, White Mountains' investment portfolio included approximately \$1.2 billion in non-U.S. dollar-denominated investments, most of which are held at Sirius International and denominated in Swedish kronor or euros. The value of the investments in this portfolio is impacted by changes in the exchange rate between the U.S. dollar and the kronor and between the U.S. dollar and the euro. During 2012, the U.S. dollar weakened 6% against the kronor and 2% against the euro. These currency movements resulted in approximately \$38 million of pre-tax foreign currency investment gains for the year ended December 31, 2012, which are recorded as components of net realized and unrealized investment gains and unrealized foreign currency gains and losses on investments. During 2011, the U.S. dollar strengthened 3% against the kronor and 3% against the euro, which resulted in \$21 million of pre-tax foreign currency losses for the year. During 2010, the U.S. dollar weakened 6% against the kronor and strengthened 7% against the euro, which resulted in \$32 million of pre-tax foreign currency gains for the year.

Sirius International holds a large portfolio of investments that are denominated in U.S. dollars, but its functional currency is the Swedish kronor. When Sirius International prepares its stand-alone GAAP financial statements, it translates its U.S. dollar-denominated investments to Swedish kronor and recognizes the related foreign currency translation gains or losses through income. When White Mountains consolidates Sirius International, it translates Sirius International's stand-alone GAAP financial statements to U.S. dollars and recognizes the foreign currency gains or losses arising from this translation, including those associated with Sirius International's U.S. dollar-denominated investments, through other comprehensive income. Since White Mountains reports its financial statements in U.S. dollars, there is no net effect to adjusted book value per share or to investment returns from foreign currency translation on its U.S. dollar-denominated investments at Sirius International. However, net realized and unrealized investment gains, other revenues and other comprehensive income can be significantly affected during periods of high volatility in the foreign exchange rate between the U.S. dollar and the Swedish kronor.

The amount of foreign currency translation on Sirius International's U.S. dollar denominated investments recognized as a decrease of net income and an increase of other comprehensive income was \$40 million in 2012. The amount of foreign currency translation on Sirius International's U.S. dollar denominated investments recognized as an increase of net income and decrease of other comprehensive income was \$25 million in 2011. The amount of foreign currency translation on Sirius International's U.S. dollar denominated investments recognized as a decrease of net income and an increase of other comprehensive income was \$49 million in 2010.

### Portfolio Composition

The following table presents the composition of White Mountains' investment portfolio as of December 31, 2012 and 2011:

\$ in millions	As of December 31, 2012		As of December 31, 2011	
	Carrying value	% of total	Carrying value	% of total
Fixed maturity investments <sup>(1)</sup>	\$ 5,534.3	73%	\$ 6,333.7	76%
Short-term investments	630.6	8%	846.0	10%
Common equity securities	1,029.7	13%	755.0	9%
Convertible fixed maturity investments	127.4	2%	143.8	2%
Other long-term investments	294.2	4%	301.3	3%
Total investments	\$ 7,616.2	100%	\$ 8,379.8	100%

<sup>(1)</sup> Carrying value includes \$338.1 and \$111.8 as of December 31, 2012 and 2011 that is classified as assets held for sale relating to discontinued operations.

The breakdown of White Mountains' fixed maturity and convertible fixed maturity investments at December 31, 2012 by credit class, based upon issue credit ratings provided by Standard & Poor's, or if unrated by Standard & Poor's, long term obligation ratings provided by Moody's, is as follows:

\$ in millions	As of December 31, 2012			
	Amortized cost	% of total	Carrying <sup>(1)</sup> Value	% of total
U.S. government and government-sponsored entities <sup>(2)</sup>	\$ 1,576.2	28%	\$ 1,583.8	28%
AAA/Aaa	1,135.0	20%	1,145.5	20%
AA/Aa	442.3	8%	436.6	8%
A/A	1,112.9	20%	1,137.4	20%
BBB/Baa	1,098.7	20%	1,139.7	20%
Other/not rated	211.2	4%	218.7	4%
Total fixed maturity and convertible fixed maturity investments	\$ 5,576.3	100%	\$ 5,661.7	100%

<sup>(1)</sup> Carrying value includes \$338.1 that is classified as assets held for sale relating to discontinued operations.

<sup>(2)</sup> Includes mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

White Mountains' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to their investment risks. White Mountains also actively manages the average duration of the portfolio. The weighted average duration of White Mountains' fixed maturity portfolio at December 31, 2012 was approximately 2.4 years, including short-term investments, and approximately 2.7 years excluding short-term investments.

The cost or amortized cost and carrying value of White Mountains' fixed maturity and convertible fixed maturity investments at December 31, 2012 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

Millions	As of December 31, 2012	
	Amortized cost	Carrying Value
Due in one year or less	\$ 395.9	\$ 396.7
Due after one year through five years	2,297.8	2,336.7
Due after five years through ten years	648.9	671.6
Due after ten years	72.8	74.7
Mortgage-backed and asset-backed securities	2,081.0	2,095.6
Preferred stocks	79.9	86.4
Total fixed maturity and convertible fixed maturity investments	<b>\$ 5,576.3</b>	<b>\$ 5,661.7</b>

White Mountains' investment portfolio consists of debt and equity securities issued in over 30 countries worldwide. The United States represents the country of issue for 76% of White Mountains' fixed maturity, common equity and convertible fixed maturity investment portfolio. White Mountains has minimal sovereign risk exposure to European peripheral countries such as Ireland, Greece, Portugal, Spain and Italy ("peripheral countries"). White Mountains' portfolio includes 0.6% of total fixed maturity, convertible fixed maturity and common equity investments issued from these peripheral countries at December 31, 2012. However, White Mountains may have indirect exposure to peripheral countries through securities issued from non-peripheral countries as the issuers of those securities could have exposure to peripheral countries.

The following tables list White Mountains' investments in fixed maturities, common equities and convertible fixed maturities at December 31, 2012 categorized as financial or non-financial investments and by country of issue:

Millions	December 31, 2012
	Fair value
Debt securities issued by corporations:	
Non-financial	
Australia	\$ 44.9
Canada	166.1
France	48.8
Greece	—
Ireland	—
Italy	12.2
Netherlands	90.0
Portugal	—
Spain	10.0
United Kingdom	113.6
United States	1,400.2
Other	97.9
Total non-financial debt	1,983.7
Financial	
Australia	16.0
Greece	—
Ireland	—
Italy	1.8
Netherlands	46.8
Portugal	—
Spain	—
United Kingdom	19.0
United States	300.0
Other	17.8
Total financial debt	401.4
Debt securities issued by corporations	2,385.1
Mortgage-backed and asset-backed securities	
France	31.8
United Kingdom	159.2
United States	1,904.6
Total mortgage-backed and asset-backed securities	2,095.6
Foreign government, agency and provincial obligations	
Canada	52.4
Germany	25.6
Greece	—
France	50.5
Ireland	—
Italy	—
Japan	27.8
Portugal	—
Spain	—
Sweden	291.8
United Kingdom	4.3
Other	69.5
Total foreign government, agency and provincial obligations	521.9
U.S. Government and agency obligations <sup>(1)</sup>	440.1
Municipal obligations <sup>(1)</sup>	5.2
Preferred stocks <sup>(1)</sup>	86.4
Total fixed maturities	\$ 5,534.3

(1) All securities were issued in the United States.



Millions	December 31, 2012	
	Fair value	
Common equity securities:		
Non-financial		
Canada	\$	49.1
Greece		0.5
Ireland		6.7
Italy		0.5
Japan		15.4
Portugal		0.4
South Africa		21.9
Spain		4.3
Switzerland		10.6
United States		562.7
Other		33.1
Total non-financial common equity securities		705.2
Financial		
Bermuda		70.3
Cayman Islands		4.4
United States		247.9
Other		1.9
Total financial common equity securities		324.5
Total common equity securities	\$	1,029.7
Convertible fixed maturities:		
Canada	\$	6.0
United Kingdom		13.4
United States		108.0
Total convertible fixed maturity investments	\$	127.4

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Cash and Short-term Investments

*Holding company level.* The primary sources of cash for the Company and certain of its intermediate holding companies are expected to be distributions and tax sharing payments received from its insurance and reinsurance operating subsidiaries, capital raising activities, net investment income and proceeds from sales and maturities of investments. The primary uses of cash are expected to be repurchases of the Company's common shares, payments on and repurchases/retirements of its debt obligations, dividend payments to holders of the Company's common shares, to non-controlling interest holders of OneBeacon Ltd.'s common shares and to holders of the SIG Preference Shares, purchases of investments, payments made to tax authorities, contributions to operating subsidiaries and operating expenses.

*Operating subsidiary level.* The primary sources of cash for White Mountains' insurance and reinsurance operating subsidiaries are expected to be premium collections, net investment income, proceeds from sales and maturities of investments, contributions from holding companies and capital raising activities. The primary uses of cash are expected to be claim payments, policy acquisition costs, purchases of investments, payments on and repurchases/retirements of its debt obligations, distributions and tax sharing payments made to holding companies and operating expenses.

Both internal and external forces influence White Mountains' financial condition, results of operations and cash flows. Claim settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, sometimes several years or more, may lapse between the occurrence of an insured loss, the reporting of the loss to White Mountains and the settlement of the liability for that loss. The exact timing of the payment of claims and benefits cannot be predicted with certainty. White Mountains' insurance and reinsurance operating subsidiaries maintain portfolios of invested assets with varying maturities and a substantial amount of cash and short-term investments to provide adequate liquidity for the payment of claims.

Management believes that White Mountains' cash balances, cash flows from operations, routine sales and maturities of investments and the liquidity provided by the WTM Bank Facility are adequate to meet expected cash requirements for the foreseeable future on both a holding company and insurance and reinsurance operating subsidiary level.

## Dividend Capacity

Under the insurance laws of the states and jurisdictions that White Mountains' insurance and reinsurance operating subsidiaries are domiciled, an insurer is restricted with respect to the timing and the amount of dividends it may pay without prior approval by regulatory authorities. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future. Following is a description of the dividend capacity of White Mountains' insurance and reinsurance operating subsidiaries:

### **OneBeacon:**

Generally, OneBeacon's top tier regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. OneBeacon Insurance Company ("OBIC"), OneBeacon's primary top tier regulated insurance operating subsidiary, has the ability to pay \$330 million of dividends during 2013 (based on its 2012 statutory net income of \$330 million) without prior approval of regulatory authorities, subject to the availability of unassigned funds. The amount of dividends available to be paid by OBIC in any given year is also subject to cash flow and earnings generated by OBIC's business, which now just comprises the Runoff Business, as well as to dividends received from its subsidiaries, including Atlantic Specialty Insurance Company ("ASIC"). At December 31, 2012, OBIC had \$0.7 billion of unassigned funds and \$0.9 billion of statutory surplus.

As disclosed in **Note 2 - "Significant Transactions"** of the accompanying consolidated financial statements, during the fourth quarter of 2012, OneBeacon executed various intercompany reinsurance agreements which, along with other internal capital transactions among our insurance operating subsidiaries, resulted in ASIC becoming the lead insurance company for the ongoing specialty business and OBIC becoming the lead insurance company for the Runoff Business. Notwithstanding these restructuring transactions, OneBeacon continues to manage its statutory capital on a combined basis. Although OBIC remains a top tier regulated insurance operating subsidiary and maintains sufficient statutory capital to support the Runoff Business, the majority of the group's statutory capital is now included in ASIC to support the ongoing specialty business.

ASIC has the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Given the changes in structure noted above, ASIC will likely require prior approval by regulatory authorities in order to pay dividends until it builds up a historical net investment income stream and earned surplus balance under its new structure. At December 31, 2012, ASIC had negative earned surplus and \$0.7 billion of statutory surplus.

During 2012, OneBeacon's top tier regulated insurance operating subsidiaries paid \$173 million of dividends to their immediate parent, which included the distribution of a regulated insurance subsidiary with a value of \$34 million.

During 2012, OneBeacon's unregulated insurance operating subsidiaries paid \$5 million of dividends to their immediate parent. At December 31, 2012, OneBeacon's unregulated insurance operating subsidiaries had \$29 million of net unrestricted cash, short-term investments and fixed maturity investments.

During 2012, OneBeacon Ltd. paid \$80 million of regular quarterly dividends to its common shareholders. White Mountains received \$60 million of these dividends.

At December 31, 2012, OneBeacon Ltd. and its intermediate holding companies had \$272 million of net unrestricted cash, short-term investments and fixed maturity investments and \$33 million of common equity securities and convertible fixed maturity investments outside of its regulated and unregulated insurance operating subsidiaries.

### **Sirius Group:**

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer a portion of its pre-tax income to its Swedish parent companies to minimize taxes (referred to as a group contribution). In 2012, Sirius International transferred \$82 million of its 2011 pre-tax income to its Swedish parent companies as a group contribution. In 2013, Sirius International currently intends to transfer approximately \$110 million (based on the December 31, 2012 SEK to USD exchange rate) of its 2012 pre-tax income to its Swedish parent companies as a group contribution.

Sirius International has the ability to pay dividends subject to the availability of unrestricted statutory surplus. Historically, Sirius International has allocated the majority of its pre-tax income, after group contributions to its Swedish parent companies, to the Safety Reserve (see "**Safety Reserve**" below). At December 31, 2012, Sirius International had \$852 million (based on the December 31, 2012 SEK to USD exchange rate) of unrestricted statutory surplus, which is available for distribution in 2013. The amount of dividends available to be paid by Sirius International in any given year is also subject to cash flow and earnings generated by Sirius International's business, as well as to dividends received from its subsidiaries, including Sirius America. During 2012, Sirius International distributed \$24 million of dividends to its immediate parent and declared an additional \$75 million of dividends at December 31, 2012 (for a total of \$99 million). The \$75 million was paid in January 2013. In 2013, Sirius International currently intends to distribute an additional \$50 million of dividends to its immediate parent.

Sirius America has the ability to pay dividends during any twelve-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Based upon 2012 statutory net investment income, Sirius America has the ability to pay \$15 million of dividends during 2013 without prior approval of regulatory authorities, subject to the availability of earned surplus. At December 31, 2012, Sirius America had \$56 million of earned surplus and \$528 million of statutory surplus. In 2012, Sirius America paid \$55 million of dividends to its immediate parent.

During 2012, Sirius Group distributed \$40 million to its immediate parent and declared an additional \$75 million at December 31, 2012 (for a total of \$115 million). The \$75 million was paid in January 2013.

At December 31, 2012, Sirius Group and its intermediate holding companies had \$72 million of net unrestricted cash, short-term investments and fixed maturity investments and \$18 million of other long-term investments outside of its regulated and unregulated insurance and reinsurance operating subsidiaries.

#### *Sirius Group 2011 Reorganization*

During the fourth quarter of 2011, White Mountains completed a rebranding and reorganization (the “Reorganization”) of its reinsurance business. As part of the Reorganization, White Mountains' reinsurance businesses adopted the Sirius name globally and Sirius America (formerly WMRe America) became a wholly owned subsidiary of Sirius International (formerly WMRe Sirius). In connection with the Reorganization, A.M. Best upgraded the financial strength rating of Sirius America from “A-” (Excellent, the fourth highest of sixteen ratings) to a group “A” (Excellent, the third highest of sixteen ratings), consistent with Sirius International's rating, and all financial strength ratings from the four major ratings agencies were affirmed with stable outlook. Additionally, A.M. Best upgraded the creditworthiness ratings from “bbb-” (Adequate, the tenth highest of twenty-two ratings) on the SIG Senior Notes to “bbb” (Adequate, the ninth highest of twenty-two ratings) and from “bb” (Speculative, the twelfth highest of twenty-two ratings) on the SIG Preference Shares to “bb+” (Speculative, the eleventh highest of twenty-two ratings). S&P upgraded the creditworthiness ratings from “BBB-” (Adequate, the tenth highest of twenty-two ratings) on the SIG Senior Notes to “BBB” (Adequate, the ninth highest of twenty-two ratings) and from “BB” (Speculative, the twelfth highest of twenty-two ratings) on the SIG Preference Shares to “BB+” (Speculative, the eleventh highest of twenty-two ratings).

In conjunction with the Reorganization, the following capital transactions occurred in October 2011:

- Sirius America paid \$250 million to its immediate parent, which included \$67 million of dividends and a \$183 million return of capital;
- Sirius International paid \$169 million to an intermediate holding company of Sirius Group for a portion of Sirius America.
- An intermediate holding company of Sirius Group contributed the remaining shares of Sirius America with a GAAP book value of \$436 million to Sirius International, which subsequently owned 100% of the shares of Sirius America;
- Sirius Group distributed \$425 million to White Mountains, which included approximately \$300 million that was freed up at Sirius International and Sirius America as a result of the Reorganization and the commutation of quota-share agreements between Sirius Group and Esurance as a result of the Esurance Sale;
- White Mountains contributed a portion of its common share investment in Symetra to an intermediate holding company of Sirius Group. At December 31, 2011, White Mountains' entire common share investment in Symetra, which had a carrying value of \$261 million, was held by Sirius Group.

#### *Capital Maintenance*

In connection with Sirius Group's reorganization in October 2011, Sirius International and Sirius America entered into a capital maintenance agreement, which obligates Sirius International to make contributions to Sirius America's surplus in order for Sirius America to maintain surplus equal to at least 125% of the company action level risk based capital as defined in the NAIC Property/Casualty Risk-Based Capital Report. The agreement provides for a maximum contribution to Sirius America of \$200 million. Sirius International also provides Sirius America with accident year stop loss reinsurance, which protects Sirius America's accident year loss and allocated loss adjustment expense ratio in excess of 70%, with a limit of \$110 million.

### *Safety Reserve*

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer pre-tax income amounts into an untaxed reserve referred to as a safety reserve. At December 31, 2012, Sirius International's safety reserve amounted to SEK 9.6 billion, or \$1.5 billion (based on the December 31, 2012 SEK to USD exchange rate). Under GAAP, an amount equal to the safety reserve, net of a related deferred tax liability established at the Swedish tax rate, is classified as shareholder's equity. The tax rate in effect on December 31, 2011 was 26.3%. The tax rate utilized on December 31, 2012 was the new Swedish tax rate of 22.0%. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain prescribed levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International's safety reserve (\$327 million at December 31, 2012) is included in solvency capital. Access to the safety reserve is restricted to coverage of reinsurance losses. Access for any other purpose requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, most major rating agencies generally include the \$1.5 billion balance of the safety reserve, without any provision for deferred taxes, in Sirius International's capital when assessing Sirius International's financial strength.

### ***HG Global/BAM:***

HG Global has \$613 million face value of preferred shares outstanding, of which White Mountains owns 97.3%. Holders of the HG Global preferred shares receive cumulative dividends at a fixed annual rate of 6.0% on a quarterly basis, when and if declared by HG Global. HG Global did not declare or pay any preferred dividends in 2012. As of December 31, 2012, HG Global has accrued \$16.8 million of dividends payable to holders of its preferred shares, \$16.3 million of which is payable to White Mountains and eliminated in consolidation.

HG Re is a Special Purpose Insurer subject to regulation and supervision by the BMA, but does not require regulatory approval to pay dividends. However, HG Re's dividend capacity is limited by amounts held in the collateral trusts pursuant to the FLRT with BAM. As of December 31, 2012, HG Re had statutory capital of \$412 million, of which \$12 million (which partially relates to accrued interest on the BAM Surplus Notes held by HG Re) was available for dividends to HG Global and \$400 million was held as collateral in the Supplemental Trust pursuant to the FLRT with BAM.

Interest on the BAM Surplus Notes is payable quarterly at a fixed annual rate of 8.0%. Interest and principal payments are subject to approval of the New York State Department of Financial Services. BAM did not pay any interest on the BAM Surplus Notes in 2012. As of December 31, 2012, HG Global has accrued \$18.4 million of interest receivable on the BAM Surplus Notes.

### ***Other Operations:***

During 2012, WM Advisors did not pay any dividends to its immediate parent. At December 31, 2012, WM Advisors had approximately \$18 million of net unrestricted cash and short-term investments.

At December 31, 2012, the Company and its intermediate holding companies had \$132 million of net unrestricted cash, short-term investments and fixed maturity investments, \$540 million of common equity securities and \$78 million of other long-term investments included in its Other Operations segment. During 2012, White Mountains paid a \$7 million common share dividend.

### **Insurance Float**

Insurance float is an important aspect of White Mountains' insurance operations. Insurance float represents funds that an insurance or reinsurance company holds for a limited time. In an insurance or reinsurance operation, float arises because premiums are collected before losses are paid. This interval can extend over many years. During that time, the insurer or reinsurer invests the funds. When the premiums that an insurer or reinsurer collects do not cover the losses and expenses it eventually must pay, the result is an underwriting loss, which is considered to be the cost of insurance float. One manner in which White Mountains calculates its insurance float is by taking its net investment assets and subtracting its total adjusted capital. Although insurance float can be calculated using numbers determined under GAAP, insurance float is not a GAAP concept and, therefore, there is no comparable GAAP measure.

Insurance float can increase in a number of ways, including through acquisitions of insurance and reinsurance operations, organic growth in existing insurance and reinsurance operations and recognition of losses that do not cause a corresponding reduction in investment assets. Conversely, insurance float can decrease in a number of other ways, including sales of insurance and reinsurance operations, shrinking or runoff of existing insurance and reinsurance operations, the acquisition of operations that do not have substantial investment assets (e.g., an agency) and the recognition of gains that do not cause a corresponding increase in investment assets. White Mountains has historically obtained its insurance float primarily through acquisitions, as opposed to organic growth. It is White Mountains' intention to generate low-cost float over time through a combination of acquisitions and organic growth in its existing insurance and reinsurance operations. However, White Mountains will seek to increase its insurance float organically only when market conditions allow for an expectation of generating underwriting profits.

Certain operational leverage metrics can be measured with ratios that are calculated using insurance float. There are many activities that do not change the amount of insurance float at an insurance company but can have a significant impact on the company's operational leverage metrics. For example, investment gains and losses, foreign currency gains and losses, debt issuances and repurchases/repayments, common and preferred share issuances and repurchases and dividends paid to shareholders are all activities that do not change insurance float but that can meaningfully impact operational leverage metrics.

The following table illustrates White Mountains' consolidated insurance float position as of December 31, 2012 and 2011:

(\$ in millions)	December 31,	
	2012	2011
Total investments	\$ 7,278.1	\$ 8,268.0
BAM total cash and investments	(488.4)	—
BAM Surplus Notes held by HG Global	503.0	—
Consolidated limited partnership investments <sup>(1)</sup>	(91.2)	(77.2)
Cash	462.4	705.4
Investments in unconsolidated affiliates	387.9	275.3
Equity in net unrealized (gains) losses from Symetra's fixed maturity portfolio	(62.8)	—
Cash and investments posted as collateral by WM Life Re <sup>(2)</sup>	(393.6)	(485.3)
Net investment assets classified within assets held for sale	338.1	117.3
Accounts receivable on unsettled investment sales	3.9	4.7
Accounts payable on unsettled investment purchases	(11.4)	(34.6)
Interest-bearing funds held by ceding companies <sup>(3)</sup>	85.1	73.6
Interest-bearing funds held under reinsurance treaties <sup>(4)</sup>	(17.7)	(12.7)
Net investment assets	\$ 7,993.4	\$ 8,834.5
Total White Mountains' common shareholders' equity	\$ 3,731.8	\$ 4,087.7
Non-controlling interest—OneBeacon Ltd.	251.4	273.1
Non-controlling interest—SIG Preference Shares	250.0	250.0
Debt	751.2	677.5
Total capital <sup>(1)</sup>	4,984.4	5,288.3
Equity in net unrealized gains from Symetra's fixed maturity portfolio, net of applicable taxes	(57.7)	—
Total adjusted capital	\$ 4,926.7	\$ 5,288.3
Insurance float	\$ 3,066.7	\$ 3,546.2
Insurance float as a multiple of total adjusted capital	0.6x	0.7x
Net investment assets as a multiple of total adjusted capital	1.6x	1.7x
Insurance float as a multiple of White Mountains' common shareholders' equity	0.8x	0.9x
Net investment assets as a multiple of White Mountains' common shareholders' equity	2.1x	2.1x

<sup>(1)</sup> The non-controlling interest arising from White Mountains' investments in consolidated limited partnerships has not been included in total capital because White Mountains does not have the ability to utilize the assets supporting this non-controlling interest in its insurance operations or in support of its debt obligations.

<sup>(2)</sup> Consists of cash, fixed maturity and short-term investments held by WM Life Re and posted as collateral to its variable annuity reinsurance counterparties.

<sup>(3)</sup> Excludes funds held by ceding companies from which White Mountains does not receive interest credits.

<sup>(4)</sup> Excludes funds held by White Mountains under reinsurance treaties for which White Mountains does not provide interest credits.

During 2012, insurance float decreased by \$480 million, primarily due to the AutoOne Sale and the continued runoff of reserves at OneBeacon and Sirius America, the final settlement and commutation of Scandinavian Re's multi-year retrocessional Casualty Aggregate Stop Loss Agreement with St. Paul, as well as commutations and runoff of Sirius Group's casualty business and payments of losses incurred in 2010 and 2011 related to major catastrophes, primarily from earthquakes in Chile, Japan and New Zealand. These catastrophe losses increased White Mountains' insurance float when they were first recorded, which is now reversing and decreasing insurance float as the catastrophe losses are paid. These decreases in insurance float were partially offset by an increase in float resulting from the \$101 million in after tax losses recognized at OneBeacon related to the Runoff Transaction and \$113 million of after tax catastrophe losses recognized by White Mountains in 2012, primarily due to hurricane Sandy. Based on December 31, 2012 balances, the closing of the Runoff Transaction is expected to decrease insurance float by approximately \$340 million.

## Financing

The following table summarizes White Mountains' capital structure at December 31, 2012 and 2011:

(\$ in millions)	December 31,	
	2012	2011
2012 OBH Senior Notes, carrying value	\$ 274.7	\$ —
2003 OBH Senior Notes, carrying value	—	269.8
SIG Senior Notes, carrying value	399.4	399.3
WTM Bank Facility	75.0	—
Old Lyme Note	2.1	2.1
Other debt	—	6.3
Total debt	751.2	677.5
Non-controlling interest—OneBeacon Ltd.	251.4	273.1
Non-controlling interest—SIG Preference Shares	250.0	250.0
Total White Mountains' common shareholders' equity	3,731.8	4,087.7
Total capital <sup>(1)</sup>	4,984.4	5,288.3
Equity in net unrealized gains from Symetra's fixed maturity portfolio, net of applicable taxes	(57.7)	—
Total adjusted capital	\$ 4,926.7	\$ 5,288.3
Total debt to total adjusted capital	15%	13%
Total debt and Preference Shares to total adjusted capital	20%	18%
Total debt to total adjusted capital and the deferred tax liability on the safety reserve at Sirius International <sup>(2)</sup>	14%	12%
Total debt and Preference Shares to total adjusted capital and the deferred tax liability on the safety reserve at Sirius International <sup>(2)</sup>	19%	16%

<sup>(1)</sup> The non-controlling interest arising from White Mountains' investments in consolidated limited partnerships has not been included in total capital because White Mountains does not have the ability to utilize the assets supporting this non-controlling interest in its insurance operations or in support of its debt obligations.

<sup>(2)</sup> Includes the regulatory capital represented by the deferred tax liability on the safety reserve at Sirius International (See "Safety Reserve" on page 66) of \$327 and \$370 at December 31, 2012 and 2011,

Management believes that White Mountains has the flexibility and capacity to obtain funds externally as needed through debt or equity financing on both a short-term and long-term basis. However, White Mountains can provide no assurance that, if needed, it would be able to obtain additional debt or equity financing on satisfactory terms, if at all.

White Mountains has a revolving credit facility with a syndicate of lenders administered by Bank of America, N.A. with a total commitment of \$375 million (the "WTM Bank Facility") that has a maturity date of August 12, 2015. As of December 31, 2012, White Mountains had \$75 million outstanding under the WTM Bank Facility, which the Company repaid in January 2013.

The WTM Bank Facility contains various affirmative, negative and financial covenants that White Mountains considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under this facility and result in acceleration of principal repayment on any amounts outstanding. At December 31, 2012, White Mountains was in compliance with all of the covenants under the WTM Bank Facility and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

It is possible that, in the future, one or more of the rating agencies may lower White Mountains' existing ratings. If one or more of its ratings were lowered, White Mountains could incur higher borrowing costs on future borrowings and its ability to access the capital markets could be impacted. In addition, White Mountains' insurance and reinsurance operating subsidiaries could be adversely impacted by a lowering of their financial strength ratings, including a possible reduction in demand for their products in certain markets.

In November 2012, OBH issued \$275 million face value of senior unsecured debt through a public offering, at an issue price of 99.9%. The net proceeds from the issuance of the 2012 OBH Senior Notes were used to repurchase the remaining 2003 OBH Senior Notes. The 2012 OBH Senior Notes, which are fully and unconditionally guaranteed as to the payment of principal and interest by OneBeacon Ltd., bear an annual interest rate of 4.60%, payable semi-annually in arrears on May 9 and November 9, until maturity on November 9, 2022.

The 2012 OBH Senior Notes and the SIG Senior Notes were issued under indentures that contain restrictive covenants which, among other things, limit the ability of OneBeacon, Ltd., OBH, SIG and their respective subsidiaries to create liens and enter into sale and leaseback transactions and limits the ability of OneBeacon, Ltd., OBH, SIG and their respective subsidiaries to consolidate, merge or transfer their properties and assets. The indentures do not contain any financial ratios or specified levels of net worth or liquidity to which OneBeacon, Ltd., OBH or SIG must adhere. At December 31, 2012, OneBeacon, Ltd., OBH and SIG were in compliance with all of the covenants under the 2012 OBH Senior Notes and the SIG Senior Notes, and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

#### Capital Lease

In December 2011, OneBeacon Insurance Company ("OBIC"), an indirect wholly-owned subsidiary of OneBeacon Ltd., sold the majority of its fixed assets and capitalized software to OneBeacon Services LLC ("OB Services"), another indirect wholly-owned subsidiary of OneBeacon Ltd. The fixed assets and capitalized software were sold at a cost equal to book value with no gain or loss recorded on the sale. Subsequent to purchasing the fixed assets and capitalized software from OBIC, OB Services entered into lease financing arrangements with US Bancorp Equipment Finance, Inc. ("US Bancorp") and Fifth Third Equipment Finance Company ("Fifth Third") whereby OB Services sold its fixed assets and its capitalized software, respectively, to US Bancorp and Fifth Third. The assets were sold at a cost equal to net book value. OB Services then leased the fixed assets back from US Bancorp for a lease term of five years and leased the capitalized software back from Fifth Third for a lease term of four years. OB Services received cash proceeds of \$23 million as a result of entering into the sale-leaseback transactions. At the end of the lease terms, OB Services will be obligated to purchase the leased assets for a nominal fee, after which all rights, title and interest would transfer to OB Services. At December 31, 2012, OB Services has recorded a capital lease obligation of \$18 million included within other liabilities and a capital lease asset of \$16 million included within other assets.

#### Contractual Obligations and Commitments

Below is a schedule of White Mountains' material contractual obligations and commitments as of December 31, 2012:

Millions	Due in One Year or Less	Due in Two to Three Years	Due in Four to Five Years	Due After Five Years	Total
Loss and LAE reserves <sup>(1)</sup>	\$ 1,092.9	\$ 892.0	\$ 398.1	\$ 785.9	\$ 3,168.9
Debt <sup>(2)</sup>	—	75.0	402.1	275.0	752.1
Interest on debt	38.6	76.5	63.6	63.2	241.9
Long-term incentive compensation	44.6	81.7	6.8	9.0	142.1
Pension and other benefit plan obligations	27.4	7.9	6.9	36.5	78.7
Capital leases	5.3	10.6	1.9	—	17.8
Operating leases	14.8	25.3	21.5	11.9	73.5
Total contractual obligations	\$ 1,223.6	\$ 1,169.0	\$ 900.9	\$ 1,181.5	\$ 4,475.0

<sup>(1)</sup> Represents expected future cash outflows resulting from loss and LAE payments. The amounts presented are gross of reinsurance recoverables on unpaid losses of \$429 and include the discount on OneBeacon's workers compensation loss and LAE reserves of \$5 as of December 31, 2012. These balances exclude amounts included in held for sale as of December 31, 2012 for reinsurance recoverables on unpaid losses of \$1,800, loss and LAE reserves of \$2,100 and the remaining purchase accounting fair value adjustment of \$150 related to the OneBeacon Acquisition.

<sup>(2)</sup> At December 31, 2012, White Mountains had \$75 outstanding under its credit facility that was repaid in January 2013.

White Mountains' loss reserves do not have contractual maturity dates. However, based on historical payment patterns, the preceding table includes an estimate of when management expects White Mountains' loss reserves to be paid. The timing of claim payments is subject to significant uncertainty. White Mountains maintains a portfolio of marketable investments with varying maturities and a substantial amount of short-term investments to provide adequate liquidity for the payment of claims.

The SIG Preference Shares are not included in the table above as these perpetual preferred shares have no stated maturity date and are redeemable only at the option of SIG. See “**Sirius Group’s Preference Shares and Senior Notes**” on page 22 for more details.

The balances included in the table above regarding White Mountains’ long-term incentive compensation plans include amounts payable for performance shares and units, as well as deferred compensation balances. Exact amounts to be paid for performance shares cannot be predicted with certainty, as the ultimate amounts of these liabilities are based on the future performance of White Mountains and in some cases the market price of the Company’s and OneBeacon Ltd.’s common shares at the time the payments are made.

The estimated payments reflected in the table are based on current accrual factors (including performance relative to targets and common share price) and assume that all outstanding balances were 100% vested as of December 31, 2012.

There are no provisions within White Mountains’ operating leasing agreements that would trigger acceleration of future lease payments. The capital lease that OneBeacon entered into in conjunction with the sale-leaseback of certain of OneBeacon’s fixed assets and capitalized software contains provisions that could trigger an event of default, including a failure to make payments when due under the capital lease. If an event of default were to occur, the lessor would have a number of remedies available including the acceleration of future lease payments or the possession of the property covered under the lease agreement.

White Mountains does not finance its operations through the securitization of its trade receivables, through special purpose entities or through synthetic leases. Further, except as noted in the following paragraph, White Mountains has not entered into any material arrangements requiring it to guarantee payment of third-party debt or lease payments or to fund losses of an unconsolidated special purpose entity.

Through Sirius International, White Mountains has a long-term investment as a stockholder in LUC Holdings, an entity that has entered into a lease to rent the London Underwriting Center (“LUC”) through 2016. LUC Holdings in turn subleases space in the LUC. In the LUC Holdings stockholders agreement, the stockholders have guaranteed any shortfall between the lease and the sub-leases on a joint and several basis. As a consequence, in recent years the stockholders have funded an operating shortfall of LUC. At December 31, 2012, White Mountains has recorded a liability of \$4 million for its share of the expected future shortfall between LUC Holdings’ head lease payments and sub-lease receipts. White Mountains does not believe that future shortfalls, if any, will have a material impact on its results of operations.

White Mountains also has future binding commitments to fund certain other long-term investments. These commitments, which total approximately \$125 million, do not have fixed funding dates and are therefore excluded from the table above.

WM Life Re reinsures death and living benefit guarantees associated with certain variable annuities issued in Japan. WM Life Re has assumed the risk related to a shortfall between the account value and the guaranteed value that must be paid by the ceding company to an annuitant or to an annuitant’s beneficiary in accordance with the underlying annuity contracts. WM Life Re uses derivative instruments, including put options, interest rate swaps, total return swaps and futures contracts on major equity indices, currency pairs and government bonds, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. As of December 31, 2012, the total guarantee value was approximately ¥230 billion (approximately \$2.7 billion) and the related account values were approximately 87% of this amount.

The following table represents expected future cash outflows for WM Life Re’s reinsurance contracts.

Cash outflows Millions	Due in One Year or Less	Due in Two to Three Years	Due in Four to Five Years	Due After Five Years	Total
WM Life Re reinsurance contracts	\$3	\$7	\$471	\$—	\$481

White Mountains purchases derivative instruments, including futures and over-the-counter option contracts on interest rates, major equity indices, and foreign currencies, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. At December 31, 2012, the fair value of these derivative instruments was \$98 million. In addition, WM Life Re held approximately \$394 million of cash and fixed maturity investments at December 31, 2012 posted as collateral to its reinsurance counterparties.

## Share Repurchases

In 2006, White Mountains’ board of directors authorized the Company to repurchase up to 1,000,000 of its common shares, from time to time, subject to market conditions. In 2010 and 2012, White Mountains’ board of directors authorized the Company to repurchase an additional 600,000 and 1,000,000, respectively, of its common shares, for a total authorization of 2.6 million shares. Shares may be repurchased on the open market or through privately negotiated transactions. The repurchase authorizations do not have a stated expiration date. At December 31, 2012, White Mountains may repurchase an additional 685,496 shares under these board authorizations. In addition, from time to time White Mountains has also repurchased its common shares through tender offers that were separately approved by its board of directors.



During 2012, White Mountains repurchased a total of 1,329,640 of its common shares for \$669 million at an average share price of \$503, which was 86% of White Mountains' adjusted book value per share of \$588 at December 31, 2012. These repurchases were comprised of (1) 502,801 common shares repurchased under the board authorization for \$256 million at an average share price of \$508; (2) 816,829 common shares repurchased through a fixed-price tender offer for \$409 million at a share price of \$500; and (3) 10,010 common shares repurchased to satisfy employee income tax withholdings, pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not fall under the board authorization referred to above.

During 2011, White Mountains repurchased a total of 646,502 of its common shares during for \$253 million at an average share price of \$390, which was 72% of White Mountains' adjusted book value per share of \$542 at December 31, 2011. These repurchases were comprised of (1) 313,967 common shares repurchased under the board authorization for \$114 million at an average share price of \$364; (2) 332,346 common shares repurchased through two "modified Dutch auction" self-tender offers for \$139 million at an average share price of \$418; and (3) 189 common shares repurchased to satisfy employee income tax withholdings, pursuant to employee benefit plans.

## **Cash Flows**

Detailed information concerning White Mountains' cash flows during 2012, 2011 and 2010 follows:

### ***Cash flows from operations for the years ended 2012, 2011 and 2010***

Net cash flows (used for) provided from continuing operations was \$(30) million, \$94 million and \$29 million in 2012, 2011 and 2010, respectively. Cash flows from continuing operations decreased \$124 million from 2011 to 2012 due to declining net investment income, primarily due to a decrease in the overall average invested asset base, the final settlement and commutation of Scandinavian Re's multi-year retrocessional Casualty Aggregate Stop Loss Agreement with St. Paul, as well as commutations and runoff of Sirius Group's casualty business and payments of losses incurred in 2010 and 2011 related to major catastrophes, primarily from earthquakes in Chile, Japan and New Zealand. Net cash flows (used for) provided from discontinued operations was \$(196) million, \$(209) million and \$27 million in 2012, 2011 and 2010, respectively. The cash outflows from discontinued operations in 2012 and 2011 were primarily due to the runoff of reserves related to non-specialty commercial lines businesses that OneBeacon has exited since 2010.

White Mountains does not believe that these trends will have a meaningful impact on its future liquidity or its ability to meet its future cash requirements.

### ***Cash flows from investing and financing activities for the year ended December 31, 2012***

#### ***Financing and Other Capital Activities***

During the first quarter of 2012, the Company declared and paid a \$7 million cash dividend to its common shareholders and paid \$2 million of interest on the WTM Credit Facility.

In December 2012, White Mountains borrowed \$150 million under the WTM Bank Facility. White Mountains repaid \$75 million of this advance in December 2012 and the remaining \$75 million was repaid in January 2013.

During 2012, the Company repurchased and retired 1,329,640 of its common shares for \$669 million.

During 2012, OneBeacon Ltd. declared and paid \$80 million of cash dividends to its common shareholders. White Mountains received a total of \$60 million of these dividends.

During 2012, OBH issued \$275 million face value of senior unsecured debt through a public offering, at an issue price of 99.9%. The net proceeds from the issuance of the 2012 OBH Senior Notes were used to repurchase and retire the remaining \$270 million principal outstanding on the 2003 OBH Senior Notes.

During 2012, OneBeacon paid a total of \$16 million of interest on the 2003 OBH Senior Notes.

During 2012, Sirius Group declared \$115 million and paid \$40 million of capital distributions to its immediate parent. In January 2013, Sirius Group paid the remaining \$75 million capital distribution to its immediate parent.

During 2012, Sirius Group paid \$26 million of interest on the SIG Senior Notes, \$19 million of dividends on the SIG Preference Shares.

During 2012, White Mountains contributed \$25 million to WM Life Re.

#### ***Acquisitions and Dispositions***

During 2012, White Mountains capitalized HG Global with approximately \$600 million in cash and HG Global capitalized BAM by purchasing \$503 million of BAM Surplus Notes.

In November 2012, White Mountains Solutions acquired PICO and Citation for a purchase price of \$15 million and American General and American General Property for a purchase price of \$35 million.

During 2012, OneBeacon completed the sale of a shell company, Pennsylvania General Insurance, and received \$15 million as consideration.

### ***Cash flows from investing and financing activities for the year ended December 31, 2011***

#### ***Financing and Other Capital Activities***

During the first quarter of 2011, the Company declared and paid an \$8 million cash dividend to its common shareholders.

During 2011, the Company repurchased and retired 646,502 of its common shares for \$253 million.

During 2011, OneBeacon Ltd. declared and paid \$175 million of cash dividends to its common shareholders, including \$80 million of regular quarterly dividends and a \$95 million special dividend. White Mountains received a total of \$132 million of these dividends.

During 2011, OBH repurchased and retired a portion of the outstanding 2003 OBH Senior Notes for \$162 million.

During 2011, OneBeacon paid a total of \$20 million of interest on the 2003 OBH Senior Notes.

During 2011, Sirius Group declared and paid \$594 million of capital distributions to its immediate parent, which included \$300 million received in connection with the Reorganization.

During 2011, Sirius Group paid \$26 million of interest on the SIG Senior Notes, \$19 million of dividends on the SIG Preference Shares.

During 2011, White Mountains contributed \$20 million to WM Life Re.

During 2011, WM Advisors declared and paid \$5 million of capital distributions to its immediate parent.

During 2011, White Mountains contributed \$104 million to Esurance and received \$95 million of capital distributions from Esurance.

#### ***Acquisitions and Dispositions***

During the fourth quarter of 2011, White Mountains completed the sale of Esurance and received \$1.01 billion in cash proceeds from Allstate.

During the fourth quarter of 2011, Sirius Group acquired Old Lyme for \$6 million in cash and a note of \$2 million.

### ***Cash flows from investing and financing activities for the year ended December 31, 2010***

#### ***Financing and Other Capital Activities***

During the first quarter of 2010, the Company declared and paid a \$9 million cash dividend to its common shareholders.

During 2010, the Company repurchased and retired 687,871 of its common shares for \$226 million.

During 2010, OneBeacon Ltd. declared and paid \$316 million of cash dividends to its common shareholders, including \$80 million of regular quarterly dividends and a \$236 million special dividend. White Mountains received a total of \$240 million of these dividends.

During 2010, OneBeacon Ltd. repurchased and retired 0.7 million of its Class A common shares for \$11 million through its share repurchase program.

During 2010, OBH repurchased and retired a portion of the outstanding OBH Senior Notes for \$196 million and OneBeacon Insurance Company purchased a portion of the outstanding OBH Senior Notes for \$1 million. In addition, during the first quarter of 2010, OneBeacon repaid in full the \$14 million outstanding under the Atlantic Specialty Note.

During 2010, OneBeacon paid \$30 million of interest on the OBH Senior Notes.

During 2010, Sirius Group declared and paid \$225 million of capital distributions to its immediate parent.

During 2010, Sirius Group paid \$26 million of interest on the SIG Senior Notes and \$19 million of cash dividends on the SIG Preference Shares.

During 2010, Sirius Group paid Sierra \$43 million on the Sierra Note, which consisted of \$33 million for the principal repayment and \$10 million for accrued interest. In accordance with an indemnification agreement, Berkshire reimbursed White Mountains \$37 million related to the Sierra Note payments.

During 2010, White Mountains contributed \$45 million to WM Life Re.

During 2010, White Mountains contributed \$70 million to Esurance.

#### ***Acquisitions and Dispositions***

During the first quarter of 2010, Sirius Group acquired Central National for \$5 million in cash.

During the third quarter of 2010, OneBeacon completed the sale of its traditional personal lines business and received consideration of approximately \$167 million.

During 2010, OneBeacon received \$10 million of additional consideration from the the sale of the renewal rights to its non-specialty commercial lines business.

During the fourth quarter of 2010, White Mountains sold its interest in Delos for \$22 million.

## TRANSACTIONS WITH RELATED PERSONS

See **Note 18—“Transactions with Related Persons”** in the accompanying Consolidated Financial Statements.

## NON-GAAP FINANCIAL MEASURES

This report includes three non-GAAP financial measures that have been reconciled to their most comparable GAAP financial measures. White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains’ results of operations and financial condition.

Adjusted comprehensive income is a non-GAAP financial measure that excludes the change in equity in net unrealized gains and losses from Symetra’s fixed maturity portfolio, net of applicable taxes, from comprehensive income. In the calculation of comprehensive income under GAAP, fixed maturity investments are marked-to-market while the liabilities to which those assets are matched are not. Symetra attempts to earn a “spread” between what it earns on its investments and what it pays out on its products. In order to try to fix this spread, Symetra invests in a manner that tries to match the duration and cash flows of its investments with the required cash outflows associated with its life insurance and structured settlements products. As a result, Symetra typically earns the same spread on in-force business whether interest rates fall or rise. Further, at any given time, some of Symetra’s structured settlement obligations may extend 40 or 50 years into the future, which is further out than the longest maturing fixed maturity investments regularly available for purchase in the market (typically 30 years). For these long-dated products, Symetra is unable to fully match the obligation with assets until the remaining expected payout schedule comes within the duration of securities available in the market. If at that time, these fixed maturity investments have yields that are lower than the yields expected when the structured settlement product was originally priced, the spread for the product will shrink and Symetra will ultimately harvest lower returns for its shareholders. GAAP comprehensive income increases when rates decline, which would suggest an increase in the value of Symetra - the opposite of what is happening to the intrinsic value of the business. Therefore, White Mountains’ management and Board of Directors use adjusted comprehensive income when assessing Symetra’s quarterly financial performance. In addition, this measure is typically the predominant component of change in adjusted book value per share, which is used in calculation of White Mountains’ performance for both short-term (annual bonus) and long-term incentive plans. The reconciliation of adjusted comprehensive income to comprehensive income is included on page 48.

Adjusted book value per share is a non-GAAP measure which is derived by expanding the GAAP calculation of book value per White Mountains common share to exclude equity in net unrealized gains and losses from Symetra’s fixed maturity portfolio, net of applicable taxes. In addition, the number of common shares outstanding used in the calculation of adjusted book value per share are adjusted to exclude unearned restricted common shares, the compensation cost of which, at the date of calculation, has yet to be amortized. The reconciliation of adjusted book value per share to GAAP book value per share is included on page 47.

Total capital at White Mountains is comprised of White Mountains’ common shareholders’ equity, debt and non-controlling interest in OneBeacon Ltd and the SIG Preference Shares. Total adjusted capital excludes the equity in net unrealized gains and losses from Symetra’s fixed maturity portfolio, net of applicable taxes from total capital. The reconciliation of total capital to total adjusted capital is included on page 67.

## CRITICAL ACCOUNTING ESTIMATES

Management’s Discussion and Analysis of Financial Condition and Results of Operations discuss the Company’s consolidated financial statements, which have been prepared in accordance with GAAP. The financial statements presented herein include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain of these estimates are considered critical in that they involve a higher degree of judgment and are subject to a significant degree of variability. On an ongoing basis, management evaluates its estimates, including those related to fair value measurements of investments and other financial instruments, valuation of liabilities associated with an assumed reinsurance agreement covering benefit guarantees on variable annuities in Japan, its property-casualty loss and LAE reserves and its property-casualty reinsurance contracts. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

## 1. Loss and LAE Reserves

### General

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

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

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

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

In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often 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 the past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment and is inherently uncertain.

White Mountains' actuaries use several generally accepted actuarial methods to evaluate its loss reserves, each of which has its own strengths and weaknesses. Management places more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made.

These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- *Historical paid loss development methods:* These methods use historical loss payments over discrete periods of time to estimate future losses. Historical paid loss development methods assume that the ratio of losses paid in one period to losses paid in an earlier period will remain constant. These methods necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use case reserves to estimate ultimate losses, they can be more reliable than the other methods discussed below that look to case reserves (such as actuarial methods that use reported losses) in situations where there are significant changes in how case reserves are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged, meaning that small changes in payments have a larger impact on estimates of ultimate losses, than actuarial methods that use reported losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative reported amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.
- *Historical reported loss development methods:* These methods, like historical paid loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. However, instead of using paid losses, these methods use reported losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical reported loss development methods can be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical reported loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using reported loss data to project ultimate losses can be less reliable than other methods.
- *Expected loss ratio methods:* These methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums written to calculate ultimate losses. Expected loss ratio methods are useful for estimating ultimate losses in the early years of long-tailed lines of business, when little or no paid or reported loss information is available.
- *Adjusted historical paid and reported loss development methods:* These methods take traditional historical paid and reported loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and reported loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes.

White Mountains performs an actuarial review of its recorded reserves each quarter. White Mountains' actuaries compare the previous quarter's estimates of paid loss and LAE, case reserves and IBNR to amounts indicated by actual experience. Differences between previous estimates and actual experience are evaluated to determine whether a given actuarial method for estimating loss and LAE should be relied upon to a greater or lesser extent than it had been in the past. While some variance is expected each quarter due to the inherent uncertainty in loss and LAE, persistent or large variances would indicate that prior assumptions and/or reliance on certain reserving methods may need to be revised going forward.

## OneBeacon

OneBeacon, like other insurance companies, categorizes and tracks its insurance reserves by "line of business", such as automobile liability, multiple peril package business, and workers compensation. Furthermore, OneBeacon regularly reviews the appropriateness of reserve levels at the line of business level, taking into consideration the variety of trends that impact the ultimate settlement of claims for the subsets of claims in each particular line of business.

In its selection of recorded reserves, OneBeacon historically gave greater weight to adjusted paid loss development methods, which are not dependent on the consistency of case reserving practices, over methods that rely on reported losses. In recent years, the amount of weight given to methods based on reported losses has increased with OneBeacon's confidence that its case reserving practices have been more consistently applied.

Upon completion of each quarterly review, OneBeacon's actuaries select indicated reserve levels based on the results of the actuarial methods described previously, which are the primary consideration in determining management's best estimate of required reserves. However, in making its best estimate, management also considers other qualitative factors that may lead to a difference between held reserves and actuarially recommended levels in the future. Typically, these factors exist when management and OneBeacon's actuaries conclude that there is insufficient historical reported and paid loss information or that trends included in the historical reported and paid loss information are unlikely to repeat in the future. Such factors include, among others, recent entry into new markets or new products, improvements in the claims department that are expected to lessen future ultimate loss costs and legal and regulatory developments. At December 31, 2012 and 2011, total carried reserves, including reserves that are presented as liabilities held for sale in the December 31, 2012 balance sheet related to the Runoff Business, were 6% and 10%, respectively, above the actuarial point estimate.

### **Loss and LAE Reserves by Line of Business**

OneBeacon's loss and LAE reserves, net of reinsurance recoverables, at December 31, 2012 and 2011 were as follows:

Millions	December 31, 2012 <sup>(1)</sup>			December 31, 2011		
	Case	IBNR	Total	Case	IBNR	Total
Ongoing Business	\$ 324.7	\$ 568.0	\$ 892.7	\$ 296.5	\$ 510.5	\$ 807.0
Runoff Business	164.3	47.5	211.8	225.4	158.7	384.1
Total	\$ 489.0	\$ 615.5	\$ 1,104.5	\$ 521.9	\$ 669.2	\$ 1,191.1

<sup>(1)</sup> Amounts included in Runoff Business as of December 31, 2012 consist of case and IBNR reserves that have been reclassified to liabilities held for sale in the December 31, 2012 consolidated balance sheet.

OneBeacon's loss and LAE reserves, net of reinsurance recoverables, for its Ongoing Business by line of business at December 31, 2012 and 2011 were as follows:

Millions	December 31, 2012			December 31, 2011		
	Case	IBNR	Total	Case	IBNR	Total
Automobile liability	\$ 33.3	\$ 27.5	\$ 60.8	\$ 28.2	\$ 25.9	\$ 54.1
General liability - occurrence	43.8	123.5	167.3	41.1	108.8	149.9
General liability - claims made	58.3	171.3	229.6	51.4	163.6	215.0
Medical malpractice	57.7	114.9	172.6	45.1	116.1	161.2
Other casualty	51.8	29.5	81.3	48.6	34.6	83.2
Workers compensation	33.3	37.9	71.2	26.0	30.0	56.0
Property	24.8	35.0	59.8	38.1	11.4	49.5
Other	21.7	28.4	50.1	18.0	20.1	38.1
Total	\$ 324.7	\$ 568.0	\$ 892.7	\$ 296.5	\$ 510.5	\$ 807.0

For loss and allocated LAE reserves, excluding A&E, the key assumption as of December 31, 2012 was that the impact of the various reserving factors, as described below, on future paid losses would be similar to the impact of those factors on the historical loss data with the exception of severity trends, which have been relatively stable over the relevant historical period. The actuarial methods used would project losses assuming continued stability in severity trends. Management has considered future increases in loss severity trends, including the impact of inflation, in making its reserve selections.

The major causes of material uncertainty ("reserving factors") generally will vary for each product line, as well as for each separately analyzed component of the product line. The following section details reserving factors by product line. There could be other reserving factors that may impact ultimate claim costs. Each reserving factor presented will have a different impact on estimated reserves. Also, reserving factors can have offsetting or compounding effects on estimated reserves. For example, in workers compensation, the use of expensive medical procedures that result in medical cost inflation may enable workers to return to work faster, thereby lowering indemnity costs. Thus, in almost all cases, it is impossible to discretely measure the effect of a single reserving factor and construct a meaningful sensitivity expectation. Actual results will likely vary from expectations for each of these assumptions, resulting in an ultimate claim liability that is different from that being estimated currently.

### *Workers compensation*

Workers compensation covers an employer's liability for injuries, disability or death of employees, without regard to fault, as prescribed by state workers compensation law and other statutes. Workers compensation is generally considered a long tail coverage, as it takes a relatively long period of time to finalize claims from a given accident year. While certain payments such as initial medical treatment or temporary wage replacement for the injured worker are made quickly, some other payments are made over the course of several years, such as awards for permanent partial injuries. In addition, some payments can run as long as the injured worker's life, such as permanent disability benefits and ongoing medical care. Despite the possibility of long payment tails, the reporting lags are generally short, settlements are generally not complex, and most of the liability can be considered high frequency with moderate severity. The largest reserve risk generally comes from the low frequency, high severity claims providing lifetime coverage for medical expense arising from a worker's injury.

Examples of common reserving factors that can change and, thus, affect the estimated workers compensation reserves include:

#### *General workers compensation reserving factors*

- Mortality trends of injured workers with lifetime benefits and medical treatment or dependents entitled to survivor benefits
- Degree of cost shifting between workers compensation and health insurance
- Changes in claim handling philosophies (e.g., case reserving standards)

#### *Indemnity reserving factors*

- Time required to recover from the injury
- Degree of available transitional jobs
- Degree of legal involvement
- Changes in the interpretations and processes of various workers compensation bureaus' oversight of claims
- Future wage inflation for states that index benefits
- Changes in the administrative policies of second injury funds
- Re-marriage rate for spouse in instances of death

#### *Medical reserving factors*

- Changes in the cost of medical treatments, including prescription drugs, and underlying fee schedules
- Frequency of visits to health providers
- Number of medical procedures given during visits to health providers
- Types of health providers used
- Type of medical treatments received
- Use of preferred provider networks and other medical cost containment practices
- Availability of new medical processes and equipment
- Changes in the use of pharmaceutical drugs
- Degree of patient responsiveness to treatment

#### *Workers compensation book of business reserving factors*

- Product mix
- Injury type mix
- Changes in underwriting standards

### *Multiple peril*

Multiple peril represents a package policy sold to insureds or to members of trade associations or other groups that include general liability and property insurance. General liability covers businesses for any liability resulting from bodily injury and property damage arising from general business operations, accidents on a premises and the products manufactured or sold. Property covers losses to a business' premises, inventory and equipment as a result of weather, fire, theft and other causes. Because commercial multiple peril provides a combination of property and liability coverage typically for small businesses, it includes both short and long tail coverages. For property coverage, it generally takes a relatively short period of time to close claims, while for the other coverages, generally for the liability coverages, it takes a longer period of time to close claims. The reserving risk for this line is dominated by the liability coverage portion of this product, except occasionally in the event of catastrophic or large single losses.

Multiple peril liability reserves here are generally analyzed as two components: bodily injury and property damage. Bodily injury payments reimburse the claimant for damages pertaining to physical injury as a result of the policyholder's legal obligation arising from non-intentional acts such as negligence, subject to the insurance policy provisions. In some cases the damages can include future wage loss (which is a function of future earnings power and wage inflation) and future medical treatment costs. Property damage payments result from damages to the claimant's private property arising from the policyholder's legal obligation for non-intentional acts. In most cases, property damage losses are a function of costs as of the loss date, or soon thereafter. Defense costs are also a part of the insured costs covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims, though for some products this risk is mitigated by policy language such that the insured portion of defense costs erodes the amount of policy limit available to pay the claim.

Multiple peril liability is generally considered a long tail line, as it takes a relatively long period of time to finalize and settle claims from a given accident year. The speed of claim reporting and claim settlement is a function of the specific coverage provided and the jurisdiction, among other factors. There are numerous components underlying the multiple peril liability product line. Some of these have relatively moderate payment patterns (with most of the claims for a given accident year closed within 5 to 7 years), while others can have extreme lags in both reporting and payment of claims (e.g., a reporting lag of a decade for "construction defect" claims).

Examples of common reserving factors that can change and, thus, affect the estimated multiple peril liability reserves include:

*Multiple peril liability reserving factors*

- Changes in claim handling philosophies (e.g., case reserving standards)
- Changes in policy provisions or court interpretations of such provisions
- New theories of liability
- Trends in jury awards
- Changes in the propensity to sue, in general with specificity to particular issues
- Changes in statutes of limitations
- Changes in the underlying court system
- Distortions from losses resulting from large single accounts or single issues
- Changes in tort law
- Shifts in lawsuit mix between federal and state courts
- Changes in settlement patterns

*Multiple peril liability book of business reserving factors*

- Changes in policy provisions (e.g., deductibles, policy limits, or endorsements)
- Changes in underwriting standards
- Product mix (e.g., size of account, industries insured, or jurisdiction mix)

*Commercial automobile liability*

The commercial automobile product line is a mix of property and liability coverages and, therefore, includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. Commercial automobile reserves are typically analyzed in two components; liability and collision/comprehensive claims. This second component has minimum reserve risk and fast payouts and, accordingly, separate reserving factors are not presented. The liability component includes claims for both bodily injury and property damage. In general, claim reporting lags are minor, claim complexity is not a major issue, and the line is viewed as high frequency, low to moderate severity.



Examples of common reserving factors that can change and, thus, affect the estimated commercial automobile liability reserves include:

*Bodily injury and property damage liability reserving factors*

- Trends in jury awards
- Changes in the underlying court system
- Changes in case law
- Litigation trends
- Frequency of claims with payment capped by policy limits
- Change in average severity of accidents, or proportion of severe accidents
- Subrogation opportunities
- Changes in claim handling philosophies (e.g., case reserving standards)
- Frequency of visits to health providers
- Number of medical procedures given during visits to health providers
- Types of health providers used
- Types of medical treatments received
- Changes in cost of medical treatments
- Degree of patient responsiveness to treatment

*Commercial automobile liability book of business reserving factors*

- Changes in policy provisions (e.g., deductibles, policy limits, or endorsements)
- Changes in mix of insured vehicles (e.g., long-haul trucks versus local and smaller vehicles, or fleet risks versus non-fleet risks)
- Changes in underwriting standards

*General liability*

See the above discussions under the liability product lines with regard to reserving factors for multiple peril, which are similar to the reserving factors used for general liability.

***OneBeacon Loss and LAE Development - Ongoing Business***

*Loss and LAE development—2012*

During 2012, OneBeacon experienced \$7 million of net favorable loss and LAE reserve development on prior accident year reserves. The favorable reserve development was primarily from workers' compensation, multiple peril liability and general liability lines. This favorable development was offset somewhat by unexpected adverse development on excess property claims.

*Loss and LAE development—2011*

During 2011, OneBeacon experienced \$30 million of net favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines.

With respect to the favorable loss reserve development in specialty insurance operations, at December 31, 2010, management had revised its expectations downward for future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during 2011, losses continued to be significantly lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of \$12 million.

During 2010, management began separately reviewing loss reserves for some business which had been previously managed as a part of OneBeacon's former commercial lines underwriting unit. As of December 31, 2010, the reserves for these businesses had been selected based on expected emergence that was based on the historic loss development of former commercial lines underwriting unit. However, during 2011 the actual emerged experience for these businesses was significantly lower than the expected emergence. As a result of this favorable emergence, management lowered the loss reserves for these businesses by \$14 million during 2011.

In addition to the development described for the lines of business above, OneBeacon also recorded a \$4 million net decrease in reserves in other lines of business as a result of its review of loss reserves at December 31, 2011.

#### *Loss and LAE development—2010*

In 2010, OneBeacon experienced \$36 million of net favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines, as well as development on personal lines business. The favorable development also included an \$8 million release of commercial catastrophe reserves associated with storms occurring in 2004 and 2005.

Specifically, at December 31, 2009, management had revised its expectations downward with respect to future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during 2010, losses continued to be significantly lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of \$19 million.

At December 31, 2009, management had recorded \$8 million of reserves for certain claims related to catastrophes from accident years 2004 and 2005 related to OneBeacon's excess property business. During 2010, these claims were resolved for amounts below OneBeacon's policy coverage therefore the reserves were no longer necessary. In addition to the development described for the lines of business above, management also recorded a \$9 million net decrease in IBNR in other lines of business, primarily personal lines, as a result of its review of loss reserves at December 31, 2010.

#### ***OneBeacon Loss and LAE Development - Runoff Business***

#### *Loss and LAE development—2012*

During 2012, OneBeacon experienced \$40 million of net unfavorable loss and LAE development related to the Runoff Business primarily driven by case incurred development on claims related to multiple peril liability lines and general liability lines and also the impact of an adverse court ruling in Mississippi regarding a disputed assessment from an involuntary pool for hurricane Katrina claims. In addition, there was a change in the workers' compensation tabular discount rate from 4.5% to 3.5% that resulted in unfavorable loss reserve development of \$15 million.

#### *Loss and LAE development—2011*

During 2011, OneBeacon experienced \$27 million of net unfavorable loss and LAE reserve development on prior accident year loss reserves relating to the Runoff Business. The net unfavorable loss reserve development resulted from a detailed review of runoff expenses, principally unallocated loss adjustment expenses ("ULAE"), completed during the fourth quarter of 2011. Specifically, OneBeacon completed a detailed review of loss and defense and cost containment expenses (allocated LAE or "ALAE") and other adjusting expenses (ULAE) during the fourth quarter of 2011. The analysis considered costs, based on current non-staff expenses and staffing projections for the runoff business, as OneBeacon continued efforts to segregate its claims operations between ongoing claims and runoff claims. The analysis also factored in the revised definition of runoff claims to include the non-specialty commercial lines business that was exited via the renewal rights agreement sale beginning with January 1, 2010 effective dates.

#### *Loss and LAE development—2010*

During 2010, OneBeacon experienced \$23 million of net favorable loss and LAE reserve development on prior accident year loss reserves relating to the Runoff Business. The net favorable loss reserve development was primarily due to lower than expected severity on multiple peril liability lines and other general liability lines, particularly for accident years 2004 through 2009. As a result of the lower than expected case incurred loss and ALAE, actuarial methods based on case incurred losses produced lower estimated ultimate losses, resulting in lower estimates of required IBNR.

### Range of Reserves by Line of Business

OneBeacon's range of reserve estimates at December 31, 2012 was evaluated to consider the strengths and weaknesses of the actuarial methods applied against OneBeacon's historical claims experience data. The following table shows the recorded unpaid loss and LAE reserves, net of reinsurance recoverables on unpaid losses, and the high and low ends of OneBeacon's range of reasonable loss reserve estimates for its Ongoing and Runoff Business at December 31, 2012. The high and low ends of OneBeacon's range of reserve estimates in the table below are based on the results of various actuarial methods described above.

Millions	December 31, 2012		
	Low	Recorded	High
Ongoing Business	\$ 740	\$ 892.7	\$ 975
Runoff Business <sup>(1)</sup>	137	211.8	296
Total	\$ 877	\$ 1,104.5	\$ 1,271

<sup>(1)</sup> Includes substantially all OneBeacon's net A&E reserves (\$9, net of reinsurance recoverables at December 31, 2012). See **A&E Reserves** below for a further discussion.

The following table shows the recorded loss and LAE reserves, net of reinsurance recoverable on unpaid losses, and the high and low ends of OneBeacon's range of reasonable loss reserve estimates for OneBeacon's Ongoing Business by line of business at December 31, 2012.

Millions	December 31, 2012		
	Low	Recorded	High
Automobile liability	\$ 55	\$ 60.8	\$ 63
General liability - occurrence	128	167.3	184
General liability - claims made	184	229.6	264
Medical malpractice	138	172.6	196
Other casualty	75	81.3	83
Workers compensation	57	71.2	72
Property	57	59.8	63
Other	46	50.1	50
Total	\$ 740	\$ 892.7	\$ 975

The recorded reserves represent management's best estimate of unpaid loss and LAE by line of business. OneBeacon uses the results of several different actuarial methods to develop its estimate of ultimate reserves. While OneBeacon has not determined the statistical probability of actual ultimate paid losses falling within the range, OneBeacon believes that it is reasonably likely that actual ultimate paid losses will fall within the ranges noted above because the ranges were developed by using several different generally accepted actuarial methods.

The probability that ultimate losses will fall outside of the ranges of estimates by line of business is higher for each line of business individually than it is for the sum of the estimates for all lines taken together due to the effects of diversification. The diversification effects result from the fact that losses across OneBeacon's different lines of business are not completely correlated. Although OneBeacon believes its reserves are reasonably stated, ultimate losses may deviate, perhaps materially, from the recorded reserve amounts and could be above or below the range of actuarial projections. This is because ranges are developed based on known events as of the valuation date, whereas the ultimate disposition of losses is subject to the outcome of events and circumstances that may be unknown as of the valuation date.

The percentages shown in the following table represent the linear interpolation of where OneBeacon's recorded loss and LAE reserves, net of reinsurance recoverable on unpaid losses, are within the range of reserve estimates at December 31, 2012 and 2011, where the low end of the range equals zero, the middle of the range equals 50% and the high end of the range equals 100%. The middle of the range (50%) does not necessarily represent the actuarial indication within the range of possible outcomes, provided above. During 2012, OneBeacon modeled the range of reserves for its Ongoing Business at a more refined line of business level than it had previously used; the prior period has been restated to reflect the more refined range.

(expressed as a percentage of the range)	December 31,	
	2012	2011
Ongoing Business	65%	73%
Runoff Business	47%	57%
Total	58%	66%

In selecting its best estimate, management continues to monitor the impact of future increases in inflation, including adverse changes in tort liability. These types of changes could result in deterioration in the loss reserves. During 2012, inflation continued to emerge in the loss data for some lines of business which increased the actuarial indications and related estimated range of outcomes. Since these changes in inflation assumptions are now being partially reflected in the actuarial methods, management does not need to select reserves as high in the range of actuarial indications. This has had some impact on most lines but has a particular impact on general liability - claims made and medical malpractice within both OneBeacon's Ongoing Business and its Runoff Business. Additionally, as OneBeacon continues to pay down the obligations associated with its Runoff Business, the uncertainty and volatility associated with those reserves is also declining such that carried reserves, which continue to exceed actuarial indications, are expectedly closer to the middle of the range.

Also in 2012, management lowered held reserves in several businesses that had been previously managed as part of OneBeacon's former commercial lines underwriting group. This development was primarily related to workers compensation and general liability occurrence. This favorable development resulted in recorded reserves being lower in the range as of December 31, 2012 compared to December 31, 2011.

The percentages shown in the following table represent the linear interpolation of where OneBeacon's recorded loss and LAE reserves on its Ongoing Business, net of reinsurance recoverable on unpaid losses, are within the range of reserves estimates by line of business at December 31, 2012 and 2011. Similar to the preceding table, the low end of the range equals zero, the middle of the range equals 50% and the high end of the range equals 100%.

(expressed as a percentage of the range)	December 31,	
	2012	2011
Automobile liability	69%	68%
General liability - occurrence	70%	84%
General liability - claims made	57%	64%
Medical malpractice	60%	71%
Other casualty	80%	82%
Workers compensation	97%	100%
Property	49%	88%
Other	92%	35%
Total	65%	73%

### *Sensitivity Analysis*

The following discussion includes disclosure of possible variations from current estimates of loss reserves in OneBeacon's Ongoing Business due to a change in certain key assumptions. Each of the impacts described below is estimated individually, without consideration for any correlation among key assumptions or among lines of business. Therefore, it would be inappropriate to take each of the amounts described below and add them together in an attempt to estimate volatility for OneBeacon's reserves in total.

It is important to note that the variations discussed are not meant to be a worst-case scenario, and therefore, it is possible that future variations may be more than amounts discussed below.

- *Workers compensation:* Recorded loss and LAE reserves, net of reinsurance recoverable, for Ongoing and Runoff Business workers compensation were \$254 million at December 31, 2012. The two most important assumptions for workers compensation reserves are loss development factors and loss cost trends, particularly medical cost inflation. Loss development patterns are dependent on medical cost inflation. Approximately half of the workers compensation net reserves are related to future medical costs. Across the entire reserve base, a 0.5 point change in calendar year medical inflation would have changed the estimated net reserve by approximately \$46 million at December 31, 2012, in either direction.
- *Professional liability:* Recorded loss and LAE reserves, net of reinsurance recoverable, for professional liability were \$410 million across all lines at December 31, 2012. A key assumption for professional liability is the implicit loss cost trend, particularly the severity inflation trend component of loss costs. Across the entire reserve base, a 5.0 point change in assumed annual severity would have changed the estimated net reserve by approximately \$68 million at December 31, 2012, in either direction.
- *Multiple peril liability:* Recorded loss and LAE reserves for the Ongoing and Runoff Businesses, net of reinsurance recoverable, excluding that provided under the GRC Cover, for multiple peril were \$142 million at December 31, 2012. Reported loss development patterns are a key assumption for this line of business, particularly for more mature accident years. Historically, assumptions on reported loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g. construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. If case reserve adequacy for multiple peril claims changed by 10.0 points this would have changed the estimated net reserve by approximately \$14 million at December 31, 2012, in either direction.

### **A&E Reserves**

OneBeacon's reserves include provisions made for claims that assert damages from A&E related exposures. Substantially all of these reserves have been reclassified to liabilities held for sale as of December 31, 2012, as they relate to the Runoff Business. Asbestos claims relate primarily to injuries asserted by those who allegedly came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up cost obligations, particularly as mandated by federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, OneBeacon estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss and LAE reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

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

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

OneBeacon also incurred A&E losses via its participation in industry pools and associations. The most significant of these pools was Excess Casualty Reinsurance Association (“ECRA”), which provided excess liability reinsurance to U.S. insurers from 1950 until the early 1980s. ECRA incurred significant liabilities for A&E, of which OneBeacon bears approximately a 4.6% and 4.7% share, or \$67 million and \$77 million at December 31, 2012 and 2011, respectively, which is fully reflected in OneBeacon’s loss and LAE reserves.

More recently, since the 1990s, OneBeacon has experienced an influx of claims from commercial insureds, including many non-Fortune 500-sized accounts written during the 1970s and 1980s, who are named as defendants in asbestos lawsuits. As a number of large well-known manufacturers of asbestos and asbestos-containing products have gone into bankruptcy, plaintiffs have sought recoveries from peripheral defendants, such as installers, transporters or sellers of such products, or from owners of premises on which the plaintiffs’ exposure to asbestos allegedly occurred. At December 31, 2012, 481 policyholders had asbestos-related claims against OneBeacon. In 2012, 106 new insureds with such peripheral involvement presented asbestos claims under prior OneBeacon policies.

Historically, most asbestos claims have been asserted as product liability claims. Recently, insureds who have exhausted the available products liability limits of their insurance policies have sought from insurers such as OneBeacon payment for asbestos claims under the premises and operations coverage of their liability policies, which may not be subject to similar aggregate limits. OneBeacon expects this trend to continue. However, to date there have been fewer of these premises and operations coverage claims than product liability coverage claims. This may be due to a variety of factors, including that it may be more difficult for underlying plaintiffs to establish losses as stemming from premises and operations exposures, which requires proof of the defendant’s negligence, rather than products liability under which strict legal liability applies. Premises and operations claims may vary significantly and policyholders may seek large amounts, although such claims frequently settle for a fraction of the initial alleged amount. Accordingly, there is a great deal of variation in damages awarded for the actual injuries. As of December 31, 2012, there were approximately 379 active claims by insureds against OneBeacon without product liability coverage asserting operations or premises coverage, which may not be subject to aggregate limits under the policies.

OneBeacon has a reinsurance contract with NICO under which OneBeacon is entitled to recover from NICO up to \$2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising from business written by OneBeacon in 1987 and prior, and certain other exposures. Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon’s third-party reinsurers in existence at the time the NICO Cover was executed (“Third-Party Recoverables”). As a result, the Third-Party Recoverables serve to protect the \$2.5 billion limit of NICO coverage for the benefit of OneBeacon. Any amounts uncollectible from third-party reinsurers due to dispute or the reinsurers’ financial inability to pay are covered by NICO under its agreement with OneBeacon. Third-Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments from 2000 through 2012, approximately 47% of asbestos and environmental losses have been recovered under the historical third-party reinsurance.

During 2011, OneBeacon completed a study of its legacy A&E exposures. Reasonable estimates of potential adverse scenarios continue to be within the \$2.5 billion reinsurance cover issued by NICO. Based on the results of the study, OneBeacon increased the point estimate of incurred losses ceded to NICO from \$2.2 billion to \$2.3 billion, an increase of \$122 million for asbestos, environmental and other mass tort exposures, net of underlying reinsurance. Due to the NICO Cover, there was no impact to income or equity from the change in the estimate.

As part of its previously described actuarial review process, OneBeacon reviews A&E activity each quarter and compares that activity to what was assumed in the most recently completed study. As of December 31, 2012, OneBeacon noted no change in the range of reasonable outcomes around its best estimate described above.

As noted above, OneBeacon has ceded estimated incurred losses of approximately \$2.3 billion to the NICO Cover at December 31, 2012. Since entering into the NICO Cover, approximately 9% of the \$2.3 billion of utilized coverage relates to uncollectible Third Party Recoverables and settlements on Third Party Recoverables through December 31, 2012. Net losses paid totaled approximately \$1.5 billion as of December 31, 2012. To the extent that actual experience differs from OneBeacon’s estimate of incurred A&E losses and Third Party Recoverables, future losses could exceed the \$198 million of protection remaining under the NICO Cover.

OneBeacon's reserves for A&E losses, net of Third-Party Recoverables but prior to NICO recoveries, were \$0.7 billion at December 31, 2012. An industry benchmark of reserve adequacy is the "survival ratio", computed as a company's reserves divided by its historical average yearly loss payments. This ratio indicates approximately how many more years of payments the reserves can support, assuming future yearly payments are equal to historical levels. OneBeacon's survival ratio was 10.4 years at December 31, 2012. This was computed as the ratio of A&E reserves, net of Third-Party Recoverables prior to the NICO Cover of \$0.7 billion plus the remaining unused portion of the NICO Cover of \$198 million, to the average A&E loss payments over the three-year period ended December 31, 2012, net of Third-Party Recoverables. OneBeacon's survival ratio was 13.3 years at December 31, 2011. OneBeacon believes that as a result of the NICO Cover and its historical third-party reinsurance programs, OneBeacon should not experience material financial loss from A&E exposures under current coverage interpretations and that its survival ratio compares favorably to industry survival ratios. However, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid using recent annual average payments subject to adjustments for unusual items. Many factors, such as aggressive settlement procedures, mix of business and coverage provided, have a significant effect on the amount of A&E reserves and payments and the resultant survival ratio. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

OneBeacon's reserves for A&E losses at December 31, 2012 represent management's best estimate of its ultimate liability based on information currently available. However, significant uncertainties, including but not limited to case law developments, medical and clean-up cost increases and industry settlement practices, limit management's ability to accurately estimate ultimate liability and OneBeacon may be subject to A&E losses beyond currently estimated amounts. In addition, OneBeacon remains liable for risks reinsured in the event that a reinsurer does not honor its obligations under reinsurance contracts. See **Note 3—"Reserves for Unpaid Loss and LAE—Asbestos and environmental loss and LAE reserve activity"** of the accompanying historical consolidated financial statements for more information regarding its A&E reserves.

#### *OneBeacon A&E Claims Activity*

OneBeacon's A&E claims activity, substantially all of which relates to Runoff Business, the operations of which have been included in discontinued operations and the loss and LAE reserves of which are included in liabilities held for sale on the December 31, 2012 consolidated balance sheet, is illustrated in the table below:

A&E Claims Activity	Year Ended December 31,	
	2012	2011
<b>Asbestos</b>		
Accounts with asbestos claims at the beginning of the year	460	478
Accounts reporting asbestos claims during the year	106	94
Accounts on which asbestos claims were closed during the year	(85)	(112)
Accounts with asbestos claims at the end of the year	<u>481</u>	<u>460</u>
<b>Environmental</b>		
Accounts with environmental claims at the beginning of the year	315	353
Accounts reporting environmental claims during the year	102	57
Accounts on which environmental claims were closed during the year	(111)	(95)
Accounts with environmental claims at the end of the year	<u>306</u>	<u>315</u>
<b>Total</b>		
Total accounts with A&E claims at the beginning of the year	775	831
Accounts reporting A&E claims during the year	208	151
Accounts on which A&E claims were closed during the year	(196)	(207)
Total accounts with A&E claims at the end of the year	<u>787</u>	<u>775</u>

## Sirius Group

The estimation of net reinsurance loss and LAE reserves is subject to the same risk as the estimation of insurance loss and LAE reserves. In addition to those risk factors which give rise to inherent uncertainties in establishing insurance loss and LAE reserves, the inherent uncertainties of estimating such reserves are even greater for the reinsurer, due primarily to: (1) the claim-tail for reinsurers being further extended because claims are first reported to the original primary insurance company and then through one or more intermediaries or reinsurers, (2) the diversity of loss development patterns among different types of reinsurance treaties or facultative contracts, (3) the necessary reliance on the ceding companies for information regarding reported claims and (4) the differing reserving practices among ceding companies.

### Loss and LAE Reserves by Class of Business

Sirius Group's net loss and LAE reserves by class of business at December 31, 2012 and 2011 were as follows:

Net loss and LAE reserves by class of business Millions	December 31, 2012			December 31, 2011		
	Case	IBNR	Total	Case	IBNR	Total
Casualty (excluding A&E)	\$ 179.8	\$ 267.5	\$ 447.3	\$ 218.8	\$ 344.4	\$ 563.2
Other property	162.8	150.0	312.8	192.5	100.2	292.7
Property catastrophe excess	146.5	71.2	217.7	121.7	102.6	224.3
A&E <sup>(1)</sup>	59.0	130.4	189.4	55.6	107.1	162.7
Accident and health	56.8	88.4	145.2	42.6	95.9	138.5
Aviation and space	98.4	41.5	139.9	97.4	51.5	148.9
Marine	71.9	31.1	103.0	79.3	38.7	118.0
Trade Credit	59.1	26.0	85.1	51.5	32.0	83.5
Agriculture	3.0	16.4	19.4	—	15.5	15.5
Contingency	3.6	5.5	9.1	5.4	5.1	10.5
Runoff <sup>(2)</sup>	84.8	93.6	178.4	86.7	159.5	246.2
Total	\$ 925.7	\$ 921.6	\$ 1,847.3	\$ 951.5	\$ 1,052.5	\$ 2,004.0

<sup>(1)</sup> Sirius Group's A&E exposures are principally the result of runoff of businesses acquired in the 1990s.

<sup>(2)</sup> Included in this class are primarily the runoff exposures from various acquisitions.

In order to reduce the potential uncertainty of loss reserve estimation, Sirius Group obtains information from numerous sources to assist in the process. Sirius Group's underwriting and pricing actuaries devote considerable effort to understanding and analyzing each insured's operations and loss history during the underwriting of the business, using a combination of insured and industry statistics. Such statistics normally include historical premium and loss data by class of business, individual claim information for larger claims, distributions of insurance limits provided, loss reporting and payment patterns, and rate change history. This analysis is used to project expected loss ratios for each treaty during the upcoming contract period. These expected ultimate loss ratios are aggregated across all treaties and are input directly into the loss reserving process to generate the expected loss ratios that are used to estimate IBNR.

Upon notification of a loss from an insured (typically a ceding company), Sirius Group establishes case reserves, including LAE reserves, based upon Sirius Group's share of the amount of reserves established by the insured and Sirius Group's independent evaluation of the loss. In cases where available information indicates that reserves established by a ceding company are inadequate, Sirius Group establishes case reserves or IBNR in excess of its share of the reserves established by the ceding company. Also, in certain instances, Sirius Group may decide not to establish case reserves or IBNR, when the information available indicates that reserves established by ceding companies are not adequately supported. In addition, specific claim information reported by insureds or obtained through claim audits can alert management to emerging trends such as changing legal interpretations of coverage and liability, claims from unexpected sources or classes of business, and significant changes in the frequency or severity of individual claims where customary. Generally, ceding company audits are not customary outside the United States. This information is often used to supplement estimates of IBNR.

Although loss and LAE reserves are initially determined based on underwriting and pricing analyses, Sirius Group regularly reviews the adequacy of its recorded reserves by using a variety of generally accepted actuarial methods, including historical incurred and paid loss development methods. If actual loss activity differs substantially from expectations, an adjustment to recorded reserves may be warranted. As time passes, loss reserve estimates for a given year will rely more on actual loss activity and historical patterns than on initial assumptions based on pricing indications.

Sirius Group's expected annual loss reporting assumptions are updated at least once a year. Expected loss ratios underlying the current accident year are updated quarterly, to reflect new business that is underwritten by the company.



As mentioned above, there can be a considerable time lag from the time a claim is reported to a ceding company to the time it is reported to the reinsurer. The lag can be several years in some cases. This lag can be due to a number of reasons, including the time it takes to investigate a claim, delays associated with the litigation process, the deterioration in a claimant's physical condition many years after an accident occurs, etc. In its loss reserving process, Sirius Group assumes that such lags are predictable, on average, over time and therefore the lags are contemplated in the loss reporting patterns used in its actuarial projection methods. This means that, as a reinsurer, Sirius Group must rely on such actuarial estimates for a longer period of time after reserves are first estimated than does a primary insurance company.

Backlogs in the recording of assumed reinsurance can also complicate the accuracy of loss reserve estimation. As of December 31, 2012, there were no significant backlogs related to the processing of assumed reinsurance information at Sirius Group.

Sirius Group relies heavily on information reported by ceding companies, as discussed above. In order to determine the accuracy and completeness of such information, Sirius Group underwriters, actuaries, and claims personnel perform audits of certain ceding companies where customary. Generally, ceding company audits are not customary outside the United States. In such cases, Sirius Group reviews information from ceding companies for unusual or unexpected results. Any material findings are discussed with the ceding companies. Sirius Group sometimes encounters situations where it is determined that a claim presentation from a ceding company is not in accordance with contract terms. Most situations are resolved amicably and without the need for litigation or arbitration. However, in the infrequent situations where a resolution is not possible, Sirius Group will vigorously defend its position in such disputes.

Sirius Group also obtains reinsurance whereby another reinsurer contractually agrees to indemnify Sirius Group for all or a portion of the risks underwritten by Sirius Group. Such arrangements, where one reinsurer provides reinsurance to another reinsurer, are usually referred to as "retrocessional reinsurance" arrangements. Sirius Group establishes estimates of amounts recoverable from retrocessional reinsurance in a manner consistent with the loss and LAE liability associated with reinsurance contracts offered to its customers, net of an allowance for uncollectible amounts, if any. Net reinsurance loss reserves represent loss and LAE reserves reduced by ceded reinsurance recoverable on unpaid losses.

In 2012, Sirius Group had net favorable loss reserve development of \$34 million. The major reductions in loss reserve estimates were recognized in casualty runoff (\$32 million), property (\$28 million), marine/energy (\$12 million), trade credit (\$7 million) and aviation/space (\$5 million) lines, partially offset by a \$46 million increase in asbestos loss reserves and a \$4 million increase in accident and health. In 2011, Sirius Group had net favorable loss reserve development of \$47 million, primarily attributable to \$41 million of favorable development on property lines, including \$13 million of loss reserve reductions for the 2010 Chile earthquake, partially offset by asbestos and environmental increases of \$12 million. In 2010, Sirius Group had net favorable loss reserve development of \$57 million, primarily related to short-tailed lines, such as property, accident and health, and marine, from recent underwriting years. Included in the \$57 million favorable loss reserve development was the recognition of \$16 million in deferred gains from a retrocessional reinsurance contract that inceptioned in 2000 and was fully collected in 2010.

The actuarial methods described above are used to calculate a point estimate of loss and LAE reserves for each company within Sirius Group. These point estimates are then aggregated to produce an actuarial point estimate for the entire segment. Once a point estimate is established, Sirius Group's actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated from historical variations in loss ratios, payment and reporting patterns by class and type of business.

The actuarial analysis is a primary consideration for management in determining its best estimate of loss and LAE reserves. In making its best estimate, management also considers other qualitative factors that may lead to a difference between its best estimate of loss and LAE reserves and the actuarial point estimate. Typically, these factors exist when management and the company's actuaries conclude that there is insufficient historical incurred and paid loss information or that trends included in the historical incurred and paid loss information are unlikely to repeat in the future. These factors may include, among others, changes in the techniques used to assess underwriting risk, more accurate and detailed levels of data submitted with reinsurance applications, the uncertainty of the current reinsurance pricing environment, the level of inflation in loss costs, changes in ceding company reserving practices, and legal and regulatory developments. At December 31, 2012 and 2011, total carried net reserves were 2.4% and 2.7% above the actuarial point estimate, respectively.

The following table illustrates Sirius Group's recorded net loss and LAE reserves and high and low estimates for those classes of business for which a range is calculated, at December 31, 2012.

Net loss and LAE reserves by class of business Millions	December 31, 2012		
	Low	Recorded	High
Casualty (excluding A&E)	\$ 402	\$ 447.3	\$ 478
Other property	289	312.8	339
Property catastrophe excess	181	217.7	219
A&E	172	189.4	208
Accident and health	132	145.2	155
Aviation and space	130	139.9	150
Marine	96	103.0	111
Trade Credit	74	85.1	89
Agriculture	18	19.4	21
Contingency	8	9.1	10
Runoff	148	178.4	188
Total	\$ 1,650	\$ 1,847.3	\$ 1,968

The probability that ultimate losses will fall outside of the range of estimates by class of business is higher for each class of business individually than it is for the sum of the estimates for all classes taken together due to the effects of diversification. Management believes that it is reasonably likely that actual ultimate losses will fall within the total range noted above because the ranges were developed by using generally accepted actuarial methods supplemented with input of underwriting and claims staff. However, due to the inherent uncertainty, ultimate losses may deviate, perhaps materially, from the recorded reserve amounts and could be above or below the range of actuarial projections.

#### *Sirius Group A&E Reserves*

Sirius Group's A&E exposure is primarily from reinsurance contracts written between 1974 through 1985 by acquired companies, mainly MONY Reinsurance Company and Christiania General Insurance Company. The exposures are mostly higher layer excess of loss treaty and facultative coverages with relatively low limits exposed for each claim. In 2012, Sirius Group increased its net A&E exposure through two incoming runoff portfolios acquired by White Mountains Solutions. These acquisitions added \$11 million in net asbestos reserves and \$1 million in net environmental reserves.

The acquisition of companies having modest portfolios of A&E exposure has been typical of several prior White Mountains Solutions transactions and is likely to be an element of at least some future acquisitions. However, the acquisitions of new A&E liabilities is undertaken only after careful due diligence and utilizing conservative reserving assumptions in relation to industry benchmarks. In the case of those portfolios acquired during 2012, the exposures arise almost entirely from old assumed reinsurance contracts having small limits of liability.

In addition to the \$11 million increase in asbestos reserves from the two incoming portfolios acquired by White Mountains Solutions mentioned above, Sirius Group recorded \$46 million and \$10 million of asbestos-related incurred losses and LAE on its already existing asbestos reserves in 2012 and 2011, respectively. In the first six months of 2012, Sirius Group increased net asbestos reserves by \$12 million in response to its quarterly monitoring of newly reported claims. Based on the monitoring trends noted in the first six months 2012, Sirius Group conducted an in-depth analysis of its asbestos exposure, which was completed in third quarter. The main focus of the analysis was on the internal claims analysis of all treaty and facultative contracts likely to have asbestos exposure. An external expert with extensive asbestos claims experience was utilized to enhance the review. This analysis entailed examining total expected asbestos losses and LAE from a variety of information sources, including previous asbestos studies, reported client data and external benchmarking scenarios. The analysis resulted in a net asbestos loss reserve increase of \$33 million recognized in third quarter. An additional \$2 million of asbestos losses were recognized in fourth quarter 2012. The 2011 incurred losses were primarily the result of management's monitoring of a variety of metrics including: actual paid and reported claims activity; net survival ratios; peer comparisons; and industry benchmarks.

Offsetting the \$1 million increase in environmental reserves mentioned above, Sirius Group recorded a decrease of \$1 million in 2012 of environmental-related losses on its already existing reserves in 2012. In 2011, Sirius Group recorded \$2 million of environmental losses.

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

Net incurred loss and LAE activity Millions	Year Ended December 31,	
	2012	2011
Asbestos	\$ 46.4	\$ 10.3
Environmental	(0.5)	2.0
Total	\$ 45.9	\$ 12.3

Sirius Group's net reserves for A&E losses were \$189 million and \$163 million at December 31, 2012 and 2011, respectively. Sirius Group's A&E three-year net loss paid survival ratio was approximately 9.0 years and 11.1 years at December 31, 2012 and 2011. The decrease in the paid survival ratio in 2012 was driven by an unusually high net paid loss of \$9 million made in first quarter 2012 to commute one of Sirius Group's top five asbestos exposures.

The following tables show gross and net loss and LAE payments for A&E exposures for the years ending December 31, 2003 through December 31, 2012:

Millions Year ended December 31,	Asbestos paid loss and LAE		Environmental paid loss and LAE	
	Gross	Net	Gross	Net
2003	\$ 10.7	\$ 7.4	\$ 1.7	\$ 1.1
2004	19.3	14.3	1.5	1.4
2005	11.7	12.2	4.8	4.0
2006	9.8	7.9	0.6	0.5
2007	12.3	10.7	2.0	1.7
2008	19.7	14.3	2.2	1.6
2009	11.4	10.3	1.5	1.5
2010	14.5	12.1	0.8	0.9
2011	20.4	15.6	3.2	3.6
2012	34.7	29.4	2.3	1.5

#### *Sirius Group A&E Claims Activity*

Sirius Group has a specialized unit that handles claims relating to A&E exposures. The issues presented by these types of claims require expertise and an awareness of the various trends and developments in relevant jurisdictions. Generally, Sirius Group sets up claim files for each reported claim by cedent for each individual insured. In many instances, a single claim notification from a cedent could involve several years and layers of coverage resulting in a file being set up for each involvement. Precautionary claim notices are submitted by the ceding companies in order to preserve their right to pursue coverage under the reinsurance contract. Such notices do not contain an incurred loss amount. Accordingly, an open claim file is not established. As of December 31, 2012, Sirius Group had 1,859 open claim files for asbestos and 281 open claim files for environmental exposures.

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

A&E Claims Activity	Year Ended December 31,	
	2012	2011
<b>Asbestos</b>		
Total asbestos claims at the beginning of the year	1,261	1,223
Asbestos claims acquired during the year	642	—
Asbestos claims reported during the year	242	358
Asbestos claims closed during the year	(286)	(320)
Total asbestos claims at the end of the year	1,859	1,261
<b>Environmental</b>		
Total environmental claims at the beginning of the year	266	268
Environmental claims reported during the year	76	87
Environmental claims closed during the year	(61)	(89)
Total environmental claims at the end of the year	281	266
<b>Total</b>		
Total A&E claims at the beginning of the year	1,527	1,491
A&E claims acquired during the year	642	—
A&E claims reported during the year	318	445
A&E claims closed during the year	(347)	(409)
Total A&E claims at the end of the year	2,140	1,527

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

## 2. Fair Value Measurements

### General

White Mountains measures certain assets and liabilities at estimated fair value in its consolidated financial statements, with changes therein recognized in current period earnings. In addition, White Mountains discloses estimated fair value for certain liabilities measured at historical or amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price) at a particular measurement date. Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). Quoted prices in active markets for identical assets have the highest priority ("Level 1"), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities ("Level 2"), and unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority ("Level 3").

Assets and liabilities carried at fair value include substantially all of the investment portfolio; derivative instruments, both exchange traded and over the counter instruments; and reinsurance assumed liabilities associated with variable annuity benefit guarantees. Valuation of assets and liabilities measured at fair value require management to make estimates and apply judgment to matters that may carry a significant degree of uncertainty. In determining its estimates of fair value, White Mountains uses a variety of valuation approaches and inputs. Whenever possible, White Mountains estimates fair value using valuation methods that maximize the use of observable prices and other inputs. Where appropriate, assets and liabilities measured at fair value have been adjusted for the effect of counterparty credit risk.

## Invested Assets

White Mountains' invested assets that are measured at fair value include fixed maturity securities, common and preferred equity securities, convertible fixed maturity securities and interests in hedge funds and private equity funds.

Where available, the estimated fair value of investments is based upon quoted prices in active markets. In circumstances where quoted prices are unavailable, White Mountains uses fair value estimates based upon other observable inputs including matrix pricing, benchmark interest rates, market comparables, and other relevant inputs. Where observable inputs are not available, the estimated fair value is based upon internal pricing models using assumptions that include inputs that may not be observable in the marketplace but which reflect management's best judgment given the circumstances and consistent with what other market participants would use when pricing such instruments.

As of December 31, 2012, approximately 95.0% of the investment portfolio recorded at fair value was priced based upon quoted market prices or other observable inputs. Investments valued using Level 1 inputs include fixed maturities, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturities including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains' investments in hedge funds and private equity funds, as well as investments in certain debt securities, including asset-backed securities, where quoted market prices are unavailable. White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from a different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and \$1 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains' review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. During the past year, approximately fifteen securities fell outside White Mountains' expected results, thereby triggering the challenge with the pricing service. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.

The following table summarizes White Mountains' fair value measurements and the percentage of Level 3 investments at December 31, 2012:

Millions	December 31, 2012		
	Fair value	Level 3 Inputs	Level 3 Inputs as a % of total fair value
U.S. Government and agency obligations	\$ 440.1	\$ —	—
Debt securities issued by industrial corporations	2,385.1	—	—
Municipal obligations	5.2	—	—
Mortgage-backed and asset-backed securities	2,095.6	22.1	1%
Foreign government, agency and provincial obligations	521.9	—	—
Preferred stocks	86.4	70.8	82%
Fixed maturities <sup>(1)</sup>	5,534.3	92.9	2%
Common equity securities	1,029.7	37.3	4%
Convertible fixed maturity investments	127.4	—	—
Short-term investments	630.6	—	—
Other long-term investments <sup>(2)</sup>	259.3	259.3	100%
Total investments	\$ 7,581.3	\$ 389.5	5%

<sup>(1)</sup> Carrying value includes \$338.1 that is classified as assets held for sale relating to discontinued operations.

<sup>(2)</sup> Excludes carrying value of \$35.0 associated with other long-term investments accounted for using the equity method and \$(.1) related to currency forward contracts.

White Mountains uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturities at December 31, 2012 comprise securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

The following tables summarize the changes in White Mountains' fair value measurements by level for the year ended December 31, 2012 and December 31, 2011:

Millions	Level 1 Investments	Level 2 Investments	Level 3 Investments				Total
			Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	
Balance at January 1, 2012	\$ 1,879.1	\$ 6,088.2	\$ 78.9	\$ 32.3	\$ —	\$ 268.3	\$ 8,346.8 <sup>(1)(2)</sup>
Total realized and unrealized gains (losses)	46.8	53.6	8.7	12.4	—	(3.3)	118.2
Foreign currency gains through OCI and other revenue	8.9	81.9	0.8	0.2	—	3.7	95.5
Amortization/Accretion	(0.8)	(48.0)	(0.8)	—	—	—	(49.6)
Purchases	7,266.5	4,927.1	144.4	3.1	—	39.4	12,380.5
Sales	(7,214.8)	(5,937.0)	(99.4)	(10.1)	—	(48.8)	(13,310.1)
Transfers in	—	62.4	22.1	—	—	—	84.5
Transfers out	—	(22.1)	(61.8)	(0.6)	—	—	(84.5)
Balance at December 31, 2012	\$ 1,985.7	\$ 5,206.1	\$ 92.9	\$ 37.3	\$ —	\$ 259.3	\$ 7,581.3 <sup>(1)(2)</sup>

<sup>(1)</sup> Excludes carrying value of \$33.0 and \$35.0 at January 1, 2012 and December 31, 2012 associated with other long-term investments accounted for using the equity method and \$(0.1) at December 31, 2012 related to forward contracts.

<sup>(2)</sup> Carrying value includes \$111.8 and \$338.1 at January 1, 2012 and December 31, 2012 that is classified as assets held for sale relating to discontinued operations.

Millions	Level 1 Investments	Level 2 Investments	Level 3 Investments				Total
			Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long- term investments	
Balance at January 1, 2011	\$ 1,894.4	\$ 5,477.4	\$ 128.4	\$ 71.2	\$ —	\$ 330.2 <sup>(1)</sup>	\$ 7,901.6 <sup>(1)</sup>
Total realized and unrealized (losses) gains	(1.4)	113.2	(8.1)	(4.7)	—	19.5	118.5
Foreign currency gains (losses) through OCI and other revenue	4.6	(76.1)	(4.4)	1.6	—	(5.0)	(79.3)
Amortization/Accretion	2.3	(54.2)	0.3	—	—	—	(51.6)
Purchases	10,653.6	8,905.6	213.7	19.7	—	58.4	19,851.0
Sales	(10,674.4)	(8,528.7)	—	(55.5)	—	(134.8)	(19,393.4)
Transfers in	—	269.2	18.2	—	—	—	287.4
Transfers out	—	(18.2)	(269.2)	—	—	—	(287.4)
Balance at December 31, 2011	\$ 1,879.1	\$ 6,088.2	\$ 78.9	\$ 32.3	\$ —	\$ 268.3 <sup>(1)</sup>	\$ 8,346.8 <sup>(1)(2)</sup>

<sup>(1)</sup> Excludes carrying value of \$33.0 and \$41.9 at December 31, 2011 and January 1, 2011 associated with other long-term investment limited partnerships accounted for using the equity method.

<sup>(2)</sup> Carrying value includes \$111.8 that is classified as assets held for sale relating to AutoOne discontinued operations.

#### Fair Value Measurements — transfers between levels

During 2012, two fixed maturity securities classified as Level 3 measurements in the prior period were recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at December 31, 2012. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of \$61.8 million for the period ended December 31, 2012. For the year-ended December 31, 2012, “Transfers out” of Level 2 and “Transfers in” to Level 3 fixed maturity investments of \$22.1 million consists of one asset-backed security for which the estimated fair value was determined using a single broker quote.

At December 31, 2011, ten fixed maturity securities which had been classified as Level 3 measurements at January 1, 2011 were recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at December 31, 2011. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of \$269.2 million for the period ended December 31, 2011. One security that was classified as a Level 2 investment at January 1, 2011 was priced with unobservable inputs and represents “Transfers in” of \$18.2 million in Level 3 investments. The fair value of this security was estimated using industry standard pricing models, in which management selected inputs using its best judgment. The pricing models used by White Mountains use the same valuation methodology for all Level 3 measurements for fixed maturities. The security is considered to be Level 3 because the measurements are not directly observable. At December 31, 2011, the estimated fair value for this security determined using the industry standard pricing models was \$1.6 million less than the estimated fair value based upon quoted prices provided by a third party pricing vendor.

The following table summarizes the amount of total gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 investments for years ended December 31, 2012, 2011, and 2010:

Millions	Year Ended December 31,		
	2012	2011	2010
Fixed maturities	\$ 7.7	\$ (12.2)	\$ 10.2
Common equity securities	3.0	(16.6)	(19.2)
Convertible fixed maturities	—	—	—
Other long-term investments	7.0	(16.8)	39.0
Total unrealized investment (losses) gains, pre-tax - Level 3 investments	\$ 17.7	\$ (45.6)	\$ 30.0

## Symetra Warrants

White Mountains holds warrants to acquire common shares of Symetra. The warrants are recorded at fair value. White Mountains uses a Black-Scholes valuation model to determine the fair value of the Symetra warrants. The major assumptions used in valuing the Symetra warrants at December 31, 2012 were a risk free rate of 0.21%, volatility of 38.9%, an expected life of 1.6 years, a strike price of \$11.49 per share and a share price of \$12.98 per share. The major assumptions used in valuing the Symetra warrants at December 31, 2011 were a risk free rate of 0.31%, volatility of 36.0%, an expected life of 2.6 years, a strike price of \$11.49 per share and a share price of \$9.07 per share. The inputs used in the valuation model are observable inputs. However, since a quoted market price is not available for the warrants themselves, they are categorized as a Level 2 measurement.

## Other Long-Term Investments

Other long-term investments accounted for at fair value at December 31, 2012 consist of \$115 million in hedge funds and \$125 million in private equity funds. At December 31, 2012, White Mountains held investments in 16 hedge funds and 38 private equity funds. The largest investment in a single fund was \$16.0 million and \$27.4 million at December 31, 2012 and 2011.

The fair value of White Mountains' investments in hedge funds and private equity funds is based upon White Mountains' proportionate interest in the underlying fund's net asset value, which is deemed to approximate fair value. White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments including obtaining and reviewing each fund's audited financial statements and discussing each fund's pricing with the fund's manager. However, since the fund managers do not provide sufficient information to independently evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of White Mountains' investments in hedge funds and private equity funds have been classified as Level 3.

In circumstances where the underlying investments are publicly traded, such as the investments made by hedge funds, the fund manager uses current market prices to determine fair value. In circumstances where the underlying investments are not publicly traded, such as the investments made by private equity funds, the private equity fund managers generally consider the need for a liquidity discount on each of the underlying investments when determining the fund's net asset value. In circumstances where White Mountains' portion of a fund's net asset value is deemed to differ from fair value due to illiquidity or other factors associated with White Mountains' investment in the fund, the net asset value is adjusted accordingly. At December 31, 2012, there were no circumstances where illiquidity or other factors required an adjustment to the net asset value related to any of its investments in hedge funds or private equity funds.

## Sensitivity analysis of likely returns on hedge fund and private equity fund investments

White Mountains' investment portfolio includes investments in hedge funds and private equity funds. At December 31, 2012, the value of investments in hedge funds and in private equity funds was \$115 million and \$125 million, respectively. The underlying investments are typically publicly traded and private common equity investments, and, as such, are subject to market risks that are similar to White Mountains' common equity securities. The following illustrates the estimated effect on December 31, 2012 fair value resulting from a 10% change and a 30% change in market value:

Millions	December 31, 2012			
	Change in fair value		Change in fair value	
	10% decline	10% increase	30% decline	30% increase
Hedge funds	\$ (11.5)	\$ 11.5	\$ (34.5)	\$ 34.5
Private equity funds	\$ (12.5)	\$ 12.5	\$ (37.5)	\$ 37.5

Hedge fund and private equity fund returns are commonly measured against the benchmark returns of hedge fund indices and/or the S&P 500 Index. The historical returns for each index in the past five years are listed below:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
HFRX Equal Weighted Strategies Index	2.5%	(6.2)%	5.3%	11.4%	(21.9)%
S&P 500 Index	16.0%	2.1 %	15.1%	26.5%	(37.0)%



## Variable Annuity Reinsurance Liabilities

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. White Mountains carries the benefit guarantees at fair value. The fair value of the guarantees is estimated using actuarial and capital market assumptions related to the projected discounted cash flows over the term of the reinsurance agreement. The valuation uses assumptions about surrenders rates, market volatilities and other factors, and includes a risk margin which represents the additional compensation a market participant would require to assume the risks related to the business. The selection of surrender rates, market volatility assumptions, risk margins and other factors require the use of significant management judgment. Assumptions regarding future policyholder behavior, including surrender and lapse rates, are generally unobservable inputs and significantly impact the fair value estimate. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates as well as variations in actuarial assumptions regarding policyholder behavior may result in significant fluctuations in the fair value of the liabilities associated with these guarantees that could materially affect results of operations. All of White Mountains' variable annuity reinsurance liabilities (\$442 million) were classified as Level 3 measurements at December 31, 2012.

Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese yen, as well as with increases in market volatilities. In 2008, particularly in the fourth quarter, as a result of worldwide declines in equity markets, interest rates and the strengthening of the Japanese yen, the underlying investment accounts declined substantially and have stayed low. The collective account values were approximately 87% and 78% of the guarantee value at December 31, 2012 and December 31, 2011. The liability is also affected by annuitant related behavioral and actuarial assumptions, including surrender and mortality rates. WM Life Re lowered its projected surrender rates in 2011 and 2010 to reflect the behavior observed during the turbulent markets experienced throughout those years.

WM Life Re uses derivative instruments, including put options, interest rate swaps, total return swaps on bond and equity indices and forwards and futures contracts on major equity indices, currency pairs and government bonds, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. The types of inputs used to estimate the fair value of these derivative instruments, with the exception of actuarial assumptions regarding policyholder behavior and risk margins, are generally the same as those used to estimate the fair value of the variable annuity liabilities.

As of December 31, 2012, the value of bond funds tracking the WGBI was approximately ¥68 billion (\$786 million). By country, the largest exposures, together comprising over 90% of the WGBI, were the United States (42%), France (10%), Germany (9%), the United Kingdom (8%), Italy (9%), Spain (4%), Canada (3%), the Netherlands (3%), and Belgium (3%). Eurozone countries together comprised approximately 41%. To reduce hedging basis risk (i.e., the risk that changes in the WGBI will cause WM Life Re's variable annuity guarantee liabilities to change in value at a different rate than the derivative hedges), in December 2009 WM Life Re entered into a series of total return swap contracts on the performance of the WGBI. As of December 31, 2010, approximately 49% of WM Life Re's WGBI-related liability was hedged with WGBI swaps. Because these swaps were denominated in US dollars, WM Life Re continued to hedge the results into Japanese yen to match the benchmark denominated in Japanese yen. In 2011, driven in large part by instability of Eurozone markets, WM Life Re significantly increased coverage of its WGBI exposure. Because the market for WGBI total return swaps was, and continues to be illiquid, WM Life Re entered into a series of total return swaps on the JP Morgan European Government Bond Index (JPM European GBI). Although the JPM European GBI is not an exact match for the European component of the WGBI, its construction rules and holdings are substantially similar. These swaps are denominated in Japanese yen and, therefore, need not be hedged into Japanese yen. As of December 31, 2012, the total notional amounts of WGBI and JPM European GBI swaps were \$75 million and ¥28 billion (\$324 million), respectively. At that date, approximately 64% and 96% of the total WGBI and European component of the WGBI, respectively, were hedged with total return swaps. All \$75 million notional amount of WGBI swaps matured in January 2013, reducing coverage on the total WGBI by 3% to approximately 61%. The JPM European GBI total return swaps have maturities laddered during 2015 and 2016 to approximate the maturities of the policies reinsured. The residual WGBI exposure is hedged primarily with bond futures.

Under the terms of these swap contracts, WM Life Re receives cash flows based on a fixed return, reset at the beginning of each month based on current LIBOR and is required to pay cash flows based on the performance of the WGBI or JPM European GBI during that month plus a fixed amount.

WM Life Re hedges the remaining WGBI-related liability exposure with the limited types of available derivatives that most closely fit the country and term exposures of the WGBI. Since liability exposures are determined by the performance of the overall account value, including the funds that track the Nomura BPI, TOPIX, and MSCI Kokusai, periodic portfolio rebalancing may be required. At such times and within limits, exchange-traded futures may be used to maintain overall neutral exposure as opposed to entering into new, or unwinding existing, swaps.

As of December 31, 2012, the value of bond funds tracking the Nomura BPI was approximately ¥73 billion (\$844 million). In January 2010, because the types and tenors of liquid Japanese bond futures currently available are extremely limited, to more closely track the performance of bond funds tracking the Nomura BPI, WM Life Re entered into its first total return swap contract on the performance of that index. As of December 31, 2012, the total notional amount of Nomura BPI swaps was ¥57 billion (\$662 million), covering approximately 90% of WM Life Re's Nomura BPI-related liability exposure. Of these swaps, ¥13 billion (\$159 million), which mature between 2015 and 2016, track the government bond component of the index only (approximately 76% of the index), leaving WM Life Re exposed to credit spread risk on the non-government portion. However, WM Life Re was able to temporarily convert these swaps into swaps that track the complete index through August 2013, at which time they will revert back to swaps that track the government bond component only unless WM Life Re is able to roll the conversion for another period of time. The remaining ¥44 billion (\$511 million) track the complete index. Of these, one with a notional amount of ¥10 billion (\$130 million) matured in January 2013 and was replaced with a swap of equal size maturing January 2014. The remaining swaps on the complete index mature during 2013. WM Life Re will look for opportunities to replace these swaps as they mature; however, the market is extremely illiquid and there is no guaranty that WM Life Re will be able to do so. Under the contracts, WM Life Re receives cash flows based on a fixed return, reset at the beginning of each period (monthly for the complete index swaps and semi-annually for the government bond only swaps) based on current LIBOR and is required to pay cash flows based on the performance of the Nomura BPI during that period plus a fixed amount. Remaining Nomura BPI exposure is hedged with liquid Japanese bond futures and is subject to basis risk relating to the difference between the tenor of the bond futures and the tenor of the assets in the annuity funds covered by WM Life Re's variable annuity guarantees.

As of December 31, 2012, the value of equity funds tracking the MSCI Kokusai was approximately ¥30 billion (\$346 million). To reduce hedging basis risk, in 2011 WM Life Re entered into a series of total return swaps on the MSCI Kokusai, denominated in Japanese yen with maturities laddered during 2015 and 2016 to approximate the maturities of the policies reinsured. As of December 31, 2012, the total notional amount of MSCI Kokusai swaps was ¥14.5 billion (\$177 million) and the percent of MSCI Kokusai fund exposure hedged by these swaps was approximately 60%. The remaining 40% of this exposure continues to be hedged with a variety of more liquid instruments, including exchange-traded futures. WM Life Re continues to assess ways to increase its coverage with total return swaps but there is no guaranty that WM Life Re will be able to do so.

During 2009, WM Life Re entered into long term Japanese interest rate swaps, largely replacing its use of short term Japanese Government Bond ("JGB") futures to hedge its discount rate exposure. By doing so, WM Life Re better matched the term structure of its discount rate exposure, substantially reduced its exposure to changes in Japanese interest rate swap spreads and significantly reduced the potential costs associated with rolling JGB futures contracts during times of relative market illiquidity. During December 2012, after the relevant Japanese interest rate swap rates fell to their lowest level in many years, the resulting potential benefit, net of cost, to WM Life Re of maintaining its Japanese interest rate swap hedge portfolio was deemed to be limited. Therefore, the decision was made to unwind or offset these Japanese interest rate swaps. During December 2012, approximately 24% of the notional amount of Japanese interest rate swap contracts was unwound and during January 2013 the remaining 76% was unwound or offset. As of December 31, 2012 and 2011, the notional amount of Japanese interest rate swaps was ¥153 billion (\$1.8 billion) and ¥183 billion (\$2.4 billion), respectively.

The following table summarizes the estimated financial impact on WM Life Re's derivatives and benefit guarantee liabilities of instantaneous changes in individual market variables as of December 31, 2012, proforma for the unwinding or offsetting of Japanese interest rate swaps in January of 2013. Remaining hedging coverage of Japanese interest rate swap exposure was 12%, primarily from WM Life Re's put option portfolio. The table below assumes that all other market variables are constant and does not reflect the inter-dependencies between individual variables.

Millions	Equity Market Returns		Foreign Currency Exchange <sup>(1)</sup>		Interest Rates <sup>(2)</sup>		Market Volatility <sup>(3)</sup>	
	20%	(20)%	15%	(15)%	Favorable	Unfavorable	Decrease	Increase
Liabilities	\$ (117)	\$ 124	\$ (191)	\$ 235	\$ (61)	\$ 38	\$ (7)	\$ 24
Hedge Assets	(120)	125	(188)	227	(15)	26	(10)	15
Net	\$ (3)	\$ 1	\$ 3	\$ (8)	\$ 46	\$ (12)	\$ (3)	\$ (9)

<sup>(1)</sup> The value of foreign currencies in Japanese yen terms.

<sup>(2)</sup> In the unfavorable scenario, Japanese interest rates are decreased 70 bps, Japanese swap spreads are tightened by 25 bps, and foreign bond fund yields are increased 70 bps. Conversely, in the favorable scenario, Japanese interest rates are increased 70 bps, Japanese swap spreads are widened 25 bps and foreign bond fund yields are decreased 70 bps. Without taking into account the proforma effect of Japanese interest rate swaps that were unwound or offset in January of 2013, the favorable interest rate change scenario results in an increase of the net value of WM Life Re's derivative assets and variable annuity guarantee liability of \$10, while the unfavorable scenario results in a decrease of \$1.

<sup>(3)</sup> White Mountains' sensitivities for market implied volatilities vary by term. For equity implied volatilities, White Mountains changes implied volatilities by 15%, 13%, 11%, 9%, 7% and 7% for each of the terms to maturity for years one through six, respectively. For foreign currency implied volatilities, White Mountains changes implied volatilities by 6%, 5.5%, 5%, 4.5%, 4% and 4% for each of the terms to maturity for years one through six, respectively.

To test the impact of multiple variables moving simultaneously, WM Life Re performs capital market “shock” testing. Prior to 2009, in performing this testing, WM Life Re had not incorporated basis risk and other hedge underperformance relative to expectations in its models; it had assumed that its hedges would behave as modeled. However, the financial market turmoil of late 2008 and early 2009 demonstrated that, in periods of severe financial market disruption, various aspects of WM Life Re’s hedging program may underperform or over-perform. As a result, WM Life Re now also estimates the efficacy of its hedging program in its “shock” testing. Estimated hedge effectiveness is based on actual results during the recent stressed market environment encompassing the fourth quarter of 2008 and the first quarter of 2009. Hedge effectiveness assumptions also incorporate any subsequent changes to the hedging program that were not in place during this stress period. Although this period captures a historically volatile period that included large market movements over short time periods, hedges may be less effective than the current assumptions to the extent future market movements of the magnitude of these “shocks” occur more quickly than during this recent stress period.

The table below summarizes as of December 31, 2012 and 2011, the estimated financial impact of simultaneous market events, as well as December 31, 2012 on a proforma basis, adjusted for the unwinding or offsetting of the remaining Japanese interest rate swaps during January 2013. Unlike the individual sensitivity analysis illustrated above, the analysis in the table below reflects the inter-dependencies between individual variables.

Change in Millions	Proforma As of December 31, 2012		As of December 31, 2012		As of December 31, 2011	
	Down Market	Up Market	Down Market	Up Market	Down Market	Up Market
Liabilities	\$ 420	\$ (367)	\$ 420	\$ (367)	\$ 487	\$ (454)
Hedge Assets <sup>(1)</sup>	376	(357)	389	(384)	453	(486)
Net	\$ (44)	\$ 10	\$ (31)	\$ (17)	\$ (34)	\$ (32)

<sup>(1)</sup> Assumed hedge effectiveness in down and up markets of 93% and 106%, respectively, as of December 31, 2012 and 93% and 107%, respectively, as of December 31, 2011. Hedge effectiveness as of December 31, 2012 has been adjusted for 24% reduction in Japan interest rate swap coverage due to the unwinding of Japanese interest rate swaps at the end of December. Proforma hedge effectiveness as of December 31, 2012 has been adjusted for the unwinding or offsetting of the remaining Japanese interest rate swaps during January 2013. Some Japanese interest rate swap coverage remains primarily through WM Life Re’s put option portfolio.

WM Life Re applies shocks to the Japanese interest rates and foreign bond fund yields in opposite directions. In the down market scenario, Japanese interest rates are decreased 70 bps, Japanese interest rate swap spreads are tightened by 25 bps, and foreign bond fund yields are increased 70 bps. The “up market” scenario assumes opposite movements in the same variables. For other variables, the “down market” scenario assumes equity indices decrease 20%, foreign currencies depreciate by 15% against the Japanese yen and implied market volatility increases as described in footnote 3 to the table above. The “up market” scenario assumes opposite movements in the same variables. Through December 31, 2012, both the up and down scenarios produce an expected net loss due to the convexity of the liability value, coupled with the assumption that the shock scenarios happen instantaneously without adjustment of the hedging portfolio. The proforma 2012 sensitivity analysis up market scenario results in a positive \$10 million due to the reduction in the liability from higher discount rates that is no longer offset by losses from the Japanese interest rate swaps that have been unwound. However, this also causes the proforma 2012 down market scenario to be \$13 million worse than the down market scenario as of December 31, 2012.

WM Life Re projects future surrender rates by year for policies based on a combination of actual experience and expected policyholder behavior. Actual policyholder behavior, either individually or collectively, may differ from projected behavior as a result of a number of factors such as the level of the account value versus guarantee value and applicable surrender charge, views of the primary insurance company’s financial strength and ability to pay the guarantee at maturity, annuitants’ need for money in a prolonged recession and time remaining to receive the guarantee at maturity. Policyholder behavior is especially difficult to predict given that WM Life Re’s reinsurance contracts are relatively new and the recent financial turmoil is unprecedented for this type of product in the Japanese market. Actual policyholder behavior may differ materially from WM Life Re’s projections.

During the third quarter of 2010, WM Life Re lowered the surrender assumptions that it uses to calculate its variable annuity guarantee liability. WM Life Re’s previous assumptions reflected its expectation that surrenders would rise as the surrender charges in the underlying annuities decline. However, the persistent instability in financial and foreign exchange markets has kept surrenders low. The lower surrender assumptions resulted in a \$48 million increase in WM Life Re’s variable annuity guarantee liability, but reduced its exposure to adverse changes in surrender rates in the future. During the fourth quarter of 2011, WM Life Re lowered the surrender assumptions again to reflect the somewhat lower surrenders that emerged versus expected in the policy cohort that rolled into policy year seven, resulting in a \$7.2 million increase in the variable annuity guaranty liability. No surrender assumption adjustments were required during 2012.

As of December 31, 2012, WM Life Re's surrender assumptions vary from 0.1% currently to 3.0% depending on the level of account value versus guarantee value; at the account value levels as of December 31, 2012, the average assumed surrender rate was approximately 0.5% per annum. The potential increase in the fair value of the liability due to a change in current actuarial assumptions is as follows:

Millions	Increase in fair value of liability	
	December 31,	
	2012	2011
Decrease 50%	\$ 3	\$ 5
Decrease 100% (to zero surrenders)	\$ 5	\$ 10

The amounts in the table above could increase in the future if the fair value of the variable annuity guarantee liability changes due to factors other than the surrender assumptions (e.g., a decline in the ratio of the annuitants' aggregate account values to their aggregate guarantee values).

As of December 31, 2011, WM Life Re increased the variable annuity guaranty liability by \$6 million to partially reflect a "basis swap" implied by foreign exchange rates which results in lower projected returns (in Japanese yen) for the portion of funds invested in countries outside of Japan. Since the financial crisis in 2008, there has been a break in expected arbitrage free relationships between swap interest rates and foreign exchange rates (in particular, between the U.S. and Japan). This adjustment recognizes that this anomaly of trading values may be more than temporary. The balance of this reserve was \$2.2 million as of December 31, 2012.

The following table summarizes the changes in White Mountains' variable annuity reinsurance liabilities and derivative contracts for the years ended December 31, 2012 and 2011:

Millions	Variable Annuity (Liabilities)	Derivative Instruments			
		Level 3 <sup>(1)</sup>	Level 2 <sup>(1)(2)</sup>	Level 1 <sup>(3)</sup>	Total <sup>(4)</sup>
Balance at January 1, 2012	\$ (768.5)	\$ 247.1	\$ 39.2	\$ 4.1	\$ 290.4
Purchases	—	6.1	—	—	6.1
Realized and unrealized gains (losses)	327.0	(84.0)	(186.9)	(68.1)	(339.0)
Transfers in (out)	—	—	—	—	—
Sales/settlements	—	(28.7)	127.2	42.3	140.8
Balance at December 31, 2012	\$ (441.5)	\$ 140.5	\$ (20.5)	\$ (21.7)	\$ 98.3

Millions	Variable Annuity (Liabilities)	Derivative Instruments			
		Level 3 <sup>(1)</sup>	Level 2 <sup>(1)(2)</sup>	Level 1 <sup>(3)</sup>	Total <sup>(4)</sup>
Balance at January 1, 2011	\$ (610.2)	\$ 275.3	\$ 72.2	\$ —	\$ 347.5
Purchases	—	5.0	—	—	5.0
Realized and unrealized gains (losses)	(158.3)	14.5	67.7	10.7	92.9
Transfers in (out)	—	—	—	—	—
Sales/settlements	—	(47.7)	(100.7)	(6.6)	(155.0)
Balance at December 31, 2011	\$ (768.5)	\$ 247.1	\$ 39.2	\$ 4.1	\$ 290.4

<sup>(1)</sup> Includes over-the-counter instruments.

<sup>(2)</sup> Includes interest rate swaps, total return swaps and foreign currency forward contracts. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded, where available. Swaps for which an active market does not exist have been priced using observable inputs including the swap curve and the underlying bond index.

<sup>(3)</sup> Includes exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

<sup>(4)</sup> In addition to derivative instruments, WM Life Re held cash, short-term and fixed maturity investments of \$393.6 and \$485.3 at December 31, 2012 and 2011 posted as collateral to its counterparties.

### 3. Sirius Group Reinsurance Estimates

There is a time lag from the point when premium and related commission and expense activity is recorded by a ceding company to the point when such information is reported by the ceding company to Sirius Group. This time lag can vary from one to several contractual reporting periods (i.e. quarterly/monthly). This lag is common in the reinsurance business, but slightly longer when a reinsurance intermediary is involved.

As a result of this time lag in reporting, Sirius Group estimates a portion of its written premium and related commissions and expenses. Given the nature of Sirius Group's business, estimated premium balances, net of related commissions and expenses, comprise a large portion of total premium balances receivable. The estimation process begins by identifying which major accounts have not reported activity at the most recent period end. In general, premium estimates for excess of loss business are based on expected premium income included in the contractual terms. For proportional business, Sirius Group's estimates are derived from expected premium volume based on contractual terms or ceding company reports and other correspondence and communication with underwriters, intermediaries and ceding companies. Once premium estimates are determined, related commission and expense estimates are derived using contractual terms.

Sirius Group closely monitors its estimation process on a quarterly basis and adjusts its estimates as more information and actual amounts become known. There is no assurance that the amounts estimated by Sirius Group will not deviate from the amounts reported by the ceding company or reinsurance intermediary. Any such deviations are reflected in the results of operations when they become known.

The following table summarizes Sirius Group's premium estimates and related commissions and expenses:

Millions	December 31, 2012				December 31, 2011			
	Gross Premium Estimates	Net Premium Estimates	Net Commission and Expense Estimates	Net Amount Included in Reinsurance Balances Receivable	Gross Premium Estimates	Net Premium Estimates	Net Commission and Expense Estimates	Net Amount Included in Reinsurance Balances Receivable
Property catastrophe excess	\$ 74.1	\$ 60.8	\$ (5.4)	\$ 55.4	\$ 68.3	\$ 56.0	\$ (5.0)	\$ 51.0
Other property	69.9	54.2	(22.4)	31.8	64.9	48.7	(17.2)	31.5
Accident and health	100.6	79.2	(29.4)	49.8	72.6	55.1	(25.6)	29.5
Aviation and space	41.7	34.6	(7.1)	27.5	50.1	38.9	(8.5)	30.4
Trade credit	36.3	26.1	(8.7)	17.4	41.9	33.8	(13.1)	20.7
Marine	17.8	16.5	(2.7)	13.8	19.0	17.5	(2.5)	15.0
Casualty	4.2	4.2	.4	4.6	10.1	9.9	(.6)	9.3
Agriculture	10.9	10.8	(1.5)	9.3	20.1	20.0	(2.8)	17.2
Contingency	5.2	5.2	(1.9)	3.3	6.0	6.0	(2.4)	3.6
Total	\$ 360.7	\$ 291.6	\$ (78.7)	\$ 212.9	\$ 353.0	\$ 285.9	\$ (77.7)	\$ 208.2

The net amounts recorded in reinsurance balances receivable may not yet be due from the ceding company at the time of the estimate since actual reporting from the ceding company has not yet occurred. Therefore, based on the process described above, Sirius Group believes all of its estimated balances are collectible, and as such no allowance has been recorded.

#### 4. Reinsurance Transactions

White Mountains' insurance and reinsurance subsidiaries purchase reinsurance from time to time to protect their businesses from losses due to exposure aggregation, to manage their operating leverage ratios and to limit ultimate losses arising from catastrophic events. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts related to reinsurance contracts are recorded in accordance with ASC 944, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" ("ASC 944").

In connection with White Mountains' acquisition of OneBeacon in 2001, Aviva caused OneBeacon to purchase reinsurance contracts with two reinsurance companies rated "AA+" (Very Strong, the second highest of twenty-one financial strength ratings) by Standard & Poor's and "A++" (Superior, the highest of sixteen financial strength ratings) by A.M. Best. One is a reinsurance cover with NICO which entitles OneBeacon to recover up to \$2.5 billion in ultimate loss and LAE incurred related primarily to claims arising from business written by its predecessor prior to 1992 for asbestos claims and 1987 for environmental claims, respectively. As of December 31, 2012, OneBeacon has ceded estimated incurred losses of approximately \$2.3 billion to NICO under the NICO Cover. The other contract is a reinsurance cover with GRC for up to \$570 million of additional losses on all claims arising from accident years 2000 and prior. As of December 31, 2012, OneBeacon has ceded estimated incurred losses of \$562 million to GRC under the GRC Cover. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the acquisition of OneBeacon, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for as a seller guarantee under GAAP in accordance with Emerging Issues Task Force Topic No. D 54. NICO and GRC are wholly-owned subsidiaries of Berkshire. All of these balances relate to the Runoff Business, the results of which are included in discontinued operations and the balances as of December 31, 2012 of which have been included in assets or liabilities held for sale on the consolidated balance sheet.

The collectibility of reinsurance recoverables is subject to the solvency and willingness to pay of the reinsurer. White Mountains is selective in choosing its reinsurers, placing reinsurance principally with those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis. See **Note 4 — "Third-Party Reinsurance"** in the accompanying Consolidated Financial Statements for additional information on White Mountains' reinsurance programs.

#### 5. White Mountains' Investment in Symetra Common Shares

In September 2011, the U.S. Federal Reserve Bank (the "Fed") began "Operation Twist", which decreased long-term interest rates on fixed maturity investments. Under Operation Twist, the Fed sold shorter-term U.S. treasury securities, which have maturities of generally 3 years or less, to fund the purchase of longer-term U.S. securities, with maturities between 6 and 30 years. In December 2012, the Fed stated that it expects to continue to take actions to keep long-term interest rates low until unemployment reaches 6.5%. Lower long-term interest rates tend to reduce the return on equity that life insurers earn as they reinvest their cash flows from higher yielding long duration bonds into lower yielding long duration bonds. Quoted stock prices of life insurers tend to be highly correlated with their return on equity. Thus, as long-term interest rates decline, the quoted stock prices of life insurers tend to decline. At the same time, lower interest rates tend to increase the stated GAAP book values of life insurance companies, primarily from unrealized gains on fixed income investments, as the assets are marked-to-market, but the liabilities are not. Thus, the precipitous decline in long-term interest rates that occurred with Operation Twist caused a significant decline in the quoted stock prices of life insurance companies and an even more significant decline in those prices relative to stated GAAP book value. As a result, the quoted stock price of many life insurance companies at December 31, 2011, including Symetra, was well below their stated GAAP book value, a trend inconsistent with historical patterns.

White Mountains accounts for its investment in Symetra common shares using the equity method of accounting. Under the equity method, the GAAP carrying value of White Mountains' investment in Symetra common shares is normally equal to the percentage of Symetra's GAAP book value represented by White Mountains' common share ownership, which was 15% at December 31, 2012 and 2011. Under GAAP, a decline in the fair value of an investment is considered to be other-than-temporary when the fair value of the investment is not expected to recover to its GAAP carrying value in the near term. Declines in the fair value of an investment that are considered to be other-than-temporary are recognized as a write-down to the GAAP carrying value of the investment. Having observed the divergence between the quoted market price for Symetra's common shares and its GAAP carrying value, management evaluated White Mountains' investment in Symetra common shares to determine whether an other-than-temporary impairment under GAAP existed at December 31, 2011. As a result of this evaluation, management concluded that White Mountains' investment in Symetra common shares was other-than-temporarily impaired and wrote down the GAAP book value of the investment to its estimated fair value of \$261 million at December 31, 2011, or approximately \$15 per Symetra common share.

The GAAP fair value of an investment is the price that would be paid by a market participant to acquire it in the investment's principal or most advantageous market. For investments that are publicly traded, quoted market prices generally provide the best measurement of GAAP fair value. However, a decline in the quoted market price of an investment below its GAAP carrying value is not necessarily indicative of a loss in value that is other-than-temporary, and in circumstances where the characteristics of the investment being measured are not the same as those for which quoted market prices are available, unadjusted quoted market prices do not represent GAAP fair value. White Mountains' investment in Symetra common shares is different than the shares that are traded on the public stock exchange, principally due to the size of its position and its representation on Symetra's Board of Directors. In circumstances like this, GAAP requires that fair value be determined giving consideration to multiple valuation techniques. Management considered three different valuation techniques to determine the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011. A description of each technique follows.

#### *Valuation techniques based on actuarial appraisals*

When determining the value of life insurance holding companies that are acquisition targets, market participants commonly utilize an approach that values the company as the sum of (A) adjusted statutory net worth of any regulated life insurance companies (i.e. statutory surplus plus asset valuation reserve) plus the GAAP net assets of any non-life businesses, less holding company debt and (B) the present value of future earnings related to business in force as of the valuation date plus the present value of future earnings related to business written after the valuation date. White Mountains used this approach when it acquired its initial investment in Symetra in 2004. Part A of the calculation can be performed using observable inputs from the statutory and GAAP financial statements. Part B of the calculation requires a large number of actuarial calculations including assumptions such as discount rates, mortality, persistency and future investment results that, while based on historical data and are supportable, are nonetheless judgmental and largely unobservable. For Symetra, part A is approximately \$15 per share as of December 31, 2011. Symetra management provided White Mountains with an actuarial appraisal that demonstrates that part B would be a meaningful positive value in most reasonable scenarios. When determining the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011, management ascribed the greatest weight to part A, as it is observable and less subjective.

#### *Valuation techniques based on multiples from recent transactions*

As described in "Non-GAAP Financial Measures", White Mountains uses growth in adjusted book value to assess Symetra's financial performance. Adjusted book value excludes unrealized gains and losses from Symetra's fixed maturity investment portfolio. Life insurance industry analysts and market participants commonly use multiples of adjusted book value per share to determine relative values of companies in the life insurance industry.

In December 2011, Tokio Marine announced that it had agreed to acquire Delphi Financial Group ("Delphi") for \$2.7 billion. The acquisition price for that transaction represented a multiple of approximately 1.6 times Delphi's September 30, 2011 adjusted book value of \$1.6 billion. The acquisition price of \$43.875 per share represented a premium of approximately 73% over Delphi's last traded market price prior to the announcement of the acquisition. If the same adjusted book value and market price multiples were applied to Symetra at December 31, 2011, the estimated fair value would range from \$16 to \$30 per share.

The Delphi acquisition highlights the wide disparity between values of life insurance companies based on quoted market prices and the value of those companies in a private market transaction. However, the range of fair value estimates generated by applying the adjusted book value per share multiple and market premium observed in the Delphi acquisition is wide, and there have been no other significant acquisitions of life insurance companies in 2011. Therefore, management did not ascribe significant weight to valuations determined using the adjusted book value per share multiple or market price premium observed in recent acquisition activity when determining the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011.

#### *Valuation techniques based on quoted market prices*

White Mountains' representation on Symetra's Board of Directors gives it the ability to exercise significant influence over Symetra's operations and policies. Generally, market participants are willing to pay a premium to obtain the ability to exert influence over the operations and policies of an investee, which is not reflected in the quoted market price of Symetra's common shares. There is no reliable means to calculate the value of this premium for an investment in a life insurance company. The actuarial appraisals used by market participants described above implicitly consider the ability to influence an investee's operations and policies in the actuarial assumptions underlying projected future earnings, but the value associated with the ability to exert influence is not explicitly calculated separately from other components of value. As a result, management did not ascribe significant weight to valuations based on quoted market prices when determining the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011, as the premium associated with the ability to exert influence over the operations and policies of Symetra is unobservable and highly subjective.

After considering all of the above, management determined that the best estimate of the GAAP fair value of White Mountains' investment in Symetra's common shares at December 31, 2011 was \$15 per share, which approximated Symetra's adjusted statutory-basis net worth. The write down of \$199 million to \$261 million represented management's best estimate of the amount by which the value of the investment had been other-than-temporarily impaired for GAAP at that date. After-tax, this represented a reduction of White Mountains adjusted book value per share of \$6. Given the scarcity of relevant observable inputs and the wide range of estimates developed under the approaches used, the estimated GAAP fair value of White Mountains' investment in Symetra's common shares involved a significant degree of judgment, is very subjective in nature and, accordingly, is considered a Level 3 fair value measurement.

An other-than-temporary impairment for GAAP does not equate to a permanent impairment in value. The reasons why management concluded that an other-than-temporary impairment for GAAP existed at December 31, 2011 related to the environment in which life insurance companies operated and not from reasons specific to Symetra itself. Symetra has recorded solid growth in adjusted book value per share since the financial crisis at the end of 2008, continues to pay quarterly dividends to its shareholders and has maintained strong financial strength and creditworthiness ratings and capital ratios. Management does not believe that the write-down in 2011 is an indication of impairment in Symetra's long-term intrinsic business value. At December 31, 2012 the GAAP carrying value of White Mountains' investment in the Symetra common shares was \$351 million, which reflects White Mountains' equity in Symetra's earnings and unrealized investment gains as well as the amortization of the basis difference that arose upon recognition of the impairment in 2011 (see **Note 15**). Management does not believe that the investment in Symetra's common shares is other-than-temporarily impaired at December 31, 2012.

## FORWARD-LOOKING STATEMENTS

The information contained in this report may contain "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 referenced in this report which address activities, events or developments which White Mountains expects or anticipates will or may occur in the future are forward-looking statements. The words "will", "believe", "intend", "expect", "anticipate", "project", "estimate", "predict" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements include, among others, statements with respect to White Mountains:

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

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

- the risks associated with Item 1A of this Report on Form 10-K;
- claims arising from catastrophic events, such as hurricanes, earthquakes, floods or terrorist attacks;
- the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to it and pursued;
- competitive forces, including the conduct of other property and casualty insurers and reinsurers;
- changes in domestic or foreign laws or regulations, or their interpretation, applicable to White Mountains, its competitors or its clients;
- an economic downturn or other economic conditions adversely affecting its financial position;
- recorded loss reserves subsequently proving to have been inadequate;
- actions taken by ratings agencies from time to time, such as financial strength or credit ratings downgrades or placing ratings on negative watch; and
- other factors, most of which are beyond White Mountains' control.



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

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

### Interest Rate and Credit Spread Risk

**Fixed Maturity Portfolios.** In connection with the Company's consolidated insurance and reinsurance subsidiaries, White Mountains invests in interest rate sensitive securities, primarily debt securities. White Mountains generally manages the interest rate risk associated with its portfolio of fixed maturity and convertible fixed maturity investments by monitoring the average duration of the portfolio. White Mountains' fixed maturity and convertible fixed maturity portfolios are comprised primarily of investment grade corporate securities; U.S. government and agency securities; foreign government, agency and provincial obligations; preferred stocks; asset-backed and mortgage-backed securities; and municipal obligations.

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

The table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on White Mountains' fixed maturity and convertible fixed maturity investments. Size of interest rate decreases may be limited in order to floor interest rates at a de minimis level.

(\$ in millions)	Fair Value at December 31, 2012	Assumed Change in Relevant Interest Rate	Estimated Fair Value After Change in Interest Rate	After-Tax Increase (Decrease) in Carrying Value
Fixed maturity and convertible fixed maturity investments <sup>(1)</sup>	\$ 5,661.7	100 bp decrease	\$ 5,735.6	\$ 51.3
		50 bp decrease	5,712.5	32.2
		50 bp increase	5,583.2	(54.4)
		100 bp increase	5,504.2	(109.1)

<sup>(1)</sup> Assumes no sensitivity to general interest rate movements for \$6.8 of defaulted bonds and \$36.6 of convertibles whose market values are significantly influenced by the underlying stock.

The magnitude of the fair value decrease in rising rates scenarios may be more significant than the fair value increase in comparable falling rates scenarios. This can occur because (a) the analysis floors interest rates at a de minimis level in falling rate scenarios, muting price increases, (b) portions of the fixed income portfolio may be callable, muting price increases in falling interest rate scenarios and or (c) portions of the fixed income portfolio may experience cash flow extension in higher interest rate environments, which generally results in lower prices.

White Mountains' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to their investment risks. Widening and tightening of credit spreads generally translate into decreases and increases in fair values of fixed maturity investments, respectively. Size of credit spread tightening may be limited in order to floor yields of non-government bonds above short term government bond yields. The table below summarizes the estimated effects of hypothetical widening and tightening of pre-tax credit spreads on White Mountains' fixed maturity and convertible fixed maturity portfolio.

Millions	December 31, 2012				
	Fair Value	Tighten 50	Tighten 25	Widen 25	Widen 50
U.S Government and agency obligations	\$ 440.1	\$ —	\$ —	\$ —	\$ —
Foreign government, agency and provincial obligations	521.9	.1	.1	(.1)	(.1)
		<b>Tighten 100</b>	<b>Tighten 50</b>	<b>Widen 50</b>	<b>Widen 100</b>
Agency mortgage-backed	1,143.8	31.3	18.6	(19.0)	(37.4)
Asset-backed	457.1	4.1	2.8	(4.2)	(8.3)
		<b>Tighten 200</b>	<b>Tighten 100</b>	<b>Widen 100</b>	<b>Widen 200</b>
Debt securities issued by industrial corporations <sup>(1)</sup>	2,378.3	122.0	81.2	(83.9)	(163.9)
Municipal obligations	5.2	.4	.2	(.2)	(.4)
Convertible fixed maturities <sup>(1)</sup>	90.8	1.6	1.3	(1.7)	(3.3)
		<b>Tighten 400</b>	<b>Tighten 200</b>	<b>Widen 200</b>	<b>Widen 400</b>
Non-agency commercial mortgage-backed	334.1	4.9	4.7	(15.4)	(29.9)
		<b>Tighten 600</b>	<b>Tighten 300</b>	<b>Widen 300</b>	<b>Widen 600</b>
Preferred stocks	86.4	7.7	6.1	(17.0)	(33.2)
Non-agency residential mortgage-backed	160.6	4.8	3.7	(8.8)	(16.9)

<sup>(1)</sup> Fair value does not include \$6.8 of defaulted bonds and \$36.6 of convertibles whose market values are significantly influenced by the underlying stock.

Assumes no sensitivity to general credit spread movements for these securities.

The magnitude of the fair value decrease in wider credit spread scenarios may be more significant than the fair value increase in comparable tighter credit spread scenarios. This can occur because the analysis limits the credit spread tightening in order to floor yields of non-government bonds above short government bond yields, muting price increases.

### Equity Price Risk

The carrying values of White Mountains' common equity securities and other long-term equity investments are based on quoted market prices or management's estimates of fair value as of the balance sheet date. Market prices of common equity securities, in general, are subject to fluctuations. These fluctuations could cause the amount realized upon sale or exercise of these instruments to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investment, the relative price of alternative investments, supply and demand imbalances for a particular security, or other market factors. Assuming a hypothetical 10% increase or decrease in the equity market at December 31, 2012, the carrying value of White Mountains' equity securities would have increased or decreased by approximately \$132 million pre-tax.

### Long-term obligations

White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness and the SIG Preference Shares, which are recorded as non-controlling interest.

The following table summarizes the fair value and carrying value of financial instruments as of December 31, 2012 and 2011:

Millions	December 31, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2012 OBH Senior Notes	\$ 282.4	\$ 274.7	\$ —	\$ —
2003 OBH Senior Notes	—	—	277.4	269.8
SIG Senior Notes	441.9	399.4	418.6	399.3
SIG Preference Shares	257.5	250.0	217.5	250.0

The fair value estimate for the 2003 and 2012 OBH Senior Notes has been determined using quoted market prices and is considered a Level 2 measurement. The fair value estimates for the SIG Senior Notes and the SIG Preference Shares have been determined based on indicative broker quotes and are considered to be Level 3 measurements.

### Foreign Currency Exchange Risk

The functional currency of Sirius International is the Swedish kronor. Sirius International also holds net assets denominated in euros and British pound sterling. The following table illustrates the effect that a hypothetical 10% increase (i.e. U.S. dollar strengthening) or decrease (i.e. U.S. dollar weakening) in the rate of exchange from the Swedish kronor, the euro and the British pound sterling currencies to the U.S. dollar would have on the carrying value of White Mountains' net assets denominated in the respective currencies as of December 31, 2012 and 2011:

Millions	December 31, 2012		December 31, 2011	
	10% increase	10% decrease	10% increase	10% decrease
Swedish kronor to U.S. dollar	\$ (22.6)	\$ 22.6	\$ (30.9)	\$ 30.9
Euro to U.S. dollar	(10.5)	10.5	(6.4)	6.4
British pound sterling to U.S. dollar	(6.2)	6.2	(6.6)	6.6

### Variable Annuity Guarantee Risk

White Mountains entered into an agreement to reinsure death and living benefit guarantees associated with certain variable annuities issued in Japan. The reinsurance agreement assumes risk related to a shortfall between the account value and the guaranteed value that must be paid by the ceding company to an annuitant or to an annuitant's beneficiary in accordance with the underlying annuity contracts. Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese yen, as well as with increases in market volatilities. The liability is also affected by annuitant-related actuarial assumptions, including surrender and mortality rates. At December 31, 2012, the total liability for the reinsured variable annuity guarantees was \$442 million.

WM Life Re uses derivative instruments, including put options, interest rate swaps, total return swaps on bond indices and forward and futures contracts on currency pairs and government bonds to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. At December 31, 2012, the fair value of these derivative instruments was \$98 million. In addition, WM Life Re held approximately \$394 million of cash and fixed maturity investments at December 31, 2012.

WM Life Re measures its net exposure to changes in relevant interest rates, foreign exchange rates and equity markets on a daily basis and adjusts its economic hedge positions within risk guidelines established by senior management. WM Life Re also monitors the effects of annuitant-related experience against actuarial assumptions (including surrender and mortality rates) on a weekly basis and adjusts relevant assumptions and economic hedge positions if required. While WM Life Re actively manages its economic hedge positions, several factors, including policyholder behavior and mismatches between underlying variable annuity funds and the hedge indices, may result in the failure of economic hedges to perform as intended. See discussion of fair value measurement of reinsured variable annuity liabilities and derivative instruments and sensitivity analyses of significant inputs in **"CRITICAL ACCOUNTING ESTIMATES — Fair Value Measurements"** on page 90.

### Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page F-1 of this report.

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

None.

## **Item 9A. Controls and Procedures**

The Principal Executive Officer (“PEO”) and the Principal Financial Officer (“PFO”) of White Mountains have evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of December 31, 2012. Based on that evaluation, the PEO and PFO have concluded that White Mountains’ disclosure controls and procedures are adequate and effective.

The PEO and the PFO of White Mountains have evaluated the effectiveness of its internal control over financial reporting as of December 31, 2012. Based on that evaluation, the PEO and PFO have concluded that White Mountains’ internal control over financial reporting is effective. Management’s annual report on internal control over financial reporting is included on page F-81 of this report. The attestation report on the effectiveness of our internal control over financial reporting by PricewaterhouseCoopers LLP is included on page F-82 of this report.

There has been no change in White Mountains’ internal controls over financial reporting that occurred during the fourth quarter of 2012 that has materially affected, or is reasonably likely to materially affect White Mountains’ internal control over financial reporting.

## **Item 9B. Other Information**

None.

## **PART III**

## **Item 10. Directors, Executive Officers and Corporate Governance**

Reported under the captions “The Board of Directors”, “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance—Committees of the Board—Audit Committee” in the Company’s 2013 Proxy Statement, herein incorporated by reference, and under the caption “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K.

The Company’s Code of Business Conduct, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company, is available at [www.whitemountains.com](http://www.whitemountains.com) and is included as Exhibit 14 to the Company’s 2004 Annual Report on Form 10-K. The Company’s Code of Business Conduct is also available in print free of charge to any shareholder upon request.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company’s Board of Directors. The procedures for shareholders to nominate directors are reported under the caption “Corporate Governance—Committees of the Board—Nominating and Governance Committee” in the Company’s 2013 Proxy Statement, herein incorporated by reference.

## **Item 11. Executive Compensation**

Reported under the captions “Executive Compensation” and “Corporate Governance—Compensation Committee Interlocks and Insider Participation” in the Company’s 2013 Proxy Statement, herein incorporated by reference.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Reported under the captions “Voting Securities and Principal Holders Thereof” and “Equity Compensation Plan Information” in the Company’s 2013 Proxy Statement, herein incorporated by reference.

## **Item 13. Certain Relationships, Related Transactions and Director Independence**

Reported under the caption “Transactions with Related Persons, Promoters and Certain Control Persons” and “Corporate Governance—Director Independence” in the Company’s 2013 Proxy Statement, herein incorporated by reference.

## Item 14. Principal Accountant Fees and Services

Reported under the caption “Principal Accountant Fees and Services” in the Company’s 2013 Proxy Statement, herein incorporated by reference.

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

### a. Documents Filed as Part of the Report

The financial statements and financial statement schedules and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page F-1 of this report. A listing of exhibits filed as part of the report appear on pages 107 through 109 of this report.

### b. Exhibits

Exhibit number	Name
1	Underwriting Agreement dated November 6, 2012, among OneBeacon U.S. Holdings, Inc., the Company, and Barclays Capital Inc., HSBC (USA) Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. (*)
2	Plan of Reorganization (incorporated by reference herein to the Company’s Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3.1	Memorandum of Continuance of the Company (incorporated by reference herein to Exhibit (3)(i) of the Company’s Current Report on Form 8-K dated November 1, 1999)
3.2	Amended and Restated Bye-Laws of the Company (*)
4.1	Fiscal Agency Agreement between White Mountains Re Group, Ltd. as Issuer and The Bank of New York as Fiscal Agent governing the SIG Senior Notes (incorporated by reference herein to Exhibit 4.1 of the Company’s Report on Form 8-K dated March 14, 2007)
4.2	Certificate of Designation, setting forth the designations, powers, preferences and rights of the SIG Preference Shares (incorporated by reference herein to Exhibit 3.1 of the Company’s Report on Form 8-K dated May 29, 2007)
4.3	Indenture, dated as of November 9, 2012, among OneBeacon U.S. Holdings, Inc., the Company, and The Bank of New York Mellon Trust Company, N.A. (*)
4.4	First Supplemental Indenture, dated as of November 9, 2012, among OneBeacon U.S. Holdings, Inc., the Company and The Bank of New York Mellon Trust Company, N.A. (*)
10.1	Exchange Agreement dated as of March 8, 2008, by and among Berkshire Hathaway Inc., General Reinsurance Corporation, the Company and Railsplitter Holdings Corporation (incorporated by reference herein to Exhibit 2.1 of the Company’s Report on Form 8-K dated March 10, 2008)
10.2	\$375,000,000 Credit Agreement, dated August 12, 2011 among the Company, as the Borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Lender, and the other lenders party hereto.(incorporated by reference herein to Exhibit 10.1 of the Company’s Report on Form 10-Q dated October 28, 2011)
10.3	Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance Company and GRC dated April 13, 2001 (incorporated by reference herein to Exhibit 99(m) of the Company’s Report on Form 8-K dated June 1, 2001)
10.4	Adverse Development Agreement of Reinsurance between NICO (and certain of its affiliates) and Potomac Insurance Company dated April 13, 2001 and related documents (incorporated by reference herein to Exhibits 99(n), 99(o), 99(p) and 99(q) of the Company’s Report on Form 8-K dated June 1, 2001)
10.5	Investment Management Agreement between Prospector Partners, LLC and White Mountains Advisors LLC (incorporated by reference herein to Exhibit 99.1 of the Company’s Report on Form 8-K dated June 20, 2005)
10.6	Amendment to the Investment Management Agreement between Prospector Partners, LLC and White Mountains Advisors, LLC dated February 23, 2006 (incorporated by reference herein to the Company’s Report on Form 8-K dated February 28, 2006)

Exhibit number	Name
10.7	Investment Management Agreement between White Mountains Advisors, LLC and OneBeacon dated October 1, 2010 (incorporated by reference herein to Exhibit 10.7 of the Company's 2011 Annual Report on Form 10-K)
10.8	Amendment No. 1 to Investment Management Agreement between White Mountains Advisors, LLC and OneBeacon dated as of August 15, 2011 (incorporated by reference herein to Exhibit 10.8 of the Company's 2011 Annual Report on Form 10-K)
10.9	Investment Management Agreement between Prospector Partners, LLC and OneBeacon dated March 1, 2011 (incorporated by reference herein to Exhibit 10.9 of the Company's 2011 Annual Report on Form 10-K)
10.10	Amendment No. 1 to Investment Management Agreement between Prospector Partners, LLC and OneBeacon as of December 22, 2011 (incorporated by reference herein to Exhibit 10.10 of the Company's 2011 Annual Report on Form 10-K)
10.11	Consulting Letter Agreement between Prospector Partners, LLC and White Mountains Advisors LLC (incorporated by reference herein to Exhibit 99.2 of the Company's Report on Form 8-K dated June 20, 2005)
10.12	White Mountains Long-Term Incentive Plan, as amended, (incorporated by reference herein to Exhibit 10.15 of the Company's 2006 Annual Report on Form 10-K)
10.13	White Mountains Long-Term Incentive Plan, as amended, (incorporated by reference to Appendix A of the Company's Notice of 2010 Annual General Meeting of Members and Proxy Statement dated March 29, 2010)
10.14	White Mountains Bonus Plan (incorporated by reference herein to Exhibit 10.17 of the Company's 2004 Annual Report on Form 10-K)
10.15	White Mountains Re Long Term Incentive Plan (incorporated by reference herein to Exhibit 10.12 of the Company's 2009 Annual Report on Form 10-K)
10.16	OneBeacon Deferred Compensation Plan (*)
10.17	OneBeacon 2007 Long-Term Incentive Plan (incorporated by reference herein to Exhibit 10.20 of the Company's 2009 Annual Report on Form 10-K)
10.18	First Amendment to OneBeacon 2007 Long-Term Incentive Plan (incorporated by reference herein to Exhibit 10.21 of the Company's 2009 Annual Report on Form 10-K)
10.19	OneBeacon Insurance Group, Ltd. Non-Qualified Stock Option Agreement for T. Michael Miller (incorporated by reference herein to Exhibit 10.25 of the Company's 2006 Annual Report on Form 10-K)
10.20	OneBeacon's 2012 Management Incentive Plan (*)
10.21	Restricted Share Award Agreement by and between OneBeacon Insurance Group, Ltd. And T. Michael Miller dated as of May 27, 2011(incorporated by reference herein to Exhibit 10.22 of the Company's 2011 Annual Report on Form 10-K)
10.22	Amended and Restated Revenue Sharing Agreement among John D. Gillespie, Fund American Companies, Inc. and Folksamerica Reinsurance Company (incorporated by reference herein to Exhibit 10.26 of the Company's 2004 Annual Report on Form 10-K)
10.23	Nonqualified Stock Option Agreement made as of the 6th day of March 2007, by and between the Company and Raymond Barrette (incorporated by reference herein to Exhibit 99.1 of the Company's Report on Form 8-K/A dated March 7, 2007)
10.24	Amendment No. 1 to Nonqualified Stock Option Agreement made as of the 10th day of August 2010, by and between the Company and Raymond Barrette (incorporated by reference herein to Exhibit 10.1 of the Company's Report on Form 10-Q dated October 29, 2010)
10.25	Restricted Share Award Agreement made as of the 6th day of March 2007, by and between the Company and Raymond Barrette (incorporated by reference herein to Exhibit 99.2 of the Company's Report on Form 8-K/A dated March 7, 2007)
10.26	Amendment No.1 to Restricted Share Award Agreement made as of the 10th day of August 2010, by and between the Company and Raymond Barrette (incorporated by reference herein to Exhibit 10.2 of the Company's Report on Form 10-Q dated October 29, 2010)
10.27	Stock Purchase Agreement, dated May 17, 2011, between White Mountains Holdings (Luxembourg) S.à r.l. and The Allstate Corporation (incorporated by reference herein to Exhibit 10.1 of the Company's Report on Form 8-K dated May 18, 2011)
10.28	Stock Purchase Agreement by and among the OneBeacon Insurance Group Ltd., OneBeacon Insurance Group LLC, Trebuchet and Armour Group Holdings Limited dated as of October 18, 2012. (incorporated by reference herein to Exhibit 10.1 of the Company's Report on 10-Q dated October 30, 2012)

Exhibit number	Name
10.29	Regulation 114 Trust Agreement by and among Build America Mutual Assurance Company, HG Re Ltd. and The Bank of New York Mellon, dated as of July 20, 2012. (incorporated by reference herein to Exhibit 10.2 of the Company's Report on 10-Q dated October 30, 2012)
10.30	Supplemental Trust Agreement by and among Build America Mutual Assurance Company, HGR Patton (Luxembourg) S.à r.l., United States of America Branch, and The Bank of New York Mellon, dated as of July 20, 2012. (incorporated by reference herein to Exhibit 10.3 of the Company's Report on 10-Q dated October 30, 2012)
10.31	Surplus Note Purchase Agreement between Build America Mutual Assurance Company, as Issuer and HG Holdings Ltd. and HG Re Ltd. as Purchasers dated as of July 17, 2012.(incorporated by reference herein to Exhibit 10.4 of the Company's Report on 10-Q dated October 30, 2012)
11	Statement Re Computation of Per Share Earnings (**)
12	Statement Re Computation of Ratio of Earnings to Fixed Charges (*)
14	The Company's Code of Business Conduct, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company (incorporated by reference herein to Exhibit 14 of the Company's 2004 Annual Report on Form 10-K)
21	Subsidiaries of the Registrant (*)
23	Consent of PricewaterhouseCoopers LLP dated February 28, 2013 (*)
24	Powers of Attorney (*)
31.1	Principal Executive Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934 (*)
31.2	Principal Financial Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934 (*)
32.1	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
32.2	Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
101.1	The following financial information from White Mountains' Annual Report on Form 10-K for the year ended December 31, 2012 formatted in XBRL: (i) Consolidated balance sheets at December 31, 2012 and December 31, 2011; (ii) Consolidated statements of operations and comprehensive income for each of the years ended December 31, 2012, 2011 and 2010; (iii) Consolidated statements of common shareholders' equity for each of the years ended December 31, 2012, 2011 and 2010; (iv) Consolidated statements of cash flows for each of the years ended December 31, 2012, 2011 and 2010; and (v) Notes to consolidated financial statements (*)

(\*) Included herein.

(\*\*) Not included herein as the information is contained elsewhere within report. See **Note 9—"Earnings Per Share"** of the accompanying consolidated financial statements.

#### c. Financial Statement Schedules

The financial statement schedules and report of independent registered public accounting firm have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page F-1 of this report.

## SIGNATURES

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

### WHITE MOUNTAINS INSURANCE GROUP, LTD.

Date: February 28, 2013

By: /s/ J. BRIAN PALMER

J. Brian Palmer

Vice President and Chief Accounting Officer

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

Signature	Title	Date
/s/ RAYMOND BARRETTE	Chairman, CEO (Principal Executive Officer) and Director	February 28, 2013
Raymond Barrette		
YVES BROUILLETTE*	Director	February 27, 2013
Yves Brouillette		
HOWARD L. CLARK, JR.*	Director	February 27, 2013
Howard L. Clark, Jr.		
MORGAN W. DAVIS*	Director	February 27, 2013
Morgan W. Davis		
A. MICHAEL FRINQUELLI*	Director	February 27, 2013
A. Michael Frinquelli		
/s/ DAVID T. FOY	Executive Vice President and CFO (Principal Financial Officer)	February 28, 2013
David T. Foy		
JOHN D. GILLESPIE*	Director	February 27, 2013
John D. Gillespie		
EDITH E. HOLIDAY*	Director	February 27, 2013
Edith E. Holiday		
/s/ J. BRIAN PALMER	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2013
Brian Palmer		
LOWNDES A. SMITH*	Director	February 27, 2013
Lowndes A. Smith		
ALLAN L. WATERS*	Director	February 27, 2013
Allan L. Waters		

By: /s/ RAYMOND BARRETTE

Raymond Barrette, *Attorney-in-Fact*



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

Form 10-K  
page(s)

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**Consolidated financial statements:**

<a href="#">Consolidated balance sheets at December 31, 2012 and 2011</a>	<a href="#">F-1</a>
<a href="#">Consolidated statements of operations and comprehensive income (loss) for each of the years ended December 31, 2012, 2011 and 2010</a>	<a href="#">F-2</a>
<a href="#">Consolidated statements of common shareholders' equity for each of the years ended December 31, 2012, 2011 and 2010</a>	<a href="#">F-3</a>
<a href="#">Consolidated statements of cash flows for each of the years ended December 31, 2012, 2011 and 2010</a>	<a href="#">F-4</a>
<a href="#">Notes to consolidated financial statements</a>	<a href="#">F-5</a>

**Other financial information:**

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# CONSOLIDATED BALANCE SHEETS

Millions, except share and per share amounts	December 31,	
	2012	2011
<b>Assets</b>		
Fixed maturity investments, at fair value	\$ 5,196.2	\$ 6,221.9
Short-term investments, at amortized cost (which approximates fair value)	630.6	846.0
Common equity securities, at fair value	1,029.7	755.0
Convertible fixed maturity investments, at fair value	127.4	143.8
Other long-term investments	294.2	301.3
Total investments	7,278.1	8,268.0
Cash (restricted \$249.8 and \$453.5)	462.4	705.4
Reinsurance recoverable on unpaid losses	429.1	2,507.3
Reinsurance recoverable on paid losses	17.9	30.5
Insurance and reinsurance premiums receivable	556.3	489.2
Funds held by ceding companies	127.4	106.5
Investments in unconsolidated affiliates	387.9	275.3
Deferred acquisition costs	195.3	187.0
Deferred tax asset	569.6	536.9
Ceded unearned insurance and reinsurance premiums	91.8	87.3
Accrued investment income	45.9	51.4
Accounts receivable on unsettled investment sales	3.9	4.7
Other assets	503.0	681.9
Assets held for sale	2,226.8	132.6
<b>Total assets</b>	<b>\$ 12,895.4</b>	<b>\$ 14,064.0</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 3,168.9	\$ 5,702.3
Unearned insurance and reinsurance premiums	924.1	846.9
Variable annuity benefit guarantee	441.5	768.5
Debt	751.2	677.5
Deferred tax liability	341.3	365.5
Accrued incentive compensation	159.0	187.9
Funds held under reinsurance treaties	43.7	42.9
Ceded reinsurance payable	116.5	134.6
Accounts payable on unsettled investment purchases	11.4	34.6
Other liabilities	452.8	527.8
Liabilities held for sale	2,226.8	107.6
<b>Total liabilities</b>	<b>8,637.2</b>	<b>9,396.1</b>
<b>Equity</b>		
<b>White Mountains' common shareholders' equity</b>		
White Mountains' common shares at \$1 par value per share—authorized 50,000,000 shares; issued and outstanding 6,290,964 and 7,577,855 shares	6.3	7.6
Paid-in surplus	1,050.9	1,253.7
Retained earnings	2,542.7	2,789.7
Accumulated other comprehensive income (loss), after-tax:		
Equity in unrealized gains from investments in Symetra common shares	57.7	—
Net unrealized foreign currency translation gains	85.7	46.1
Pension liability and other	(11.5)	(9.4)
<b>Total White Mountains' common shareholders' equity</b>	<b>3,731.8</b>	<b>4,087.7</b>
<b>Non-controlling interests</b>		
Non-controlling interest — OneBeacon, Ltd.	251.4	273.1
Non-controlling interest — SIG Preference Shares	250.0	250.0
Non-controlling interest — HG Global	16.6	—
Non-controlling interest — BAM	(36.0)	—
Non-controlling interest — consolidated limited partnerships and A.W.G. Dewar	44.4	57.1
<b>Total Non-controlling interests</b>	<b>526.4</b>	<b>580.2</b>
<b>Total equity</b>	<b>4,258.2</b>	<b>4,667.9</b>
<b>Total liabilities and equity</b>	<b>\$ 12,895.4</b>	<b>\$ 14,064.0</b>

See Notes to Consolidated Financial Statements including **Note 19** for Commitments and Contingencies.

# CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Millions, except per share amounts	Year Ended December 31,		
	2012	2011	2010
<b>Revenues</b>			
Earned insurance and reinsurance premiums	\$ 2,063.6	\$ 1,924.5	\$ 2,029.0
Net investment income	153.6	184.5	208.9
Net realized and unrealized investment gains	118.2	74.1	77.6
Other revenue	100.3	(10.0)	18.2
Total revenues	2,435.7	2,173.1	2,333.7
<b>Expenses</b>			
Loss and loss adjustment expenses	1,193.9	1,174.3	1,216.6
Insurance and reinsurance acquisition expenses	430.2	402.2	419.6
Other underwriting expenses	321.8	268.1	295.9
General and administrative expenses	182.2	175.3	155.0
Interest expense on debt	44.8	55.2	57.3
Total expenses	2,172.9	2,075.1	2,144.4
<b>Pre-tax income</b>	262.8	98.0	189.3
Income tax benefit (expense)	15.7	110.0	(29.6)
<b>Net income from continuing operations</b>	278.5	208.0	159.7
Gain on sale of Esurance and AFI, net of tax	—	677.5	—
Loss on sale of Runoff Transactions and AutoOne, net of tax	(91.0)	(19.2)	—
Net loss from other discontinued operations, net of tax	(24.0)	(36.7)	(30.1)
<b>Income before equity in earnings of unconsolidated affiliates</b>	163.5	829.6	129.6
Equity in earnings (losses) of unconsolidated affiliates	29.9	(20.2)	9.9
<b>Net income</b>	193.4	809.4	139.5
Net loss (income) attributable to non-controlling interests	14.0	(41.5)	(53.0)
<b>Net income attributable to White Mountains' common shareholders</b>	207.4	767.9	86.5
Change in equity in net unrealized gains (losses) from investments in Symetra common shares, net of tax	57.7	(58.5)	73.5
Change in foreign currency translation, net of tax	39.6	(15.2)	49.8
Net change in pension liability and other, net of tax	(2.9)	(10.8)	6.3
<b>Comprehensive income</b>	301.8	683.4	216.1
Comprehensive loss (income) attributable to non-controlling interests	.8	2.8	(1.7)
<b>Comprehensive income attributable to White Mountains' common shareholders</b>	\$ 302.6	\$ 686.2	\$ 214.4
<b>Earnings (loss) per share attributable to White Mountains' common shareholders</b>			
<b>Basic earnings (loss) per share</b>			
Continuing operations	\$ 47.41	\$ 18.56	\$ 13.63
Discontinued operations	(16.91)	78.88	(3.51)
Total consolidated operations	\$ 30.50	\$ 97.44	\$ 10.12
<b>Diluted earnings (loss) per share</b>			
Continuing operations	\$ 47.41	\$ 18.56	\$ 13.63
Discontinued operations	(16.91)	78.88	(3.51)
Total consolidated operations	\$ 30.50	\$ 97.44	\$ 10.12
<b>Dividends declared and paid per White Mountains' common share</b>	\$ 1.00	\$ 1.00	\$ 1.00

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

Millions	White Mountains' Common Shareholders' Equity					
	Common shares and paid-in surplus	Retained earnings	AOCI, after-tax	Total	Non-controlling Interests	Total Equity
<b>Balances at December 31, 2009</b>	\$ 1,445.0	\$ 2,215.9	\$ (3.5)	\$ 3,657.4	\$ 684.1	\$ 4,341.5
Cumulative effect adjustment — ASU 2009-17	—	(0.4)	—	(0.4)	(22.8)	(23.2)
Tax basis change due to intercompany transfer	—	(4.4)	(6.0)	(10.4)	—	(10.4)
Net income	—	86.5	—	86.5	53.0	139.5
Net change in unrealized gains from investments in unconsolidated affiliates	—	—	73.5	73.5	—	73.5
Net change in foreign currency translation	—	—	49.8	49.8	—	49.8
Net change in pension liability and other accumulated comprehensive items	—	—	4.6	4.6	1.7	6.3
Comprehensive income	—	86.5	127.9	214.4	54.7	269.1
Dividends declared on common shares	—	(8.8)	—	(8.8)	—	(8.8)
Dividends/distributions to non-controlling interests	—	—	—	—	(94.7)	(94.7)
Issuances of common shares	0.7	—	—	0.7	—	0.7
Repurchase and retirement of common shares	(112.4)	(113.2)	—	(225.6)	—	(225.6)
Distributions to non-controlling interests in limited partnerships	—	—	—	—	(13.6)	(13.6)
Amortization of restricted share and option awards	25.7	—	—	25.7	0.1	25.8
<b>Balances at December 31, 2010</b>	<b>1,359.0</b>	<b>2,175.6</b>	<b>118.4</b>	<b>3,653.0</b>	<b>607.8</b>	<b>4,260.8</b>
Net income	—	767.9	—	767.9	41.5	809.4
Net change in unrealized losses from investments in unconsolidated affiliates	—	—	(58.5)	(58.5)	—	(58.5)
Net change in foreign currency translation	—	—	(15.2)	(15.2)	—	(15.2)
Net change in pension liability and other accumulated comprehensive items	—	—	(8.0)	(8.0)	(2.8)	(10.8)
Comprehensive income	—	767.9	(81.7)	686.2	38.7	724.9
Dividends declared on common shares	—	(8.0)	—	(8.0)	—	(8.0)
Dividends/distributions to non-controlling interests	—	—	—	—	(61.5)	(61.5)
Issuances of common shares	0.9	—	—	0.9	—	0.9
Repurchase and retirement of common shares	(107.2)	(145.8)	—	(253.0)	—	(253.0)
Distributions to non-controlling interests in limited partnerships	—	—	—	—	(8.6)	(8.6)
Amortization of restricted share and option awards	12.0	—	—	12.0	0.4	12.4
Non-controlling interest attributable to intercompany sale of subsidiary	(3.4)	—	—	(3.4)	3.4	—
<b>Balances at December 31, 2011</b>	<b>1,261.3</b>	<b>2,789.7</b>	<b>36.7</b>	<b>4,087.7</b>	<b>580.2</b>	<b>4,667.9</b>
Net income (loss)	—	207.4	—	207.4	(14.0)	193.4
Net change in unrealized gains from investments in unconsolidated affiliates	—	—	57.7	57.7	—	57.7
Net change in foreign currency translation	—	—	39.6	39.6	—	39.6
Net change in pension liability and other accumulated comprehensive items	—	—	(2.1)	(2.1)	(0.8)	(2.9)
Comprehensive income (loss)	—	207.4	95.2	302.6	(14.8)	287.8
Dividends declared on common shares	—	(6.6)	—	(6.6)	—	(6.6)
Dividends/distributions to non-controlling interests	—	—	—	—	(39.1)	(39.1)
Repurchases and retirements of common shares	(221.3)	(447.8)	—	(669.1)	—	(669.1)
Issuances of common shares	5.8	—	—	5.8	—	5.8
Net contributions from non-controlling interests	—	—	—	—	1.6	1.6
Amortization of restricted share and option awards	13.6	—	—	13.6	0.8	14.4
Deconsolidation of Hamer and Bri-Mar	—	—	—	—	(4.5)	(4.5)
Allocation of fair value of net assets acquired to non-controlling interests	(2.2)	—	—	(2.2)	2.2	—
<b>Balances at December 31, 2012</b>	<b>\$ 1,057.2</b>	<b>\$ 2,542.7</b>	<b>\$ 131.9</b>	<b>\$ 3,731.8</b>	<b>\$ 526.4</b>	<b>\$ 4,258.2</b>

See Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31,		
	2012	2011	2010
<b>Cash flows from operations:</b>			
Net income	\$ 193.4	\$ 809.4	\$ 139.5
Charges (credits) to reconcile net income to net cash (used for) provided from operations:			
Net realized and unrealized investment gains	(118.2)	(74.1)	(77.6)
Excess of fair value of acquired net assets over cost and gain on sale of subsidiaries	(34.2)	(7.2)	(12.8)
Deferred income tax (benefit) expense	(16.8)	(71.0)	70.7
Undistributed equity in (earnings) loss from unconsolidated affiliates, after-tax	(29.9)	20.2	(9.9)
Net loss from other discontinued operations	24.0	36.7	30.1
Net loss on sale of discontinued operations - Runoff Transaction and AutoOne	91.0	19.2	—
Net gain on sale of discontinued operation - Esurance and AFI	—	(677.5)	—
Other operating items:			
Net change in loss and loss adjustment expense reserves	(172.2)	(23.4)	(73.6)
Net change in reinsurance recoverable on paid and unpaid losses	42.4	66.0	115.2
Net change in unearned insurance and reinsurance premiums	63.1	67.0	(24.7)
Net change in ceded reinsurance premiums payable	3.8	39.5	0.5
Net change in ceded unearned insurance and reinsurance premiums	—	(8.6)	4.4
Net change in insurance and reinsurance premiums receivable	(79.2)	(42.4)	(123.4)
Net change in variable annuity benefit guarantee liabilities	(327.1)	158.3	229.5
Net change in variable annuity benefit derivative instruments	192.1	57.1	(153.0)
Net change in deferred acquisition costs	(5.7)	(15.3)	(2.3)
Net change in funds held by ceding companies	(17.7)	11.6	16.4
Net change in funds held under reinsurance treaties	10.6	(42.4)	(10.6)
Net change in other assets and liabilities, net	151.0	(229.0)	(89.5)
Net cash (used for) provided from continuing operations	(29.6)	94.1	28.9
Net cash (used for) provided from discontinuing operations	(196.2)	(208.6)	27.1
<b>Net cash (used for) provided from operations</b>	<b>(225.8)</b>	<b>(114.5)</b>	<b>56.0</b>
<b>Cash flows from investing activities:</b>			
Net change in short-term investments	145.3	174.5	475.6
Sales of fixed maturity and convertible fixed maturity investments	6,040.0	3,481.9	2,447.8
Maturities, calls and paydowns of fixed maturities and convertible fixed maturities	678.4	1,163.6	1,744.1
Sales of common equity securities	192.4	237.8	167.5
Distributions and redemptions of other long-term investments	86.7	150.7	133.2
Sales of unconsolidated affiliates, net of cash sold and held in escrow	24.8	1,010.6	188.3
Contributions to other long-term investments	(96.7)	(65.8)	(111.1)
Contributions to discontinued operations	(196.2)	(171.8)	(48.1)
Purchases of common equity securities	(365.2)	(297.8)	(273.6)
Purchases of fixed maturity and convertible fixed maturity investments	(5,810.1)	(5,200.6)	(4,217.7)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(41.3)	(3.2)	(4.9)
Net change in unsettled investment purchases and sales	(22.4)	47.0	1.6
Net acquisitions of property and equipment	(2.3)	(5.5)	(5.8)
Net cash provided from investing activities — continuing operations	633.4	521.4	496.9
Net cash provided from (used for) investing activities — discontinued operations	196.2	278.2	(11.6)
<b>Net cash provided from investing activities</b>	<b>829.6</b>	<b>799.6</b>	<b>485.3</b>
<b>Cash flows from financing activities:</b>			
Repayment of debt	(75.0)	—	(14.0)
Repurchase of debt	(275.9)	(161.6)	(197.3)
Issuance of debt, net of debt issuance costs	271.9	—	—
Draw down of revolving line of credit	150.0	—	—
Capital lease obligation	(4.9)	23.1	—
Cash dividends paid to the Company's common shareholders	(6.6)	(8.0)	(8.8)
Cash dividends paid to OneBeacon Ltd.'s non-controlling common shareholders	(19.8)	(42.8)	(75.9)
Cash dividends paid on SIG Preference Shares	(18.8)	(18.8)	(18.8)
Common shares repurchased	(669.1)	(253.0)	(225.6)
OneBeacon Ltd. common shares repurchased and retired	—	—	(10.5)
Proceeds from issuances of common shares	—	.9	.7
Net cash used for financing activities — continuing operations	(648.2)	(460.2)	(550.2)
Net cash provided from financing activities — discontinued operations	—	—	—

Net cash used for financing activities	(648.2)	(460.2)	(550.2)
Effect of exchange rate changes on cash	3.1	(1.5)	8.1
Net change in cash during the period	(41.3)	223.4	(0.8)
Net change in cash from discontinued operations	—	(69.6)	(15.5)
Cash reclassified to assets held for sale (net of cash sold of \$3.5, \$0, and \$0)	2.0	(5.5)	—
Cash balance at beginning of year (excludes restricted cash balances of \$453.5, \$286.7 and \$217.1 and AutoOne cash of \$0, \$4.7 and \$3.9)	251.9	103.6	119.9
Cash balance at end of year (excludes restricted cash balances of \$249.8, \$453.5, and \$286.7 and AutoOne cash of \$0, \$0, and \$4.7)	\$ 212.6	\$ 251.9	\$ 103.6

See Notes to Consolidated Financial Statements.

**NOTE 1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and include the accounts of White Mountains Insurance Group, Ltd. (the “Company” or the “Registrant”), its subsidiaries (collectively with the Company, “White Mountains”) and other entities required to be consolidated under GAAP. The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company’s headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains’ reportable segments are OneBeacon, Sirius Group, HG Global/BAM and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (“OneBeacon Ltd.”), an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies (collectively “OneBeacon”). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. As of December 31, 2012 and 2011, White Mountains owned 75.2% and 75.5% of OneBeacon Ltd.’s outstanding common shares.

As discussed further in **Note 2**, OneBeacon entered into a definitive agreement to sell its runoff business in October 2012 (the “Runoff Transaction”) and sold its AutoOne Insurance business (“AutoOne”) in February 2012. Accordingly, the runoff business and AutoOne are presented as discontinued operations. Assets and liabilities associated with the runoff business as of December 31, 2012 and AutoOne as of December 31, 2011 have been presented as held for sale in the financial statements. Prior year income statement and cash flow amounts have been reclassified to conform to the current year’s presentation. (See **Note 20** for discontinued operations).

The Sirius Group segment consists of Sirius International Insurance Group, Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, “Sirius Group”). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation (“Sirius International”), Sirius America Insurance Company (“Sirius America”) and Lloyds Syndicate 1945 (“Syndicate 1945”). Sirius Group also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division (“WM Solutions”).

The HG Global/BAM segment consists of White Mountains’ investment in HG Global Ltd. (“HG Global”) and the consolidated results of Build America Mutual Assurance Company (“BAM”). During the third quarter of 2012, White Mountains capitalized HG Global with approximately \$600 million to fund the start-up of BAM. BAM is a municipal bond insurer domiciled in New York that was established to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of \$503 million of surplus notes issued by BAM (the “BAM Surplus Notes”). HG Global, through its wholly-owned subsidiary, HG Re Ltd. (“HG Re”), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of December 31, 2012, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, GAAP requires White Mountains to consolidate BAM's results in its financial statements. BAM's results are attributed to non-controlling interests.

White Mountains’ Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (“WM Advisors”), White Mountains’ variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (“WM Life Re”), which is in runoff, as well as various other entities not included in other segments. For 2011, the Other Operations segment also included the consolidated results of the Tuckerman Capital, LP fund (“Tuckerman Fund I”). On December 31, 2011, Tuckerman Fund I was dissolved and all of the net assets of the fund were distributed to the owners of the fund, of which White Mountains owned approximately 94%. In conjunction with the dissolution, White Mountains received a portion of the shares of Hamer, LLC (“Hamer”) and Bri-Mar Manufacturing, LLC (“Bri-Mar”), two small manufacturing companies. Prior to the dissolution, Tuckerman Fund I was consolidated within White Mountains’ financial statements. The consolidated results of Hamer and Bri-Mar are included in the Other Operations segment from January 1, 2012 through September 30, 2012, from which point these companies are no longer consolidated by White Mountains.

White Mountains' discontinued operations consist of Esurance Holdings, Inc. and its subsidiaries ("Esurance Insurance"), Answer Financial Inc. and its subsidiaries ("AFI"), the Runoff Transaction and AutoOne. Esurance Insurance wrote personal auto insurance directly to customers in 30 states through its website and over the phone and also sold other lines of personal insurance for unaffiliated insurance companies. Esurance Insurance also wrote personal auto policies through select online agents and provided other insurance products through partnerships with industry leading online providers. Esurance Insurance earned commissions and fees by referring to unaffiliated insurance companies those shoppers that it could not underwrite because of pricing or underwriting eligibility. AFI sold insurance online and through call centers for both Esurance Insurance and unaffiliated companies utilizing a comparison quoting platform. The OneBeacon runoff business included assets, liabilities and capital that was principally related to non-specialty commercial lines and certain other runoff business that it no longer writes, including nearly all of its asbestos and environmental reserves. AutoOne was formed by OneBeacon in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey.

All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

## **Significant Accounting Policies**

### ***Investment Securities***

At December 31, 2012, White Mountains' invested assets consisted of securities and other investments held for general investment purposes. White Mountains' portfolio of fixed maturity investments and common equity securities held for general investment purposes are classified as trading and are reported at fair value as of the balance sheet date. Changes in unrealized gains and losses are reported pre-tax in revenues. Realized investment gains and losses are accounted for using the specific identification method and are reported pre-tax in revenues. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment.

White Mountains' invested assets that are measured at fair value include fixed maturity securities, common and preferred equity securities, convertible fixed maturity securities and other long-term investments, such as interests in hedge funds and private equities. In determining its estimates of fair value, White Mountains uses a variety of valuation approaches and inputs. Whenever possible, White Mountains estimates fair value using valuation methods that maximize the use of quoted prices and other observable inputs.

As of both December 31, 2012 and 2011, approximately 95% of the investment portfolio recorded at fair value was priced based upon quoted market prices or other observable inputs. Investments valued using Level 1 inputs include fixed maturities, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturities including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains' investments in hedge funds and private equity funds, as well as investments in certain debt securities, including asset-backed securities, where quoted market prices are unavailable. White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from a different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and \$1 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains' review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. During the past year, approximately fifteen securities fell outside White Mountains' expected results, thereby triggering the challenge with the pricing service. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.



White Mountains' investments in debt securities, including asset-backed securities, are generally valued using matrix and other pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 2012 and 2011.

#### ***Other Long-term Investments***

White Mountains' other long-term investments comprise primarily of hedge funds and private equity funds. White Mountains made the fair value election for most of its investments in hedge funds and private equity interests. For the hedge fund and private equity investments for which White Mountains has made the fair value election, changes in fair value are reported in revenues on a pre-tax basis. For those hedge fund and private equity investments for which White Mountains has not made the fair value election, White Mountains accounts for its interests under the equity method.

#### ***Derivative Financial Instruments***

White Mountains holds a variety of derivative financial instruments for both risk management and investment purposes. White Mountains recognizes all derivatives as either assets or liabilities, measured at fair value, in the consolidated balance sheets.

#### ***Warrants***

White Mountains holds warrants to acquire common shares of Symetra which are included as investments in unconsolidated affiliates. White Mountains also holds warrants that it has received in the restructuring (e.g., securities received from bankruptcy proceedings) of certain of its common equity and/or fixed maturity investments. The Symetra warrants held by White Mountains are entitled to dividends declared to common shareholders. White Mountains accounts for its investments in warrants as derivatives.

#### ***Derivatives—Variable Annuity Reinsurance***

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan through its wholly owned subsidiary, WM Life Re. The accounting for benefit guarantees differs depending on whether or not the guarantee is classified as a derivative or an insurance liability.

Guaranteed minimum accumulation benefits ("GMABs") are paid to an annuitant for any shortfall between accumulated account value at the end of the accumulation period and the annuitant's total deposit, less any withdrawal payments made to the annuitant during the accumulation period. GMABs meet the definition of a derivative for accounting purposes. Therefore, GMABs are carried at fair value, with changes thereon recognized in income in the period of the change. The liability for the reinsured GMAB contracts has been determined using internal valuation models that use assumptions for interest rates, equity markets, foreign exchange rates and market volatilities at the valuation date, as well as annuitant-related actuarial assumptions, including surrender and mortality rates.

If an annuitant dies during the accumulation period of an annuity contract, guaranteed minimum death benefits ("GMDBs") are paid to the annuitant's beneficiary for shortfalls between accumulated account value at the time of an annuitant's death and the annuitant's total deposit, less any living benefit payments or withdrawal payments previously made to the annuitant. White Mountains has elected to measure its GMDB liabilities at fair value.

The valuation of these liabilities involves significant judgment and is subject to change based upon changes in capital market assumptions and emerging surrender and mortality experience of the underlying contracts in force.

WM Life Re has entered into derivative contracts that are designed to economically hedge against changes in the fair value of living and death benefit liabilities associated with its variable annuity reinsurance arrangements. The derivatives include futures and over-the-counter option contracts on interest rates, major bond and equity indices, and foreign currencies. All WM Life Re's derivative instruments are recorded as assets or liabilities at fair value on the balance sheet within other assets. These derivative financial instruments do not meet the criteria for hedge accounting treatment, and accordingly, changes in fair value are recognized in the current period as gains or losses in the income statement within other revenues.

WM Life Re includes the effect of counterparty credit risk when determining the fair value of its derivative contracts and its GMAB and GMDB liabilities.

#### ***Cash***

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company's consolidated subsidiaries and exclude changes in amounts of restricted cash (See **Note 8**).

## ***Insurance and Reinsurance Operations***

White Mountains accounts for insurance and reinsurance policies that it writes in accordance with ASC 944. Premiums written are recognized as revenues and are earned ratably over the term of the related policy or reinsurance treaty. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force. White Mountains charges fees on certain of its insurance policies. Refundable fees are classified with premiums and recognized in earnings over the policy term. Fees that represent a reimbursement of expenses, such as installment fees, are recorded as a reduction of underwriting expenses.

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

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

OneBeacon discounts certain of its long-term workers compensation loss and LAE reserves when such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual claim basis. OneBeacon discounts these reserves using an average discount rate which is determined based on the various assumptions including consideration of when the claims will be settled (3.5% and 4.5% at December 31, 2012 and 2011). As of December 31, 2012, the discount on OneBeacon's workers compensation loss and LAE reserves amounted to \$4.6 million (excluding \$77.9 million on reserves classified as discontinued operations). As of December 31, 2011, the discount on OneBeacon's workers compensation loss and LAE reserves amounted to \$108.3 million.

White Mountains' insurance and reinsurance subsidiaries enter into ceded reinsurance contracts from time to time to protect their businesses from losses due to concentration of risk, to manage their operating leverage ratios and to limit losses arising from catastrophic events. Such reinsurance contracts are executed through excess of loss treaties and catastrophe contracts under which the reinsurer indemnifies White Mountains for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. White Mountains has also entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are covered on a pro-rata basis. The amount of each risk ceded by White Mountains is subject to maximum limits which vary by line of business and type of coverage.

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

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly. Funds held by ceding companies represent amounts due to White Mountains in connection with certain assumed reinsurance agreements in which the ceding company retains a portion of the premium to provide security against future loss payments. The funds held by ceding companies are generally invested by the ceding company and a contractually agreed interest amount is credited to the Company and recognized as investment income. Funds held under reinsurance treaties represent contractual payments due to the reinsurer that White Mountains has retained to secure obligations of the reinsurer. Such amounts are recorded as liabilities in the consolidated financial statements.

Accruals for contingent commission liabilities are established for reinsurance contracts that provide for the stated commission percentage to increase or decrease based on the loss experience of the contract. Changes in the estimated liability for such arrangements are recorded as contingent commissions. Accruals for contingent commission liabilities are determined through the review of the contracts that have these adjustable features and are estimated based on expected loss and LAE.

### ***Municipal Bond Insurance***

All of the contracts issued by BAM are accounted for as insurance contracts under ASC 944-605, *Financial Guarantee Insurance Contracts*. Premiums are received upfront and an unearned premium revenue liability, equal to the amount of the cash received, is established at contract inception. Premium revenues are recognized in revenue over the period of the contracts in proportion to the amount of insurance protection provided using a constant rate. The constant rate is calculated based on the relationship between the par outstanding in a given reporting period compared with the sum of each of the par amounts outstanding for all periods.

Deferred acquisition costs represent commissions, premium taxes, excise taxes and other costs which are directly attributable to and vary with the production of business. These costs are deferred and amortized to the extent they relate to successful contract acquisitions over the applicable premium recognition period as acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income.

### ***Mandatory Shared Market Mechanisms***

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

OneBeacon's market assignments are typically required to be written in the current period, however, in certain cases OneBeacon is required to accept policy assignments at a future date. Anticipated losses associated with future market assignments are recognized when the amount of such anticipated losses is determined to be probable and can be reasonably estimated.

### ***Insurance-related Assessments***

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. White Mountains records guaranty fund assessments when it is probable that an assessment will be made and the amount can be reasonably estimated.

### ***Deferred Software Costs***

White Mountains capitalizes costs related to computer software developed for internal use during the application development stage of software development projects. These costs generally consist of certain external, payroll and payroll-related costs. White Mountains begins amortization of these costs once the project is completed and ready for its intended use. Amortization is on a straight-line basis and over a useful life of three to five years. At December 31, 2012 and 2011, White Mountains had unamortized deferred software costs of \$17.1 million and \$22.8 million.

### ***Federal and Foreign Income Taxes***

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

Deferred tax assets and liabilities are recorded when a difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes exists, and for other temporary differences. The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses. The deferred tax asset is recognized when it is more likely than not that it will be realized.

### ***Foreign Currency Exchange***

The U.S. dollar is the functional currency for all of White Mountains' businesses except for Sirius International, the Canadian reinsurance operations of Sirius America and certain other smaller international activities. White Mountains also invests in securities denominated in foreign currencies. Assets and liabilities recorded in these foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are converted using the average exchange rates for the period. Net foreign exchange gains and losses arising from the translation are generally reported in shareholders' equity, in accumulated other comprehensive income or loss.

Assets and liabilities relating to foreign operations are translated into the functional currency using current exchange rates; revenues and expenses are translated into the functional currency using the weighted average exchange rate for the period. The resulting exchange gains and losses are reported as a component of net income in the period in which they arise. As of December 31, 2012 and 2011, White Mountains had unrealized foreign currency translation gains of \$85.7 million and \$46.1 million recorded in accumulated other comprehensive income on its consolidated balance sheet.

The following rates of exchange for the U.S. dollar have been used for the most significant operations:

Currency	Opening Rate 2012	Closing Rate 2012	Opening Rate 2011	Closing Rate 2011
Swedish kronor	<b>6.8645</b>	<b>6.4973</b>	6.7030	6.8645
British pound	<b>0.6434</b>	<b>0.6154</b>	0.6420	0.6434
Canadian dollar	<b>1.0193</b>	<b>0.9955</b>	0.9981	1.0193

### ***Non-controlling Interest***

Non-controlling interests consist of the ownership interests of non-controlling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of comprehensive income attributable to non-controlling interests is presented net of related income taxes in the statement of operations and comprehensive income. The percentage of the non-controlling shareholders' ownership interest in OneBeacon Ltd. at December 31, 2012 and 2011 was 24.8% and 24.5%.

In 2012, HG Global was capitalized with \$594.5 million from White Mountains and \$14.5 million from certain management members of BAM, the latter of which is included in non-controlling interest. Upon closing, certain BAM management members also received additional common and preferred shares of HG Global that resulted in a \$2.2 million allocation of the carrying value of White Mountains' investment in HG Global to the non-controlling interest, which was recorded as an adjustment to paid-in surplus in White Mountains' consolidated statement of changes in equity.

White Mountains is required to consolidate BAM in its GAAP financial statements. However, since BAM is a mutual insurance company that is owned by its members, BAM's results do not affect White Mountains' common shareholders' equity as they are attributable to non-controlling interests. For the year ended December 31, 2012, BAM reported \$36.3 million in pre-tax losses that have been allocated to non-controlling interest.

On May 24, 2007, Sirius International Group, Ltd. ("SIG"), an intermediate holding company of Sirius Group, issued \$250.0 million non-cumulative perpetual preference shares, with a \$1,000 per share liquidation preference (the "SIG Preference Shares"), and received \$245.7 million of proceeds, net of \$4.3 million of issuance costs and commissions. These shares were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. Holders of the SIG Preference Shares receive dividends on a non-cumulative basis when and if declared by SIG. The holders of the SIG Preference Shares have the right to elect two directors to SIG's board in the event of non-payment of dividends for six quarterly dividend periods. The right ceases upon the payment of dividends for four quarterly periods or the redemption of the SIG Preference Shares. In addition, SIG may not declare or pay dividends on its common shares (other than stock dividends and dividends paid for purposes of any employee benefit plans of SIG and its subsidiaries) unless it is current on its most recent dividend period. The dividend rate is fixed at an annual rate of 7.506% until June 30, 2017 and dividends are paid on a semi-annual basis. After June 30, 2017, the dividend rate will be paid at a floating annual rate, equal to the greater of (1) the 3 month LIBOR plus 3.20% or (2) 7.506% and dividends will be paid on a quarterly basis. The SIG Preference Shares are redeemable solely at the discretion of SIG on or after June 30, 2017 at their liquidation preference of \$1,000 per share, plus any declared but unpaid dividends. Prior to June 30, 2017, SIG may elect to redeem the SIG Preference Shares at an amount equal to the greater of (1) the aggregate liquidation preference of the shares to be redeemed and (2) the sum of the present values of the aggregate liquidation preference of the shares to be redeemed and the remaining scheduled dividend payments on the shares to be redeemed (excluding June 30, 2017), discounted to the redemption date on a semi-annual basis at a rate equal to the rate on a comparable treasury issue plus 45 basis points. In the event of liquidation of SIG, the holders of the SIG Preference Shares would have preference over the common shareholders and would receive a distribution equal to the liquidation preference per share, subject to availability of funds. SIG Preference Shares and dividends thereon are included in non-controlling interest on the balance sheet and as non-controlling interest expense on the statement of income and comprehensive income.

At December 31, 2012 and 2011, the non-controlling equity interest in White Mountains, consolidated limited partnerships was \$41.5 million and \$54.2 million. At December 31, 2012 and 2011, the non-controlling equity interest in A.W.G. Dewar Inc, a subsidiary of OneBeacon, was \$2.8 million and \$2.3 million. At December 31, 2012 and December 31, 2011, the non-controlling equity interest in Passage2Health Limited, a subsidiary of Sirius Group, was \$0.2 million and \$0.6 million.

## Recently Adopted Changes in Accounting Principles

### ***Transfers of Financial Assets and Amendments to FIN 46R***

On June 12, 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2009-16, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (included in ASC 860) and ASU 2009-17, *Amendments to FIN46(R)* (included in ASC 810). Both ASU 2009-16 and ASU 2009-17 became effective as of the beginning of the first annual reporting period that began after November 15, 2009. White Mountains adopted the new guidance on January 1, 2010.

Upon adoption, White Mountains determined that its ownership interest in Tuckerman Fund II did not meet the criteria for consolidation under the revised guidance for variable interest entities and, accordingly, effective January 1, 2010, White Mountains deconsolidated its investment in Tuckerman Fund II. Upon deconsolidation, White Mountains made the fair value election for its investment in Tuckerman Fund II and recognized an adjustment to decrease opening retained earnings by \$0.4 million.

### ***Policy Acquisition Costs***

On January 1, 2012, White Mountains adopted ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (ASC 944). The new standard changes the types of policy acquisition costs that are eligible for deferral. Specifically, the new guidance limits deferrable costs to those that are incremental direct costs of contract acquisition and certain costs related to acquisition activities performed by the insurer, such as underwriting, policy issuance and processing, medical and inspection costs and sales force contract selling. The ASU defines incremental direct costs as those costs that result directly from and were essential to the contract acquisition and would not have been incurred absent the acquisition. Accordingly, under the new guidance, deferrable acquisition costs are limited to costs related to successful contract acquisitions. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred.

White Mountains adopted ASU 2010-26 prospectively. Upon adoption, certain acquisition costs, primarily a portion of the profit sharing commissions associated with OneBeacon’s collector car and boats business, no longer met the criteria for deferral. During the year ended December 31, 2012, White Mountains recognized \$5.6 million of expense related to such previously deferrable acquisition costs that, if White Mountains had adopted ASU 2010-26 retrospectively, would have been recognized during 2011.

### ***Fair Value Measurements***

On January 1, 2012, White Mountains adopted ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The ASU clarifies existing guidance with respect to the concepts of highest and best use and valuation premise and measuring instruments classified within a reporting entity’s shareholders’ equity. The ASU also clarifies disclosure requirements, requiring disclosure of quantitative information about unobservable inputs used in Level 3 fair value measurements. The ASU also amends existing guidance. In circumstances where a reporting entity manages a portfolio of financial assets and liabilities based on the net market and counterparty credit risk exposures, the ASU permits determination of the fair value of those instruments to be based on the net risk exposure. In addition, the ASU permits the application of premiums or discounts to be applied in a fair value measurement to the extent that market participants would consider them in valuing the financial instruments. The ASU also expands the required disclosures for Level 3 measurements, requiring that reporting entities provide a narrative description of the sensitivity of Level 3 fair value measurements to changes in unobservable inputs and the interrelationships between those inputs, if any. (See **Note 5**).

### ***Comprehensive Income***

For fiscal periods beginning after December 15, 2011, ASU 2011-05, *Comprehensive Income* (ASC 220) became effective, which requires all components of comprehensive income to be reported in a continuous financial statement or in consecutive statements displaying the components of net income and the components of other comprehensive income. Since White Mountains presents comprehensive income in a continuous financial statement, adoption of ASU 2011-05 had no effect on White Mountains’ financial statement presentation.

## Recent Accounting Pronouncements

### ***Offsetting Assets and Liabilities***

On December 16, 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities (ASC 210)*. The new standard expands the required disclosures in circumstance where either balances have been offset or the right of offset exists. The required disclosures are intended to provide information to enable financial statement users to evaluate the effect or potential effect of netting arrangements on a reporting entity's financial position. Disclosures required under the new standard include the gross amount of assets and liabilities recognized; the amounts that have been offset to arrive at the amounts presented in the statement of financial position; and any amounts subject to an enforceable master netting arrangement, whether or not such amounts have been offset. In addition, a description of the rights of set off should be disclosed. ASU 2011-11 is effective for periods beginning on or after January 1, 2013. White Mountains is party to master netting arrangements in connection with the derivative instruments held by WM Life Re and discloses information regarding the amounts covered under such agreements as well as the amounts of collateral held and provided. Accordingly, White Mountains does not expect any significant changes to its disclosures upon adoption.

## **NOTE 2. Significant Transactions**

### **Formation of HG Global and BAM**

In 2012, White Mountains capitalized HG Global with \$594.5 million to fund BAM, a newly formed mutual municipal bond insurer. As of December 31, 2012, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of \$503.0 million of BAM Surplus Notes. Through HG Re, which had statutory capital of \$412.0 million at December 31, 2012, HG Global provides first loss reinsurance protection for policies underwritten by BAM of up to 15% of par outstanding, on a per policy basis. HG Re's obligations to BAM are collateralized in trusts, and there is an aggregate loss limit that is equal to the total assets in the collateral trusts at any point in time. For the year ended December 31, 2012, HG Global had pre-tax income of \$14.2 million, which included \$18.4 million of interest income on the BAM Surplus Notes. For the year ended December 31, 2012, BAM had a pre-tax loss of \$36.3 million that was recorded in net loss attributable to non-controlling interests, which included \$18.4 million of interest expense on the BAM Surplus Notes.

### **Sale of OneBeacon Runoff Business**

On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC, entered into a definitive agreement with Trebuchet US Holdings, Inc. ("Trebuchet"), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, "Armour"), to sell its runoff business (the "Runoff Transaction"). Pursuant to the terms of the agreement, at closing OneBeacon will transfer to Trebuchet all of the issued and outstanding shares of common stock of certain legal entities that will contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the runoff business as well as certain elements of the runoff business infrastructure, including staff and office space. The transaction is subject to regulatory approvals.

For the year ended December 31, 2012, White Mountains recorded \$91.5 million after-tax loss on sale and a \$24.0 million in loss from operations, which included a \$9.0 million after-tax loss related to an reduction in the workers compensation loss reserve discount rate on reserves being transferred as part of the sale (see **Note 20**).

### **WM Solutions**

On December 3, 2012, WM Solutions acquired four runoff entities including Physicians Insurance Company of Ohio ("PICO") and Citation Insurance Company ("Citation") from PICO Holdings and two AIG runoff subsidiaries, American General Indemnity Company ("American General") and American General Property Insurance Company ("American General Property"). The transactions resulted in a gain of \$14.5 million recorded in other revenues.

On December 30, 2011, WM Solutions acquired the runoff loss reserve portfolio of Old Lyme, a Bermuda-based reinsurer in runoff, for \$6.0 million in cash and a purchase note for \$2.1 million (see **Note 6**). The transaction resulted in a gain of \$7.2 million recorded in other revenues.

On February 26, 2010, WM Solutions acquired Central National for \$5 million in cash. Central National ceased writing business in 1989 and has operated under the control of the Nebraska Department of Insurance since 1990. The transaction resulted in a gain of \$12.8 million recorded in other revenues.

## **Sale of AutoOne**

On August 30, 2011, OneBeacon entered into a definitive agreement (the “Purchase Agreement”) to sell the AutoOne business to Interboro Holdings, Inc. (“Interboro”). On February 22, 2012, OneBeacon completed the sale of AutoOne to Interboro Holdings, Inc. (“Interboro”). OneBeacon formed AutoOne in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey. OneBeacon transferred to the buyer AutoOne Insurance Company (“AOIC”) and AutoOne Select Insurance Company (“AOSIC”), which contained the assets, liabilities (including loss reserves and unearned premiums), and the capital of the AutoOne business, and transferred substantially all of the AutoOne infrastructure including systems and office space as well as certain staff. As a result of the sale, AutoOne is reported as discontinued operations (see **Note 20**).

## **Sale of Esurance**

On October 7, 2011, White Mountains completed the sale of Esurance Insurance and AFI to The Allstate Corporation (“Allstate”) for \$700.0 million in excess of tangible book value. White Mountains recorded a gain on the sale of \$677.5 million in discontinued operations. The transaction is subject to a true-up of the estimated tangible book value of the entities sold through the date of closing and certain other contingencies (see **Note 19**).

## **OneBeacon Personal Lines and Commercial Lines Sales**

In July 2010, OneBeacon completed the sale of its traditional personal lines business (the “Personal Lines Transaction”) to Tower Group, Inc. (“Tower”). The Personal Lines Transaction included two insurance companies, York Insurance Company of Maine (“York”) and Massachusetts Homeland Insurance Company (“MHIC”), through which the majority of the traditional personal lines business was written on a direct basis. Subsequent to the transaction, OneBeacon cedes to Tower, on a 100% quota share basis, traditional personal lines business not directly written by York and MHIC; and OneBeacon assumes, on a 100% quota share basis, certain specialty lines business written directly by York. The Personal Lines Transaction also included two attorneys-in-fact managing the reciprocal insurance exchanges (“reciprocals”) that wrote the traditional personal lines business in New York and New Jersey, the surplus notes issued by the New York and New Jersey reciprocals, and the remaining renewal rights to certain other traditional personal lines insurance policies. The sale of the two attorneys-in-fact and the transfer of the surplus notes triggered deconsolidation of the reciprocals by White Mountains. OneBeacon and Tower also entered into a Transition Services Agreement (“TSA”), pursuant to which OneBeacon provides certain services to Tower during a three-year term.

OneBeacon received \$166.6 million as consideration, which was based upon the carrying value of the traditional personal lines business as of July 1, 2010. For the year ended December 31, 2010, OneBeacon recorded an after-tax net gain of \$24.6 million on the sale that is comprised of \$8.5 million included in other revenues and a \$16.1 million tax benefit. OneBeacon’s second quarter financial statements included \$5.6 million of the tax benefit, which related to the difference between the tax basis of the companies sold as part of the Personal Lines Transaction and the net asset value of those entities under GAAP. Net written premiums for the business sold were approximately \$420.0 million for the year ended December 31, 2009.

On December 3, 2009, OneBeacon sold the renewal rights to approximately \$490.0 million in premiums from its non-specialty commercial lines business to The Hanover Insurance Group (“The Hanover”). The transaction includes small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates (the “Commercial Lines Transaction”). As consideration for the Commercial Lines Transaction, OneBeacon received \$23.2 million, reflected in other revenues. In accordance with the terms of the Commercial Lines Transaction, during the years ended December 31, 2011 and 2010, OneBeacon was paid additional consideration of \$0.8 million and \$10.2 million, reflected in other revenues, for aggregate premium renewals exceeding \$200.0 million.

## **NOTE 3. Reserves for Unpaid Losses and Loss Adjustment Expenses**

### **Insurance**

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

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

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

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

In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often 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 the past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment and is inherently uncertain.

White Mountains' actuaries use several generally accepted actuarial methods to evaluate its loss reserves, each of which has its own strengths and weaknesses. Management places more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made.



These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- *Historical paid loss development methods:* These methods use historical loss payments over discrete periods of time to estimate future losses. Historical paid loss development methods assume that the ratio of losses paid in one period to losses paid in an earlier period will remain constant. These methods necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use case reserves to estimate ultimate losses, they can be more reliable than the other methods discussed below that look to case reserves (such as actuarial methods that use incurred losses) in situations where there are significant changes in how case reserves are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged, meaning that small changes in payments have a larger impact on estimates of ultimate losses, than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative incurred amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.
- *Historical incurred loss development methods:* These methods, like historical paid loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. However, instead of using paid losses, these methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods can be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses can be less reliable than other methods.
- *Expected loss ratio methods:* These methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums written to calculate ultimate losses. Expected loss ratio methods are useful for estimating ultimate losses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available.
- *Adjusted historical paid and incurred loss development methods:* These methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes.

White Mountains performs an actuarial review of its recorded reserves each quarter. White Mountains' actuaries compare the previous quarter's estimates of paid loss and LAE, case reserves and IBNR to amounts indicated by actual experience. Differences between previous estimates and actual experience are evaluated to determine whether a given actuarial method for estimating loss and LAE should be relied upon to a greater or lesser extent than it had been in the past. While some variance is expected each quarter due to the inherent uncertainty in loss and LAE, persistent or large variances would indicate that prior assumptions and/or reliance on certain reserving methods may need to be revised going forward.

The actuarial analysis is a primary consideration for management in determining its best estimate of loss and LAE reserves. In making its best estimate, management also considers other qualitative factors that may lead to a difference between its best estimate of loss and LAE reserves and the actuarial point estimate. Typically, these factors exist when management and the company's actuaries conclude that there is insufficient historical incurred and paid loss information or that trends included in the historical incurred and paid loss information are unlikely to repeat in the future. These factors may include, among others, changes in the techniques used to assess underwriting risk, more accurate and detailed levels of data submitted with reinsurance applications, the uncertainty of the current reinsurance pricing environment, the level of inflation in loss costs, changes in ceding company reserving practices, and legal and regulatory developments.

## Reinsurance

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

The estimation of net reinsurance loss and LAE reserves is subject to the same risk as the estimation of insurance loss and LAE reserves. In addition to those risk factors which give rise to inherent uncertainties in establishing insurance loss and LAE reserves, the inherent uncertainties of estimating such reserves are even greater for the reinsurer, due primarily to: (1) the claim-tail for reinsurers being further extended because claims are first reported to the original primary insurance company and then through one or more intermediaries or reinsurers, (2) the diversity of loss development patterns among different types of reinsurance treaties or facultative contracts, (3) the necessary reliance on the ceding companies for information regarding reported claims and (4) the differing reserving practices among ceding companies.

As with insurance reserves, the process of estimating reinsurance reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Based on the above, such uncertainty may be larger relative to the reserves for a company that principally writes reinsurance compared to an insurance company, and certainty may take a longer time to emerge.

Upon notification of a loss from an insured (typically a ceding company), Sirius Group establishes case reserves, including LAE reserves, based upon Sirius Group’s share of the amount of reserves established by the insured and Sirius Group’s independent evaluation of the loss. In cases where available information indicates that reserves established by a ceding company are inadequate, Sirius Group establishes case reserves or IBNR in excess of its share of the reserves established by the ceding company. Also, in certain instances, Sirius Group may decide not to establish case reserves or IBNR, when the information available indicates that reserves established by ceding companies are not adequately supported. In addition, specific claim information reported by insureds or obtained through claim audits can alert management to emerging trends such as changing legal interpretations of coverage and liability, claims from unexpected sources or classes of business, and significant changes in the frequency or severity of individual claims where customary. Generally, ceding company audits are not customary outside the United States. This information is often used to supplement estimates of IBNR.

Although loss and LAE reserves are initially determined based on underwriting and pricing analyses, Sirius Group regularly reviews the adequacy of its recorded reserves by using a variety of generally accepted actuarial methods, including historical incurred and paid loss development methods. If actual loss activity differs substantially from expectations, an adjustment to recorded reserves may be warranted. As time passes, loss reserve estimates for a given year will rely more on actual loss activity and historical patterns than on initial assumptions based on pricing indications.

The actuarial methods described above are used to calculate a point estimate of loss and LAE reserves for each company within Sirius Group. These point estimates are then aggregated to produce an actuarial point estimate for the entire segment. Once a point estimate is established, Sirius Group’s actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated from historical variations in loss ratios, payment and reporting patterns by class and type of business.

## Loss and Loss Adjustment Expense Reserve Summary

The following table summarizes the loss and LAE reserve activities of White Mountains' insurance and reinsurance subsidiaries for the years ended December 31, 2012, 2011 and 2010:

Millions	Year Ended December 31,		
	2012	2011	2010
Gross beginning balance	\$ 5,702.3	\$ 5,736.8	\$ 6,379.2
Less beginning reinsurance recoverable on unpaid losses	(2,507.3)	(2,344.0)	(2,771.5)
Net loss and LAE reserves	3,195.0	3,392.8	3,607.7
Less: Beginning net loss and LAE reserves for AutoOne and the Runoff Transaction <sup>(1)</sup>	(383.3)	(619.6)	(759.0)
Loss and LAE reserves acquired <sup>(2)</sup>	17.0	21.0	17.6
Loss and LAE reserves sold—OneBeacon Personal Lines	—	—	(231.0)
Losses and LAE incurred relating to:			
Current year losses	1,235.8	1,251.0	1,309.7
Prior year losses	(41.9)	(76.7)	(93.1)
Total incurred losses and LAE	1,193.9	1,174.3	1,216.6
Accretion of fair value adjustment to net loss and LAE reserves	10.6	8.3	8.5
Foreign currency translation adjustment to net loss and LAE reserves	12.9	.1	4.7
Loss and LAE paid relating to:			
Current year losses	(404.7)	(387.9)	(445.9)
Prior year losses	(901.6)	(777.3)	(646.0)
Total loss and LAE payments	(1,306.3)	(1,165.2)	(1,091.9)
Plus: Ending net loss and LAE reserves for AutoOne and the Runoff Transaction <sup>(1)</sup>	—	383.3	619.6
Net ending balance	2,739.8	3,195.0	3,392.8
Plus ending reinsurance recoverable on unpaid losses	429.1	2,507.3	2,344.0
Gross ending balance	\$ 3,168.9	\$ 5,702.3	\$ 5,736.8

<sup>(1)</sup> Loss and LAE reserve balances from OneBeacon's runoff business prior to December 31, 2012 and AutoOne prior to December 31, 2011 were not classified as held for sale. Adjustment is to present loss and LAE reserve activities for continuing operations.

<sup>(2)</sup> Loss and LAE reserves acquired relate to WM Solutions purchases of PICO, Citation, American General and American General Property in 2012, Old Lyme in 2011 and Central National in 2010.

### Loss and LAE development —2012

During the year ended December 31, 2012, White Mountains experienced \$41.9 million of net favorable loss reserve development, which consisted of \$7.4 million of net favorable loss reserve development at OneBeacon and \$34.5 million of net favorable loss reserve development at Sirius Group.

During 2012, OneBeacon experienced \$7.4 million of net favorable loss and LAE reserve development on prior accident year reserves. The favorable reserve development at OneBeacon was primarily from workers' compensation, multiple peril liability and general liability lines. This favorable development was offset somewhat by adverse development on excess property claims.

In 2012, Sirius Group had net favorable loss reserve development of \$34.5 million. The major reductions in loss reserve estimates at Sirius Group were recognized in casualty runoff (\$31.5 million), property (\$28.4 million), marine/energy (\$11.6 million), trade credit (\$6.8 million) and aviation/space (\$5.3 million) lines, partially offset by a \$46.4 million increase in asbestos loss reserves and a \$4.3 million increase in accident and health.

#### *Loss and LAE development —2011*

During the year ended December 31, 2011, White Mountains experienced \$76.7 million of net favorable loss reserve development, which consisted of \$29.8 million of net favorable loss and LAE reserve development on prior accident year loss reserves at OneBeacon and \$46.9 million of net favorable loss reserve development at Sirius Group.

OneBeacon's net favorable loss and LAE reserve development was primarily due to lower than expected severity on non catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines. With respect to the favorable loss reserve development in specialty insurance operations, at December 31, 2010, management had revised its expectations downward for future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during 2011, losses continued to be significantly lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of \$11.5 million.

During 2010, management began separately reviewing loss reserves for some business which had been previously managed as a part of OneBeacon's former commercial lines underwriting unit. As of December 31, 2010, the reserves for these businesses had been selected based on expected emergence that was based on the historic loss development of former commercial lines underwriting unit. However, during 2011 the actual emerged experience for these businesses was

significantly lower than the expected emergence. As a result of this favorable emergence, management lowered the loss reserves for these businesses by \$14.0 million during 2011.

In addition to the development described for the lines of business above, OneBeacon also recorded a \$4.3 million net decrease in reserves in other lines of business as a result of its review of loss reserves at December 31, 2011.

The net favorable loss reserve development at Sirius Group was primarily attributable to \$41.2 million of favorable development on property lines including, \$13.1 million of loss reserve reductions for the 2010 Chile earthquake, partially offset by asbestos and environmental increases of \$12.3 million.

#### *Loss and LAE development —2010*

During the year ended December 31, 2010, White Mountains experienced \$93.1 million of net favorable loss reserve development, which consisted of \$36.0 million of net favorable loss and LAE reserve development on prior accident year loss reserves at OneBeacon and \$57.1 million of net favorable loss reserve development at Sirius Group.

OneBeacon's net favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines, as well as development on personal lines business. The favorable development also included a \$7.5 million release of commercial catastrophe reserves associated with storms occurring in 2004 and 2005.

Specifically, at December 31, 2009, management had revised its expectations downward with respect to future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during 2010, losses continued to be significantly lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of \$19.3 million.

At December 31, 2009, OneBeacon had recorded \$7.5 million of reserves for certain claims related to catastrophes from accident years 2004 and 2005 related to OneBeacon's excess property business. During 2010, these claims were resolved for amounts below OneBeacon's policy coverage therefore the reserves were no longer necessary.

In addition to the development described for the lines of business above, OneBeacon also recorded a \$9.2 million net decrease in IBNR in other lines of business, primarily personal lines, as a result of its review of loss reserves at December 31, 2010.

The net favorable loss reserve development at Sirius Group was primarily related to short-tailed lines, such as property, accident and health and marine, in recent underwriting years. Included in the \$57.1 million favorable loss reserve development was the recognition of \$16.3 million in deferred gains from a retrocessional reinsurance contract that inceptioned in 2000 and was fully collected in 2010.

#### *Fair value adjustment to loss and LAE reserves*

In connection with purchase accounting for acquisitions, White Mountains is required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on their respective acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled.

White Mountains recognized \$10.6 million, \$8.3 million and \$8.5 million of such charges, recorded as loss and LAE during 2012, 2011 and 2010. As of December 31, 2012, the pre-tax un-accreted adjustment was \$5.7 million.

## Asbestos and Environmental Loss and Loss Adjustment Expense Reserve Activity

White Mountains' 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 cost obligations, particularly as mandated by U.S. federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, White Mountains estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

Substantially all of OneBeacon's reserves for unpaid loss and LAE for asbestos and environmental exposures relates to discontinued operations (see **Note 20**). As of December 31, 2012, the remaining unpaid loss and LAE loss reserves for asbestos and environmental exposures related to continuing operations is less than \$1.0 million on both a gross and net basis at December 31, 2012.

In 2012, Sirius Group increased its net A&E exposure through two incoming runoff portfolios acquired by White Mountains Solutions. These acquisitions added \$11.0 million in net asbestos reserves and \$0.7 million in net environmental reserves.

The acquisition of companies having modest portfolios of A&E exposure has been typical of several prior White Mountains Solutions transactions and is likely to be an element of at least some future acquisitions. However, the acquisitions of new A&E liabilities is undertaken only after careful due diligence and utilizing conservative reserving assumptions in relation to industry benchmarks. In the case of those portfolios acquired during 2012, the exposures arise almost entirely from old assumed reinsurance contracts having small limits of liability.

In addition to the \$11.0 million increase in asbestos reserves from the two incoming portfolios acquired by White Mountains Solutions mentioned above, Sirius Group recorded \$46.4 million and \$10.3 million of asbestos-related incurred losses and LAE on its already existing asbestos reserves in 2012 and 2011, respectively. In the first six months of 2012, Sirius Group increased net asbestos reserves by \$12.0 million in response to its quarterly monitoring of newly reported claims. Based on the monitoring trends noted in the first six months 2012, Sirius Group conducted an in-depth analysis of its asbestos exposure, which was completed in third quarter. The main focus of the analysis was on the internal claims analysis of all treaty and facultative contracts likely to have asbestos exposure. An external expert with extensive asbestos claims experience was utilized to enhance the review. This analysis entailed examining total expected asbestos losses and LAE from a variety of information sources, including previous asbestos studies, reported client data and external benchmarking scenarios. The analysis resulted in a net asbestos loss reserve increase of \$33.0 million recognized in third quarter. An additional \$2.0 million of asbestos losses were recognized in fourth quarter 2012. The 2011 incurred losses were primarily the result of management's monitoring of a variety of metrics including: actual paid and reported claims activity; net survival ratios; peer comparisons; and industry benchmarks.

Offsetting the \$0.7 million increase in environmental reserves mentioned above, Sirius Group recorded a decrease of \$0.5 million in 2012 of environmental-related losses on its already existing reserves in 2012. In 2011, Sirius Group recorded \$2.0 million of environmental losses.

Sirius Group's net reserves for A&E losses were \$189.4 million and \$162.7 million at December 31, 2012 and 2011, respectively. Sirius Group's A&E three-year net loss paid survival ratio was approximately 9.0 years and 11.1 years at December 31, 2012 and 2011. The decrease in the paid survival ratio in 2012 was driven by an unusually high net paid loss of \$8.5 million made in first quarter 2012 to commute one of Sirius Group's top five asbestos exposures.

White Mountains' reserves for A&E losses at December 31, 2012 represent management's best estimate of its ultimate liability based on information currently available. However, as case law expands, and medical and clean-up costs increase and industry settlement practices change, White Mountains may be subject to asbestos and environmental losses beyond currently estimated amounts. White Mountains cannot reasonably estimate at the present time loss reserve additions arising from any such future adverse developments and cannot be sure that allocated loss reserves, plus the remaining capacity under the NICO Cover and other reinsurance contracts, will be sufficient to cover additional liability arising from any such adverse developments.

Net A&E Loss Reserve Activity	Year Ended December 31,					
	2012		2011		2010	
	Gross	Net	Gross	Net	Gross	Net
<b>Millions</b>						
Asbestos:						
Beginning balance	\$ 185.1	\$ 146.2	\$ 191.9	\$ 151.5	\$ 187.0	\$ 146.6
Losses and LAE acquired	11.0	11.0	—	—	10.4	9.7
Incurred losses and LAE	46.8	46.4	13.6	10.3	9.0	7.3
Paid losses and LAE	(34.7)	(29.4)	(20.4)	(15.6)	(14.5)	(12.1)
Ending balance	208.2	174.2	185.1	146.2	191.9	151.5
Environmental:						
Beginning balance	22.1	16.5	22.4	18.1	22.2	17.9
Losses and LAE acquired	0.7	0.7	—	—	3.5	2.4
Incurred losses and LAE	(0.1)	(0.5)	2.9	2.0	(2.5)	(1.3)
Paid losses and LAE	(2.3)	(1.5)	(3.2)	(3.6)	(.8)	(.9)
Ending balance	20.4	15.2	22.1	16.5	22.4	18.1
Total asbestos and environmental:						
Beginning balance	207.2	162.7	214.3	169.6	209.2	164.5
Losses and LAE acquired	11.7	11.7	—	—	13.9	12.1
Incurred losses and LAE	46.7	45.9	16.5	12.3	6.5	6.0
Paid losses and LAE	(37.0)	(30.9)	(23.6)	(19.2)	(15.3)	(13.0)
Ending balance	\$ 228.6	\$ 189.4	\$ 207.2	\$ 162.7	\$ 214.3	\$ 169.6

**NOTE 4. Third-Party Reinsurance**

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

Millions	Year ended December 31, 2012		
	OneBeacon	Sirius Group	Total
Written premiums:			
Direct	\$ 1,204.0	\$ 186.1	\$ 1,390.1
Assumed	55.2	992.7	1,047.9
Gross written premiums	1,259.2	1,178.8	2,438.0
Ceded	(80.0)	(231.1)	(311.1)
Net written premiums	\$ 1,179.2	\$ 947.7	\$ 2,126.9
Earned premiums:			
Direct	\$ 1,158.3	\$ 169.9	\$ 1,328.2
Assumed	52.8	988.3	1,041.1
Gross earned premiums	1,211.1	1,158.2	2,369.3
Ceded	(79.1)	(226.6)	(305.7)
Net earned premiums	\$ 1,132.0	\$ 931.6	\$ 2,063.6
Losses and LAE:			
Direct	\$ 687.5	\$ 96.9	\$ 784.4
Assumed	29.6	523.9	553.5
Gross losses and LAE	717.1	620.8	1,337.9
Ceded	(67.1)	(76.9)	(144.0)
Net losses and LAE	\$ 650.0	\$ 543.9	\$ 1,193.9

Millions	Year ended December 31, 2011		
	OneBeacon	Sirius Group	Total
Written premiums:			
Direct	\$ 1,079.2	\$ 139.5	\$ 1,218.7
Assumed	49.1	988.6	1,037.7
Gross written premiums	1,128.3	1,128.1	2,256.4
Ceded	(65.6)	(212.4)	(278.0)
Net written premiums	\$ 1,062.7	\$ 915.7	\$ 1,978.4
Earned premiums:			
Direct	\$ 1,035.9	\$ 128.5	\$ 1,164.4
Assumed	42.3	989.8	1,032.1
Gross earned premiums	1,078.2	1,118.3	2,196.5
Ceded	(66.0)	(206.0)	(272.0)
Net earned premiums	\$ 1,012.2	\$ 912.3	\$ 1,924.5
Losses and LAE:			
Direct	\$ 551.8	\$ 80.0	\$ 631.8
Assumed	9.2	627.8	637.0
Gross losses and LAE	561.0	707.8	1,268.8
Ceded	(12.7)	(81.8)	(94.5)
Net losses and LAE	\$ 548.3	\$ 626.0	\$ 1,174.3

Millions	Year ended December 31, 2010		
	OneBeacon	Sirius Group	Total
Written premiums:			
Direct	\$ 1,236.7	\$ 121.6	\$ 1,358.3
Assumed	55.8	957.5	1,013.3
Gross written premiums	1,292.5	1,079.1	2,371.6
Ceded	(124.8)	(213.3)	(338.1)
Net written premiums	\$ 1,167.7	\$ 865.8	\$ 2,033.5
Earned premiums:			
Direct	\$ 1,242.5	\$ 117.9	\$ 1,360.4
Assumed	60.7	929.7	990.4
Gross earned premiums	1,303.2	1,047.6	2,350.8
Ceded	(122.1)	(199.7)	(321.8)
Net earned premiums	\$ 1,181.1	\$ 847.9	\$ 2,029.0
Losses and LAE:			
Direct	\$ 677.1	\$ 59.4	\$ 736.5
Assumed	45.1	684.4	729.5
Gross losses and LAE	722.2	743.8	1,466.0
Ceded	(36.6)	(212.8)	(249.4)
Net losses and LAE	\$ 685.6	\$ 531.0	\$ 1,216.6

## OneBeacon

In the normal course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third-party reinsurers in order to minimize loss from large losses 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 a function of the amount and type of insured exposure in the area affected by the event as well as the severity of the event. OneBeacon uses models (primarily AIR Worldwide ("AIR") Version 12) to estimate the probability of the occurrence of a catastrophic event as well as potential losses under various scenarios. OneBeacon uses this model output in conjunction with other data to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures.

Since the terrorist attacks of September 11, 2001, OneBeacon has sought to mitigate the risk associated with any future terrorist attacks by limiting the aggregate insured value of policies in geographic areas with exposure to losses from terrorist attacks. This is accomplished by either limiting the total insured values exposed, or, where applicable, through the use of terrorism exclusions.

In December 2007, the U.S. government extended the Terrorism Risk Insurance Act of 2002 (the "Terrorism Act" or "TRIA") until December 31, 2014. The Terrorism Act established a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended, the law now also covers domestic acts of terrorism. The law limits the industry's aggregate liability by requiring the federal government to share 85% of certified losses once a company meets a specific retention or deductible as determined by its prior year's direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at \$100.0 billion. In exchange for this "backstop," primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage.

OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately \$100.0 million in 2013, which is based on 2012 net written premiums. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon's or the industry's retention levels in 2013 up to a total of \$100.0 billion.

OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective May 1, 2012, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2013. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first \$25.0 million of losses resulting from any single catastrophe are retained and the next \$155.0 million of losses resulting from the catastrophe are reinsured in three layers, although OneBeacon retains a co-participation of 55% of losses from \$25.0 million to \$40.0 million, 15% of losses from \$40.0 million to \$80.0 million and 10% of losses from \$80.0 million to \$180.0 million. Thus, for a \$180.0 million loss, OneBeacon would retain \$49.3 million. Any loss above \$180.0 million would be retained in full. In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium. This \$180.0 million limit was reduced from the \$225.0 million limit that OneBeacon's previous catastrophe reinsurance program provided, as a result of lower catastrophe exposure as a specialty-focused company. As a result of hurricane Sandy in October 2012, OneBeacon recorded ceded losses of \$15.6 million and reinstatement premiums of \$1.9 million related to this treaty.

In addition to the corporate catastrophe reinsurance protection that it secures, OneBeacon may also purchase dedicated reinsurance protection for specific businesses. In 2012, OneBeacon purchased insurance to protect its collector cars and boats business from catastrophic losses. This treaty covered losses in excess of \$2.5 million up to \$25.0 million in two layers. The first layer, \$2.5 million in excess of \$2.5 million, carried a 5% co-participation. The company had a 20% co-participation on the second layer, \$20.0 million in excess of \$5 million. Catastrophe losses above \$25.0 million are retained by the company in full. Reinstatement premiums are paid if the coverage is attached. As a result of hurricane Sandy in October 2012, OneBeacon recorded ceded losses of \$11.9 million and reinstatement premiums of \$1.4 million related to this treaty.

OneBeacon also purchased a per-occurrence treaty for its Inland Marine Underwriters business ("IMU") that protects against large occurrences, whether a single large claim or a catastrophe. The IMU treaty attaches at \$2.0 million per occurrence. Coverage is provided up to \$60.0 million. The first layer of the marine treaty is \$5.0 million in excess of \$2.0 million, with an annual aggregate deductible of \$1.5 million for large losses and \$5.0 million for catastrophes losses. For losses in the layer \$10.0 million excess of \$50.0 million, the company retains half of the loss. The portion of loss above \$60.0 million is retained in full by the company. Reinstatement premiums are paid in full or in part depending on the layer and the occurrence if the coverage is attached. As a result of hurricane Sandy in October 2012, OneBeacon recorded ceded loss of \$41.0 million and reinstatement premiums of \$5.4 million related to this treaty. Losses retained under both the collector cars and boats and marine reinsurance treaties are subject to the corporate catastrophe treaty.



Through June 30, 2010 OneBeacon ceded \$25.6 million of written premiums from its Northeast homeowners business written through OneBeacon Insurance Company (“OBIC”) and its subsidiary companies, along with Adirondack and New Jersey Skylands Insurance Association. Effective July 1, 2010, the closing date of the Personal Lines Transaction, the agreement was amended to remove OneBeacon as a signatory.

OneBeacon’s property catastrophe reinsurance program does not cover property losses resulting from any nuclear events or biological, chemical or radiological terrorist attacks or losses resulting from acts of terrorism as defined under the Terrorism Act, as amended, committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as well as domestic acts of terrorism. Such losses are subject to coverage provided to insurance companies by TRIA.

OneBeacon also purchases property-per-risk reinsurance coverage to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of \$10.0 million up to \$100.0 million. Individual risk facultative reinsurance may be purchased above \$100.0 million where OneBeacon deems it appropriate. Under the property-per-risk program, OneBeacon retains a co-participation of 10% for losses in excess of \$20.0 million up to \$50.0 million and a co-participation of 20% for losses in excess of \$50.0 million. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of \$10.0 million up to \$100.0 million on an individual risk basis for terrorism losses. However, any nuclear events, or biological, chemical or radiological terrorist attacks are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual policies involving general liability, automobile liability, professional liability or umbrella liability. OneBeacon’s healthcare professional liability treaty covers losses in excess of \$5.0 million up to \$20.0 million in two layers. The first layer, \$5.0 million excess of \$5.0 million has a 20% co-participation. All other casualty business is covered in a separate treaty covering losses in excess of \$5.0 million up to \$21.0 million. This treaty has a 22.5% co-participation in the first layer (\$6.0 million excess of \$5.0 million) and a 10% co-participation in the second layer of \$10.0 million excess of \$11.0 million. OneBeacon purchases a treaty to protect against large workers compensation losses that covers 100% of the loss in excess of \$1.0 million up to \$10.0 million per person. In addition, for casualty losses involving more than one insured, OneBeacon maintains a dedicated treaty that covers up to \$40.0 million in excess of a \$10.0 million retention.

At December 31, 2012, OneBeacon had \$3.3 million and \$107.3 million of reinsurance recoverables on paid and unpaid losses. Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. Uncollectible amounts historically have not been significant. As of December 31, 2012, 90% of reinsurance recoverables on paid and unpaid losses are from reinsurers with an A.M. Best rating of A (Excellent, which is the third highest of 16 financial strength ratings) or better. The largest recoverable from an individual reinsurer was \$10.1 million with Hannover Ruckversich, which has an A.M. Best Company (“A.M. Best”) ratings of A++ (Superior, which is the highest of 16 financial strength ratings). The reinsurance balances associated with the runoff business are included in discontinued operations (see **Note 20**).

### Sirius Group

Sirius Group’s reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain property exposures. Sirius Group’s proportional reinsurance programs provide protection for part of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East, and Australia. These reinsurance protections are designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events. Attachment points and coverage limits vary by region around the world. In addition to its proportional reinsurance, Sirius Group also purchases excess of loss reinsurance protection for \$15.0 million in excess of a retention of \$5.0 million for the facultative and direct property portfolios written by the Stockholm, Hamburg and London branches (excluding business written in the United States). For the facultative and direct property portfolios written by the Hamburg and Stockholm branches, an additional \$15.0 million of reinsurance protection in excess of the \$20.0 million coverage has been purchased for 2013. Sirius Group also has \$5.0 million of protection in excess of a retention of \$5.0 million for the London branch for facultative and direct U.S.-catastrophe exposed business (excluding Florida risks), which was renewed through June 30, 2013. As a result of hurricane Sandy in October 2012, Sirius Group recognized a full \$5.0 million recovery on this account.

In 2012, 2011 and 2010, Sirius Group has had in place group excess of loss retrocessional coverage for its non-U.S. and non-Japan earthquake-related exposures. This cover was renewed for one year at April 1, 2012, providing \$17.0 million of reinsurance protection through partially placed coverage of a \$40.0 million layer in excess of Sirius Group’s retention of \$35.0 million. In addition, Sirius Group purchased two industry loss warranty (“ILW”) contracts that provide \$10.0 million of coverage for a first event non-U.S. and non-Japan earthquake loss at a market loss event of \$7.5 billion or more, with \$5.0 million of additional coverage for a second market loss event at this level. Sirius Group also has \$37.5 million of New Madrid earthquake ILW coverage through March 2013 that provides reinsurance protection both on a first and second market event of \$20.0 billion.

In addition, Sirius Group has an ILW providing \$5.0 million of coverage for a first loss European windstorm and flood at a market loss event of \$5.0 billion, which expires March 2013. During the fourth quarter 2012, additional ILW protections providing \$40.0 million of reinsurance coverage were purchased at different market loss levels for wind, flood, and all natural perils in Europe or Scandinavia, with the majority of these covers expiring in March 2013.

As of December 31, 2012, losses incurred for the February 2011 New Zealand earthquake totaled \$47.0 million, \$2.0 million of which was covered by Sirius Group's non-U.S. and non-Japan earthquake coverage. During 2010, as a result of the Chile Earthquake in February 2010, Sirius Group recovered \$65.0 million under its non-U.S. and non-Japan earthquake coverage, which was a full limit loss.

Sirius Group's aviation reinsurance program is intended to reduce exposure to a frequency of small losses, a single large loss, or a combination of both. In 2013, for the proportional and facultative aviation portfolios, reinsurance protection purchases were generally for coverage on losses from events that cause a market loss in excess of \$150.0 million up to a full airline policy limit of \$2.25 billion, including clash coverage. This program is in effect through November 2013. For the non-proportional aviation portfolio, reinsurance protection includes a 15% quota share treaty. In addition, the non-proportional portfolio is protected by \$33.0 million in the form of first event ILWs, and \$5.0 million of available limit in the form of second event ILWs. The first event ILWs attach at industry loss levels between \$400.0 million and \$1.0 billion. The majority of the reinsurance protections, excluding ILWs, include a reinstatement of the cover in case of loss.

For the marine yacht portfolio written by the London branch, reinsurance coverage is in place for \$9.8 million in excess of a retention of \$0.3 million.

For accident and health, Sirius Group has excess of loss protection covering personal accident and life of €10.0 million (\$13.0 million based on the December 31, 2012 EUR to USD exchange rate) of protection in excess of a €5.0 million (\$7.0 million based on the December 31, 2012 EUR to USD exchange rate) retention for the Stockholm, Hamburg, Liege and Singapore branches.

For 2012, Sirius Group ceded 20% and 50% of its trade credit and bond business, respectively, under a quota share retrocession, which supported growth in this line. The treaty was renewed for 2013.

Almost all of Sirius Group's excess of loss reinsurance protections, excluding ILWs, include provisions that reinstate coverage at a cost of 100% or more of the original reinsurance premium.

At December 31, 2012, Sirius Group had \$14.6 million of reinsurance recoverables on paid losses and \$321.8 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group's reinsurers is critical to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis.

The following table provides a listing of Sirius Group's top reinsurers based upon recoverable amounts, the percentage of total recoverables and the reinsurer's A.M. Best Rating.

Top Reinsurers (\$ in millions)	Balance at December 31, 2012	% of Total	A.M. Best Rating <sup>(1)</sup>	% Collateralized
General Reinsurance Corporation	\$ 56.2	17%	A++	—%
Swiss Re Group	36.4	11%	A+	2%
Olympus Re <sup>(2)</sup>	29.6	9%	NR-5	100%
Lloyds of London <sup>(3)</sup>	19.4	6%	A	8%
Michigan Catastrophic Claims Association <sup>(4)</sup>	14.7	4%	N/A	—%

<sup>(1)</sup> A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of 16 financial strength ratings), "A+" (Superior, which is the second highest of 16 financial strength ratings), and "A" (Excellent, which is the third highest of 16 financial strength ratings).

<sup>(2)</sup> Non-U.S. insurance entity. The balance is fully collateralized through funds held, letters of credit or trust agreements.

<sup>(3)</sup> Represents the total of reinsurance recoverables due to Sirius Group from all Lloyds Syndicates.

<sup>(4)</sup> Michigan Catastrophic Claims Association ("MCCA") is a non-profit unincorporated association, established by the State of Michigan with the power to issue and collect assessments, to which every insurance company that sells automobile coverage in Michigan is required to be a member. A.M. Best does not rate MCCA. Sirius Group acquired its recoverable from MCCA in the acquisition of Stockbridge Insurance Company. As part of the acquisition, Sirius Group obtained \$25.0 of reinsurance protection from the seller (currently rated A+ by A.M. Best) for unfavorable loss reserve development, including uncollectible reinsurance.

**NOTE 5. Investment Securities****Net Investment Income**

White Mountains' net investment income is comprised primarily of interest income associated with White Mountains' fixed maturity investments, dividend income from its equity investments and interest income from its short-term investments.

Pre-tax net investment income for 2012, 2011 and 2010 consisted of the following:

Millions	Year Ended December 31,		
	2012	2011	2010
Investment income:			
Fixed maturity investments	\$ 132.0	\$ 166.2	\$ 194.7
Short-term investments	3.1	4.5	3.0
Common equity securities	22.2	15.4	10.2
Convertible fixed maturity investments	6.0	5.5	5.6
Other long-term investments	3.1	4.2	6.0
Interest on funds held under reinsurance treaties	.6	(.4)	(1.7)
Total investment income	167.0	195.4	217.8
Third-party investment expenses	(13.4)	(10.9)	(8.9)
Net investment income, pre-tax	\$ 153.6	\$ 184.5	\$ 208.9

**Net Realized and Unrealized Investment Gains and Losses**

The following table summarizes net realized investment gains (losses) and changes in the carrying value of investments measured at fair value:

Millions	Year Ended December 31, 2012		
	Net realized and unrealized gains (losses)	Net foreign currency gains (losses)	Total net realized and unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$ 101.0	\$ (48.4)	\$ 52.6
Short-term investments	—	(4.2)	(4.2)
Common equity securities	67.2	(.1)	67.1
Convertible fixed maturity investments	2.5	—	2.5
Other long-term investments	5.0	(4.5)	.5
Forward contracts	(.3)	—	(.3)
Net realized and unrealized investment gains (losses), pre-tax	175.4	(57.2)	118.2
Income taxes attributable to realized and unrealized investment gains (losses)	(41.7)	14.9	(26.8)
Net realized and unrealized investment gains (losses), after-tax	\$ 133.7	\$ (42.3)	\$ 91.4

Millions	Year Ended December 31, 2011		
	Net realized and unrealized gains (losses)	Net foreign currency gains (losses)	Total net realized and unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$ 57.0	\$ 30.6	\$ 87.6
Short-term investments	—	(11.0)	(11.0)
Common equity securities	(6.0)	(1.8)	(7.8)
Convertible fixed maturity investments	(13.7)	—	(13.7)
Other long-term investments	16.1	2.9	19.0
Net realized and unrealized investment gains, pre-tax	53.4	20.7	74.1
Income taxes attributable to realized and unrealized investment gains	(13.0)	(5.1)	(18.1)
Net realized and unrealized investment gains, after-tax	\$ 40.4	\$ 15.6	\$ 56.0

Millions	Year Ended December 31, 2010		
	Net realized and unrealized gains (losses)	Net foreign currency gains (losses)	Total net realized and unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$ 29.5	\$ (61.6)	\$ (32.1)
Short-term investments	—	(9.1)	(9.1)
Common equity securities	79.3	(8.0)	71.3
Convertible fixed maturity investments	11.3	—	11.3
Other long-term investments	33.5	2.7	36.2
Net realized and unrealized investment gains (losses), pre-tax	153.6	(76.0)	77.6
Income taxes attributable to realized and unrealized investment gains (losses)	(41.6)	20.1	(21.5)
Net realized and unrealized investment gains (losses), after-tax	\$ 112.0	\$ (55.9)	\$ 56.1

White Mountains recognized gross realized investment gains of \$162.2 million, \$191.6 million and \$205.0 million and gross realized investment losses of \$94.1 million, \$123.3 million and \$73.6 million on sales of investment securities during 2012, 2011 and 2010.

As of December 31, 2012 and 2011 White Mountains reported \$11.4 million and \$34.6 million in accounts payable on unsettled investment purchases and \$3.9 million and \$4.7 million in accounts receivable on unsettled investment sales.

The following table summarizes the amount of total gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 investments for the years ended December 31, 2012, 2011 and 2010.

Millions	Year Ended December 31,		
	2012	2011	2010
Fixed maturities	\$ 7.7	\$ (12.2)	\$ 10.2
Common equity securities	3.0	(16.6)	(19.2)
Convertible fixed maturities	—	—	—
Other long-term investments	7.0	(16.8)	39.0
Total net unrealized investment gains (losses), pre-tax - Level 3 investments	\$ 17.7	\$ (45.6)	\$ 30.0

The components of White Mountains' net realized and unrealized investment gains (losses), after-tax, as recorded on the statements of operations and comprehensive income were as follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Net change in pre-tax unrealized gains (losses) on investments in unconsolidated affiliates	\$ 62.8	\$ (63.6)	\$ 72.7
Income taxes	(5.1)	5.1	.8
Net change in unrealized gains (losses) on investments in unconsolidated affiliates, after tax	57.7	(58.5)	73.5
Net realized and unrealized foreign currency gains (losses) on investments through OCI	95.5	(41.7)	107.9
Total investments gains (losses) through accumulated other comprehensive income	153.2	(100.2)	181.4
Net realized and unrealized investment gains, after-tax	91.4	56.0	56.1
Total investment gains (losses) recorded during the period, after-tax	\$ 244.6	\$ (44.2)	\$ 237.5

## Investment Holdings

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains' fixed maturity investments as of December 31, 2012 and 2011, were as follows:

Millions	December 31, 2012				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
US Government and agency obligations	\$ 440.4	\$ 1.0	\$ (0.1)	\$ (1.2)	\$ 440.1
Debt securities issued by industrial corporations	2,321.4	88.3	(1.6)	(23.0)	2,385.1
Municipal obligations	5.3	—	(0.1)	—	5.2
Mortgage-backed and asset-backed securities	2,081.0	25.1	(1.1)	(9.4)	2,095.6
Foreign government, agency and provincial obligations	526.6	6.9	(3.0)	(8.6)	521.9
Preferred stocks	79.9	6.7	—	(0.2)	86.4
Total fixed maturity investments including assets held for sale	<b>\$ 5,454.6</b>	<b>\$ 128.0</b>	<b>\$ (5.9)</b>	<b>\$ (42.4)</b>	\$ 5,534.3
Fixed maturity investments reclassified to assets held for sale <sup>(1)</sup>					(338.1)
Total fixed maturity investments					<b>\$ 5,196.2</b>

<sup>(1)</sup> Assets held for sale related to discontinued operations. See **Note 20**.

Millions	December 31, 2011				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
US Government and agency obligations	\$ 299.4	\$ 5.3	\$ (0.1)	\$ 0.4	\$ 305.0
Debt securities issued by industrial corporations	2,072.1	73.7	(7.8)	(2.9)	2,135.1
Municipal obligations	2.7	—	—	—	2.7
Mortgage-backed and asset-backed securities	3,190.5	25.9	(3.9)	10.4	3,222.9
Foreign government, agency and provincial obligations	581.2	11.0	(0.1)	(2.9)	589.2
Preferred stocks	82.3	3.2	(6.7)	—	78.8
Total fixed maturity investments including assets held for sale	<b>\$ 6,228.2</b>	<b>\$ 119.1</b>	<b>\$ (18.6)</b>	<b>\$ 5.0</b>	\$ 6,333.7
Fixed maturity investments reclassified to assets held for sale <sup>(1)</sup>					(111.8)
Total fixed maturity investments					<b>\$ 6,221.9</b>

<sup>(1)</sup> Assets held for sale related to discontinued operations. See **Note 20**.

The weighted average duration of White Mountains' fixed maturity portfolio at December 31, 2012 was approximately 2.4 years, including short-term investments, and approximately 2.7 years excluding short-term investments.

The cost or amortized cost and carrying value of White Mountains' fixed maturity investments and convertible fixed maturity investments at December 31, 2012 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

Millions	December 31, 2012	
	Cost or amortized cost	Carrying value
Due in one year or less	\$ 395.9	\$ 396.7
Due after one year through five years	2,297.8	2,336.7
Due after five years through ten years	648.9	671.6
Due after ten years	72.8	74.7
Mortgage-backed and asset-backed securities	2,081.0	2,095.6
Preferred stocks	79.9	86.4
Total	\$ 5,576.3	\$ 5,661.7

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains' common equity securities, convertible fixed maturity investments and other long-term investments as of December 31, 2012 and 2011 were as follows:

Millions	December 31, 2012				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	\$ 895.2	\$ 143.4	\$ (8.8)	\$ (.1)	\$ 1,029.7
Convertible fixed maturity investments	\$ 121.7	\$ 6.1	\$ (.4)	\$ —	\$ 127.4
Other long-term investments	\$ 257.2	\$ 65.9	\$ (22.8)	\$ (6.1)	\$ 294.2

Millions	December 31, 2011				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	\$ 691.7	\$ 72.0	\$ (8.7)	\$ —	\$ 755.0
Convertible fixed maturity investments	\$ 139.2	\$ 6.2	\$ (1.6)	\$ —	\$ 143.8
Other long-term investments	\$ 274.4	\$ 55.5	\$ (25.2)	\$ (3.4)	\$ 301.3

Sales and maturities of investments, excluding short-term investments, totaled \$6,997.5 million, \$5,034.0 million and \$4,492.6 million for the years ended December 31, 2012, 2011 and 2010. There were no non-cash exchanges or involuntary sales of investment securities during 2012, 2011 and 2010.

#### Investments Held on Deposit or as Collateral

As of December 31, 2012 and 2011, investments of \$169.9 million and \$79.2 million, respectively, were held in trusts required to be maintained in relation to various reinsurance agreements. White Mountains' consolidated insurance and reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits which are included within total investments totaled \$319.3 million and \$313.4 million as of December 31, 2012 and 2011.

#### *Fair value measurements at December 31, 2012*

White Mountains used quoted market prices or other observable inputs to determine fair value for the 95.0% of its investment portfolio. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs consist of fixed maturity investments including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains' investments in hedge funds and private equity funds, as well as investments in certain debt securities where quoted market prices are unavailable. White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating, prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5.0% and \$1.0 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains' review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.

White Mountains' investments in debt securities are generally valued using matrix and other pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized or accreted prospectively over the remaining economic life.

White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing the audited annual financial statements of each hedge fund and private equity fund and periodically discussing each fund's pricing with the fund manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair value of White Mountains' investments in hedge funds and private equity funds has been classified as Level 3 measurements. The fair value of White Mountains' investments in hedge funds and private equity funds has been determined using net asset value.

In addition to the investments described above, White Mountains has \$79.7 million and \$68.1 million of investment-related liabilities recorded at fair value and included in other liabilities as of December 31, 2012 and December 31, 2011. These liabilities relate to securities that have been sold short by limited partnerships in which White Mountains has investments and is required to consolidate under GAAP. All of the liabilities included have a Level 1 designation.

### Fair Value Measurements by Level

The following tables summarize White Mountains' fair value measurements for investments at December 31, 2012 and 2011 by level. The fair value measurements for derivative assets associated with White Mountains' variable annuity business are presented in **Note 8**.

Millions	December 31, 2012			
	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
U.S. Government and agency obligations	\$ 440.1	\$ 369.1	\$ 71.0	\$ —
Debt securities issued by corporations:				
Consumer	727.1	—	727.1	—
Industrial	330.8	—	330.8	—
Financials	401.4	1.0	400.4	—
Communications	276.1	—	276.1	—
Energy	181.5	—	181.5	—
Basic materials	189.1	—	189.1	—
Utilities	204.2	—	204.2	—
Technology	54.0	—	54.0	—
Other	20.9	—	20.9	—
Total debt securities issued by corporations:	2,385.1	1.0	2,384.1	—
Municipal obligations	5.2	—	5.2	—
Mortgage-backed and asset-backed securities	2,095.6	—	2,073.5	22.1
Foreign government, agency and provincial obligations	521.9	52.1	469.8	—
Preferred stocks	86.4	—	15.6	70.8
Total fixed maturity investments <sup>(1)</sup>	5,534.3	422.2	5,019.2	92.9
Short-term investments	630.6	630.6	—	—
Common equity securities:				
Financials	324.5	286.3	.9	37.3
Consumer	255.6	255.6	—	—
Basic materials	103.3	103.3	—	—
Energy	101.0	101.0	—	—
Utilities	43.6	43.4	.2	—
Technology	90.2	90.2	—	—
Other	111.5	53.1	58.4	—
Total common equity securities	1,029.7	932.9	59.5	37.3
Convertible fixed maturity investments	127.4	—	127.4	—
Other long-term investments <sup>(2)</sup>	259.3	—	—	259.3
Total investments	\$ 7,581.3	\$ 1,985.7	\$ 5,206.1	\$ 389.5

<sup>(1)</sup> Carrying value includes \$338.1 that is classified as assets held for sale relating to discontinued operations.

<sup>(2)</sup> Excludes carrying value of \$35.0 associated with other long-term investment limited partnerships accounted for using the equity method and \$(0.1) related to currency forward contracts.



Millions	December 31, 2011			
	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
US Government and agency obligations	\$ 305.0	\$ 296.2	\$ 8.8	\$ —
Debt securities issued by corporations:				
Consumer	790.7	—	790.7	—
Industrial	359.4	—	359.4	—
Financials	239.6	3.8	235.8	—
Communications	225.8	—	225.8	—
Basic materials	195.7	—	195.7	—
Energy	155.8	—	155.8	—
Utilities	140.1	—	140.1	—
Technology	24.5	—	24.5	—
Diversified	3.5	—	3.5	—
Total debt securities issued by corporations:	2,135.1	3.8	2,131.3	—
Municipal obligations	2.7	—	2.7	—
Mortgage-backed and asset-backed securities	3,222.9	—	3,207.8	15.1
Foreign government, agency and provincial obligations	589.2	65.7	523.5	—
Preferred stocks	78.8	—	15.0	63.8
Total fixed maturity investments <sup>(1)</sup>	6,333.7	365.7	5,889.1	78.9
Short-term investments	846.0	846.0	—	—
Common equity securities:				
Financials	219.2	185.8	1.5	31.9
Consumer	188.8	188.5	.3	—
Basic materials	121.0	119.9	1.1	—
Energy	72.6	72.6	—	—
Utilities	42.0	41.8	.2	—
Technology	25.8	25.8	—	—
Other	85.6	33.0	52.2	.4
Total common equity securities	755.0	667.4	55.3	32.3
Convertible fixed maturity investments	143.8	—	143.8	—
Other long-term investments <sup>(2)</sup>	268.3	—	—	268.3
Total investments	\$ 8,346.8	\$ 1,879.1	\$ 6,088.2	\$ 379.5

<sup>(1)</sup> Carrying value includes \$111.8 that is classified as assets held for sale relating to discontinued operations.

<sup>(2)</sup> Excludes carrying value of \$33.0 associated with other long-term investments accounted for using the equity method.

### Debt securities issued by corporations

The following table summarizes the ratings of the corporate debt securities held in White Mountains' investment portfolio as of December 31, 2012 and 2011:

Millions	Fair Value at	
	December 31,	
	2012	2011
AAA	\$ —	\$ —
AA	193.4	206.8
A	1,061.0	802.8
BBB	1,116.9	1,110.8
BB	7.0	6.2
Other	6.8	8.5
Debt securities issued by corporations <sup>(1)</sup>	\$ 2,385.1	\$ 2,135.1

<sup>(1)</sup> Credit ratings are assigned based on the following hierarchy: 1) Standard & Poor's Financial Services LLC ("Standard & Poor's") and 2) Moody's Investor Service ("Moody's").

### Mortgage-backed, Asset-backed Securities

White Mountains purchases commercial and residential mortgage-backed securities with the goal of maximizing risk adjusted returns in the context of a diversified portfolio. White Mountains' non-agency commercial mortgage-backed portfolio ("CMBS") is generally short-term and structurally senior, with more than 25 points of subordination on average for fixed rate CMBS and more than 50 points of subordination on average for floating rate CMBS as of December 31, 2012. In general, subordination represents the percentage principal loss on the underlying collateral that would be absorbed by other securities lower in the capital structure before the more senior security incurs a loss. White Mountains believes these levels of protection will mitigate the risk of loss tied to the refinancing challenges facing the commercial real estate market. As of December 31, 2012, on average less than 1.0% of the underlying loans were reported as non-performing for all non-agency CMBS held by White Mountains. White Mountains is not an originator of residential mortgage loans and did not hold any residential mortgage-backed securities ("RMBS") categorized as sub-prime as of December 31, 2012. White Mountains' investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities at December 31, 2012. White Mountains considers sub-prime mortgage-backed securities as those that have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., White Mountains considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

White Mountains categorizes mortgage-backed securities as “non-prime” (also called “Alt A” or “A-”) if they are backed by collateral that has overall credit quality between prime and sub-prime based on White Mountains’ review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. White Mountains’ non-agency residential mortgage-backed portfolio is generally moderate-term and structurally senior. White Mountains does not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

Millions	December 31, 2012			December 31, 2011		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	\$ 1,013.4	\$ 1,013.4	\$ —	\$ 1,365.8	\$ 1,365.8	\$ —
FNMA	74.6	74.6	—	712.6	712.6	—
FHLMC	55.8	55.8	—	35.9	35.9	—
Total Agency <sup>(1)</sup>	1,143.8	1,143.8	—	2,114.3	2,114.3	—
Non-agency:						
Residential	160.6	160.6	—	83.1	68.0	15.1
Commercial	334.1	334.1	—	276.7	276.7	—
Total Non-agency	494.7	494.7	—	359.8	344.7	15.1
Total mortgage-backed securities	1,638.5	1,638.5	—	2,474.1	2,459.0	15.1
Other asset-backed securities:						
Credit card receivables	173.5	151.4	22.1	380.6	380.6	—
Vehicle receivables	265.1	265.1	—	345.6	345.6	—
Other	18.5	18.5	—	22.6	22.6	—
Total other asset-backed securities	457.1	435.0	22.1	748.8	748.8	—
<b>Total mortgage and asset-backed securities</b>	<b>\$ 2,095.6</b>	<b>\$ 2,073.5</b>	<b>\$ 22.1</b>	<b>\$ 3,222.9</b>	<b>\$ 3,207.8</b>	<b>\$ 15.1</b>

<sup>(1)</sup> Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

#### Non-agency Mortgage-backed Securities

The security issuance years of White Mountains’ investments in non-agency RMBS and non-agency CMBS securities as of December 31, 2012 are as follows:

Millions	Fair Value	Security Issuance Year						
		2003	2006	2007	2009	2010	2011	2012
Non-agency RMBS	\$ 160.6	\$ 2.0	\$ 21.4	\$ 5.9	\$ 1.7	\$ 54.0	\$ 75.6	\$ —
Non-agency CMBS	334.1	—	8.8	15.6	—	13.4	99.8	196.5
<b>Total</b>	<b>494.7</b>	<b>\$ 2.0</b>	<b>\$ 30.2</b>	<b>\$ 21.5</b>	<b>\$ 1.7</b>	<b>\$ 67.4</b>	<b>\$ 175.4</b>	<b>\$ 196.5</b>

#### Non-agency Residential Mortgage-backed Securities

The classification of the underlying collateral quality and the tranche levels of White Mountains’ non-agency RMBS securities are as follows as of December 31, 2012:

Millions	Fair Value	Super Senior <sup>(1)</sup>	Senior <sup>(2)</sup>	Subordinate <sup>(3)</sup>
Prime	\$ 160.1	\$ 9.7	\$ 150.4	\$ —
Non-prime	.5	—	.5	—
Sub-prime	—	—	—	—
<b>Total</b>	<b>\$ 160.6</b>	<b>\$ 9.7</b>	<b>\$ 150.9</b>	<b>\$ —</b>

<sup>(1)</sup> At issuance, Super Senior were rated AAA by Standard & Poor’s, Aaa by Moody’s or AAA by Fitch Ratings (“Fitch”) and were senior to other AAA or Aaa bonds.

<sup>(2)</sup> At issuance, Senior were rated AAA by Standard & Poor’s, Aaa by Moody’s or AAA by Fitch and were senior to non-AAA or non-Aaa bonds.

<sup>(3)</sup> At issuance, Subordinate were not rated AAA by Standard & Poor’s, Aaa by Moody’s or AAA by Fitch and were junior to AAA or Aaa bonds.

### Non-agency Commercial Mortgage-backed Securities

The amount of fixed and floating rate securities and their tranche levels of White Mountains' non-agency CMBS securities are as follows as of December 31, 2012:

Millions	Fair Value	Super Senior <sup>(1)</sup>	Senior <sup>(2)</sup>	Subordinate <sup>(3)</sup>
Fixed rate CMBS	\$ 311.5	\$ 212.3	\$ 90.4	\$ 8.8
Floating rate CMBS	22.6	15.6	1.4	5.6
<b>Total</b>	<b>\$ 334.1</b>	<b>\$ 227.9</b>	<b>\$ 91.8</b>	<b>\$ 14.4</b>

<sup>(1)</sup> At issuance, Super Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa bonds.

<sup>(2)</sup> At issuance, Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to non-AAA or non-Aaa bonds.

<sup>(3)</sup> At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were junior to AAA or Aaa bonds.

### Other long-term investments

White Mountains holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. At December 31, 2012, White Mountains held investments in 16 hedge funds and 38 private equity funds. The largest investment in a single fund was \$16.0 million at December 31, 2012 and \$27.4 million at December 31, 2011. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at December 31, 2012 and December 31, 2011:

Millions	December 31, 2012		December 31, 2011	
	Fair Value	Unfunded Commitments <sup>(1)</sup>	Fair Value	Unfunded Commitments
<b>Hedge funds</b>				
Long/short equity	\$ 60.3	\$ —	\$ 48.8	\$ —
Long/short credit & distressed	22.7	—	32.3	—
Long diversified strategies	1.7	—	16.9	—
Long/short equity REIT	16.0	—	14.5	—
Long/short equity activist	13.6	—	12.3	—
Long bank loan	.3	—	.5	—
Total hedge funds	114.6	—	125.3	—
<b>Private equity funds</b>				
Multi-sector	23.3	5.4	26.9	8.2
Energy infrastructure & services	36.3	15.6	28.0	9.9
Distressed residential real estate	15.8	—	27.4	—
Real estate	11.6	3.3	9.5	3.3
Private equity secondaries	10.5	3.1	11.3	4.0
International multi-sector, Europe	5.1	5.0	7.8	4.7
Manufacturing/Industrial	9.9	15.1	6.2	—
Healthcare	4.3	5.4	2.3	7.0
International multi-sector, Asia	.4	2.7	3.6	2.6
Insurance	3.0	41.3	3.5	41.3
Aerospace/Defense/Government	2.8	22.2	—	—
Venture capital	2.2	.3	2.4	.5
Total private equity funds	125.2	119.4	128.9	81.5
Total hedge and private equity funds included in other long-term investments	\$ 239.8	\$ 119.4	\$ 254.2	\$ 81.5

<sup>(1)</sup> White Mountains also has unfunded commitments to a tax advantaged federal affordable housing development fund of \$5.3 at December 31, 2012.

Redemption of investments in certain hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period. The following summarizes the December 31, 2012 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

Millions Redemption frequency	Notice Period				Total
	30-59 days notice	60-89 days notice	90-119 days notice	120+ days notice	
Monthly	—	—	—	6.7	6.7
Quarterly	28.4	29.3	8.7	9.9	76.3
Semi-annual	—	21.8	—	—	21.8
Annual	1.7	—	7.8	0.3	9.8
Total	\$ 30.1	\$ 51.1	\$ 16.5	\$ 16.9	\$ 114.6

Certain of the hedge fund investments in which White Mountains is invested are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. At December 31, 2012, distributions of \$3.3 million were outstanding from these investments. The actual amount of the final distribution remittances remain subject to market fluctuations. The date at which such remittances will be received is not determinable at December 31, 2012.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. At December 31, 2012, redemptions of \$1.9 million are outstanding and are subject to market fluctuations. Redemptions are recorded as receivables when approved by the hedge funds and no longer subject to market fluctuations.

Investments in private equity funds are generally subject to a "lock-up" period during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund's underlying investments. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors.

At December 31, 2012, investments in private equity funds were subject to lock-up periods as follows:

Millions	1-3 years	3 – 5 years	5 – 10 years	>10 years	Total
Private Equity Funds — expected lock-up period remaining	\$ 24.6	\$ 11.7	79.0	\$ 9.9	125.2

## Rollforward of Fair Value Measurements by Level

White Mountains uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturity investments, common equity securities, convertible fixed maturity investments and other long-term investments at December 31, 2012 and 2011 consist of securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

The following tables summarize the changes in White Mountains' fair value measurements by level for the year ended December 31, 2012 and 2011:

Millions	Level 1 Investments	Level 2 Investments	Level 3 Investments				Total
			Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long- term investments	
Balance at January 1, 2012	\$ 1,879.1	\$ 6,088.2	\$ 78.9	\$ 32.3	\$ —	\$ 268.3	\$ 8,346.8 <sup>(1)(2)</sup>
Total realized and unrealized gains (losses)	46.8	53.6	8.7	12.4	—	(3.3)	118.2
Foreign currency gains (losses) in OCI and other revenue	8.9	81.9	.8	.2	—	3.7	95.5
Amortization/Accretion	(.8)	(48.0)	(.8)	—	—	—	(49.6)
Purchases	7,266.5	4,927.1	144.4	3.1	—	39.4	12,380.5
Sales	(7,214.8)	(5,937.0)	(99.4)	(10.1)	—	(48.8)	(13,310.1)
Transfers in	—	62.4	22.1	—	—	—	84.5
Transfers out	—	(22.1)	(61.8)	(.6)	—	—	(84.5)
Balance at December 31, 2012	\$ 1,985.7	\$ 5,206.1	\$ 92.9	\$ 37.3	\$ —	\$ 259.3	\$ 7,581.3 <sup>(1)(2)</sup>

<sup>(1)</sup> Excludes carrying value of \$33.0 and \$35.0 at January 1, 2012 and December 31, 2012 associated with other long-term investments accounted for using the equity method and \$(0.1) at December 31, 2012 related to currency forward contracts.

<sup>(2)</sup> Carrying value includes \$111.8 and \$338.1 at January 1, 2012 and December 31, 2012 that is classified as assets held for sale relating to discontinued operations.

Millions	Level 1 Investments	Level 2 Investments	Level 3 Investments				Total
			Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long- term investments	
Balance at January 1, 2011	\$ 1,894.4	\$ 5,477.4	\$ 128.4	\$ 71.2	\$ —	\$ 330.2 <sup>(1)</sup>	\$ 7,901.6 <sup>(1)</sup>
Total realized and unrealized (losses) gains	(1.4)	113.2	(8.1)	(4.7)	—	19.5	118.5
Foreign currency gains (losses) in OCI and other revenue	4.6	(76.1)	(4.4)	1.6	—	(5.0)	(79.3)
Amortization/Accretion	2.3	(54.2)	0.3	—	—	—	(51.6)
Purchases	10,653.6	8,905.6	213.7	19.7	—	58.4	19,851.0
Sales	(10,674.4)	(8,528.7)	—	(55.5)	—	(134.8)	(19,393.4)
Transfers in	—	269.2	18.2	—	—	—	287.4
Transfers out	—	(18.2)	(269.2)	—	—	—	(287.4)
Balance at December 31, 2011	\$ 1,879.1	\$ 6,088.2	\$ 78.9	\$ 32.3	\$ —	\$ 268.3 <sup>(1)</sup>	\$ 8,346.8 <sup>(1)(2)</sup>

<sup>(1)</sup> Excludes carrying value of \$33.0 and \$41.9 at December 31, 2011 and January 1, 2011 associated with other long-term investment limited partnerships accounted for using the equity method.

<sup>(2)</sup> Carrying value includes \$111.8 that is classified as assets held for sale relating to AutoOne discontinued operations.

### Fair Value Measurements — transfers between levels

During 2012, two fixed maturity securities classified as Level 3 measurements in the prior period was recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at December 31, 2012. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of \$61.8 million for the period ended December 31, 2012. For the year-ended December 31, 2012, “Transfers out” of Level 2 and “Transfers in” to Level 3 fixed maturity investments of \$22.1 million consists of one asset-backed security for which the estimated fair value was determined using a single broker quote.

At December 31, 2011, ten fixed maturity securities which had been classified as Level 3 measurements at January 1, 2011 were recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at December 31, 2011. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of \$269.2 million for the period ended December 31, 2011. One security that was classified as a Level 2 investment at January 1, 2011 was priced with unobservable inputs and represents “Transfers in” of \$18.2 million in Level 3 investments. The fair value of this security was estimated using industry standard pricing models, in which management selected inputs using its best judgment. The pricing models used by White Mountains use the same valuation methodology for all Level 3 measurements for fixed maturities. The security is considered to be Level 3 because the measurements are not directly observable. At December 31, 2011, the estimated fair value for this security determined using the industry standard pricing models was \$1.6 million less than the estimated fair value based upon quoted prices provided by a third party pricing vendor.

### Significant Unobservable Inputs

The following summarizes significant unobservable inputs used in estimating the fair value of investment securities classified within Level 3 at December 31, 2012:

(\$ in Millions)	December 31, 2012			
	Fair Value	Rating	Valuation Technique(s)	Unobservable Input
Asset-backed securities <sup>(1)</sup>	\$22.1	AA+	Broker pricing	Broker quote
Preferred Stock <sup>(1)</sup>	\$70.8	NR	Discounted cash flow	Discount yield 7.6%
Private equity securities	\$36.9	NR	Multiple of GAAP book value	Book value multiple 1.0

<sup>(1)</sup> As of December 31, 2012 each asset type consists of one security.

### NOTE 6. Debt

White Mountains’ debt outstanding as of December 31, 2012 and 2011 consisted of the following:

Millions	December 31, 2012	December 31, 2011
2012 OBH Senior Notes, at face value	\$ 275.0	\$ —
Unamortized original issue discount	(.3)	—
2012 OBH Senior Notes, carrying value	274.7	—
2003 OBH Senior Notes, at face value	—	269.9
Unamortized original issue discount	—	(.1)
2003 OBH Senior Notes, carrying value	—	269.8
SIG Senior Notes, at face value	400.0	400.0
Unamortized original issue discount	(.6)	(.7)
SIG Senior Notes, carrying value	399.4	399.3
WTM Bank Facility	75.0	—
Old Lyme Note	2.1	2.1
Other debt <sup>(1)</sup>	—	6.3
Total debt	\$ 751.2	\$ 677.5

<sup>(1)</sup> Other debt represents debt of Hamer and Bri-Mar, which are no longer consolidated as of October 1, 2012. See Note 16.

A schedule of contractual repayments of White Mountains' debt as of December 31, 2012, follows:

<b>Millions</b>	<b>December 31, 2012</b>
Due in one year or less	\$ —
Due in two to three years	75.0
Due in four to five years	402.1
Due after five years	275.0
Total	<u>\$ 752.1</u>

### 2012 OBH Senior Notes

In November 2012, OneBeacon U.S. Holdings, Inc. ("OBH"), an intermediate holding company of OneBeacon, issued \$275 million face value of senior unsecured debt (the "2012 OBH Senior Notes") through a public offering, at an issue price of 99.9% and received \$272.9 million of proceeds. The 2012 OBH Senior Notes bear an annual interest rate of 4.6% payable semi-annually in arrears on May 9 and November 9, until maturity on November 9, 2022, and are fully and unconditionally guaranteed as to the payment of principal and interest by OneBeacon Ltd.

OBH incurred \$2.8 million in expenses related to the issuance of the 2012 OBH Senior Notes (including \$1.8 million in underwriting fees), which have been deferred and are being recognized into interest expense over the life of the 2012 OBH Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2012 OBH Senior Notes have an effective yield to maturity of approximately 4.7% per annum.

OBH recorded \$1.8 million in interest expense on the 2012 OBH Senior Notes for the year ended December 31, 2012.

### 2003 OBH Senior Notes

In May 2003, OBH issued \$700.0 million face value of senior unsecured debt (the "2003 OBH Senior Notes") through a public offering, at an issue price of 99.7% and received \$693.4 million of proceeds. The 2003 OBH Senior Notes had an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, until maturity in May 2013. White Mountains fully and unconditionally guaranteed the payment of principal and interest on the 2003 OBH Senior Notes for a fee equal to 25 basis points per annum on the outstanding principal amount of the 2003 OBH Senior Notes.

OBH incurred \$7.3 million in expenses related to the issuance of the 2003 OBH Senior Notes (including \$4.5 million in underwriting fees), which were recognized into interest expense over the life of the 2003 OBH Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2003 OBH Senior Notes had an effective yield to maturity of approximately 6.0% per annum. OBH recorded \$15.1 million, \$20.5 million and \$29.5 million in interest expense, inclusive of amortization of issuance costs, on the 2003 OBH Senior Notes for the years ended December 31, 2012, 2011 and 2010.

On June 1, 2010, through a cash tender offer, OBH repurchased and retired \$156.4 million aggregate principal amount of 2003 OBH Senior Notes for an aggregate purchase price of \$165.4 million, which resulted in a \$9.6 million loss, including transaction fees.

In addition to the cash tender offer, during 2010 OBH repurchased and retired \$29.7 million of outstanding 2003 OBH Senior Notes for \$30.8 million, which resulted in a \$1.2 million loss and OBIC purchased \$1.1 million of outstanding 2003 OBH Senior Notes for \$1.1 million.

On April 6, 2011, through a cash tender offer, OBH purchased and retired \$150.0 million aggregate principal amount of 2003 OBH Senior Notes for \$161.6 million, which resulted in a \$12.0 million loss, including transaction fees.

In December 2012, OBH repurchased the remaining \$269.8 million of 2003 OBH Senior Notes for \$275.9 million, which resulted in a \$6.3 million loss, including transaction fees and the write-off of the remaining \$0.2 million in unamortized deferred costs and original issue discount at the time of repurchase, in the year ended December 31, 2012.

### SIG Senior Notes

In March 2007, SIG issued \$400.0 million face value of senior unsecured notes ("SIG Senior Notes") at an issue price of 99.715% for net proceeds of \$392.0 million after taking into effect both deferrable and non-deferrable issuance costs, including the interest rate lock agreement described below. The SIG Senior Notes were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. The SIG Senior Notes bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017.

SIG incurred \$3.6 million in expenses related to the issuance of the SIG Senior Notes (including \$2.6 million in underwriting fees), which have been deferred and are being recognized into interest expense over the life of the SIG Senior Notes.



In anticipation of the issuance of the SIG Senior Notes, SIG entered into an interest rate lock agreement to hedge its interest rate exposure from the date of the agreement until the pricing of the SIG Senior Notes. The agreement was terminated on March 15, 2007 with a loss of \$2.4 million, which was recorded in other comprehensive income. The loss is being reclassified from accumulated other comprehensive income over the life of the SIG Senior Notes using the interest method and is included in interest expense. At December 31, 2012, the unamortized balance of the loss remaining in accumulated other comprehensive income was \$1.2 million.

Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, including the interest rate lock agreement, the SIG Senior Notes yield an effective rate of approximately 6.5% per annum. White Mountains recorded \$26.2 million of interest expense, inclusive of amortization of issuance costs and the interest rate lock agreement, on the SIG Senior Notes for the years ended December 31, 2012, 2011, and 2010.

#### **WTM Bank Facility**

On August 12, 2011, White Mountains entered into a revolving credit facility with a total commitment of \$375.0 million (the “WTM Bank Facility”) with a syndicate of lenders administered by Bank of America, N.A. that has a maturity date of August 12, 2015. The WTM Bank Facility replaces the previous revolving credit facility which had a total commitment of \$475.0 million. White Mountains recorded \$1.7 million, \$3.1 million and \$1.1 million of interest expense on the WTM Bank Facility for the years ended December 31, 2012, 2011 and 2010.

In December 2012, White Mountains borrowed \$150.0 million under the WTM Bank Facility at a blended interest rate of 3.53%. White Mountains repaid \$75.0 million in December 2012. As of December 31, 2012, White Mountains had a balance of \$75.0 million outstanding under the revolving credit facility, which was fully repaid in January 2013.

The WTM Bank Facility contains various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under these facilities and result in acceleration of principal repayment on any amounts outstanding.

#### **Old Lyme Note**

On December 31, 2011 Sirius Group acquired the runoff loss reserve portfolio of Old Lyme (see **Note 2**). As part of the acquisition, Sirius Group entered into a five-year \$2.1 million purchase note. The principal amount of the purchase note is subject to upward adjustments for favorable loss reserve development (up to 50% of \$6.0 million) and downward adjustments for any adverse loss reserve development.

#### **Sierra Note**

In connection with its acquisition of the Sierra Insurance Group Companies (“Sierra Group”) on March 31, 2004, Sirius Group entered into a \$62.0 million purchase note (the “Sierra Note”), \$58.0 million of which may be adjusted over its six-year term to reflect favorable or adverse loss reserve development on the acquired reserve portfolio and runoff of remaining policies in force (mainly workers compensation business), as well as certain other balance sheet protections. Since inception the principal of the Sierra Note had been reduced by \$29.0 million as a result of adverse development on the acquired reserves and runoff of unearned premium, which includes \$5.2 million and \$22.8 million of adverse development which occurred during 2008 and 2005 and \$1.9 million and \$9.1 million of favorable development in 2010 and 2007. Interest accrued on the unpaid balance of the Sierra Note at a rate of 4.0% per annum, compounded quarterly, and was payable at its maturity.

On October 31, 2008, White Mountains disposed of its remaining interest in the Sierra Group as part of the Berkshire Exchange transaction. White Mountains was still obligated to repay the Sierra Note, but Berkshire provided White Mountains an indemnity, whereby Berkshire reimbursed White Mountains all amounts due under the Sierra Note at its maturity, as adjusted for future reserve development, except for the portion of interest on the Sierra Note that accrued from its issue date through December 31, 2007, plus interest on this accrued amount through the date of repayment.

The Sierra Note matured on March 31, 2010. However, the final amount due was in dispute with respect to the amount of loss reserve development. On September 15, 2010, White Mountains paid Sierra the undisputed amounts owed of \$42.8 million on the Sierra Note which consisted of \$33.0 million for the principal repayment and \$9.8 million for accrued interest. Berkshire reimbursed White Mountains \$36.7 million, which consisted of the \$33.0 million principal balance and \$3.7 million for accrued interest.

During the fourth quarter of 2011, the dispute was settled through arbitration. White Mountains paid additional interest accrued on the Sierra Note and recognized \$5.5 million of interest expense.

#### **Atlantic Specialty Note**

In connection with its acquisition of Atlantic Specialty Insurance Company on March 31, 2004, OneBeacon issued a \$20.0 million ten-year note to the seller (the “Atlantic Specialty Note”). The note accrued interest at a rate of 5.2%, except that the outstanding principal amount in excess of \$15.0 million accrued interest at a rate of 3.6%. In 2010, OneBeacon repaid the remaining \$14.0 million outstanding principal on the note.

## Debt Covenants

At December 31, 2012, White Mountains was in compliance with all of the covenants under the WTM Bank Facility, the 2012 OBH Senior Notes and the SIG Senior Notes.

## Interest

Total interest expense incurred by White Mountains for its indebtedness was \$44.8 million, \$55.2 million and \$57.3 million in 2012, 2011 and 2010. Total interest paid by White Mountains for its indebtedness was \$44.6 million, \$59.0 million, and \$64.1 million in 2012, 2011 and 2010.

## NOTE 7. Income Taxes

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law such that taxes are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company's subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Germany, Gibraltar, Luxembourg, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

The total income tax benefit (expense) for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

Millions	Year Ended December 31,		
	2012	2011	2010
Current tax benefit (expense):			
U.S. federal	\$ 8.2	\$ 36.3	\$ 52.4
State	(3.4)	(2.4)	(2.2)
Non-U.S.	(5.9)	5.1	(9.1)
Total current tax benefit (expense)	(1.1)	39.0	41.1
Deferred tax benefit (expense):			
U.S. federal	(55.5)	(43.7)	(74.3)
State	—	—	—
Non-U.S.	72.3	114.7	3.6
Total deferred tax benefit (expense)	16.8	71.0	(70.7)
Total income tax benefit (expense)	\$ 15.7	\$ 110.0	\$ (29.6)

## Effective Rate Reconciliation

A reconciliation of taxes calculated using the 35% U.S. statutory rate (the tax rate at which the majority of White Mountains' worldwide operations are taxed) to the income tax (expense) benefit on pre-tax income follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Tax (expense) benefit at the U.S. statutory rate	\$ (92.0)	\$ (34.3)	\$ (66.2)
Differences in taxes resulting from:			
Tax rate change enacted in Sweden	65.4	—	—
Non-U.S. earnings, net of foreign taxes	43.0	6.2	22.8
Change in valuation allowance	(14.1)	128.2	2.6
Tax rate change enacted in Luxembourg	7.2	1.2	2.8
Purchase of subsidiaries	5.1	—	4.5
Tax exempt interest and dividends	3.1	2.9	2.3
Withholding tax	(2.9)	.2	(.2)
Tax reserve adjustments	(1.3)	4.3	(2.8)
Sale of subsidiaries	—	—	4.2
Other, net	2.2	1.3	.4
Total income tax benefit (expense) on pre-tax income	\$ 15.7	\$ 110.0	\$ (29.6)

In 2012, new tax legislation was enacted in Sweden, which was effective January 1, 2013, that reduces the corporate tax rate from 26.3% to 22.0%. This resulted in a reduction of \$65.4 million in Sirius Group's deferred tax liabilities in Sweden.

The non-U.S. component of pre-tax income was \$250.0 million, \$65.4 million and \$74.4 million for the years ended December 31, 2012, 2011 and 2010.

### Tax Payments and Receipts

Net income tax payments to (receipts from) national governments (primarily the United States) totaled \$17.5 million, \$12.5 million, and \$(47.0) million for the years ended December 31, 2012, 2011 and 2010.

### Deferred Tax Inventory

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes.

An outline of the significant components of White Mountains' deferred tax assets and liabilities follows:

Millions	December 31,	
	2012	2011
Deferred income tax assets related to:		
Non-U.S. net operating loss carryforwards	\$ 509.5	\$ 503.7
U.S. federal net operating and capital loss carryforwards	165.2	102.7
Loss reserve discount	88.6	114.2
Runoff Transaction	49.3	—
Unearned premiums	45.5	41.2
Incentive compensation	36.8	43.4
Tax credit carryforwards	17.0	13.5
Deferred compensation	10.4	11.4
Pension and benefit accruals	10.3	8.0
Accrued interest	8.0	8.0
Fixed assets	2.8	(.1)
Sale of AutoOne	—	10.4
Other items	7.7	6.4
Total gross deferred income tax assets	951.1	862.8
Less: valuation allowances	(254.0)	(232.6)
Total net deferred income tax assets	697.1	630.2
Deferred income tax liabilities related to:		
Safety reserve	326.7	369.6
Net unrealized investment gains	54.2	34.8
Deferred acquisition costs	49.8	48.8
Investment basis difference	21.0	(.9)
Purchase accounting	9.5	.6
Other items	7.6	5.9
Total deferred income tax liabilities	468.8	458.8
Net deferred tax asset	\$ 228.3	\$ 171.4

White Mountains' deferred tax assets are net of U.S. federal, state, and non-U.S. valuation allowances and, to the extent they relate to non-U.S. jurisdictions, they are shown at year-end exchange rates.

### Valuation Allowance

White Mountains records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods and strategies that if executed would result in the realization of a deferred tax asset. It is possible that certain planning strategies or projected earnings in certain subsidiaries may not be feasible to utilize the entire deferred tax asset, which could result in material changes to White Mountains' deferred tax assets and tax expense.

Of the \$254.0 million valuation allowance at December 31, 2012, \$192.0 million relates to deferred tax assets on net operating losses in Luxembourg subsidiaries (discussed below under “Net Operating Loss and Capital Loss Carryforwards”) and \$62.0 million relates to deferred tax assets on U.S. losses and other federal deferred tax benefits. Of the \$232.6 million valuation allowance at December 31, 2011, \$225.5 million relates to deferred tax assets on net operating losses in Luxembourg subsidiaries (discussed below under “Net Operating Loss and Capital Loss Carryforwards”) and \$6.9 million relates to deferred tax assets on U.S. losses and other federal deferred tax benefits.

#### *Luxembourg*

During the fourth quarters of 2012 and 2011, White Mountains recorded net tax benefits of \$41.3 million and \$129.5 million from the net release of valuation allowances against deferred tax assets in Luxembourg-domiciled subsidiaries. These companies had built up substantial deferred tax assets due to net operating loss carryforwards (“NOLs”). The loss carryforwards primarily relate to tax deductible write downs in 2007 and 2008 of investments in U.S. subsidiaries. There were partial valuation allowances on these deferred tax assets in periods prior to the fourth quarter of 2012 and 2011 because the companies did not expect sufficient future taxable income to utilize them.

During the fourth quarter of 2012 and 2011, Sirius Group undertook a series of reorganizations to optimize operational and capital efficiency. As part of the reorganizations, investments and outstanding internal debt instruments were contributed to Luxembourg-domiciled subsidiaries with net operating loss carryforwards. One of the companies, S.I. Holdings (Luxembourg) S.à r.l., (“SI Holdings”) (formerly OneBeacon Holdings (Luxembourg) S.à r.l.), was acquired from OneBeacon on January 24, 2012. As the plan for the Sirius Group to acquire SI Holdings and contribute the notes was in place on December 31, 2011, and this was a transaction between entities under common control, White Mountains accounted for the tax effects of the transaction as if it had occurred in 2011. An investment portfolio was contributed to SI Holdings in January 2013, pursuant to a plan in place on December 31, 2012, that will generate income utilizing the deferred tax asset over an extended period of time. The deferred tax assets for the remaining NOLs at the companies are offset by a valuation allowance as no additional taxable income is expected.

#### *United States*

During the fourth quarter 2012, White Mountains recorded tax expense of \$37.8 million to establish a valuation allowance against deferred tax assets of Guilford Holdings, Inc. and subsidiaries (“Guilford”), as White Mountains management determined that the strategies supporting the deferred tax assets were no longer feasible to utilize the assets. Guilford consists of service companies that are included in the Other Operations segment.

During the fourth quarter 2012, White Mountains recorded tax expense of \$3.9 million to establish a valuation allowance against deferred tax assets related to foreign tax credit carryforwards at Sirius Re Holdings, Inc. and subsidiaries (“SRHI”) that expire in 2016 and 2017. SRHI is no longer expected to generate sufficient taxable income to utilize these credits. SRHI has an additional \$4.6 million of foreign tax credits that expire in 2018-2022 that are still expected to be utilized.

During 2012, White Mountains recorded tax expense of \$13.7 million to establish valuation allowances against deferred tax assets of BAM and Houston General Insurance Exchange (“Houston General Insurance”) as it is uncertain if these companies will have sufficient taxable income to utilize their deferred tax assets. However, since BAM and Houston General Insurance are mutual insurance companies that are owned by their members, their results do not affect White Mountains’ common shareholders’ equity as they are attributable to non-controlling interests.

#### **Net Operating Loss and Capital Loss Carryforwards**

Net operating loss and capital loss carryforwards as of December 31, 2012, the expiration dates and the deferred tax assets thereon are as follows:

Millions	December 31, 2012			
	United States	Luxembourg	Sweden	Total
2013	\$ —	\$ —	\$ —	\$ —
2014-2018	—	—	—	—
2019-2023	20.2	—	—	20.2
2024-2033	467.0	—	—	467.0
No expiration date	—	1,743.6	.1	1,743.7
Total	487.2	1,743.6	.1	2,230.9
Gross deferred tax asset	165.2	509.5	—	674.7
Valuation allowance	(32.3)	(192.0)	—	(224.3)
Net deferred tax asset	\$ 132.9	\$ 317.5	\$ —	\$ 450.4

White Mountains expects to utilize net operating loss carryforwards in Luxembourg of \$1,308.5 million but does not expect to utilize the remainder as they belong to companies that are not expected to have sufficient income in the future. These losses primarily relate to tax deductible write-downs in 2007 and 2008 of investments in U.S. subsidiaries held by Luxembourg subsidiaries. Included in the U.S. net operating loss carryforwards are losses of \$29.0 million subject to an annual limitation on utilization under Internal Revenue Code Section 382. At December 31, 2012, there were U.S. foreign tax credit carryforwards available of \$10.6 million, which begin to expire in 2016. As discussed above, a deferred tax valuation allowance of \$3.9 million has been established for these credits. At December 31, 2012, there were U.S. low-income housing tax credit carryforwards available of \$4.8 million, which begin to expire in 2031. At December 31, 2012, there were U.S. investment tax credit carryforwards available of \$0.2 million, which begin to expire in 2031. Also, at December 31, 2012, there were U.S. alternative minimum tax credit carryforwards of \$1.5 million which do not expire.

During 2010, White Mountains International S.à r.l. (“WMI”) received a tax ruling in Luxembourg which allowed it to change its tax functional currency in Luxembourg to the Swedish krona from the euro. Pursuant to the ruling, WMI revalued its NOL carryforwards in Luxembourg using the December 31, 2008 euro/krona exchange rate. This resulted in WMI recording an \$11.9 million deferred tax benefit in 2010 for the increase in its NOLs in Luxembourg.

### Uncertain Tax Positions

Under ASC 740-10, recognition of the benefit of a given tax position is based upon whether a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more-likely-than-not recognition threshold, White Mountains must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Millions	Permanent Differences <sup>(1)</sup>	Temporary Differences <sup>(2)</sup>	Interest and Penalties <sup>(3)</sup>	Total
Balance at January 1, 2010	\$ 13.9	\$ 78.7	\$ 4.3	\$ 96.9
Changes in prior year tax positions	.5	(8.5)	1.9	(6.1)
Tax positions taken during the current year	.4	5.0	—	5.4
Lapse in statute of limitations	—	—	—	—
Settlements with tax authorities	(.3)	(.1)	—	(.4)
Balance at December 31, 2010	14.5	75.1	6.2	95.8
Changes in prior year tax positions	(.9)	.1	2.0	1.2
Tax positions taken during the current year	—	(20.4)	—	(20.4)
Lapse in statute of limitations	(3.4)	(5.7)	(1.4)	(10.5)
Settlements with tax authorities	(.6)	—	—	(.6)
Balance at December 31, 2011	9.6	49.1	6.8	65.5
Changes in prior year tax positions	.5	—	1.4	1.9
Tax positions taken during the current year	—	(20.2)	—	(20.2)
Lapse in statute of limitations	—	—	—	—
Settlements with tax authorities	(.4)	—	(.2)	(.6)
Balance at December 31, 2012	\$ 9.7	\$ 28.9	\$ 8.0	\$ 46.6

<sup>(1)</sup> Represents the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate.

<sup>(2)</sup> Represents the amount of unrecognized tax benefits that, if recognized would create a temporary difference between the reported amount of an item in the Company’s Consolidated Balance Sheet and its tax basis.

<sup>(3)</sup> Net of tax benefit.

If White Mountains determines in the future that its reserves for unrecognized tax benefits on permanent differences and interest and penalties are not needed, the reversal of \$17.7 million of such reserves at December 31, 2012 would be recorded as an income tax benefit and would impact the effective tax rate. If White Mountains determines in the future that its reserves for unrecognized tax benefits on temporary differences are not needed, the reversal of \$28.9 million of such reserves at December 31, 2012 would not impact the effective tax rate due to deferred tax accounting but would accelerate the payment of cash to the taxing authority. The vast majority of White Mountains’ reserves for unrecognized tax benefits on temporary differences relate to deductions for loss reserves that the timing of the deductions is uncertain.

White Mountains classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. During the years ended December 31, 2012, 2011 and 2010 White Mountains recognized \$1.2 million, \$0.6 million, \$1.9 million in interest (benefit) expense, net of any tax benefit. The balance of accrued interest at December 31, 2012 and 2011 is \$8.0 million and \$6.8 million, net of any tax benefit.

## Tax Examinations

With few exceptions, White Mountains is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2005.

The IRS is conducting an examination of income tax returns for 2005 and 2006 for certain U.S. subsidiaries of OneBeacon. On January 5, 2011, White Mountains received Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2005 and 2006. The estimated total assessment, including interest and utilization of alternative minimum and foreign tax credit carryovers, is \$20.8 million. White Mountains disagrees with the adjustments proposed by the IRS and is defending its position. Although the timing of the resolution of these issues is uncertain, it is reasonably possible that the resolution could occur within the next 12 months. An estimate of the range of potential outcomes cannot be made at this time. When ultimately settled, White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

On July 28, 2011, the IRS commenced an examination of the income tax returns for 2007, 2008 and 2009 for certain U.S. subsidiaries of OneBeacon. White Mountains has received proposed adjustments but does not expect the resolution of this examination to result in a material change to its financial position.

On December 15, 2011, the IRS commenced an examination of the income tax returns for 2010 for certain U.S. subsidiaries of AFI. Pursuant to a Stock Purchase Agreement dated as of May 17, 2011 between White Mountains and Allstate, White Mountains is required to indemnify Allstate for any changes in pre-closing taxes. White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

The IRS conducted an examination of income tax returns for 2006 and 2007 for certain U.S. subsidiaries of Sirius Group. On October 26, 2011, the Sirius Group received and signed the IRS Revenue Agent's Report, which contained no proposed adjustments. The IRS also examined the U.S. income tax return filed by WM Belvaux S.à r.l., a Luxembourg subsidiary, for tax year 2007. On May 3, 2011, the exam was completed with no proposed adjustments.

## Note 8. Derivatives

### Variable Annuity Reinsurance

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. At December 31, 2012, the total guarantee value was approximately ¥230.0 billion (approximately \$2.7 billion at exchange rates on that date). The collective account values of the underlying variable annuities were approximately 87% of the guarantee value at December 31, 2012. The following table summarizes the pre-tax operating results of WM Life Re for the years ended December 31, 2012, 2011 and 2010:

Millions	Year Ended December 31,		
	2012	2011	2010
Fees, included in other revenues	\$ 31.8	\$ 32.5	\$ 30.2
Change in fair value of variable annuity liability, included in other revenues	312.8	(156.5)	(223.5)
Change in fair value of derivatives, included in other revenues	(339.0)	92.9	127.0
Foreign exchange, included in other revenues	(30.3)	15.1	21.4
Other investment income and gains (losses)	2.5	(.9)	(.9)
Total revenues	(22.2)	(16.9)	(45.8)
Change in fair value of variable annuity death benefit liabilities, included in general and administrative expenses	14.2	(1.8)	(6.0)
Death benefit claims paid, included in general and administrative expenses	(5.7)	(3.8)	(2.7)
General and administrative expenses	(5.2)	(4.7)	(6.3)
Pre-tax loss	\$ (18.9)	\$ (27.2)	\$ (60.8)

For the years ended December 31, 2011 and 2010 the change in the fair value of the variable annuity liability included \$7.2 million, and \$47.7 million of losses associated with changes in projected surrender assumptions. There was no change in projected surrender assumptions in 2012.

All of White Mountains' variable annuity reinsurance liabilities were classified as Level 3 measurements at December 31, 2012.

The following table summarizes the changes in White Mountains' variable annuity reinsurance liabilities and derivative instruments for the year ended December 31, 2012, 2011 and 2010:

Millions	Variable Annuity (Liabilities)	Derivative Instruments			
	Level 3	Level 3 <sup>(1)</sup>	Level 2 <sup>(1)(2)</sup>	Level 1 <sup>(3)</sup>	Total <sup>(4)</sup>
Balance at January 1, 2012	\$ (768.5)	\$ 247.1	\$ 39.2	\$ 4.1	\$ 290.4
Purchases	—	6.1	—	—	6.1
Realized and unrealized gains (losses)	327.0	(84.0)	(186.9)	(68.1)	(339.0)
Transfers in (out)	—	—	—	—	—
Sales/settlements	—	(28.7)	127.2	42.3	140.8
Balance at December 31, 2012	\$ (441.5)	\$ 140.5	\$ (20.5)	\$ (21.7)	\$ 98.3

Millions	Variable Annuity (Liabilities)	Derivative Instruments			
	Level 3	Level 3 <sup>(1)</sup>	Level 2 <sup>(1)(2)</sup>	Level 1 <sup>(3)</sup>	Total <sup>(4)</sup>
Balance at January 1, 2011	\$ (610.2)	\$ 275.3	\$ 72.2	\$ —	\$ 347.5
Purchases	—	5.0	—	—	5.0
Realized and unrealized (losses) gains	(158.3)	14.5	67.7	10.7	92.9
Transfers in (out)	—	—	—	—	—
Sales/settlements	—	(47.7)	(100.7)	(6.6)	(155.0)
Balance at December 31, 2011	\$ (768.5)	\$ 247.1	\$ 39.2	\$ 4.1	\$ 290.4

Millions	Variable Annuity (Liabilities)	Derivative Instruments			
	Level 3	Level 3 <sup>(1)</sup>	Level 2 <sup>(1)(2)</sup>	Level 1 <sup>(3)</sup>	Total <sup>(4)</sup>
Balance at January 1, 2010	\$ (380.7)	\$ 208.5	\$ 23.8	\$ (38.0)	\$ 194.3
Purchases	—	19.4	—	—	19.4
Realized and unrealized (losses) gains	(229.5)	66.4	80.0	(19.4)	127.0
Transfers in (out)	—	—	—	—	—
Sales/settlements	—	(19.0)	(31.6)	57.4	6.8
Balance at December 31, 2010	\$ (610.2)	\$ 275.3	\$ 72.2	\$ —	\$ 347.5

<sup>(1)</sup> Consists of over-the-counter instruments.

<sup>(2)</sup> Consists of interest rate swaps, total return swaps, foreign currency forward contracts, and bond forwards. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded, where available. Swaps for which an active market does not exist have been priced using observable inputs including the swap curve and the underlying bond index.

<sup>(3)</sup> Consists of exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

<sup>(4)</sup> In addition to derivative instruments, WM Life Re held cash, short-term and fixed maturity investments of \$393.6, \$485.3 and \$326.0 at December 31, 2012, 2011 and 2010 posted as collateral to its reinsurance counterparties.

The fair value of White Mountains' variable annuity reinsurance liabilities are estimated using actuarial and capital market assumptions related to the projected discounted cash flows over the term of the reinsurance agreement. Assumptions regarding future policyholder behavior, including surrender and lapse rates, are generally unobservable inputs and significantly impact the fair value estimates. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates as well as the variations in actuarial assumptions regarding policyholder behavior may result in significant fluctuations in the fair value estimates. Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese yen, as well as with increases in market volatilities. White Mountains uses derivative instruments, including put options, interest rate swaps, total return swaps on bond and equity indices and forwards and futures contracts on major equity indices, currency pairs and government bonds, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. The types of inputs used to estimate the fair value of these derivative instruments, with the exception of actuarial assumptions regarding policyholder behavior and risk margins, are generally the same as those used to estimate the fair value of variable annuity liabilities.

The following summarizes quantitative information about significant unobservable inputs associated with the fair value estimates for variable annuity reinsurance liabilities and derivative instruments that have been classified as Level 3 measurements:

(\$ in Millions) Description	December 31, 2012				
	Fair Value	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
Variable annuity benefit guarantee liabilities	\$ 441.5	Discounted cash flows	Surrenders		
			1 year	0.3 % - 3.0 %	0.5 %
			2 year	0.2 % - 3.0 %	0.4 %
			3 and more years	0.1 % - 3.0 %	0.4 %
			Mortality	0.0 % - 4.8 %	0.9 %
			Foreign exchange volatilities		
			1 year	11.3 % - 12.5 %	12.2 %
			2 year	10.7 % - 13.2 %	12.1 %
			3 and more years	10.0 % - 15.4 %	13.1 %
			Index volatilities		
			1 year	13.6 % - 19.3 %	14.5 %
			2 year	17.5 % - 22.7 %	19.2 %
			3 and more years	19.9 % - 22.7 %	21.8 %
Foreign Exchange Options	\$ 76.8	Counterparty valuations, adjusted for unwind quote discount	Adjustment to counterparty valuations	(2.2)% - (7.9)%	(3.4)%
Equity Index Options	\$ 63.7	Counterparty valuations, adjusted for unwind quote discount	Adjustment to counterparty valuations	(1.1)% - (2.5)%	(1.5)%

The following summarizes realized and unrealized gains (losses) recognized in other revenues for the years ended December 31, 2012, 2011 and 2010 and the carrying values at December 31, 2012 and 2011 by type of instrument:

Millions	Year Ended December 31,			Carrying Value	
				December 31,	
	2012	2011	2010	2012	2011
Fixed income/interest rate	\$ (149.5)	\$ 8.9	\$ 17.6	\$ 4.3	\$ 31.1
Foreign exchange	(102.3)	29.5	144.6	51.3	161.3
Equity	(87.2)	54.5	(35.2)	42.7	98.0
Total	\$ (339.0)	\$ 92.9	\$ 127.0	\$ 98.3	\$ 290.4

WM Life Re enters into both over-the-counter (“OTC”) and exchange traded derivative instruments to economically hedge the liability from the variable annuity benefit guarantee. In the case of OTC derivatives, WM Life Re has exposure to credit risk for amounts that are uncollateralized by counterparties. WM Life Re’s internal risk management guidelines establish net counterparty exposure thresholds that take into account over-the-counter counterparties’ credit ratings. WM Life Re has entered into master netting agreements with certain of its OTC counterparties whereby the collateral provided (held) is calculated on a net basis. Collateral held consists of money-market instruments, carried at amortized cost, which approximates fair value. The OTC derivative contracts are subject to restrictions on liquidation of the instruments and distribution of proceeds under collateral agreements.



The following summarizes the value of collateral provided (held) by WM Life Re and net exposure on OTC derivative instruments recorded within other assets:

<b>Millions</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
OTC derivative instruments <sup>(1)</sup>	\$ 123.5	\$ 295.4
Collateral held	(30.6)	(73.2)
Collateral provided	119.3	83.0
Net exposure on fair value of OTC instruments	\$ 212.2	\$ 305.2

(1) Value of OTC derivative instruments as of December 31, 2012 and 2011 excludes adjustments for counterparty credit risk of \$(3.6) and \$(9.1) included in fair value under GAAP.

The following table summarizes uncollateralized amounts due under WM Life Re's OTC derivative contracts as of December 31, 2012 by counterparty:

<b>Millions</b>	<b>Uncollateralized balance as of December 31, 2012</b>	<b>Standard &amp; Poor's Rating <sup>(1)</sup></b>
Citigroup <sup>(2)</sup>	\$ 54.9	A
Bank of America	49.6	A
Royal Bank of Scotland	34.5	A
JP Morgan Chase <sup>(2)</sup>	30.9	A+
Nomura <sup>(2)</sup>	26.9	BBB+
Barclays	12.3	A+
Goldman Sachs	3.1	A-
Total	\$ 212.2	

(1) Standard & Poor's ratings as detailed above are: "A+" (Strong, which is the fifth highest of twenty-one creditworthiness ratings), "A" (which is the sixth highest of twenty-one creditworthiness ratings), "A-" (which is the seventh highest of twenty-one creditworthiness ratings), and BBB+ (which is the eighth highest of twenty-one creditworthiness ratings).

(2) Collateral provided (held) calculated under master netting agreement.

In addition, WM Life Re held cash and short-term investments posted as collateral to its variable annuity reinsurance counterparty. The total collateral comprises the following:

<b>Millions</b>	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Cash	\$ 249.8	\$ 453.5
Short-term investments	5.1	.6
Fixed maturity investments	138.7	31.2
Total	\$ 393.6	\$ 485.3

## Forward Contracts

White Mountains is exposed to foreign currency risk related to Sirius International as its functional currency is the Swedish krona (SEK). In addition, Sirius International holds net assets denominated in euros (EUR), British pound sterling (GBP), and U.S. Dollars (USD). Beginning in September 2012, White Mountains entered into forward contracts through a twelve month trial program with a third-party currency specialist manager to determine whether purchasing external forward currency contracts would improve the management of foreign currency exposure at Sirius Group. White Mountains monitors its exposure to foreign currency and adjusts its forward positions within the risk guidelines and ranges established by senior management for each currency, as necessary. While White Mountains actively manages its forward positions, mismatches between movements in foreign currency rates and its forward contracts may result in currency positions being outside the pre-defined ranges and/or foreign currency losses. At December 31, 2012, White Mountains held approximately \$31.2 million (SEK 202.8 million) total gross notional value of foreign currency forward contracts.

All of White Mountains' forward contracts are traded over-the-counter. The fair value of the contracts has been estimated using OTC quotes for similar instruments and accordingly, the measurements have been classified as Level 2 measurements at December 31, 2012.

The following tables summarize the changes in White Mountains' forward contracts for the year ended December 31, 2012:

Millions	Year ended December 31, 2012
Beginning of period	\$ —
Purchases	—
Realized and unrealized gains(losses)	(.3)
Sales/settlements	.2
End of period	\$ (.1)

The following summarizes realized and unrealized derivative gains (losses) recognized in net realized and unrealized investment gains and the carrying values, included in other long-term investments, at December 31, 2012 by type of currency:

Millions	December 31, 2012	
	Gains (Losses)	Carrying Value
USD	\$ (.2)	\$ —
SEK	—	—
EUR	(.1)	(.1)
GBP	—	—
Currency Translation	—	—
Total	\$ (.3)	\$ (.1)

White Mountains does not hold or provide any collateral for the forward contracts. The following table summarizes the notional amounts and the uncollateralized balances associated with forward currency contracts by counterparty:

Millions	December 31, 2012		S&P Rating <sup>(1)</sup>
	Notional amount	Uncollateralized Balance	
Deutsche Bank	\$ 11.1	\$ —	A+
Barclays Bank London	7.7	(.1)	A+
HSBC Bank plc	10.1	—	AA-
JP Morgan	1.9	—	A+
Goldman Sachs	.4	—	A-
Total	\$ 31.2	\$ (.1)	

<sup>(1)</sup> Standard & Poor's ("S&P") ratings as detailed above are: "AA-" (Very Strong, which is the sixth highest of twenty-one creditworthiness ratings), "A+" (Strong, which is the seventh highest of twenty-one creditworthiness ratings) and "A" (Strong, which is the eighth highest of twenty-one creditworthiness ratings).

## NOTE 9. Earnings Per Share

Basic earnings per share amounts are based on the weighted average number of common shares outstanding including unvested restricted shares that are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. The following table outlines the Company's computation of earnings per share for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010
<b>Basic and diluted earnings per share numerators (in millions):</b>			
Net income attributable to White Mountains' common shareholders	\$ 322.4	\$ 146.3	\$ 116.6
Allocation of income for participating unvested restricted common shares	(4.3)	(1.2)	(1.3)
Dividends declared on participating restricted common shares <sup>(1)</sup>	(.1)	(.1)	(.1)
Total allocation to restricted common shares	(4.4)	(1.3)	(1.4)
Net income attributable to White Mountains' common shareholders, net of restricted share amounts	\$ 318.0	\$ 145.0	\$ 115.2
<b>Undistributed net earnings:</b>			
Net income attributable to White Mountains' common shareholders, net of restricted common share amounts	\$ 318.0	\$ 145.0	\$ 115.2
Dividends declared net of restricted common share amounts <sup>(1)</sup>	(6.5)	(7.9)	(8.7)
Total undistributed net earnings, net of restricted common share amounts	\$ 311.5	\$ 137.1	\$ 106.5
<b>Basic earnings per share denominators (in thousands):</b>			
Total average common shares outstanding during the period	6,799.8	7,881.0	8,548.4
Average unvested restricted common shares <sup>(2)</sup>	(91.1)	(69.4)	(97.3)
Basic earnings per share denominator	6,708.7	7,811.6	8,451.1
<b>Diluted earnings per share denominator (in thousands):</b>			
Total average common shares outstanding during the period	6,799.8	7,881.0	8,548.4
Average unvested restricted common shares <sup>(2)</sup>	(91.1)	(69.4)	(97.3)
Average outstanding dilutive options to acquire common shares <sup>(3)</sup>	—	—	.5
Diluted earnings per share denominator	6,708.7	7,811.6	8,451.6
<b>Basic earnings per share (in dollars):</b>			
Net income attributable to White Mountains' common shareholders	\$ 47.41	\$ 18.56	\$ 13.63
Dividends declared and paid	(1.00)	(1.00)	(1.00)
Undistributed earnings	\$ 46.41	\$ 17.56	\$ 12.63
<b>Diluted earnings per share (in dollars)</b>			
Net income attributable to White Mountains' common shareholders	\$ 47.41	\$ 18.56	\$ 13.63
Dividends declared and paid	(1.00)	(1.00)	(1.00)
Undistributed earnings	\$ 46.41	\$ 17.56	\$ 12.63

<sup>(1)</sup> Restricted shares issued by White Mountains receive dividends, and therefore, are considered participating securities.

<sup>(2)</sup> Restricted common shares outstanding vest either in equal annual installments or upon a stated date (see **Note 11**).

<sup>(3)</sup> The diluted earnings per share denominator for the year ended December 31, 2010 includes 1,200 common shares issuable upon exercise of incentive options at an average strike price of \$189.31 per common share. The non-qualified options were not included in the diluted earnings per share denominator for any of the periods presented as their inclusion would be anti-dilutive.

**NOTE 10. Retirement and Postretirement Plans**

OneBeacon sponsors qualified and non-qualified, non-contributory, defined benefit pension plans covering substantially all employees who were employed as of December 31, 2001, as well as former employees and retirees that had met the eligibility requirements. Current plans include the OneBeacon qualified pension plan (the “Qualified Plan”) and the OneBeacon non-qualified pension plan (the “Non-qualified Plan”) (collectively the “Plans”). The Plans were frozen and curtailed in 2002 and, as a result, the projected benefit obligation is equal to the accumulated benefit obligation.

The benefits for the Plans are based primarily on years of service and employees’ compensation through December 31, 2002. OneBeacon’s funding policy is consistent with the funding requirements of U.S. federal laws and regulations.

The following tables set forth the obligations and funded status, assumptions, plan assets and cash flows associated with the various pension plans at December 31, 2012 and 2011:

Millions	Pension Benefits	
	2012	2011
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$ 113.0	\$ 110.2
Service cost	.7	.8
Interest cost	4.7	5.2
Settlement gain	(.7)	(.6)
Special termination benefit cost	.6	.8
Assumption changes	11.2	7.7
Actuarial (gain) loss	(.2)	(.3)
Benefits and expenses paid with plan assets, net of participant contributions	(7.5)	(8.4)
Benefits paid directly by OneBeacon	(2.3)	(2.4)
<b>Projected benefit obligation at end of year</b>	<b>\$ 119.5</b>	<b>\$ 113.0</b>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 120.8	\$ 133.0
Actual return on plan assets	11.4	(3.8)
Benefits and expenses paid, net of participant contributions	(7.5)	(8.4)
<b>Fair value of plan assets at end of year</b>	<b>\$ 124.7</b>	<b>\$ 120.8</b>
<b>Funded status at end of year</b>	<b>\$ 5.2</b>	<b>\$ 7.8</b>

The funded status of the consolidated pension plans at December 31, 2012 was \$5.2 million, which represents an over-funding of \$32.8 million related to the Qualified Plan and an under-funding of \$27.6 million related to the Non-qualified Plan. The Non-qualified Plan, which is unfunded, does not hold any assets. OneBeacon has set aside \$13.4 million in an irrevocable rabbi trust for the benefit of Non-qualified Plan participants. In accordance with GAAP, the assets held in the rabbi trust are not reflected in the funded status of the consolidated pension plans as presented.

Amounts recognized in the financial statements as of December 31, 2012 and 2011 consist of:

Millions	December 31,	
	2012	2011
Net assets of the Qualified Plan recorded in other assets	\$ 32.8	\$ 34.3
Net liabilities of the Non-qualified Plan recorded in other liabilities	(27.6)	(26.5)
<b>Net amount accrued in the financial statements</b>	<b>\$ 5.2</b>	<b>\$ 7.8</b>

Information for the Non-qualified Plan, which had accumulated benefit obligations in excess of plan assets, was as follows:

Millions	December 31,	
	2012	2011
Projected benefit obligation	\$ 27.6	\$ 26.5
Accumulated benefit obligation	\$ 27.6	\$ 26.5
Fair value of plan assets	\$ —	\$ —

Information for the Qualified Plan, which had accumulated benefit obligations less than plan assets, was as follows:

Millions	December 31,	
	2012	2011
Projected benefit obligation	\$ 91.9	\$ 86.5
Accumulated benefit obligation	\$ 91.9	\$ 86.5
Fair value of plan net assets <sup>(1)</sup>	\$ 124.7	\$ 120.8

<sup>(1)</sup> Includes receivables related to securities sold, interest and dividends as well as payables related to securities purchased.

The amounts recognized in accumulated other comprehensive income (loss) on a pre-tax basis and before non-controlling interest for the years ended December 31, 2012 and 2011 were as follows:

Millions	December 31,	
	2012	2011
Accumulated other comprehensive (loss) income beginning balance	\$ (16.7)	\$ .5
Increase (decrease) in accumulated other comprehensive income (loss):		
Amortization of net actuarial losses recognized during the year	.8	.5
Net actuarial losses occurring during the year <sup>(1)</sup>	(5.9)	(18.2)
Other adjustments	.6	.5
Accumulated other comprehensive loss ending balance	\$ (21.2)	\$ (16.7)

<sup>(1)</sup> Net actuarial losses resulted from a decrease in investment returns on plan assets in the year ended December 31, 2011 and changes in assumptions in estimating the projected benefit obligation in the years ended December 31, 2012 and 2011.

During 2012, OneBeacon expects \$0.9 million will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost. The components of net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010 were as follows:

Millions	Year Ended December 31,		
	2012	2011	2010
Service cost	\$ .7	\$ .8	\$ .8
Interest cost	4.7	5.2	6.0
Expected return on plan assets	(6.9)	(7.6)	(7.3)
Amortization of unrecognized loss	\$ .8	\$ .5	\$ .6
Net periodic pension (income) cost before settlements, curtailments and special termination benefits	\$ (.7)	\$ (1.1)	\$ .1
Settlement gain (loss)	.6	.5	(.1)
Special termination benefits expense <sup>(1)</sup>	.6	.8	1.9
<b>Total net periodic benefit cost</b>	<b>\$ .5</b>	<b>\$ .2</b>	<b>\$ 1.9</b>

<sup>(1)</sup> Special termination benefits represent additional payments made from the Qualified Plan to certain vested participants when their employment was terminated due to a reduction in force.

## Assumptions

The weighted average discount rate assumptions used to determine benefit obligations was 3.64% and 4.38% at December 31, 2012 and 2011. The weighted average assumptions used to determine net periodic benefit cost included a 4.38% discount rate and 5.75% expected long-term rate of return on plan assets for the year ended December 31, 2012. The weighted average assumptions used to determine net periodic benefit cost included a 4.94% discount rate and 5.75% expected long-term rate of return on plan assets for the year ended December 31, 2011.

OneBeacon's discount rate assumptions used to account for the Plans reflect the rates at which the benefit obligations could be effectively settled. For 2012 and 2011, in addition to consideration of published yields for high quality long-term corporate bonds, U.S. Treasuries and insurance company annuity contract pricing, consideration was given to a cash flow matching analysis.

OneBeacon performed an analysis of expected long-term rates of return based on the allocation of its Qualified Plan assets at December 31, 2012 and 2011 to develop expected rates of return for 2012 and 2011 for each significant asset class or economic indicator. A range of returns was developed based both on forecasts and on broad market historical benchmarks for expected return, correlation, and volatility for each asset class.

## Plan Assets

The majority of the Qualified Plans' assets are managed by Prospector Partners, LLC ("Prospector"), a related party (see **Note 18**). The investment policy places an emphasis on preserving invested assets through a diversified portfolio of high-quality income producing investments and equity investments.

The investment management process integrates the risks and returns available in the investment markets with the risks and returns available to the Qualified Plan in establishing the proper allocation of invested assets. The asset classes include fixed maturity, equity, convertible fixed maturities, and cash and short-term investments. Fixed maturity and convertible fixed maturities include bonds, convertible fixed maturities and convertible preferred stocks of companies from diversified industries. Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Cash and short-term investments include registered investment companies and common/collective trust funds.

The factors examined in establishing the appropriate investment mix include the outlook for risk and return in the various investment markets and sectors and the long-term need for capital growth.

The Qualified Plan's investments are stated at fair value. Many factors are considered in arriving at fair market value. In general, fixed maturity investments such as corporate bonds and government securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Shares of common and preferred stock are valued at quoted market prices when available. Convertible fixed maturities are valued based on quoted market prices, analysis of listed markets and use of sensitivity analyses. Registered investment companies are valued at the net asset value as reported by the fund at year-end.

The fair value of the Qualified Plan's assets and their related inputs at December 31, 2012 by asset category were as follows:

Millions	December 31, 2012				December 31, 2011			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments	\$ 1.9	\$ —	\$ 1.9	\$ —	\$ 2.4	\$ —	\$ 2.4	\$ —
Common equity securities	79.5	79.5	—	—	72.2	72.2	—	—
Convertible fixed maturities	34.5	—	34.5	—	42.8	—	42.8	—
Cash and short-term investments	8.1	8.1	—	—	3.1	3.1	—	—
Total	\$ 124.0	\$ 87.6	\$ 36.4	\$ —	\$ 120.5	\$ 75.3	\$ 45.2	\$ —

There were no transfers between Levels 1, 2 or 3 during the years ended December 31, 2012 or 2011.

The Qualified Plan's asset allocations at December 31, 2012 and 2011, by asset category were as follows:

Asset Category	Plan Assets at December 31,	
	2012	2011
Fixed maturity investments	1.5%	2.0%
Common equity securities	64.2%	59.9%
Convertible fixed maturities	27.8%	35.5%
Cash and short-term investments	6.5%	2.6%
Total	100.0%	100.0%

As described above, the Qualified Plan’s investment securities are exposed to various risks such as interest rate, market, and credit risks. Market prices of common equity securities, in general, are subject to fluctuations which would cause the amount to be realized upon sale or exercise of the instruments to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, general market conditions and supply and demand imbalances for a particular security. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity and convertible fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

## Cash Flows

OneBeacon does not expect to make a contribution to its Qualified Plan in 2013. OneBeacon anticipates contributing \$2.4 million to the Non-qualified Plan, for which OneBeacon has assets held in a rabbi trust.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Millions	Expected Benefit Payments
2013	\$ 5.2
2014	5.5
2015	5.8
2016	6.0
2017	6.2
2018-2022	35.0

## Other Benefit Plans

OneBeacon sponsors an employee savings plan (defined contribution plan) covering the majority of its employees. The contributory plan provides qualifying employees with matching contributions of 50% up to the first six percent of salary (subject to U.S. federal limits on allowable contributions in a given year). Total expense for the plan was \$2.8 million, \$3.0 million and \$3.8 million in 2012, 2011 and 2010.

OneBeacon’s employee stock ownership plan (“ESOP”) provides all of its participants with an annual base contribution in common shares equal to 3% of their salary, up to the applicable Social Security wage base (\$110,100 for 2012). Additionally, those participants not otherwise eligible to receive certain other OneBeacon benefits can earn a variable contribution of up to 6% of their salary, subject to the applicable IRS annual covered compensation limits (\$250,000 for 2012) and contingent upon OneBeacon’s performance. In April 2007, the ESOP was merged into the 401(k) Plan to form the OneBeacon 401(k) Savings and ESOP Plan (“KSOP”). White Mountains recorded \$4.8 million, \$6.3 million and \$3.0 million in compensation expense to pay benefits and allocate common shares to participant’s accounts for the years ended 2012, 2011 and 2010.

OneBeacon had a post-employment benefit liability, which primarily relates to disability coverage for former employees, of \$7.1 million and \$6.7 million at December 31, 2012 and 2011.

Sirius Group sponsors an employee savings plan (defined contribution plan) covering the majority of its U.S. employees. The contributory plan provides qualifying employees with matching contributions of 100% up to the first two percent and 50% of the next four percent of salary (subject to U.S. federal limits on allowable contributions in a given year). Total expense for the plan was \$1.0 million, \$1.1 million and \$1.0 million in 2012, 2011 and 2010.

Sirius Group provides all of its participants with a variable contribution up to 7% of their salary, contingent upon Sirius Group’s performance.

Sirius Group funds other governmental pension plans and other employee savings plans in various countries for its global employees. The expense for those plans totaled \$7.5 million, \$9.6 million and \$8.1 million in 2012, 2011 and 2010.

## **NOTE 11. Employee Share-Based Incentive Compensation Plans**

White Mountains’ share-based incentive compensation plans are designed to incentivize key employees and service providers to maximize shareholder value over long periods of time. White Mountains believes that this is best pursued by utilizing a pay-for-performance program that closely aligns the financial interests of management with those of its shareholders. White Mountains accomplishes this by emphasizing highly variable long-term compensation that is contingent on performance over a number of years rather than entitlements. White Mountains expenses all its share-based compensation. As a result, White Mountains’ calculation of its owners’ returns includes the expense of all outstanding share-based compensation awards.

### **Incentive Compensation Plans**

White Mountains’ Long-Term Incentive Plan (the “WTM Incentive Plan”) provides for grants of various types of share-based and non share-based incentive awards to key employees and service providers of White Mountains. The WTM Incentive Plan was adopted by the Board, was approved by the Company’s sole shareholder in 1985 and was subsequently amended by its shareholders in 1995, 2001, 2003, 2005 and 2010. Share-based incentive awards that may be granted under the plan include performance shares, restricted shares, performance units, incentive stock options and non-qualified stock options (“Non-Qualified Options”). Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. Awards generally vest at the end of a three-year period, are subject to the attainment of pre-specified performance goals, and are valued based on the market value of common shares at the time awards are paid. Performance shares earned under the WTM Incentive Plan are typically paid in cash but may be paid in common shares or by deferral into certain non-qualified compensation plans of White Mountains. Compensation expense is recognized on a pro rata basis over the vesting period of the awards.

The OneBeacon Long-Term Incentive Plan (the “OneBeacon Incentive Plan”) provides for grants to key employees of OneBeacon Ltd various types of share-based incentive awards, including performance shares, restricted shares, restricted stock units and Non-Qualified Options.

The Sirius Group Performance Plan provides for granting phantom White Mountains performance shares (the “WTM Phantom Share Plan”) to certain key employees of Sirius Group. Beginning with the 2011-2013 performance cycle, employees of Sirius Group were granted performance shares from the WTM Incentive Plan. The performance goals for full payment of performance shares issued under these plans are identical to those of the WTM Incentive Plan. Performance shares earned under the WTM Phantom Share Plan are typically paid in cash but could be paid in common shares or by deferral into certain non-qualified compensation plans of White Mountains. Compensation expense is recognized on a pro rata basis over the vesting period of the awards.

White Mountains offers certain types of share-based compensation under qualified retirement plans. The defined contribution plans of OneBeacon and Sirius Group (the “401(k) Plans”) offer its participants the ability to invest their balances in several different investment options, including the Company’s or OneBeacon’s common shares. OneBeacon’s employee stock ownership plan (“ESOP”) is a OneBeacon-funded benefit plan that provides all of its participants with an annual base contribution in common shares equal to 3% of their salary, up to the applicable Social Security wage base (\$110,100 for 2012). Additionally, those participants not otherwise eligible to receive certain other OneBeacon benefits can earn a variable contribution of up to 6% of their salary, subject to the applicable IRS annual covered compensation limits (\$250,000 for 2012) and contingent upon OneBeacon’s performance. In April 2007, the ESOP was merged into the 401(k) Plan to form the OneBeacon 401(k) Savings and ESOP Plan (“KSOP”). Sirius Group’s profit sharing plan is a Sirius Group-funded benefit plan that provides all of its participants with a variable contribution up to 7% of their salary, contingent upon Sirius Group’s performance.

### **Performance Shares**

Performance shares are designed to reward company-wide performance. The level of payout ranges from zero to two times the number of shares initially granted, depending on White Mountains’ financial performance. Performance shares become payable at the conclusion of a performance cycle (typically three years) if pre-defined financial targets are met.

The principal performance measure used for determining performance share payouts is after-tax growth in White Mountains’ intrinsic business value per share. The Compensation Committee historically has considered the growth in intrinsic business value per share to be based equally on the growth of economic value per share and growth in adjusted book value per share, both inclusive of dividends. Economic value is calculated by adjusting the GAAP book value per share for differences between the GAAP carrying values of certain assets and liabilities and White Mountains’ estimate of their underlying economic values (for example, the time value discount in loss reserves).



The following summarizes performance share activity for the years ended December 31, 2012, 2011 and 2010 for performance shares granted under the WTM Incentive Plan and the WTM Phantom Share Plan:

Millions, except share amounts	Year Ended December 31,					
	2012		2011		2010	
	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	150,064	\$ 66.1	163,184	\$ 29.4	172,454	\$ 12.2
Shares paid or expired <sup>(1)</sup>	(68,357)	(58.3)	(51,131)	—	(49,127)	—
New grants	38,432	—	37,675	—	47,880	—
Assumed forfeitures and cancellations <sup>(2)</sup>	(782)	.6	336	(.9)	(8,023)	(.7)
Expense recognized	—	21.0	—	37.6	—	17.9
Ending December 31,	119,357	\$ 29.4	150,064	\$ 66.1	163,184	\$ 29.4

<sup>(1)</sup> WTM performance share payments in 2012 for the 2009-2011 performance cycle ranged from 147% to 155% of target. At December 31, 2012, White Mountains paid \$9.9 as a partial payment for the 2010-2012 performance cycle. There were no payments made in 2011 and 2010 for the 2008-2010 and 2007-2009 performance cycles; those performance shares did not meet the threshold performance goals and expired.

<sup>(2)</sup> Amounts include changes in assumed forfeitures, as required under GAAP.

For the 2009-2011 performance cycle, the Company issued common shares for 9,577 performance shares earned and all other performance shares earned were settled in cash.

If all outstanding performance shares had vested on December 31, 2012, the total additional compensation cost to be recognized would have been \$21.1 million, based on accrual factors at December 31, 2012 (common share price and payout assumptions).

#### Performance shares granted under the WTM Incentive Plan

The following table summarizes performance shares outstanding and accrued expense for performance shares awarded under the WTM Incentive Plan at December 31, 2012 for each performance cycle:

Millions, except share amounts	Target WTM Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2012 – 2014	37,977	\$ 7.6
2011 – 2013	37,130	12.7
2010 – 2012	42,320	7.3
Sub-total	117,427	27.6
Assumed forfeitures	(2,935)	(.8)
<b>Total at December 31, 2012</b>	<b>114,492</b>	<b>\$ 26.8</b>

The targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan to non-investment personnel for the 2012-2014 performance cycles is an 8% growth in intrinsic business value per share. Growth of 2% or less would result in no payout and growth of 14% or more would result in a payout of 200%.

The targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan to non-investment personnel for the 2011-2013 performance cycles is a 10% growth in intrinsic business value per share. Growth of 3% or less would result in no payout and growth of 17% or more would result in a payout of 200%.

The targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan to non-investment personnel for the 2010-2012 performance cycles is an 11% growth in intrinsic business value per share. Growth of 4% or less would result in no payout and growth of 18% or more would result in a payout of 200%.

For investment personnel, the targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan is based one-third on growth in intrinsic business value per share (as described above), one-third on achieving a total return on invested assets as measured against metrics based on U.S. Treasury Note returns and one-third on achieving a total return on invested assets as measured against metrics based on the Barclays U.S. Intermediate Aggregate Index returns.

For Prospector Partners, the targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan is based equally on growth in intrinsic business value per share (as described above) and achieving a total return on invested assets as measured against metrics based on U.S. Treasury Note returns.

#### *Phantom Performance Shares granted under the WTM Phantom Share Plan*

The following summarizes phantom performance shares outstanding and accrued expense for awards made under the WTM Phantom Share Plan at December 31, 2012 for each performance cycle:

Millions, except share amounts	Target WTM Phantom Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2012 – 2014 <sup>(1)</sup>	—	\$ —
2011 – 2013 <sup>(1)</sup>	—	—
2010 – 2012	4,990	2.6
Sub-total	4,990	2.6
Assumed forfeitures	(125)	—
<b>Total at December 31, 2012</b>	<b>4,865</b>	<b>\$ 2.6</b>

<sup>(1)</sup> All performance shares for the 2011–2013 and 2012–2014 performance cycles were granted from the WTM Incentive Plan.

The performance goals for full payment of performance shares issued under the WTM Phantom Share Plan are identical to those of the WTM Incentive Plan.

#### **Restricted Shares**

The following outlines the unrecognized compensation cost associated with the outstanding restricted share awards under the WTM Incentive Plan for the years ended December 31, 2012, 2011 and 2010:

Millions, except share amounts	Year Ended December 31,					
	2012		2011		2010	
	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
Non-vested,						
Beginning of period	72,000	\$ 13.3	46,250	\$ 14.1	91,900	\$ 23.7
Issued	32,160	15.7	27,250	9.9	19,750	6.7
Vested	(32,945)	—	(1,500)	—	(65,150)	—
Forfeited	(1,305)	(.2)	—	—	(250)	(.1)
Modified <sup>(1)</sup>	—	—	—	—	—	(3.3)
Expense recognized	—	(12.0)	—	(10.7)	—	(12.9)
Non-vested at December 31,	69,910	\$ 16.8	72,000	\$ 13.3	46,250	\$ 14.1

<sup>(1)</sup> During the first quarter of 2007, White Mountains issued 15,000 restricted shares to the Company's Chairman and CEO in connection with his hiring that would vest in the event of a change in control of the Company before January 20, 2012. During 2010, the Compensation Committee modified the vesting terms so that the 15,000 restricted shares time vest in three equal annual installments beginning on January 20, 2013. During 2012, the Compensation Committee accelerated the vesting date of the first installment from January 20, 2013 to December 31, 2012.

During the third quarter of 2012, White Mountains issued 2,500 restricted shares that vest on January 1, 2015 and 1,200 restricted shares that vest on July 16, 2015. During the first quarter of 2012, White Mountains issued 25,460 restricted shares that vest on January 1, 2015 and 3,000 restricted shares that vest in two equal annual installments beginning in February 2014. During the second quarter of 2011, White Mountains issued 250 restricted shares that vest on January 1, 2014. During the first quarter of 2011, White Mountains issued 27,000 restricted shares that vest on January 1, 2014. During the first quarter of 2010, White Mountains issued 19,750 restricted shares that vested on December 31, 2012. The unrecognized compensation cost associated with outstanding restricted share awards at December 31, 2012 is expected to be recognized ratably over the remaining vesting periods.

## Stock Options

### Non-Qualified Options

In January 2007, the Company issued 200,000 seven-year Non-Qualified Options to the Company's Chairman and CEO (the "original grant") that vest in equal annual installments over five years and that had an initial exercise price of \$650 per common share that escalated at an annual rate of 5% less the annual regular dividend rate (the "Escalator"). The fair value of the Non-Qualified Options was \$27.2 million at the grant date. The fair value of the Non-Qualified Options at the grant date was estimated using a closed-form option model using an expected volatility assumption of 29.7%, a risk-free interest rate assumption of 1.1% (or 4.7% less the Escalator), a forfeiture assumption of 0%, an expected dividend rate assumption of 1.4% and a term assumption of seven years.

At the 2010 Annual General Meeting of Members held on May 26, 2010 (the "modification date"), the Company's shareholders approved the following amendments to the Non-Qualified Options (the "amended grant"): (1) extend the term of the Non-Qualified Options by three years to January 20, 2017; (2) freeze the exercise price at \$742 per common share, the exercise price on February 24, 2010; (3) extinguish 75,000 of the 200,000 Non-Qualified Options; and (4) limit the potential in-the-money value of the Non-Qualified Options in excess of \$100 million to 50% of the amount in excess of \$100 million. The fair value of the amended grant was \$4.4 million at the modification date, while the fair value of the original grant as of the modification date was \$3.5 million. The fair value of the amended grant was estimated using a closed-form option model using an expected volatility assumption of 34.0%, a risk-free interest rate assumption of 2.43%, a forfeiture assumption of 0%, an expected dividend rate assumption of 0.32% and a term assumption of 6.67 years. The fair value of the original grant as of the modification date was estimated using a closed-form option model using an expected volatility assumption of 41.0%, a risk-free interest rate assumption of 1.57%, a forfeiture assumption of 0%, an expected dividend rate assumption of 0.32% and a term assumption of 3.67 years.

Prior to the modification, \$18.2 million of the original grant fair value had been amortized into income. In connection with the modification, White Mountains recognized \$8.7 million of the remaining \$9.0 million of unamortized option expense related to the original grant. As of the first quarter in 2011, the Non-Qualified Options have been fully amortized.

For the years ended December 31, 2011 and 2010 White Mountains recognized a total of \$0.1 million and \$11.9 million of expense related to amortizing the Non-Qualified Options.

### Share-Based Compensation Based on OneBeacon Ltd. Common Shares

#### OneBeacon Performance Shares

The following summarizes activity for the years ended December 31, 2012, 2011 and 2010 for OneBeacon performance shares granted under the OneBeacon Incentive Plan:

Millions, except share amounts	Year Ended December 31,					
	2012		2011		2010	
	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	642,667	\$ 9.7	1,464,295	\$ 18.5	2,224,215	\$ 15.1
Payments and deferrals <sup>(1)(2)</sup>	(258,901)	(7.7)	(936,150)	(10.5)	(889,594)	(4.6)
New awards	181,290	—	194,900	—	270,691	—
Forfeitures and cancellations <sup>(3)</sup>	(1,866)	—	(80,378)	(.5)	(141,017)	(2.2)
Expense recognized	—	(.8)	—	2.2	—	10.2
End of period	563,190	\$ 1.2	642,667	\$ 9.7	1,464,295	\$ 18.5

<sup>(1)</sup> OneBeacon performance share payments in 2012 for the 2009-2011 performance cycle were at 138.6% of target. OneBeacon performance shares payments in 2011 for the 2008-2010 performance cycle were at 68.5% of target. OneBeacon performance share payments in 2010 for the 2007-2009 performance cycle were at 14.2% of target. Amounts include deposits into OneBeacon's deferred compensation plan.

<sup>(2)</sup> OneBeacon performance share payments in 2010 also include accelerated payments resulting from the OneBeacon Personal Lines and Commercial Lines Transactions to employees of those businesses. The accelerated OneBeacon performance shares payments for the 2009-2011 and 2010-2012 performance cycles were on a pro rata basis and at a performance factor of 100%.

<sup>(3)</sup> Amounts include changes in assumed forfeitures, as required under GAAP.

The following summarizes OneBeacon performance shares outstanding awarded under the OneBeacon Incentive Plan at December 31, 2012 for each performance cycle:

Millions, except share amounts	Target OneBeacon Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2012 – 2014	181,290	\$ .9
2011 – 2013	151,563	.3
2010 – 2012	238,658	—
Sub-total	571,511	1.2
Assumed forfeitures	(8,321)	—
<b>Total at December 31, 2012</b>	<b>563,190</b>	<b>\$ 1.2</b>

If the outstanding OneBeacon performance shares had been vested on December 31, 2012, the total additional compensation cost to be recognized would have been \$1.9 million, based on December 31, 2012 accrual factors (common share price and payout assumptions).

The targeted performance goal for full payment of the outstanding OneBeacon performance shares granted during 2012 is growth in intrinsic business value per share of 10%. At a growth in intrinsic business value per share of 3% or less, no performance shares would be earned and at a growth in intrinsic business value per share of 17% or more, 200% of performance shares would be earned.

The targeted performance goal for full payment of the outstanding OneBeacon performance shares granted during 2011 is growth in intrinsic business value per share of 11%. At a growth in intrinsic business value per share of 4% or less, no performance shares would be earned and at a growth in intrinsic business value per share of 18% or more, 200% of performance shares would be earned.

The targeted performance goal for full payment of the outstanding OneBeacon performance shares granted during 2010 is growth in intrinsic business value per share of 12%. At a growth in intrinsic business value per share of 5% or less, no performance shares would be earned and at a growth in intrinsic business value per share of 19% or more, 200% of performance shares would be earned.

#### *Non-Qualified Options*

In November 2006, in connection with its initial public offering, OneBeacon Ltd. issued to its key employees 1,420,000 fixed price OneBeacon Non-Qualified Options to acquire OneBeacon Ltd. common shares at an above-market fixed exercise price. The options vest in equal installments on each of the third, fourth and fifth anniversaries of their issuance and expire 5.5 years from the date of issuance. The fair value of each option award at grant was estimated using a Black-Scholes option pricing model using an expected volatility assumption of 30%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. The options originally had a per share exercise price of \$30.00. On May 27, 2008, the OneBeacon Compensation Committee of the Board of Directors (the “OB Compensation Committee”) amended the exercise price to \$27.97 as a result of the \$2.03 per share special dividend paid in the first quarter of 2008. On November 16, 2010, the OB Compensation Committee adjusted the exercise price to \$25.47 as a result of the \$2.50 per share special dividend paid in the third quarter of 2010.

The compensation expense associated with the options and the incremental fair value of the award modifications is being recognized ratably over the remaining period.

The following table summarizes option activity for the years ended December 31, 2012, 2011 and 2010:

Millions	Year ended December 31,					
	2012		2011		2010	
	Target Outstanding Options	Expense Recognized	Target Outstanding Options	Expense Recognized	Target Outstanding Options	Expense Recognized
Beginning of period	740,870	\$ —	768,652	\$ —	1,015,610	\$ —
New awards	—	—	—	—	—	—
Forfeitures	—	—	(27,782)	—	(37,044)	—
Vested and expired <sup>(1)</sup>	(740,870)	—	—	—	(209,914)	—
Exercised	—	—	—	—	—	—
Expense recognized	—	—	—	.5	—	.9
<b>End of period</b>	<b>—</b>	<b>\$ —</b>	<b>740,870</b>	<b>\$ .5</b>	<b>768,652</b>	<b>\$ .9</b>

<sup>(1)</sup> During the year ended December 31, 2010, as a result of the Commercial Lines Transaction and Personal Lines Transaction, 209,914 options vested that were unexercised and expired. All remaining options expired in May 2012.

#### OneBeacon Restricted Shares

The following table summarizes the unrecognized compensation cost associated with the outstanding OneBeacon restricted stock awards for the years ended December 31, 2012 and 2011.

Millions, except share amounts	Year ended December 31,			
	2012		2011	
	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
Non-vested,				
Beginning of period	630,000	\$ 7.7	—	\$ —
Issued	300,000	4.5	630,000	8.6
Vested	(667)	—	—	—
Forfeited	(2,333)	—	—	—
Expense recognized	—	(2.6)	—	(.9)
<b>End of period</b>	<b>927,000</b>	<b>\$ 9.6</b>	<b>630,000</b>	<b>\$ 7.7</b>

On March 1, 2012, OneBeacon issued 300,000 restricted shares to key employees that vest in two equal installments on February 28, 2014 and 2015. On May 25, 2011, OneBeacon issued 630,000 restricted shares to its CEO that vest four equal annual installments beginning on February 22, 2014, 2015, 2016 and 2017. Concurrently with the grant of the restricted shares, 35,000 OneBeacon performance shares issued to OneBeacon's CEO for the 2011-2013 performance share cycle were forfeited and performance share awards to OneBeacon's CEO for the subsequent 5 years have been or will also be reduced by 35,000 shares. The restricted shares contain dividend participation features, and therefore, are considered participating securities. The unrecognized compensation cost associated with outstanding restricted share awards at December 31, 2012 is expected to be recognized ratably over the remaining vesting periods.

#### Restricted Stock Units

The Non-Qualified Options granted by OneBeacon Ltd., in connection with its initial public offering, did not include a mechanism in the options to reflect the contribution to total return from the regular quarterly dividend. As a result, during the first quarter of 2008, OneBeacon granted 116,270 Restricted Stock Units ("RSUs") to actively employed option holders. The RSUs were scheduled to vest in three equal installments on each of November 9, 2009, 2010 and 2011 subject to, for each vesting tranche of units, the attainment of 4% growth in OneBeacon's book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date.

Consistent with the terms of the RSU plan, all of the tranches of RSUs vested and were deferred into a OneBeacon non-qualified deferred compensation plan that was paid out in May 2012.

The expense associated with the RSUs was recognized ratably over the vesting period. For the years ended December 31, 2011 and 2010, OneBeacon recognized expense of \$0.1 million and \$0.5 million.

## **Share-based Compensation Under Qualified Retirement Plans**

Contributions to the KSOP with respect to the years ended 2012, 2011 and 2010 were made with either the Company's or OneBeacon Ltd.'s common shares, dependent on the employer. The variable contribution amounts for eligible participants of the KSOP constituted approximately 3%, 2% and 1% of salary for the years ended 2012, 2011 and 2010. White Mountains recorded \$4.8 million, \$6.3 million and \$3.0 million in compensation expense to pay benefits and allocate common shares to participant's accounts for the years ended 2012, 2011 and 2010. As of December 31, 2012 and 2011, the plans owned 3% or less of either of the Company's or OneBeacon Ltd.'s total common shares outstanding. All White Mountains common shares held by the KSOP are considered outstanding for earnings (loss) per share computations.

## **NOTE 12. Common Shareholders' Equity**

### **Common Shares Repurchased and Retired**

In 2006, White Mountains' Board of Directors authorized the Company to repurchase up to 1,000,000 of its common shares, from time to time, subject to market conditions. In 2010 and 2012, White Mountains' board of directors authorized the Company to repurchase an additional 600,000 and 1,000,000, respectively, of its common shares, for a total authorization of 2,600,000 shares. Shares may be repurchased on the open market or through privately negotiated transactions. The repurchase authorizations do not have a stated expiration date. As of December 31, 2012, White Mountains may repurchase an additional 685,496 shares under these board authorizations. In addition, from time to time White Mountains has also repurchased its common shares through tender offers that were separately approved by its board of directors.

During 2012, the Company repurchased 1,329,640 common shares for \$669.1 million at an average share price of \$503, which were comprised of (1) 502,801 common shares repurchased under the board authorization for \$256.0 million at an average share price of \$508; (2) 816,829 common shares repurchased through a fixed-price tender offer for \$408.6 million at a share price of \$500; and (3) 10,010 common shares repurchased to satisfy employee income tax withholding, pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not fall under the board authorizations referred to above.

During 2011, the Company repurchased 646,502 common shares for \$253.0 million at an average share price of \$390, which were comprised of (1) 313,967 common shares repurchased under the board authorization for \$114.0 million at an average share price of \$364; (2) 332,346 common shares repurchased through two "modified Dutch auction" self-tender offers for \$138.8 million at an average share price of \$418; and (3) 189 common shares repurchased to satisfy employee income tax withholdings, pursuant to employee benefit plans.

During 2010, White Mountains repurchased a total of 687,871 of its common shares for \$225.5 million at an average share price of \$328, which were comprised of (1) 677,125 common shares repurchased under the board authorization for \$222.0 million at an average share price of \$264; and (2) 10,746, common shares repurchased to satisfy employee income tax withholdings, pursuant to employee benefit plans.

### **Common Shares Issued**

During 2012, the Company issued a total of 44,054 common shares, which consisted of 32,160 restricted shares issued to key management personnel and 1,617 shares issued to directors of the Company. During 2011, the Company issued a total of 29,432 common shares, which consisted of 27,250 restricted shares issued to key management personnel and 2,182 shares issued to directors of the Company. During 2010, the Company issued a total of 23,050 common shares, which consisted of 2,400 shares issued in satisfaction of options exercised, 19,750 restricted shares issued to key management personnel and 900 shares issued to directors of the Company.

### **Dividends on Common Shares**

For the years ended December 31, 2012, 2011 and 2010, the Company declared and paid cash dividends totaling \$6.6 million, \$8.0 million, and \$8.8 million (or \$1.00 per common share).

## NOTE 13. Statutory Capital and Surplus

White Mountains' insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. In addition, the NAIC uses risk-based capital ("RBC") standards for property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. At December 31, 2012, White Mountains' active insurance and reinsurance operating subsidiaries exceeded their respective RBC requirements.

OneBeacon's consolidated combined policyholders' surplus of its insurance operating subsidiaries as reported to regulatory authorities as of December 31, 2012 and 2011 was \$0.9 billion and \$1.0 billion. OneBeacon's consolidated combined statutory net income for the years ended December 31, 2012, 2011 and 2010 was \$82.0 million, \$119.6 million and \$257.2 million. The principal differences between OneBeacon's combined statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, and market value adjustments for debt securities. The minimum policyholders' surplus necessary to satisfy OneBeacon's regulatory requirements was \$207.5 million at December 31, 2012, which equals the authorized control level of the NAIC risk-based capital of OneBeacon's primary top tier regulated operating subsidiary.

Sirius International is subject to regulation and supervision in Sweden by the Financial Supervisory Authority ("FSA"). Sirius International's total regulatory capital at December 31, 2012 was \$2.5 billion. In accordance with FSA regulations, Sirius International holds restricted equity of \$1.6 billion as a component of Swedish regulatory capital. This restricted equity cannot be paid as dividends. The minimum regulatory capital held by Sirius International necessary to satisfy the requirements established by the FSA was \$109.2 million at December 31, 2012.

Sirius America's policyholders' surplus, as reported to regulatory authorities as of December 31, 2012 and 2011, was \$528.3 million and \$533.7 million. Sirius America's statutory net income for the years ended December 31, 2012, 2011 and 2010 was \$26.2 million, \$101.4 million and \$70.2 million. The principal differences between Sirius America's statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts and market value adjustments for debt securities. The minimum policyholders' surplus necessary to satisfy Sirius America's regulatory requirements was \$127.8 million at December 31, 2012, which equals the authorized control level of the NAIC risk-based capital based on Sirius America's policyholders' surplus.

Central National's policyholders' surplus, as reported to regulatory authorities as of December 31, 2012 and 2011, was \$11.2 million and \$13.4 million. Central National's statutory net income for the years ended December 31, 2012 and 2011 was \$1.7 million and \$0.1 million. The minimum policyholders' surplus necessary to satisfy Central National's regulatory requirements was \$1.7 million at December 31, 2012, which equals the authorized control level of the NAIC risk-based capital based on Central National's policyholders' surplus.

American General's policyholders' surplus, as reported to regulatory authorities as of December 31, 2012 was \$8.6 million. The minimum policyholders' surplus necessary to satisfy American General's regulatory requirements was \$0.1 million at December 31, 2012, which equals the authorized control level of the NAIC risk-based capital based on American General's policyholders' surplus.

American General Property's policyholders' surplus, as reported to regulatory authorities as of December 31, 2012 was \$24.5 million. The minimum policyholders' surplus necessary to satisfy American General Property's regulatory requirements was \$2.5 million at December 31, 2012, which equals the authorized control level of the NAIC risk-based capital based on American General Property's policyholders' surplus.

PICO's policyholders' surplus, as reported to regulatory authorities as of December 31, 2012 was \$6.3 million. The minimum policyholders' surplus necessary to satisfy PICO's regulatory requirements was \$0.2 million at December 31, 2012, which equals the authorized control level of the NAIC risk-based capital based on PICO's policyholders' surplus.

Citation's policyholders' surplus, as reported to regulatory authorities as of December 31, 2012 was \$13.1 million. The minimum policyholders' surplus necessary to satisfy Citation's regulatory requirements was \$0.9 million at December 31, 2012, which equals the authorized control level of the NAIC risk-based capital based on Citation's policyholders' surplus.

White Shoals Re Ltd. ("White Shoals Re") is also subject to regulation and supervision by the Bermuda Monetary Authority ("BMA"). Generally, the BMA has broad supervisory and administrative powers over such matters as licenses, standards of solvency, investments, methods of accounting, form and content of financial statements, minimum capital and surplus requirements, and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. As of December 31, 2012, White Shoals Re had statutory capital and surplus of \$15.5 million. The minimum regulatory capital held by White Shoals Re necessary to satisfy the requirements established by the BMA was \$7.0 million at December 31, 2012.

WM Life Re is subject to regulation and supervision by the BMA. As of December 31, 2012, WM Life Re had statutory capital and surplus of \$33.7 million. The minimum regulatory capital held by WM Life Re necessary to satisfy the requirements established by the BMA was \$0.4 million at December 31, 2012.

HG Re is a Special Purpose Insurer under Bermuda insurance regulations and is subject to regulation and supervision by the BMA. As of December 31, 2012, HG Re had statutory capital of \$412.0 million. As a Special Purpose Insurer, HG Re does not have minimum regulatory capital requirements.

BAM is domiciled in New York and is subject to regulation by the New York Department of Financial Services. New York financial guarantee insurance law establishes single risk and aggregate limits with respect to insured obligations insured by financial guarantee insurers. BAM's members' surplus, as reported to regulatory authorities as of December 31, 2012 was \$483.7 million, which exceeds the minimum members' surplus necessary for BAM to maintain its New York State financial guarantee insurance license of \$65.0 million.

### **Dividend Capacity**

There are no restrictions under Bermuda law or the law of any other jurisdiction on the payment of dividends from retained earnings by White Mountains. However, under the insurance laws of the states and jurisdictions under which White Mountains' insurance and reinsurance operating subsidiaries are domiciled, an insurer is restricted with respect to the timing and the amount of dividends it may pay without prior approval by regulatory authorities. At December 31, 2012, White Mountains' top tier insurance and reinsurance subsidiaries have approximately \$2.9 billion of GAAP shareholders' equity (net of \$268 million of noncontrolling interest at OneBeacon), \$1.2 billion of which can be distributed to White Mountains without prior regulatory approval. As a result, at December 31, 2012, \$1.7 billion of White Mountains' GAAP shareholders' equity held in its insurance and reinsurance subsidiaries was not available for the payment of dividends without prior regulatory approval, and approximately \$800 million of White Mountains' retained earnings is unrestricted with respect to the payment of dividends to White Mountains' common shareholders. When determining whether to make distributions from its insurance and reinsurance operating subsidiaries, White Mountains also considers factors such as internal capital targets and rating agency capital requirements. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future.

Following is a description of the dividend capacity of White Mountains' insurance and reinsurance operating subsidiaries:

#### **OneBeacon:**

Generally, OneBeacon's top tier regulated insurance operating subsidiaries have the ability to pay dividends during any twelve-month period without the prior approval of regulatory authorities in an amount set by formula based on the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. OneBeacon Insurance Company ("OBIC"), OneBeacon's primary top tier regulated insurance operating subsidiary, has the ability to pay \$329.9 million of dividends during 2013 (based on its 2012 statutory net income of \$329.9 million) without prior approval of regulatory authorities, subject to the availability of unassigned funds. The amount of dividends available to be paid by OBIC in any given year is also subject to cash flow and earnings generated by OBIC's business, which now just comprises the Runoff Business, as well as to dividends received from its subsidiaries, including Atlantic Specialty Insurance Company ("ASIC"). At December 31, 2012, OBIC had \$0.7 billion of unassigned funds and \$0.9 billion of statutory surplus.

As disclosed in **Note 2 - "Significant Transactions"**, during the fourth quarter of 2012, OneBeacon executed various intercompany reinsurance agreements which, along with other internal capital transactions among our insurance operating subsidiaries, resulted in ASIC becoming the lead insurance company for the ongoing specialty business and OBIC becoming the lead insurance company for the Runoff Business. As a result of the internal restructuring transactions, OBIC's 2012 statutory net income was significantly higher than that of the OneBeacon's consolidated combined statutory net income as statutory net losses at lower-tiered subsidiaries more than offset the income recorded at OBIC. Notwithstanding these restructuring transactions, OneBeacon continues to manage its statutory capital on a combined basis. Although OBIC remains a top tier regulated insurance operating subsidiary and maintains sufficient statutory capital to support the Runoff Business, the majority of the group's statutory capital is now included in ASIC to support the ongoing specialty business.

ASIC has the ability to pay dividends during any twelve-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Given the changes in structure noted above, ASIC will likely require prior approval by regulatory authorities in order to pay dividends until it builds up a historical net investment income and earned surplus balance under its new structure. At December 31, 2012, ASIC had negative earned surplus and \$0.7 billion of statutory surplus.

During 2012, OneBeacon's top tier regulated insurance operating subsidiaries paid \$173.1 million of dividends to their immediate parent, which included the distribution of a regulated insurance subsidiary with a value of \$34.0 million.

During 2012, OneBeacon's unregulated insurance operating subsidiaries paid \$4.9 million of dividends to their immediate parent. At December 31, 2012, OneBeacon's unregulated insurance operating subsidiaries had \$28.6 million of net unrestricted cash, short-term investments and fixed maturity investments.



During 2012, OneBeacon Ltd. paid \$80.0 million of regular quarterly dividends to its common shareholders. White Mountains received \$60.0 million of these dividends.

At December 31, 2012, OneBeacon Ltd. and its intermediate holding companies had \$272.4 million of net unrestricted cash, short-term investments and fixed maturity investments and \$33.3 million of common equity securities and convertible fixed maturity investments outside of its regulated and unregulated insurance operating subsidiaries.

### ***Sirius Group:***

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer a portion of its pre-tax income to its Swedish parent companies to minimize taxes (referred to as a group contribution). In 2012, Sirius International transferred \$82.0 million of its 2011 pre-tax income to its Swedish parent companies as a group contribution. In 2013, Sirius International currently intends to transfer approximately \$110.0 million (based on the December 31, 2012 SEK to USD exchange rate) of its 2012 pre-tax income to its Swedish parent companies as a group contribution.

Sirius International has the ability to pay dividends subject to the availability of unrestricted statutory surplus. Historically, Sirius International has allocated the majority of its pre-tax income, after group contributions to its Swedish parent companies, to the Safety Reserve (see “**Safety Reserve**” below). At December 31, 2012, Sirius International had \$852.0 million (based on the December 31, 2012 SEK to USD exchange rate) of unrestricted statutory surplus, which is available for distribution in 2013. The amount of dividends available to be paid by Sirius International in any given year is also subject to cash flow and earnings generated by Sirius International’s business, as well as to dividends received from its subsidiaries, including Sirius America. During 2012, Sirius International distributed \$24.0 million of dividends to its immediate parent and declared an additional \$75.0 million of dividends at December 31, 2012 (for a total of \$99.0 million). The \$75.0 million was paid in January 2013. In connection with the Reorganization, Sirius International’s unrestricted statutory surplus increased by \$436.3 million due to the contribution of the remaining shares of Sirius America. In 2013, Sirius International currently intends to distribute \$50.0 million of dividends to its immediate parent.

Sirius America has the ability to pay dividends during any twelve-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Based upon 2012 statutory net investment income, Sirius America has the ability to pay \$15.0 million of dividends during 2013 without prior approval of regulatory authorities, subject to the availability of earned surplus. At December 31, 2012, Sirius America had \$528.3 million of statutory surplus and \$56.1 million of earned surplus. In 2012, Sirius America paid \$55.0 million of dividends to its immediate parent.

During 2012, Sirius Group distributed \$40.0 million to its immediate parent and declared an additional \$75.0 million at December 31, 2012 (for a total of \$115.0 million). The \$75.0 million was paid in January 2013.

At December 31, 2012, Sirius Group and its intermediate holding companies had \$72.0 million of net unrestricted cash, short-term investments and fixed maturity investments and \$18.0 million of other long-term investments outside of its regulated and unregulated insurance and reinsurance operating subsidiaries.

### ***Capital Maintenance***

In connection with Sirius Group's reorganization in October 2011, Sirius International and Sirius America entered into a capital maintenance agreement, which obligates Sirius International to make contributions to Sirius America's surplus in order for Sirius America to maintain surplus equal to at least 125% of the company action level risk based capital as defined in the NAIC Property/Casualty Risk-Based Capital Report. The agreement provides for a maximum contribution to Sirius America of \$200.0 million. Sirius International also provides Sirius America with accident year stop loss reinsurance, which protects Sirius America's accident year loss and allocated loss adjustment expense ratio in excess of 70%, with a limit of \$110.0 million.

### ***Safety Reserve***

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer pre-tax amounts into an untaxed reserve referred to as a safety reserve. At December 31, 2012, Sirius International’s safety reserve amounted to SEK 9.6 billion or \$1.5 billion at the December 31, 2012 exchange rate of 6.50 USD to SEK. Under GAAP, an amount equal to the safety reserve, net of a related deferred tax liability established at the Swedish tax rate, is classified as shareholder's equity. The tax rate in effect on December 31, 2011 was 26.3%. The tax rate utilized on December 31, 2012 was the new Swedish tax rate of 22.0%. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain predetermined levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International’s safety reserve (\$326.7 million at December 31, 2012) is included in solvency capital. Access to the safety reserve is restricted to coverage of reinsurance losses. Access for any other purpose requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, most major rating agencies generally include the \$1.5 billion balance of the safety reserve, without any provision for deferred taxes, in Sirius International’s capital when assessing Sirius International’s financial strength.

**HG Global/BAM:**

HG Global has \$613.0 million face value of preferred shares outstanding, of which White Mountains owns 97.3%. Holders of the HG Global preferred shares receive cumulative dividends at a fixed annual rate of 6.0% on a quarterly basis, when and if declared by HG Global. HG Global did not declare or pay any preferred dividends in 2012. As of December 31, 2012, HG Global has accrued \$16.8 million of dividends payable to holders of its preferred shares, \$16.3 million of which is payable to White Mountains and eliminated in consolidation.

HG Re is a Special Purpose Insurer subject to regulation and supervision by the BMA, but does not require regulatory approval to pay dividends. However, HG Re's dividend capacity is limited by amounts held in the collateral trusts pursuant to the FLRT with BAM. As of December 31, 2012, HG Re had statutory capital of \$412.0 million, of which \$12.0 million (which primarily relates to accrued interest on the BAM Surplus Notes held by HG Re) was available for dividends to HG Global and \$400.0 million was held as collateral in the Supplemental Trust pursuant to the FLRT with BAM.

Interest on the BAM Surplus Notes is payable quarterly at a fixed annual rate of 8.0%. Interest and principal payments on the BAM Surplus Notes are subject to approval of the New York State Department of Financial Services. BAM did not pay any interest on the BAM Surplus Notes in 2012. As of December 31, 2012, HG Global has accrued \$18.4 million of interest receivable on the BAM Surplus Notes.

**Other Operations:**

During 2012, WM Advisors did not pay any dividends to its immediate parent. At December 31, 2012, WM Advisors had approximately \$18.4 million of net unrestricted cash and short-term investments.

At December 31, 2012, the Company and its intermediate holding companies had \$132.1 million of net unrestricted cash, short-term investments and fixed maturity investments, \$540.4 million of common equity securities and \$77.6 million of other long-term investments included in its Other Operations segment. During 2012, White Mountains paid a \$6.6 million common share dividend.

**NOTE 14. Segment Information**

White Mountains has determined that its reportable segments are OneBeacon, Sirius Group, HG Global/BAM and Other Operations. As a result of the Esurance Sale, the results of operations for Esurance have been classified as discontinued operations and are now presented, net of related income taxes, as such in the statement of comprehensive income. Prior year amounts have been reclassified to conform to the current period's presentation (see **Note 20**).

White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the chief operating decision makers and the Board of Directors.

OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies.

Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis.

The HG Global/BAM segment consists of White Mountains' investment in HG Global and the consolidated results of BAM. BAM is a municipal bond insurer domiciled in New York that was established to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of BAM Surplus Notes. HG Global also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. BAM's results are attributed to non-controlling interests.

Other Operations consists of the Company, the Company's intermediate holding companies, WM Advisors and WM Life Re as well as and various other entities not included in other segments. Significant intercompany transactions among White Mountains' segments have been eliminated herein.

Financial information for White Mountains' segments follows:

Millions	OneBeacon	Sirius Group	HG Global/BAM		Other Operations	Total
			HG Global	BAM		
Year ended December 31, 2012						
Earned insurance and reinsurance premiums	\$ 1,132.0	\$ 931.6	\$ —	\$ —	\$ —	\$ 2,063.6
Net investment income	53.6	65.0	.3	1.9	32.8	153.6
Net investment income (loss) - surplus note interest	—	—	18.4	(18.4)	—	—
Net realized and unrealized investment gains	55.7	17.3	—	—	45.2	118.2
Other revenue	(.5)	70.6	—	—	30.2	100.3
Total revenues	1,240.8	1,084.5	18.7	(16.5)	108.2	2,435.7
Losses and LAE	650.0	543.9	—	—	—	1,193.9
Insurance and reinsurance acquisition expenses	249.4	180.8	—	—	—	430.2
Other underwriting expenses	205.2	116.4	—	.2	—	321.8
General and administrative expenses	13.4	45.9	4.5	19.6	98.8	182.2
Interest expense on debt	16.9	26.2	—	—	1.7	44.8
Total expenses	1,134.9	913.2	4.5	19.8	100.5	2,172.9
Pre-tax income (loss)	\$ 105.9	\$ 171.3	\$ 14.2	\$ (36.3)	\$ 7.7	\$ 262.8

Millions	OneBeacon	Sirius Group	Other Operations	Total
Year ended December 31, 2011				
Earned insurance and reinsurance premiums	\$ 1,012.2	\$ 912.3	\$ —	\$ 1,924.5
Net investment income	71.4	89.9	23.2	184.5
Net realized and unrealized investment gains	10.6	53.2	10.3	74.1
Other revenue	(12.4)	4.1	(1.7)	(10.0)
Total revenues	1,081.8	1,059.5	31.8	2,173.1
Losses and LAE	548.3	626.0	—	1,174.3
Insurance and reinsurance acquisition expenses	221.2	181.0	—	402.2
Other underwriting expenses	162.3	105.8	—	268.1
General and administrative expenses	9.8	34.1	131.4	175.3
Interest expense on debt	20.5	31.6	3.1	55.2
Total expenses	962.1	978.5	134.5	2,075.1
Pre-tax income (loss)	\$ 119.7	\$ 81.0	\$ (102.7)	\$ 98.0

Millions	OneBeacon	Sirius Group	Other Operations	Total
Year ended December 31, 2010				
Earned insurance and reinsurance premiums	\$ 1,181.1	\$ 847.9	\$ —	\$ 2,029.0
Net investment income	96.6	96.5	15.8	208.9
Net realized and unrealized investment gains (losses)	74.6	(14.8)	17.8	77.6
Other revenue	(.6)	40.9	(22.1)	18.2
Total revenues	1,351.7	970.5	11.5	2,333.7
Losses and LAE	685.6	531.0	—	1,216.6
Insurance and reinsurance acquisition expenses	252.1	167.5	—	419.6
Other underwriting expenses	196.1	99.8	—	295.9
General and administrative expenses	12.9	31.6	110.5	155.0
Interest expense on debt	29.6	26.6	1.1	57.3
Total expenses	1,176.3	856.5	111.6	2,144.4
Pre-tax income (loss)	\$ 175.4	\$ 114.0	\$ (100.1)	\$ 189.3

Selected Balance Sheet Data Millions	HG Global/BAM					
	OneBeacon	Sirius Group	HG Global	BAM	Other Operations	Total
<b>December 31, 2012</b>						
Total investments	\$ 2,291.5	\$ 3,534.3	\$ 101.5	\$ 472.4	\$ 878.4	\$ 7,278.1
Reinsurance recoverable on paid and unpaid losses	110.7	336.3	—	—	—	447.0
Assets held for sale	2,226.8	—	—	—	—	2,226.8
Total assets	5,382.3	5,962.0	623.6	(28.6) <sup>(1)</sup>	956.1	12,895.4
Loss and LAE reserves	1,000.0	2,168.9	—	—	—	3,168.9
Liabilities held for sale	2,226.8	—	—	—	—	2,226.8
Total liabilities	4,365.0	4,123.2	.9	7.4	140.7	8,637.2
Total White Mountains' common shareholders' equity	763.1	1,559.7	606.2	—	802.8	3,731.8
Non-controlling interest	254.2	279.1	16.5	(36.0)	12.6	526.4
<b>December 31, 2011</b>						
Total investments	\$ 2,707.6	\$ 3,640.5	\$ —	\$ —	\$ 1,919.9	\$ 8,268.0
Reinsurance recoverable on paid and unpaid losses	2,184.1	353.7	—	—	—	2,537.8
Assets held for sale	132.6	—	—	—	—	132.6
Total assets	5,792.4	5,337.9	—	—	2,933.7	14,064.0
Loss and LAE reserves	3,358.6	2,343.7	—	—	—	5,702.3
Liabilities held for sale	107.6	—	—	—	—	107.6
Total liabilities	4,678.5	3,784.1	—	—	933.5	9,396.1
Total White Mountains' common shareholders' equity	826.7	1,264.3	—	—	1,996.7	4,087.7
Non-controlling interest	287.2	289.5	—	—	3.5	580.2

<sup>(1)</sup> BAM total assets reflect the elimination of \$503.0 in surplus notes issued to HG Global and its subsidiaries, and \$18.4 in accrued interest related to those surplus notes.

#### NOTE 15. Investments in Unconsolidated Affiliates

White Mountains' investments in unconsolidated affiliates represent investments in other companies in which White Mountains has a significant voting and economic interest but does not control the entity.

Millions	December 31,	
	2012	2011
Symetra common shares	\$ 288.4	\$ 261.0
Unrealized gains from Symetra's fixed maturity portfolio	62.8	—
Carrying value of Symetra common shares	\$ 351.2	\$ 261.0
Symetra warrants	30.3	12.6
Total investment in Symetra	381.5	273.6
Hamer, LLC <sup>(1)</sup>	4.0	—
Bri-Mar Manufacturing, LLC <sup>(1)</sup>	1.9	—
Pentelia Capital Management	.5	1.7
Total investments in unconsolidated affiliates	\$ 387.9	\$ 275.3

<sup>(1)</sup> As of October 1, 2012, Hamer and Bri-Mar are no longer consolidated and are accounted for as investments in unconsolidated affiliates.

## Symetra

At December 31, 2012, White Mountains owned 17.4 million common shares of Symetra and warrants to acquire an additional 9.5 million common shares. In January 2010, Symetra completed an initial public offering at a price of \$12.00 per share, with 25.3 million shares sold by Symetra and 9.7 million shares sold by existing shareholders. White Mountains did not sell any of its shares in the offering. As a result of the offering, White Mountains' fully converted ownership in Symetra decreased from 24% to approximately 20% during the first quarter of 2010. The issuance of the new Symetra shares at a price below its adjusted book value per share diluted White Mountains' investment in Symetra's common shares, resulting in a \$16.0 million decrease to White Mountains' carrying value in Symetra.

White Mountains accounts for its investment in common shares of Symetra using the equity method. Under the equity method, the GAAP carrying value of White Mountains' investment in Symetra common shares is normally equal to the percentage of Symetra's GAAP book value represented by White Mountains' common share ownership, which was 15% at December 31, 2012. At December 31, 2011, due to the prolonged low interest rate environment in which life insurance companies currently operate, White Mountains concluded that its investment in Symetra common shares was other-than-temporarily impaired and wrote down the GAAP book value of the investment to its estimated fair value of \$261.0 million, or \$15 per share at December 31, 2011. White Mountains recorded \$45.9 million of after-tax equity in losses of unconsolidated affiliates and \$136.6 million of after-tax equity in net unrealized losses of unconsolidated affiliates.

Under GAAP, a decline in the fair value of an investment is considered to be other-than-temporary when the fair value of the investment is not expected to recover to its GAAP carrying value in the near term. Declines in the fair value of an investment that are considered to be other-than-temporary are recognized as a write-down to the GAAP carrying value of the investment. The GAAP fair value of an investment is the price that would be paid by a market participant to acquire it in the investment's principal (or most advantageous) market. For investments that are publicly traded, quoted market prices generally provide the best measurement of GAAP fair value. However, a decline in the quoted market price of an investment below its GAAP carrying value is not necessarily indicative of a loss in value that is other-than-temporary, and in circumstances where the characteristics of the investment being measured are not the same as those for which quoted market prices are available, unadjusted quoted market prices do not represent GAAP fair value. White Mountains' investment in Symetra common shares is different than the shares that are traded on the public stock exchange, principally due to the size of its position and its representation on Symetra's Board of Directors. In circumstances like this, GAAP requires that fair value be determined giving consideration to multiple valuation techniques. Management considered three different valuation techniques to determine the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011.

### *Valuation techniques based on actuarial appraisal*

When determining the value of life insurance holding companies that are acquisition targets, market participants commonly utilize an approach that values the company as the sum of (A) adjusted statutory net worth of any regulated life insurance companies (i.e. statutory surplus plus asset valuation reserve) plus the GAAP net assets of any non-life businesses, less holding company debt and (B) the present value of future earnings related to business in force as of the valuation date plus the present value of future earnings related to business written after the valuation date. Part A of the calculation can be performed using observable inputs from the statutory and GAAP financial statements. Part B of the calculation requires a large number of actuarial calculations including assumptions such as discount rates, mortality, persistency and future investment results that, while based on historical data and are supportable, are nonetheless judgmental and largely unobservable. For Symetra, part A is approximately \$15 per share as of December 31, 2011. Symetra management provided White Mountains with an actuarial appraisal that demonstrates that part B would be a meaningful positive value in most reasonable scenarios. When determining the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011, management ascribed the greatest weight to part A, as it is observable and less subjective.

### *Valuation techniques based on multiples from recent transactions*

White Mountains uses growth in adjusted book value to assess Symetra's financial performance. Adjusted book value excludes unrealized gains and losses from Symetra's fixed maturity investment portfolio. Life insurance industry analysts and market participants commonly use multiples of adjusted book value per share to determine relative values of companies in the life insurance industry. Applying this approach to Symetra at December 31, 2011, utilizing multiples which were observed in a recently announced transaction within the life insurance industry provides an estimated fair value range from \$16 to \$30 per share. However, the range of fair value estimates generated by applying the adjusted book value per share multiple and market premium observed in the recently announced transaction is wide, and there have been no other significant acquisitions of life insurance companies in 2011. Therefore, management did not ascribe significant weight to valuations determined using the adjusted book value per share multiple or market price premium observed in recent acquisition activity when determining the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011.

*Valuation techniques based on quoted market prices*

White Mountains' representation on Symetra's Board of Directors gives it the ability to exercise significant influence over Symetra's operations and policies. Generally, market participants are willing to pay a premium to obtain the ability to exert influence over the operations and policies of an investee, which is not reflected in the quoted market price of Symetra's common shares. There is no reliable means to calculate the value of this premium for an investment in a life insurance company. The actuarial appraisals used by market participants described above implicitly consider the ability to influence an investee's operations and policies in the actuarial assumptions underlying projected future earnings, but the value associated with the ability to exert influence is not explicitly calculated separately from other components of value. As a result, management did not ascribe significant weight to valuations based on quoted market prices when determining the GAAP fair value of White Mountains' investment in Symetra common shares at December 31, 2011, as the premium associated with the ability to exert influence over the operations and policies of Symetra is unobservable and highly subjective.

After considering these valuation techniques, management determined that the best estimate of the GAAP fair value of White Mountains' investment in Symetra's common shares at December 31, 2011 was \$15 per share. Given the scarcity of relevant observable inputs and the wide range of estimates developed under the approaches used, the estimated GAAP fair value of White Mountains' investment in Symetra's common shares involved a significant degree of judgment, is very subjective in nature and, accordingly, is considered a Level 3 fair value measurement.

As a result of recording the write-down, White Mountains' carrying value of its investment in Symetra differs from the carrying value by applying its ownership share against Symetra's GAAP equity as normally done under the equity method. The pre-tax basis difference of \$195.8 million as of December 31, 2011 is being amortized over a 30 year period pro rata based on estimated future cash flows associated with Symetra's underlying assets and liabilities to which the basis difference has been attributed. White Mountains continues to record its equity in Symetra's earnings and net unrealized gains (losses). In addition, White Mountains recognizes the amortization of the basis difference through equity in earnings of unconsolidated affiliates and equity in net unrealized gains (losses) from investments in unconsolidated affiliates consistent with the original attribution of the writedown between equity in earnings and equity in net unrealized gains (losses). For the year ended December 31, 2012, White Mountains recognized after-tax amortization of \$3.3 million through equity in earnings of unconsolidated affiliates and \$12.1 million through equity in net unrealized gains from investments in unconsolidated affiliates. At December 31, 2012, the pre-tax unamortized basis difference was \$179.2 million. Management does not believe that the investment in Symetra's common shares is other-than-temporarily impaired at December 31, 2012.

White Mountains accounts for its Symetra warrants as derivatives with changes in fair value recognized through the income statement as a gain or loss recognized through other revenues. White Mountains uses a Black Scholes valuation model to determine the fair value of the Symetra warrants. The major assumptions used in valuing the Symetra warrants at December 31, 2012 were a risk free rate of 0.21%, volatility of 38.9%, an expected life of 1.6 years, a strike price of \$11.49 per share and a share price of \$12.98 per share.

During 2012, White Mountains received cash dividends from Symetra of \$4.9 million on its common share investment which is accounted for as a reduction of White Mountains' investment in Symetra in accordance with equity accounting. During 2012, White Mountains also received cash dividends from Symetra of \$2.7 million on its investment in Symetra warrants that was recorded as net investment income.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra:

Millions	Common shares	Warrants	Total
Carrying value of investment in Symetra as of December 31, 2009 <sup>(2)</sup>	\$ 269.2	\$ 38.5	\$ 307.7
Equity in earnings <sup>(1)(3)(8)</sup>	11.1	—	11.1
Net unrealized gains from Symetra's fixed maturity portfolio <sup>(6)(7)</sup>	72.7	—	72.7
Dividends received	(2.6)	—	(2.6)
Decrease in value of warrants	—	(1.4)	(1.4)
Carrying value of investment in Symetra as of December 31, 2010 <sup>(2)</sup>	350.4	37.1	387.5
Equity in earnings <sup>(1)(8)</sup>	28.2	—	28.2
Impairment of equity in earnings of Symetra <sup>(4)</sup>	(50.0)	—	(50.0)
Equity in net unrealized gains from Symetra's fixed maturity portfolio <sup>(7)</sup>	85.0	—	85.0
Impairment of net unrealized gains from Symetra's fixed maturity portfolio <sup>(5)</sup>	(148.6)	—	(148.6)
Dividends received	(4.0)	—	(4.0)
Decrease in value of warrants	—	(24.5)	(24.5)
Carrying value of investment in Symetra as of December 31, 2011 <sup>(2)</sup>	261.0	12.6	273.6
Equity in earnings <sup>(1)(8)(9)</sup>	32.3	—	32.3
Equity in net unrealized gains from Symetra's fixed maturity portfolio <sup>(7)</sup>	62.8	—	62.8
Dividends received	(4.9)	—	(4.9)
Increase in value of warrants	—	17.7	17.7
Carrying value of investment in Symetra as of December 31, 2012 <sup>(2)(11)</sup>	\$ 351.2	\$ 30.3	\$ 381.5

<sup>(1)</sup> Equity in earnings for the years end December 31, 2012, 2011 and 2010 excludes tax expense of \$2.6, \$2.3, and \$1.4

<sup>(2)</sup> Includes White Mountains' equity in net unrealized gains (losses) from Symetra's fixed maturity portfolio of \$62.8, \$0, and \$63.7 as of December 31, 2012, 2011 and 2010, which excludes tax expense of \$5.1, \$0 and \$5.2

<sup>(3)</sup> Includes a \$17.9 loss from the dilutive effect of Symetra's public offering

<sup>(4)</sup> Impairment of equity in earnings of Symetra excludes tax benefit of \$4.1

<sup>(5)</sup> Impairment of net unrealized gains from Symetra's fixed maturity portfolio excludes tax benefit of \$12.0

<sup>(6)</sup> Includes a \$1.9 gain from the dilutive effect of Symetra's public offering.

<sup>(7)</sup> Net unrealized gains (losses) from Symetra's fixed maturity portfolio excludes tax (expense) benefit of \$(5.1), \$(6.9) and \$0.8 for the years ended December 31, 2012, 2011 and 2010.

<sup>(8)</sup> Equity in earnings for the years end December 31, 2012, 2011 and 2010 includes \$1.3, \$1.0, and \$0.8 loss from the dilutive effect of Symetra's yearly dividend and the issuance of restricted shares by Symetra

<sup>(9)</sup> Equity in earnings includes \$3.5 increase relating to the pre-tax amortization of Symetra common share impairment from December 31, 2012.

<sup>(10)</sup> Net unrealized gains includes \$13.1 increase relating to the pre-tax amortization of Symetra common share impairment from December 31, 2012.

<sup>(11)</sup> The aggregate value of White Mountains' investment in common shares of Symetra was \$225.9 based upon the quoted market price of \$12.98 per share at December 31, 2012.

The following table summarizes financial information for Symetra as of December 31, 2012 and 2011:

Millions	December 31,	
	2012	2011
<b>Symetra balance sheet data:</b>		
Total investments	\$ 27,556.4	\$ 26,171.7
Separate account assets	807.7	795.8
Total assets <sup>(1)</sup>	29,460.9	28,183.3
Policyholder liabilities	23,735.2	23,140.6
Long-term debt	449.4	449.2
Separate account liabilities	807.7	795.8
Total liabilities <sup>(1)</sup>	25,830.8	25,068.4
Common shareholders' equity <sup>(1)</sup>	3,630.1	3,114.9

<sup>(1)</sup> 2011 balances have been restated for the effect of Symetra's adoption of ASU 2010-26.

The following table summarizes financial information for Symetra for the years ended December 31, 2012, 2011 and 2010:

Millions	Years ended December 31,		
	2012	2011	2010
<b>Symetra income statement data:</b>			
Net premiums earned	\$ 605.0	\$ 540.5	\$ 473.0
Net investment income	1,275.2	1,270.9	1,199.4
Total revenues <sup>(1)</sup>	2,101.2	1,999.3	1,878.8
Policy benefits	1,371.8	1,307.3	1,234.6
Total expenses <sup>(1)</sup>	1,831.1	1,726.1	1,600.5
Net income <sup>(1)</sup>	205.4	195.8	193.8
Comprehensive net income	549.3	785.5	679.0

<sup>(1)</sup> Amounts for the years ended December 31, 2011 and 2010 have been restated for the effect of Symetra's adoption of ASU 2010-26.

#### Hamer and Bri-Mar

White Mountains received equity interests in Hamer and Bri-Mar, two small manufacturing companies distributed to White Mountains in connection with the dissolution of the Tuckerman Capital, LP fund (see **Note 16**). Effective October 1, 2012, these investments are accounted for under the equity method. For the three months ended December 31, 2012, White Mountains recorded equity in earnings of \$0.4 million for Hamer. Bri-Mar did not have any earnings for the three months ended December 31, 2012. As of December 31, 2012, White Mountains' investments in Hamer and Bri-Mar was \$4.0 million and \$1.9 million, respectively.

#### Pentelia

White Mountains obtained an equity interest of 33% in Pentelia Capital Management ("PCM") for \$1.6 million in April 2007. This investment is accounted for under the equity method. For the year ended December 31, 2012, 2011 and 2010, White Mountains recorded \$(1.3) million, \$(0.2) million, and \$0.5 million of equity in earnings in PCM. As of December 31, 2012 and 2011, White Mountains investment in PCM was \$0.5 million and \$1.7 million.

#### Delos

In August 2006, Sirius Group sold a wholly-owned subsidiary to an investor group led by Lightyear Capital for \$138.8 million in cash and recognized a pre-tax gain of \$14.0 million in other revenue. As part of this transaction, White Mountains acquired an equity interest of approximately 18% for \$32.0 million in the acquiring entity, Delos, and accounted for its investment in Delos under the equity method. In December 2010, White Mountains sold its investment in Delos for \$21.7 million and recognized a pre-tax loss of \$10.9 million in other revenue.

#### NOTE 16. Variable Interest Entities

##### BAM

BAM is a newly formed mutual insurance company. As a mutual company BAM is owned by its members and a portion of each member's charges represents a contribution to member's surplus. During 2012, White Mountains capitalized HG Global to fund BAM through the purchase of \$503.0 million of BAM Surplus Notes. The equity at risk funded by BAM's members is not sufficient to fund its operations without the additional subordinated financial support provided by the BAM Surplus Notes and accordingly, BAM is considered to be a variable interest entity ("VIE"). The proceeds from the issuance of the BAM Surplus Notes represent substantially all of the equity at risk in BAM at December 31, 2012.

BAM and HG Global, through its wholly-owned subsidiary, HG Re, entered into a first loss reinsurance treaty ("FLRT"), under which HG Re will provide first loss protection up to 15% of par outstanding on each bond insured by BAM in exchange for 60% of the premium, net of a ceding commission, charged by BAM. HG Re's obligations under the FLRT are satisfied by the assets in two collateral trusts: a Regulation 114 Trust and a Supplemental Trust. Losses required to be reimbursed to BAM by HG Re are subject to an aggregate limit equal to the assets held in the collateral trusts at any point in time. In addition, HG Global has the right to designate two directors for election to BAM's board of directors. White Mountains is required to consolidate the results of BAM. Since BAM is owned by its members, its equity and results of operations are included in non-controlling interests.



## Reciprocals

Reciprocals are policyholder-owned insurance carriers organized as unincorporated associations. Each policyholder insured by the reciprocal shares risk with the other policyholders. Policyholders share profits and losses in the same proportion as the amount of insurance purchased but are not subject to assessment for net losses of the reciprocal.

OneBeacon had capitalized three reciprocals by loaning funds to them in exchange for surplus notes. In 2002, OneBeacon formed New Jersey Skylands Management LLC (“NJSM”) to provide management services for a fee to New Jersey Skylands Insurance Association, a reciprocal, and its wholly-owned subsidiary New Jersey Skylands Insurance Company (together, “New Jersey Skylands Insurance”). In 2004, OneBeacon formed Houston General Management Company to provide management services for a fee to another reciprocal, Houston General Insurance. In 2006, Adirondack AIF, LLC (“AAIF”), a wholly-owned subsidiary of OneBeacon, entered into an agreement to provide management services for a fee to Adirondack Insurance, a reciprocal. OneBeacon has no ownership interest in the reciprocals. Under the provisions of ASC 810, OneBeacon had determined that each of the reciprocals qualifies as a VIE. Further, OneBeacon had determined that it is the primary beneficiary as it has both the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE as a result of the management services provided to the reciprocal and the funds loaned to it. Accordingly, OneBeacon consolidates Houston General Insurance and, until the completion of the Personal Lines Transaction on July 1, 2010, consolidated New Jersey Skylands Insurance and Adirondack Insurance.

As described in **Note 2**, the Personal Lines Transaction, which was completed on July 1, 2010, included the sale of NJSM and AAIF and the transfer of the surplus notes issued by New Jersey Skylands Insurance and Adirondack Insurance. Completion of the Personal Lines Transaction triggered deconsolidation of New Jersey Skylands Insurance and Adirondack Insurance.

Subsequent to the Personal Lines Transaction, Houston General Insurance is OneBeacon’s only reciprocal. At December 31, 2012 and 2011, consolidated amounts related to Houston General Insurance included total assets of \$97.7 million and \$105.9 million, respectively, and total liabilities of \$120.4 million and \$126.2 million, respectively. At December 31, 2012, the net amount of capital at risk is equal to the surplus note of \$23.7 million less the accumulated losses of \$22.7 million which includes accrued interest on the surplus note of \$19.7 million which eliminates in consolidation.

## Prospector Offshore Fund

White Mountains has determined that the Prospector Offshore Fund, Ltd. (“the Prospector Fund”) is a VIE for which White Mountains is the primary beneficiary and is required to consolidate the Prospector Fund. At December 31, 2012 and 2011, White Mountains consolidated total assets of \$151.0 million and \$135.8 million and total liabilities of \$51.1 million and \$31.6 million of the Prospector Offshore Fund. In addition, at December 31, 2012 and 2011, White Mountains recorded non-controlling interest of \$28.9 million and \$38.9 million in the Prospector Offshore Fund. For the years ended December 31, 2012, 2011 and 2010 White Mountains recorded \$2.6 million, \$0.2 million and \$(3.2) million of non-controlling interest income (expense) related to the Prospector Offshore Fund. At December 31, 2012, the net amount of capital at risk is equal to White Mountains’ investment in the Fund of \$71.1 million, which represents White Mountains’ ownership interest of 71.1% in the Prospector Fund.

## Tuckerman Fund I

On December 31, 2011, the Tuckerman Capital, LP fund (“Tuckerman Fund I”) was dissolved and all of the net assets of the fund were distributed to the owners of the fund, of which White Mountains owned approximately 94%. In conjunction with the dissolution, White Mountains received a portion of the shares of Hamer and Bri-Mar, two small manufacturing companies that were owned by the Tuckerman Fund I. The consolidated results of Hamer and Bri-Mar are included in the Other Operations segment from January 1, 2012 through September 30, 2012, at which point the results of these companies were no longer consolidated by White Mountains.

Prior to the dissolution, White Mountains had determined that Tuckerman Fund I was a VIE for which White Mountains was the primary beneficiary and was required to consolidate Tuckerman Fund I. At December 31, 2011, White Mountains consolidated assets of \$17.6 million, liabilities of \$9.9 million, non-controlling interests of \$3.5 million and \$2.2 million of non-controlling interest expense related to the companies distributed by Tuckerman Fund I. At December 31, 2010, White Mountains consolidated total assets of \$19.4 million and total liabilities of \$12.3 million of Tuckerman Fund I. In addition, at December 31, 2010, White Mountains recorded non-controlling interest of \$2.4 million in Tuckerman Fund I. For the year ended December 31, 2010 White Mountains recorded \$1.0 million of non-controlling interest expense related to Tuckerman Fund I.

## NOTE 17. Fair Value of Financial Instruments

White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness and the SIG Preference Shares, which are recorded as non-controlling interest.

The following table summarizes the fair value and carrying value of financial instruments as of December 31, 2012 and 2011:

Millions	December 31, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2012 OBH Senior Notes	\$ 282.4	\$ 274.7	\$ —	\$ —
2003 OBH Senior Notes	—	—	277.4	269.8
SIG Senior Notes	441.9	399.4	418.6	399.3
SIG Preference Shares	257.5	250.0	217.5	250.0

The fair value estimate for the 2012 and 2003 OBH Senior Notes has been determined using quoted market prices and is considered a Level 2 measurement. The fair value estimates for the SIG Senior Notes and the SIG Preference Shares have been determined based on indicative broker quotes and is considered a Level 3 measurement.

## NOTE 18. Transactions with Related Persons

### Prospector

Mr. John Gillespie is the founder and Managing Member of Prospector. Prospector serves as a discretionary adviser with respect to specified assets, primarily equity securities, managed by WM Advisors on behalf of White Mountains and other clients of WM Advisors.

Pursuant to an investment management agreement with WM Advisors (the “WMA Agreement”), Prospector charges WM Advisors fees based on the following schedule: 100 basis points on the first \$200.0 million of assets under management; 50 basis points on the next \$200.0 million; and 25 basis points on amounts over \$400.0 million. At December 31, 2012, Prospector managed a total of \$465.9 million of assets for White Mountains (excluding OneBeacon and Symetra) under this arrangement. Prospector has a separate investment management agreement with Symetra that began on July 1, 2010. Until that date, Symetra was a party to the WMA Agreement and subject to the above fee schedule.

Prospector has separate investment management agreements with OneBeacon (the “OneBeacon Agreements”) pursuant to which Prospector supervises and directs specified assets, primarily equity securities, including assets in OneBeacon’s defined benefit and defined contribution plans (the “ERISA Assets”). All assets managed under the OneBeacon Agreements are subject to a single fee schedule that is substantially similar to the terms of the WMA Agreement fee schedule. At December 31, 2012, Prospector managed \$533.6 million of assets for OneBeacon under this arrangement, including \$205.9 million of ERISA Assets.

During 2012, 2011 and 2010, Prospector earned \$6.4 million, \$6.0 million, and \$6.6 million in total fees pursuant to the WMA Agreement and the OneBeacon Agreements.

Prospector also advises White Mountains on matters including capital management, asset allocation, private equity investments and mergers and acquisitions. Pursuant to a Consulting Agreement for those services, Prospector was granted 7,000 performance shares for the 2013-2015 cycle, 7,750 performance shares for the 2012-2014 cycle and 8,500 performance shares for the 2011-2013 performance cycle. In accordance with the terms of the WTM Incentive Plan, performance against target governing the performance shares will be confirmed by the Compensation Committee of the Board following the end of each performance cycle and the number of performance shares actually awarded at that time will range from 0% to 200% of the target number granted. Based on the Company’s performance, Prospector received 49% of the 9,200 performance shares granted for the 2010-2012 performance cycle for a total payout of \$2.5 million. Unless and until the Consulting Agreement has been terminated, and subject to the approval of the Compensation Committee, at the beginning of each performance cycle Prospector is to be granted performance shares with a value of approximately \$4.5 million. The Compensation Committee establishes the performance target for such performance shares.

Pursuant to a revenue sharing agreement, Prospector has agreed to pay White Mountains 6% of the revenues in excess of \$500,000 of certain of Prospector’s funds in return for White Mountains having made a founding investment in 1997. During 2012, 2011 and 2010, White Mountains earned \$0.5 million, \$0.2 million, and \$0.7 million under this arrangement.

At December 31, 2012, White Mountains had \$117.2 million invested in limited partnership investment interests managed by Prospector (the “Funds”). This total includes \$12.9 million of OneBeacon assets. Under the limited partnership agreements, Prospector serves as general partner and general manager of the Funds and is paid management and incentive performance fees by White Mountains and OneBeacon. For the year ended December 31, 2012, White Mountains and OneBeacon incurred \$1.1 million in management fees and \$1.3 million in incentive fees. In addition, Messrs. Barrette, Davis, Gillespie and Waters, each a director of the Company, and Mr. Campbell, an executive officer of the Company, owned limited partnership investment interests managed by Prospector as of such date.

### **Oakum Bay Capital**

Mr. Kernan Oberting, a Managing Director of White Mountains Capital, is the Founder, Chairman of the Board and Chairman of the Risk Committee of Oakum Bay Capital (“OBC”). OBC serves as the general manager of, and owns general partnership interests in, the KVO Capital Partners (“KCP”) and the Trimarc Capital Fund (“TCF”), which are hedge funds with an aggregate of \$66 million under management as of December 31, 2012. Mr. Brooke Parish, who is Mr. Oberting's brother-in-law, is the CEO of OBC. Mr. David Oberting, who is Mr. Oberting's brother, is the portfolio manager of KCP.

In connection with Mr. Oberting commencing employment with White Mountains Capital, on July 16, 2012, the Company purchased \$2 million of preferred equity and received 7.5% of the common equity of OBC. The preferred equity is entitled to dividends at a rate of 5% per annum, increasing to 10% per annum after four years, and is mandatorily redeemable after six years. After giving effect to the common equity investment, Mr. Oberting and Mr. Parish beneficially owned 27.5% and 45%, respectively, of the common equity of OBC.

In addition, at the time it purchased the preferred equity in OBC, the Company invested \$6 million in TCF. In 2010, the Company had invested \$4 million in TCF. As of December 31, 2012, White Mountains had \$9.9 million invested in TCF. Under TCF's limited partnership agreements, OBC is paid management and incentive performance fees by White Mountains.

For the year ended December 31, 2012, White Mountains paid \$56,811 of management fees and \$88,090 of incentive fees. OBC receives the management fees and 40% of the incentive fees. Mr. Oberting has limited partnership investments in KCP and TCF. Mr. Barrette had a limited partnership investment in KCP that was redeemed in full in September 2012.

### **Other Relationships and Transactions**

WMA provides investment advisory and management services to Symetra. At December 31, 2012 and 2011, WMA had \$27.4 billion and \$26.3 billion of assets under management from Symetra. During 2012, 2011 and 2010, WMA earned \$15.9 million, \$15.2 million and \$13.8 million in fees from Symetra.

On July 12, 2012, the Company repurchased 50,000 WTM common shares from John J. Byrne, a beneficial owner of the Company. The price per share was \$528.45, the market price at the time the agreement was reached.

On December 19, 2012, the Company repurchased 285,000 WTM common shares from mutual funds managed by Franklin Mutual Advisers, a beneficial owner of the Company. The price per share was \$519.06, the market price at the time the agreement was reached.

On January 7, 2011, the Company repurchased 140,000 WTM common shares from mutual funds managed by Franklin Mutual Advisers at a price per share of \$342.50, which was \$2.50 less than the market price at the time the agreement was reached.

Mr. Gillespie, a director of the Company, indirectly through general and limited partnership interests holds a 33% interest in Dowling & Partners Connecticut Fund III, LP (“Fund III”). Two of the Company's indirect subsidiaries, OneBeacon Professional Insurance (“OB Professional Insurance”) and White Mountains Specialty Underwriting, Inc. (“WMSUI”), had previously borrowed approximately \$8.0 million and \$7.0 million, respectively, from Fund III in connection with an incentive program sponsored by the State of Connecticut known as the Connecticut Insurance Reinvestment Act (the “CIR Act”). The CIR Act provides for Connecticut income tax credits to be granted for qualifying investments made by approved fund managers. Both loans were repaid in full during 2006. The loans were qualifying investments which generated tax credits to be shared equally between Fund III on the one hand and OB Professional Insurance and WMSUI on the other. As a result of his interest in Fund III, during 2009, Mr. Gillespie generated approximately \$0.5 million in such tax credits.

### **NOTE 19. Commitments and Contingencies**

White Mountains leases certain office space under non-cancellable operating leases that expired on various dates through 2021. Rental expense for all of White Mountains' locations was \$18.8 million, \$22.8 million and \$28.1 million for the years ended December 31, 2012, 2011 and 2010. White Mountains also has various other lease obligations that are immaterial in the aggregate. White Mountains' future annual minimum rental payments required under non-cancellable leases, which are primarily for office space, are \$14.8 million, \$13.5 million, \$11.8 million, and \$33.3 million for 2013, 2014, 2015 and 2016 and thereafter, respectively.

White Mountains also has future binding commitments to fund certain other-long term investments. These commitments, which total \$124.7 million, do not have fixed funding dates.

## Capital Lease

OBIC sold the majority of its fixed assets and capitalized software to OneBeacon Services LLC (“OB Services”) at a cost equal to book value with no gain or loss recorded on the sale. Subsequent to purchasing the fixed assets and capitalized software from OBIC, OB Services entered into lease financing arrangements with US Bancorp and Fifth Third whereby OB Services sold its furniture and equipment and its capitalized software, respectively, to US Bancorp and Fifth Third. The assets were sold at a cost equal to net book value. OB Services then leased the fixed assets back from US Bancorp for a lease term of five years and leased the capitalized software back from Fifth Third for a lease term of four years. OB Services received cash proceeds of \$23.1 million as a result of entering into the sale-leaseback transactions. At the end of the lease terms, OB Services will be obligated to purchase the leased assets for a nominal fee, after which all rights, title and interest would transfer to OB Services. In accordance with ASC 840, OBIC recorded the sale of the assets with no gain or loss recognized while OB Services has recorded a capital lease obligation and a capital lease asset. As of December 31, 2012 and 2011, OB Services had a capital lease obligation of \$18.2 million and \$23.1 million, respectively, included within other liabilities and a capital lease asset of \$16.1 million and \$22.9 million included within other assets. The underlying assets will continue to be depreciated over their respective useful lives. OB Services’ future annual minimum rental payments are \$5.3 million for each of the years ended December 31, 2013, 2014 and 2015 and \$1.9 million for the year ended December 31, 2016.

## Assigned Risks

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

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. White Mountains accrues any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated. The actual amount of such assessments will depend upon the final outcome of rehabilitation proceedings and will be paid over several years. At December 31, 2012, the reserve for such assessments totaled \$12.9 million.

## Esurance

On October 7, 2011, the Company completed the sale of its Esurance and Answer Financial subsidiaries (the “Transferred Subsidiaries”) to Allstate pursuant to a Stock Purchase Agreement dated as of May 17, 2011 (filed as an exhibit to the Company’s current report on Form 8-K on May 18, 2011, the “Agreement”).

The Company has certain contingent liabilities under the Agreement as follows: (i) the final purchase price payable by Allstate under the Agreement, which is based upon the book value of the Transferred Subsidiaries at the closing date, is subject to a true-up process that has not yet been concluded, (ii) subject to specified thresholds and limits, the Company generally indemnifies Allstate for breaches of its representations and warranties in the Agreement for a period of eighteen months (although longer for specified representations and warranties) from the closing, (iii) the Company indemnifies Allstate for breaches of certain covenants in the Agreement, including certain agreements by the Company not to engage in certain competing business activities for two years after the closing and not to solicit certain employees of the Transferred Subsidiaries for three years after the closing, and (iv) subject to specified thresholds and limits, the Company indemnifies Allstate for specified matters related to the pre-closing period, including (a) specified litigation matters, (b) losses of the Transferred Subsidiaries arising from extra-contractual claims and claims in excess of policy limits (“ECO/EPL losses”), (c) certain corporate reorganizations effected to remove entities from the Transferred Subsidiaries that were not being sold in the transaction, and (d) certain tax matters, including certain net operating losses being less than stated levels. In addition, the Company retains 90% of positive or negative development in the loss reserves of the Transferred Subsidiaries as of the closing date (net of ECO/EPL losses), to be computed annually on the first three anniversaries of the closing date.

## Legal Contingencies

White Mountains, and the insurance and reinsurance industry in general, are routinely subject to claims related litigation and arbitration in the normal course of business, as well as litigation and arbitration that do not arise from, or are directly related to, claims activity. White Mountains’ estimates of the costs of settling matters routinely encountered in claims activity are reflected in the reserves for unpaid loss and LAE. See **Note 3**.

White Mountains considers the requirements of ASC 450 when evaluating its exposure to non-claims related litigation and arbitration. ASC 450 requires that accruals be established for litigation and arbitration if it is probable that a loss has been incurred and it can be reasonably estimated. ASC 450 also requires that litigation and arbitration be disclosed if it is probable that a loss has been incurred or if there is a reasonable possibility that a loss may have been incurred.

Although the ultimate outcome of claims and non-claims related litigation and arbitration, and the amount or range of potential loss at any particular time, is often inherently uncertain, management does not believe that the ultimate outcome of such claims and non-claims related litigation and arbitration will have a material adverse effect on White Mountains' financial condition, results of operations or cash flows.

The following summarizes significant ongoing non-claims related litigation or arbitration as of December 31, 2012:

### ***Esurance Sale***

In 2011, the Company sold its Esurance and Answer Financial businesses (the "Transferred Companies") to The Allstate Corporation ("Allstate") for a purchase price of approximately \$1.01 billion. The purchase price consisted of \$700.0 million plus the tangible book value of the Transferred Companies at the closing, which was estimated to be \$308.0 million. Following closing, Allstate was required to prepare a final closing statement, including an audited balance sheet for the Transferred Companies as of the closing date. The Company is disputing Allstate's calculation of tangible book value in the closing statement. The amount in dispute is approximately \$20.0 million, after tax. The dispute principally relates to (i) the elimination of \$24.7 million (pre-tax) of deferred acquisition costs (\$16.0 million, after tax) and (ii) the inclusion of a liability equal to the costs associated with an Esurance extra-contractual ("ECO") matter settled in April 2012 of \$5.2 million (\$3.4 million, after tax). Per the agreement governing the sale of the Transferred Companies (the "Sale Agreement"), disputes over the closing statement are to be arbitrated by an independent accountant.

The Company believes this final closing statement was required to be prepared and audited no later than January 5, 2012. Allstate did not deliver the final closing statement to the Company until June 6, 2012, with an audit report dated June 1, 2012. As a result, in addition to the substantive disputes over the final closing statement, the Company also believes that Allstate's failure to have the final closing statement prepared and audited by the required date constituted a breach of Allstate's obligations under the Sale Agreement. The Company brought suit in the United States District Court for the Southern District of New York in connection with such breach. The court concluded that the Company's breach claim should also be arbitrated by the independent accountant under the Sale Agreement. That process is proceeding.

### ***Tribune Company***

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as "Plaintiffs"), in their capacity as trustees for certain senior notes issued by the Tribune Company ("Tribune"), filed lawsuits in various jurisdictions (the "Noteholder Actions") against numerous defendants including OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the "LBO"). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the "Bankruptcy Court") and emerged from bankruptcy at the end of 2012 in a Chapter 11 reorganization. During the bankruptcy proceedings, the Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. Certain subsidiaries of White Mountains received approximately \$39 million for Tribune common stock tendered in connection with the LBO.

In December 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate all of the Noteholder Actions for pretrial matters and transfer all such proceedings to the United States District Court for the Southern District of New York.

In addition, OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company, on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the "Committee Action"). The Committee Action has since been consolidated with the Noteholder Actions.

In September 2012, a case management order was entered in the consolidated cases, setting forth, among other things, a briefing schedule for an omnibus motion to dismiss in the Noteholder Actions. The court is expected to hear oral argument on that motion in March 2013. Discovery and other motion practice (other than motions to amend the complaints) in the Committee Action and the Noteholder Actions is stayed until further order of the court.

### ***Ace American Insurance Company***

A subsidiary of OneBeacon, OBH, was sued in Federal Court in the Eastern District of Pennsylvania on August 17, 2012 by Ace American Insurance Company (“Ace”). The complaint alleges that OBH, through a professional recruiting firm, improperly hired a group of Ace employees from Ace's surety division. The complaint sought injunctive relief and unspecified damages. After court-ordered expedited discovery was completed, the claims for injunctive relief were resolved pursuant to a confidential agreement. The remaining claim against OBH is for damages only and is scheduled to be heard in April. After the claims against OBH for injunctive relief were resolved, Ace filed a Demand for Arbitration against five of the former Ace surety employees hired by OneBeacon, alleging breach of their duty of loyalty to Ace and misappropriation of Ace trade secrets. OneBeacon believes that Ace's damages claim against OBH and the claims against the individual employees are without merit and intends to vigorously defend both.

### **NOTE 20. Discontinued Operations**

#### **Esurance**

On October 7, 2011, White Mountains completed the sale of Esurance Insurance and AFI to Allstate (see **Note 2**). As a result of the transaction, Esurance Insurance, AFI and the business Esurance Insurance cedes to Sirius Group (collectively, “the Esurance Disposal Group”) are reported as discontinued operations. White Mountains recognized a gain of \$677.5 million on the Esurance Sale which is recorded net of tax in discontinued operations. Effective as of December 31, 2011, the results of operations for the Esurance Disposal Group have been classified as discontinued operations and are presented, net of related income taxes, in the statement of comprehensive income.

#### **AutoOne**

On February 22, 2012, OneBeacon completed the sale of the AutoOne business to Interboro. AutoOne operated as a division within OneBeacon that offered products and services to automobile assigned risk markets. The transaction included the sale of two insurance entities, AOIC and AOSIC, through which substantially all of the AutoOne business was written on a direct basis. The results of operations for the AutoOne business have been classified as discontinued operations and are presented, net of related income taxes, in the statement of comprehensive income. The assets and liabilities associated with the AutoOne business as of December 31, 2011 have been presented in the balance sheet as held for sale.

During 2012, OneBeacon and Interboro finalized the post-closing adjustments to the closing balance sheet resulting in OneBeacon recording a net gain of \$0.5 million after tax. This after-tax net gain is included in loss from sale of discontinued operations in the statements of comprehensive income (loss) for the year ended December 31, 2012. During 2011, OneBeacon recorded an after-tax loss of \$19.2 million in loss from sale of discontinued operations for the estimated loss on sale of AutoOne.

#### **Runoff Transaction**

On October 17, 2012, OneBeacon entered into an agreement to sell its runoff business to Armour. During 2012, the results of operations for the runoff business have been classified as discontinued operations and are presented, net of related income taxes, in the statement of comprehensive income. Prior year results of operations have been reclassified to conform to the current period's presentation. The assets and liabilities associated with the runoff business as of December 31, 2012 have been presented in the balance sheet as held for sale. The amounts classified as discontinued operations exclude investing and financing activities that are conducted on an overall consolidated level and, accordingly, there were no separately identifiable investments associated with the runoff business. Therefore, the prior period balance sheet has not been reclassified to conform to the current period's presentation.

For the year ended December 31, 2012, White Mountains recorded a \$91.5 million after-tax loss on sale and a \$24.0 million loss from operations which included a \$9.0 million after-tax loss related to an reduction in the workers compensation loss reserve discount rate on reserves being transferred as part of the sale.

*Loss and LAE reserve development.* During 2012, OneBeacon experienced \$40.0 million of net unfavorable loss reserve development from the runoff business. The net unfavorable loss reserve development was primarily related to related to case incurred development on multiple peril liability and general liability claims and the impact of an adverse court ruling in Mississippi regarding a disputed assessment from an involuntary pool for hurricane Katrina claims. In addition, there was a change in the workers' compensation tabular discount rate from 4.5% to 3.5% that resulted in a charge of \$15.2 million.

During 2011, OneBeacon experienced \$26.7 million of net unfavorable loss reserve development from the runoff business. The net unfavorable loss reserve development resulted from a detailed review of runoff expenses, principally unallocated loss adjustment expenses ("ULAE"), completed during the fourth quarter of 2011. Specifically, OneBeacon completed a detailed review of loss and defense and cost containment expenses (allocated LAE or "ALAE") and other adjusting expenses (ULAE) during the fourth quarter of 2011. The analysis considered costs, based on current non-staff expenses and staffing projections for the runoff business, as OneBeacon continued efforts to segregate its claims operations between ongoing claims and runoff claims. The analysis also factored in the revised definition of runoff claims to include the non-specialty commercial lines business that was exited via the renewal rights agreement sale beginning with January 1, 2010 effective dates.

During 2010, OneBeacon experienced \$23.1 million of net favorable loss reserve development from the runoff business. The net favorable loss reserve development was primarily due to lower than expected severity on multiple peril liability lines and other general liability lines, particularly for accident years 2004 through 2009. As a result of the lower than expected case incurred loss and ALAE, actuarial methods based on case incurred losses produced lower estimated ultimate losses, resulting in lower estimates of required IBNR.

*Reinsurance.* Included in the assets held for sale are reinsurance recoverables from two reinsurance contracts with subsidiaries of Berkshire Hathaway Inc. that OneBeacon was required to purchase in connection with White Mountains' acquisition of OneBeacon in 2001: a reinsurance contract with National Indemnity Company ("NICO") for up to \$2.5 billion in old asbestos and environmental ("A&E") claims and certain other exposures (the "NICO Cover") and an adverse loss reserve development cover from General Reinsurance Corporation ("GRC") for up to \$570.0 million, comprised of \$400.0 million of adverse loss reserve development occurring in years 2000 and prior in addition to \$170.0 million of reserves ceded as of the date of the OneBeacon Acquisition (the "GRC Cover"). The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for under GAAP as a seller guarantee. As of December 31, 2012, the total reinsurance recoverable on paid and unpaid losses of \$1,401.9 million related to both the NICO cover and the GRC cover has been included in assets held for sale. Both NICO and GRC have an A.M Best rating of A++, Superior, which is the highest of fifteen ratings.

The total reinsurance recoverables on paid and unpaid losses in assets held for sale were \$15.6 million and \$1,840.8 million as of December 31, 2012. The reinsurance recoverable on unpaid amount is gross of \$150.1 million in purchase accounting adjustments that will become recoverable if claims are paid in accordance with current reserve estimates. In addition, \$36.7 million of the amount that is currently included in assets held for sale on the balance sheet will be reported in reinsurance recoverables on unpaid losses when the Runoff Transaction closes (at the then current value) as a result of a related reinsurance contract.

*Asbestos and environmental loss and LAE reserve activity.* OneBeacon's reserves include provisions made for claims that assert damages from A&E related exposures. Substantially all of these reserves have been reclassified to liabilities held for sale as of December 31, 2012, as they relate to the runoff business. 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 obligations, particularly as mandated by Federal and state environmental protection agencies. In addition to the factors regarding the reserving process, OneBeacon estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

OneBeacon's reserves for A&E losses at December 31, 2012 represent management's best estimate of its ultimate liability based on information currently available. However, significant uncertainties, including but not limited to case law developments, medical and clean up cost increases and industry settlement practices, limit OneBeacon's ability to accurately estimate ultimate liability and OneBeacon may be subject to A&E losses beyond currently estimated amounts. In addition, OneBeacon remains liable for risks reinsured in the event that a reinsurer does not honor its obligations under reinsurance contracts. OneBeacon cannot reasonably estimate at the present time loss reserve additions arising from any such future adverse loss reserve developments and cannot be sure that allocated loss reserves, plus the remaining capacity under the NICO Cover and other reinsurance contracts, will be sufficient to cover additional liability arising from any such adverse loss reserve developments.

The following tables summarize reported A&E loss and LAE reserve activities (gross and net of reinsurance) for OneBeacon for the years ended December 31, 2012, 2011 and 2010, respectively.

Net A&E Loss  Reserve Activity  Millions	Year Ended December 31,								
	2012			2011			2010		
	Pre-NICO			Pre-NICO			Pre-NICO		
	Gross	Net <sup>(1)</sup>	Net <sup>(2)</sup>	Gross	Net <sup>(1)</sup>	Net <sup>(2)</sup>	Gross	Net <sup>(1)</sup>	Net <sup>(2)</sup>
Asbestos:									
Beginning balance	\$ 1,074.3	\$ 681.2	\$ 2.2	\$ 904.0	\$ 647.3	\$ 6.4	\$ 985.6	\$ 688.8	\$ 6.5
Incurred losses and LAE	(.3)	(.5)	(.5)	256.8	32.2	(4.0)	—	—	—
Paid losses and LAE	(144.6)	(78.2)	.7	(86.5)	1.7	(.2)	(81.6)	(41.5)	(.1)
Ending balance	<u>929.4</u>	<u>602.5</u>	<u>2.4</u>	<u>1,074.3</u>	<u>681.2</u>	<u>2.2</u>	<u>904.0</u>	<u>647.3</u>	<u>6.4</u>
Environmental:									
Beginning balance	279.8	151.6	9.0	119.0	93.8	9.2	350.7	218.6	7.6
Incurred losses and LAE	(.9)	(.5)	(.5)	231.8	62.2	10.0	6.2	6.0	6.0
Paid losses and LAE	(45.9)	(25.7)	(2.1)	(71.0)	(4.4)	(10.2)	(237.9)	(130.8)	(4.4)
Ending balance	<u>233.0</u>	<u>125.4</u>	<u>6.4</u>	<u>279.8</u>	<u>151.6</u>	<u>9.0</u>	<u>119.0</u>	<u>93.8</u>	<u>9.2</u>
Total asbestos and environmental:									
Beginning balance	1,354.1	832.8	11.2	1,023.0	741.1	15.6	1,336.3	907.4	14.1
Incurred losses and LAE	(1.2)	(1.0)	(1.0)	488.6	94.4	6.0	6.2	6.0	6.0
Paid losses and LAE	(190.5)	(103.9)	(1.4)	(157.5)	(2.7)	(10.4)	(319.5)	(172.3)	(4.5)
Ending balance	<u>\$ 1,162.4</u>	<u>\$ 727.9</u>	<u>\$ 8.8</u>	<u>\$ 1,354.1</u>	<u>\$ 832.8</u>	<u>\$ 11.2</u>	<u>\$ 1,023.0</u>	<u>\$ 741.1</u>	<u>\$ 15.6</u>

<sup>(1)</sup> Represents A&E reserve activity, net of third-party reinsurance, but prior to the NICO Cover.

<sup>(2)</sup> Includes NICO cover



## Net Assets Held for Sale

The following summarizes the assets and liabilities associated with the businesses classified as held for sale:

Millions	December 31,	
	2012	2011
<b>Assets held for sale</b>		
Fixed maturity investments, at fair value	\$ 338.1	\$ 111.8
Cash	—	5.5
Reinsurance recoverable on unpaid losses	1,840.8	—
Reinsurance recoverable on paid losses	15.6	—
Insurance premiums receivable	11.0	8.8
Deferred acquisition costs	—	2.2
Deferred tax asset	5.1	1.9
Other assets	16.2	2.4
<b>Total assets held for sale</b>	<b>\$ 2,226.8</b>	<b>\$ 132.6</b>
<b>Liabilities held for sale</b>		
Loss and loss adjustment expense reserves	\$ 2,052.6	\$ 64.7
Unearned insurance premiums	.5	34.1
Ceded reinsurance payable	21.9	—
Other liabilities	151.8	8.8
<b>Total liabilities held for sale</b>	<b>2,226.8</b>	<b>107.6</b>
<b>Net assets held for sale</b>	<b>\$ —</b>	<b>\$ 25.0</b>

## Net (Loss) Income from Discontinued Operations

The following summarizes the results of operations, including related income taxes associated with the businesses classified as discontinued operations:

Millions, except per share amounts	Year Ended December 31,		
	2012	2011	2010
<b>Revenues</b>			
Earned insurance premiums	\$ 10.6	\$ 731.2	\$ 1,133.4
Net investment income	—	12.0	19.6
Net realized and unrealized investment gains	—	.7	13.3
Other revenue	—	55.1	71.1
Total revenues	10.6	799.0	1,237.4
<b>Expenses</b>			
Loss and loss adjustment expenses	48.4	574.9	851.4
Insurance and reinsurance acquisition expenses	(2.1)	157.0	251.2
Other underwriting expenses	1.7	91.4	124.9
General and administrative expenses	—	38.3	48.7
Total expenses	48.0	861.6	1,276.2
<b>Pre-tax loss</b>	<b>(37.4)</b>	<b>(62.6)</b>	<b>(38.8)</b>
Income tax benefit	13.4	25.9	8.7
<b>Loss from discontinued operations</b>	<b>(24.0)</b>	<b>(36.7)</b>	<b>(30.1)</b>
Gain on sale of Esurance and AFI, net of tax	—	677.5	—
Loss on sale of AutoOne and Runoff Transaction, net of tax	(91.0)	(19.2)	—
<b>Net (loss) income from discontinued operations</b>	<b>\$ (115.0)</b>	<b>\$ 621.6</b>	<b>\$ (30.1)</b>

## Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are based on the weighted average number of common shares outstanding including unvested restricted shares that are considered participating securities. Diluted earnings (loss) per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. The following table outlines the computation of earnings (loss) per share for discontinued operations for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010
<b>Basic and diluted earnings (loss) per share numerators (in millions):</b>			
Net (loss) income attributable to White Mountains' common shareholders	\$ (115.0)	\$ 621.6	\$ (30.1)
Allocation of income for participating unvested restricted common shares <sup>(1)</sup>	1.5	(5.4)	.4
Net (loss) income attributable to White Mountains' common shareholders, net of restricted common share amounts <sup>(3)</sup>	\$ (113.5)	\$ 616.2	\$ (29.7)
<b>Basic earnings (loss) per share denominators (in thousands):</b>			
Total average common shares outstanding during the period	6,799.8	7,881.0	8,548.4
Average unvested restricted common shares <sup>(1)</sup>	(91.1)	(69.4)	(97.3)
Basic earnings (loss) per share denominator	6,708.7	7,811.6	8,451.1
<b>Diluted earnings (loss) per share denominator (in thousands):</b>			
Total average common shares outstanding during the period	6,799.8	7,881.0	8,548.4
Average unvested restricted common shares <sup>(1)</sup>	(91.1)	(69.4)	(97.3)
Average outstanding dilutive options to acquire common shares <sup>(2)</sup>	—	—	.5
Diluted earnings (loss) per share denominator	6,708.7	7,811.6	8,451.6
<b>Basic and diluted (loss) earnings per share (in dollars):</b>	\$ (16.91)	\$ 78.88	\$ (3.51)

<sup>(1)</sup> Restricted common shares outstanding vest either in equal annual installments or upon a stated date (see **Note 11**).

<sup>(2)</sup> The diluted earnings per share denominator for the year ended December 31, 2010 includes 1,200 common shares issuable upon exercise of incentive options at an average strike price of \$189.31 per common share. The non-qualified options were not included in the diluted earnings per share denominator for any of the periods presented as their inclusion would be anti-dilutive.

<sup>(3)</sup> Net income (loss) attributable to White Mountains' common shareholders, net of restricted share amounts, is equal to undistributed earnings (loss) for the years ended December 31, 2012, 2011 and 2010.

<sup>(4)</sup> Restricted shares issued by White Mountains contain dividend participation features, and therefore, are considered participating securities.

## NOTE 21. Subsequent Event

### Sale of Essentia

On January 2, 2013, OneBeacon completed the sale of Essentia Insurance Company ("Essentia"), an indirect wholly owned subsidiary that wrote policies for the Hagerty collector car and boat business, to Markel Corporation. OneBeacon will recognize a pre-tax gain on sale of approximately \$23 million (\$15 million after tax) in the first quarter of 2013. The Hagerty business associated with this agreement generated net written premiums of approximately \$179.7 million, \$166.6 million and \$153 million (8.0% of WhiteMountains' consolidated written premiums for all periods), for the years ended December 31, 2012, 2011 and 2010.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements included in this report. The financial statements have been prepared in conformity with GAAP in the United States. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Audit Committee of the Board, which is comprised entirely of independent, qualified directors, is responsible for the oversight of our accounting policies, financial reporting and internal control including the appointment and compensation of our independent registered public accounting firm. The Audit Committee meets periodically with management, our independent registered public accounting firm and our internal auditors to ensure they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing our financial reports. Our independent registered public accounting firm and internal auditors have full and unlimited access to the Audit Committee, with or without management present, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to their attention.

## MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. There are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, an effective internal control environment as of a point in time may become inadequate in the future because of changes in conditions, or deterioration in the degree of compliance with the policies and procedures.

We assessed the effectiveness of White Mountains' internal control over financial reporting as of December 31, 2012. Our assessment did not include an assessment of the internal control over financial reporting for certain recent acquisitions. These acquisitions were Physicians Insurance Company of Ohio, Citation Insurance Company, American General Indemnity Company and American General Property Insurance Company which combined represent less than 1% of White Mountains' total assets as of December 31, 2012 and less than 1% of White Mountains' total revenue for the year ended December 31, 2012. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, we have concluded that White Mountains maintained effective internal control over financial reporting as of December 31, 2012.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has audited the effectiveness of White Mountains' internal control over financial reporting as of December 31, 2012 as stated in their report which appears on page F-82.

February 28, 2013

/s/ RAYMOND BARRETTE

*Chairman and CEO*

*(Principal Executive Officer)*

/s/ DAVID T. FOY

*Executive Vice President and CFO*

*(Principal Financial Officer)*

## Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of White Mountains Insurance Group, Ltd. and its subsidiaries (the "Company") at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Annual Report on Internal Control Over Financial Reporting, management has excluded Physicians Insurance Company of Ohio, Citation Insurance Company, American General Indemnity Company and American General Property Insurance Company from its assessment of internal control over financial reporting as of December 31, 2012 because the entities were recently acquired by the Company. We have also excluded Physicians Insurance Company of Ohio, Citation Insurance Company, American General Indemnity Company and American General Property Insurance Company from our audit of internal control over financial reporting. Physicians Insurance Company of Ohio, Citation Insurance Company, American General Indemnity Company and American General Property Insurance Company are wholly-owned subsidiaries whose combined total assets and combined total revenues represent less than 1% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2012.

/s/ PricewaterhouseCoopers  
Boston, Massachusetts  
February 28, 2013

**SELECTED QUARTERLY FINANCIAL DATA**  
**(Unaudited)**

Selected quarterly financial data for 2012 and 2011 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods. As a result of the Esurance Sale and AutoOne Sale, the results of operations for Esurance and AutoOne have been classified as discontinued operations and are now presented, net of related income taxes, as such in the statement of comprehensive income. Prior year amounts have been reclassified to conform to the current period's presentation (see **Note 20**).

Millions, except per share amounts	2012 Three Months Ended				2011 Three Months Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	\$ 566.4	\$ 697.4	\$ 542.3	\$ 629.7	\$ 593.4	\$ 501.7	\$ 552.4	\$ 525.6
Expenses	617.2	562.3	504.7	488.8	495.0	500.5	516.6	563.0
Pre-tax income (loss)	(50.8)	135.1	37.6	140.9	98.4	1.2	35.8	(37.4)
Tax benefit (expense)	101.0	(47.8)	(6.4)	(31.1)	110.9	0.6	(8.8)	7.3
Income (loss) from continuing operations	50.2	87.3	31.2	109.8	209.3	1.8	27.0	(30.1)
Income (loss) from discontinued operations, net of tax	0.5	(106.8)	0.5	(9.2)	647.6	(30.1)	(2.4)	6.5
Non-controlling interest in consolidated subsidiaries	12.0	30.9	(12.1)	(16.8)	(20.3)	11.0	(20.8)	(11.4)
Equity in (loss) earnings of unconsolidated affiliates	5.5	7.7	6.5	10.2	(36.4)	1.5	7.9	6.8
Income (loss) attributable to White Mountains' common shareholders	<u>\$ 68.2</u>	<u>\$ 19.1</u>	<u>\$ 26.1</u>	<u>\$ 94.0</u>	<u>\$ 800.2</u>	<u>\$ (15.8)</u>	<u>\$ 11.7</u>	<u>\$ (28.2)</u>
Income (loss) attributable to White Mountains' common shareholders:								
Basic								
Continuing operations	\$ 10.36	\$ 19.11	\$ 3.85	\$ 13.85	\$ 20.03	\$ 1.80	\$ 1.78	\$ (4.33)
Discontinued operations	0.07	(16.21)	0.07	(1.24)	85.01	(3.80)	(0.30)	0.82
Total consolidated operations	10.43	2.90	3.92	12.61	105.04	(2.00)	1.48	(3.51)
Diluted								
Continuing operations	\$ 10.36	\$ 19.11	\$ 3.85	\$ 13.85	\$ 20.03	\$ 1.80	\$ 1.78	\$ (4.33)
Discontinued operations	0.07	(16.21)	0.07	(1.24)	85.01	(3.80)	(0.30)	0.82
Total consolidated operations	<u>10.43</u>	<u>2.90</u>	<u>3.92</u>	<u>12.61</u>	<u>105.04</u>	<u>(2.00)</u>	<u>1.48</u>	<u>(3.51)</u>
Adjusted book value per share	<u>\$ 587.63</u>	<u>\$ 573.66</u>	<u>\$ 564.77</u>	<u>\$ 565.38</u>	<u>\$ 542.11</u>	<u>\$ 436.18</u>	<u>\$ 542.11</u>	<u>\$ 446.70</u>

**SCHEDULE I**
**WHITE MOUNTAINS INSURANCE GROUP, LTD.**
**SUMMARY OF INVESTMENTS—OTHER THAN  
INVESTMENTS IN RELATED PARTIES  
At December 31, 2012**

<b>Millions</b>	<b>Cost</b>	<b>Carrying Value <sup>(1)</sup></b>	<b>Fair Value</b>
Fixed maturities:			
Bonds:			
U.S. Government and government agencies and authorities	\$ 440.4	\$ 440.1	\$ 440.1
Debt securities issued by industrial corporations	2,321.4	2,385.1	2,385.1
Mortgage-backed and asset-backed securities	2,081.0	2,095.6	2,095.6
States, municipalities and political subdivisions	5.3	5.2	5.2
Foreign governments	526.6	521.9	521.9
Redeemable preferred stocks	79.9	86.4	86.4
Total fixed maturities <sup>(1)</sup>	5,454.6	5,534.3	5,534.3
Short-term investments	630.6	630.6	630.6
Common equity securities:			
Banks, trust and insurance companies	268.6	324.5	324.5
Public utilities	39.1	43.6	43.6
Industrial, miscellaneous and other	587.5	661.6	661.6
Total common equity securities	895.2	1,029.7	1,029.7
Convertible fixed maturities	121.7	127.4	127.4
Other long-term investments	257.2	294.2	294.2
Total investments <sup>(1)</sup>	\$ 7,359.3	\$ 7,616.2	\$ 7,616.2

<sup>(1)</sup> Carrying value and fair value includes \$338.1 that is classified as assets held for sale relating to discontinued operations.

**SCHEDULE II**
**CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT**
**CONDENSED BALANCE SHEETS**

<b>Millions</b>	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets:</b>		
Cash	\$ .5	\$ .7
Fixed maturity investments, at fair value <sup>(1) (2)</sup>	39.0	1,334.5
Common equity securities, at fair value	—	1.9
Short-term investments, at amortized cost <sup>(2)</sup>	8.9	72.3
Receivable due from subsidiary <sup>(2)</sup>	96.6	2.8
Other assets	1.0	5.1
Investments in consolidated and unconsolidated affiliates <sup>(1)(3)</sup>	3,664.6	2,687.3
Total assets	<u>\$ 3,810.6</u>	<u>\$ 4,104.6</u>
<b>Liabilities:</b>		
Debt	\$ 75.0	\$ —
Accounts payable and other liabilities	3.8	16.9
Total liabilities	<u>78.8</u>	<u>16.9</u>
White Mountains' common shareholders' equity	3,731.8	4,087.7
Total liabilities and equity <sup>(3)</sup>	<u>\$ 3,810.6</u>	<u>\$ 4,104.6</u>

**CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

<b>Millions</b>	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Revenues (including realized gains and losses)	\$ 20.8	\$ 6.4	\$ 1.1
Expenses	32.4	51.7	42.2
Pre-tax loss	(11.6)	(45.3)	(41.1)
Income tax (expense) benefit	(.3)	6.5	(.6)
Net loss	(11.9)	(38.8)	(41.7)
Equity in earnings from consolidated and unconsolidated affiliates <sup>(3)</sup>	219.3	806.7	128.2
Net income attributable to White Mountains' common shareholders	207.4	767.9	86.5
Other comprehensive loss items, after-tax	95.2	(81.7)	127.9
Comprehensive income attributable to White Mountains' common shareholders	<u>\$ 302.6</u>	<u>\$ 686.2</u>	<u>\$ 214.4</u>
Computation of net income available to common shareholders:			
Net income available to common shareholders	<u>\$ 207.4</u>	<u>\$ 767.9</u>	<u>\$ 86.5</u>

<sup>(1)</sup> During 2012, the Company sold the majority of its fixed maturity investments and used the proceeds to (a) contribute \$663.0 to its subsidiaries, the majority of which was used to fund HG Global and (b) repurchase 1,329,640 of its common shares for \$669.1.

<sup>(2)</sup> In November 2011, Lone Tree Insurance Group Ltd., a direct wholly-owned subsidiary of the Registrant, was liquidated into the Registrant. Significant non-cash balances that were transferred to the Registrant as part of the liquidation included fixed maturity investments of \$1,146.9, short-term investments of \$284.7 and a payable to subsidiary of \$417.5.

<sup>(3)</sup> In 2011, the Company revised the presentation of investments in consolidated and unconsolidated affiliates, total liabilities and equity and equity in earnings (losses) from consolidated and unconsolidated affiliates to be net of non-controlling interests for all periods presented.

**SCHEDULE II**  
(continued)

**CONDENSED STATEMENTS OF CASH FLOWS**

Millions	Year Ended December 31,		
	2012	2011	2010
Net income attributable to White Mountains' common shareholders <sup>(2)</sup>	\$ 207.4	\$ 767.9	\$ 86.5
Charges (credits) to reconcile net income to net cash from operations:			
Net realized and unrealized (gains) losses on sales of investments	(11.0)	(3.1)	.1
Undistributed current earnings from subsidiaries <sup>(2)</sup>	(219.3)	(806.7)	(128.2)
Net change in other assets and other liabilities	12.1	13.7	27.9
Net cash used for operations	(10.8)	(28.2)	(13.7)
Cash flows from investing activities:			
Net decrease in short-term investments <sup>(3)</sup>	63.3	267.3	166.5
Purchases of investment securities <sup>(3)</sup>	(706.2)	(237.3)	(5.8)
Sales and maturities of investment securities <sup>(1)</sup>	2,009.7	59.0	—
Issuance of debt (to) from subsidiaries	(121.0)	—	86.8
Repayment of debt from subsidiaries <sup>(3)</sup>	28.5	192.5	—
Contributions to subsidiaries <sup>(1)</sup>	(663.0)	—	—
Distributions from subsidiaries	—	7.2	—
Net cash provided from investing activities	611.3	288.7	247.5
Cash flows from financing activities:			
Draw down of revolving line of credit	150.0	—	—
Repayment of debt	(75.0)	—	—
Proceeds from issuances of common shares	—	.9	.7
Repurchases and retirement of common shares <sup>(1)</sup>	(669.1)	(253.0)	(225.6)
Dividends paid on common shares	(6.6)	(8.0)	(8.8)
Net cash used for financing activities	(600.7)	(260.1)	(233.7)
Net (decrease) increase in cash during the year	(.2)	.4	.1
Cash balance at beginning of year	.7	.3	.2
Cash balance at end of year	\$ .5	\$ .7	\$ .3

<sup>(1)</sup> During 2012, the Company sold the majority of its fixed maturity investments and used the proceeds to (a) contribute \$663.0 to its subsidiaries, the majority of which was used to fund HG Global and (b) repurchase 1,329,640 of its common shares for \$669.1.

<sup>(2)</sup> In 2011, the Company revised the presentation of net income attributable to White Mountains' common shareholders and undistributed current earnings from subsidiaries to be net of non-controlling interests for all periods presented.

<sup>(3)</sup> In November 2011, Lone Tree Insurance Group Ltd., a direct wholly-owned subsidiary of the Registrant, was liquidated into the Registrant. Significant non-cash balances that were transferred to the Registrant as part of the liquidation included fixed maturity investments of \$1,146.9, short-term investments of \$284.7 and a payable to subsidiary of \$417.5



**SCHEDULE III**

**WHITE MOUNTAINS INSURANCE GROUP, LTD.**  
**SUPPLEMENTARY INSURANCE INFORMATION**  
**(Millions)**

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Segment	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premiums earned	Net investment income <sup>(1)</sup>	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses	Premiums written
Years ended:										
<b>December 31, 2012:</b>										
OneBeacon	\$ 123.9	\$ 1,000.0	\$ 573.8	\$ —	\$ 1,132.0	\$ 53.6	\$ 650.0	\$ 249.4	\$ 205.2	\$ 1,179.2
Sirius Group	71.4	2,168.9	350.2	—	931.6	65.0	543.9	180.8	116.4	947.7
HG Global/BAM	—	—	—	—	—	2.2	—	—	.2	—
Other operations	—	—	—	—	—	0.5	—	—	—	—
December 31, 2011:										
OneBeacon	\$ 123.5	\$ 3,358.6	\$ 528.0	\$ —	\$ 1,012.2	\$ 71.4	\$ 548.3	\$ 221.2	\$ 162.3	\$ 1,062.7
Sirius Group	63.5	2,343.7	319.0	—	912.3	89.9	626.0	181.0	105.8	915.7
Other operations	—	—	—	—	—	(0.1)	—	—	—	—
December 31, 2010:										
OneBeacon	\$ 114.5	\$ 3,295.5	\$ 627.5	\$ —	\$ 1,181.1	\$ 96.6	\$ 685.6	\$ 252.1	\$ 196.1	\$ 1,167.7
Sirius Group	61.6	2,441.3	311.2	—	847.9	90.5	531.0	167.5	99.8	865.8
Other operations	—	—	—	—	—	(0.1)	—	—	—	—

<sup>(1)</sup> The amounts shown exclude net investment income relating to non-insurance operations in the other operations segment of \$32.3, \$23.3 and \$21.9 for the twelve months ended December 31, 2012, 2011 and 2010, respectively.

**SCHEDULE IV**

**WHITE MOUNTAINS INSURANCE GROUP, LTD.**  
**REINSURANCE**  
**(Millions)**

Column A	Column B	Column C	Column D	Column E	Column F
Premiums earned	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Years ended:					
<b>December 31, 2012</b>					
OneBeacon	\$ 1,158.3	\$ (79.1)	\$ 52.8	\$ 1,132.0	4.7%
Sirius Group	169.9	(226.6)	988.3	931.6	106.1%
December 31, 2011					
OneBeacon	\$ 1,035.9	\$ (66.0)	\$ 42.3	\$ 1,012.2	4.2%
Sirius Group	128.5	(206.0)	989.8	912.3	108.5%
December 31, 2010					
OneBeacon	\$ 1,242.5	\$ (122.1)	\$ 60.7	\$ 1,181.1	5.1%
Sirius Group	117.9	(199.7)	929.7	847.9	109.6%

**SCHEDULE V**

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
VALUATION AND QUALIFYING ACCOUNTS**

Column A	Column B		Column C		Column D		Column E
	Balance at beginning of period	Additions (subtractions)		Deductions described (1)	Balance at end of period		
Millions		Charged to costs and expenses	Charged to other accounts				
Years ended:							
<b>December 31, 2012</b>							
Reinsurance recoverable on paid losses:							
Allowance for reinsurance balances	\$ 34.4	\$ (.6)	\$ —	\$ 1.7	\$ 35.5		
Property and casualty insurance and reinsurance premiums receivable:							
Allowance for uncollectible accounts	3.4	1.1	—	(.1)	4.4		
<b>December 31, 2011</b>							
Reinsurance recoverable on paid losses:							
Allowance for reinsurance balances	\$ 29.4	\$ 8.5	\$ —	\$ (3.5)	\$ 34.4		
Property and casualty insurance and reinsurance premiums receivable:							
Allowance for uncollectible accounts	3.9	—	(.5)	—	3.4		
<b>December 31, 2010</b>							
Reinsurance recoverable on paid losses:							
Allowance for reinsurance balances	\$ 30.0	\$ (.4)	\$ —	\$ (.2)	\$ 29.4		
Property and casualty insurance and reinsurance premiums receivable:							
Allowance for uncollectible accounts	6.3	.2	(1.0)	(1.6)	3.9		

(1) Represents net collections (charge-offs) of balances receivables and foreign currency translation.

**SCHEDULE VI**

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

Column A	Column B		Column C	Column D	Column E		Column F	Column G	Column H		Column I	Column J	Column K
Affiliation with registrant	Deferred acquisition costs		Reserves for Unpaid Claims and Claims Adjustment Expenses	Discount, if any, deducted in Column C		Unearned Premiums	Earned Premiums	Net investment income	Claims and Claims Adjustment Expenses Incurred Related to		Amortization of deferred policy acquisition costs	Paid Claims and Claims Adjustment Expenses	Premiums written
									(1) Current Year	(2) Prior Year			
OneBeacon:													
	2012	\$ 123.9	\$ 1,000.0	\$ 4.6	(1)	\$ 573.8	\$ 1,132.0	\$ 53.6	\$ 657.4	\$ (7.4)	\$ 249.4	\$ 565.1	\$ 1,179.2
	2011	123.5	3,358.6	271.6	(1)	528.0	1,012.2	71.4	578.1	(29.8)	221.2	523.2	1,062.7
	2010	114.5	3,295.5	295.9	(1)	627.5	1,181.1	96.6	721.6	(36.0)	252.1	654.8	1,167.7
Sirius Group:													
	2012	\$ 71.4	\$ 2,168.9	\$ 2.4	(2)	\$ 350.2	\$ 931.6	\$ 65.0	\$ 578.4	\$ (34.5)	\$ 180.8	\$ 741.2	\$ 947.7
	2011	63.5	2,343.7	12.8	(2)	319.0	912.3	89.9	672.9	(46.9)	181.0	642.0	915.7
	2010	61.6	2,441.3	21.1	(2)	311.2	847.9	90.5	588.1	(57.1)	167.5	437.0	865.8

<sup>(1)</sup> The amounts shown represent OneBeacon's discount on its long-term workers compensation loss and LAE reserves, as such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual basis. OneBeacon discounts these reserves using a discount rate which is determined based on the facts and circumstances applicable at the time the claims are settled (3.5%, 4.5% and 5.0% at December 31, 2012, 2011 and 2010). Also the amounts shown include unamortized fair value adjustments to reserves for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains' purchase of OneBeacon for the years ended December 31, 2012, 2011 and 2010.

<sup>(2)</sup> The amount shown represents unamortized fair value adjustments to reserves for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains' purchase of Sirius International during 2004.

**\$275,000,000**  
**OneBeacon U.S. Holdings, Inc.**  
**4.60% Senior Notes due 2022**

**Guaranteed by**  
**OneBeacon Insurance Group, Ltd.**

**UNDERWRITING AGREEMENT**

November 6, 2012

BARCLAYS CAPITAL INC.  
 HSBC SECURITIES (USA) INC.  
 MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

As Representatives of the Several Underwriters named  
 in Schedule I hereto

c/o Barclays Capital Inc.  
 745 Seventh Avenue  
 New York, New York 10019

Ladies and Gentlemen:

OneBeacon U.S. Holdings, Inc., a company organized under the laws of the State of Delaware (the "**Company**"), proposes to sell \$275,000,000 aggregate principal amount of 4.60% Senior Notes due 2022 (the "**Notes**"). Payment of principal, premium, if any, and interest on the Notes will be fully and unconditionally guaranteed (the "**Guarantee**" and, together with the Notes, the "**Securities**") on an unsecured and unsubordinated basis by the Company's ultimate parent, OneBeacon Insurance Group, Ltd., a Bermuda exempted limited liability company (the "**Guarantor**").

The Securities are being issued under an Indenture, to be dated as of November 9, 2012 (the "**Base Indenture**") among the Company, the Guarantor, and The Bank of New York Mellon Trust Company, N. A., as trustee (the "**Trustee**"), as supplemented by a Supplemental Indenture thereto, to be dated as of November 9, 2012 (the "**Supplemental Indenture**" and, together with the Base Indenture, the "**Indenture**") among the Company, the Guarantor and the Trustee. This underwriting agreement (this "**Agreement**") is to confirm the agreement concerning the purchase of the Notes from the Company by the underwriters listed in Schedule I hereto (the "**Underwriters**").

1. *Representations, Warranties and Agreements of the Company and the Guarantor.* The Company and the Guarantor represent, warrant and agree that:

(a) A registration statement on Form S-3 (File No. 333-174867) relating to the Securities has (i) been prepared by the Guarantor and the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "**Securities Act**"), and the rules and regulations (the "**Rules and Regulations**") of the Securities and Exchange Commission (the "**Commission**") thereunder; (ii) been filed with the Commission under the Securities Act not earlier than three years prior to the date

hereof; and (iii) become effective (including any post-effective amendment thereto) under the Securities Act; and no notice of objection of the Commission to the use of such registration statement or any post-effective amendment thereto pursuant to Rule 433 of the Rules and Regulations has been received by the Company or the Guarantor. Copies of such registration statement and any amendment thereto have been delivered by the Company or the Guarantor to you as the representatives (the "**Representatives**") of the Underwriters. As used in this Agreement:

- (i) "**Applicable Time**" means 4:30 p.m. (New York City time) on the date of this Agreement;
- (ii) "**Base Prospectus**" means the base prospectus contained in the Registration Statement in the form in which it has most recently been filed with the Commission on or prior to the Applicable Time;
- (iii) "**Effective Date**" means any date as of which any part of the Registration Statement became, or is deemed to have become, effective under the Securities Act in accordance with the Rules and Regulations;
- (iv) "**Issuer Free Writing Prospectus**" means each "free writing prospectus" (as defined in Rule 405 of the Rules and Regulations) prepared by or on behalf of the Company or the Guarantor or used or referred to by the Company or the Guarantor in connection with the offering of the Securities;
- (v) "**Preliminary Prospectus**" means any preliminary prospectus relating to the Securities included in such registration statement or filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations, including any preliminary prospectus supplement thereto relating to the Securities;
- (vi) "**Pricing Disclosure Package**" means, as of the Applicable Time, the Base Prospectus, together with the then most recent Preliminary Prospectus and each Issuer Free Writing Prospectus filed or used by the Company on or before the Applicable Time and identified on Schedule II hereto, other than a road show that is an Issuer Free Writing Prospectus but is not required to be filed under Rule 433 of the Rules and Regulations;
- (vii) "**Prospectus**" means the final prospectus relating to the Securities, including any prospectus supplement thereto relating to the Securities, as filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations; and
- (viii) "**Registration Statement**" means such registration statement, as amended, or as deemed to be amended, as of the applicable Effective Date, including any Preliminary Prospectus or the Prospectus and all exhibits and financial statements to such registration statement.
- (ix) Any reference herein to the Base Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Form S-3 under the Securities Act as of the date of the respective prospectus; any reference to any amendment or supplement to the Base Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and

include any post-effective amendment to the Registration Statement, any prospectus supplement relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Securities Act and any documents filed under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and incorporated by reference therein, in each case after the date of the Base Prospectus, such Preliminary Prospectus or the Prospectus, as the case may be; and any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of either the Guarantor or the Company filed pursuant to Section 13(a) or 15(d) of the Exchange Act after the Effective Date of the Registration Statement that is incorporated by reference in the Registration Statement.

(b) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending the effectiveness of the Registration Statement, and no proceeding or examination for such purpose has been instituted or, to the Company's or the Guarantor's knowledge, threatened by the Commission.

(c) At the time of initial filing of the Registration Statement and at the earliest time thereafter that the Company or another offering participant made a *bona fide* offer (within the meaning of Rule 164(h)(2) of the Rules and Regulations) of the Securities, neither the Company nor the Guarantor was, nor on the date hereof and on the Closing Date, neither the Company nor the Guarantor is or will be, an "ineligible issuer" (as defined in Rule 405 of the Rules and Regulations). The Company and the Guarantor have been since the time of initial filing of the Registration Statement, and continue to be as of the date hereof and as of the Closing Date, eligible to use Form S-3 for the offering of the Securities.

(d) The Registration Statement conformed and will conform in all material respects on the Effective Date and on the Closing Date, and any amendment to the Registration Statement filed after the date hereof will conform in all material respects when filed, to the requirements of the Securities Act, the Trust Indenture Act of 1939, as amended (the "**Trust Indenture Act**"), and the Rules and Regulations. The Pricing Disclosure Package conforms as of the date hereof, and the Prospectus will conform, when filed with the Commission pursuant to Rule 424(b) and on the Closing Date, in each case in all material respects to the requirements of the Securities Act, the Trust Indenture Act and the rules and regulations of the Commission thereunder. The documents incorporated by reference in the Pricing Disclosure Package or the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Exchange Act or the Securities Act, as applicable, and the Rules and Regulations, and any further documents so filed and incorporated by reference, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Exchange Act or the Securities Act, as applicable, and the Rules and Regulations.

(e) The Registration Statement did not, as of the Effective Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided* that no representation or warranty is made as to (i) that part of the Registration Statement which shall constitute the Statement of Eligibility and Qualification (Form T-1) under the Trust Indenture Act and (ii) information contained in or omitted from the Registration Statement in reliance upon and in conformity with written information furnished to the Company and the Guarantor through the Representatives by or on behalf of any Underwriter specifically for inclusion therein, it being understood and agreed that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 8(e).

(f) The Prospectus will not, as of its date and on the Closing Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Prospectus in reliance upon and in conformity with written information furnished to the Company and the Guarantor through the Representatives by or on behalf of any Underwriter specifically for inclusion therein, it being understood and agreed that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 8(e).

(g) The documents incorporated by reference in any Preliminary Prospectus or the Prospectus did not, and any further documents filed and incorporated by reference therein will not, when filed with the Commission, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) The Pricing Disclosure Package did not, as of the Applicable Time, contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Pricing Disclosure Package in reliance upon and in conformity with written information furnished to the Company and the Guarantor through the Representatives by or on behalf of any Underwriter specifically for inclusion therein, it being understood and agreed that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 8(e).

(i) Each Issuer Free Writing Prospectus (including, without limitation, any road show that is a free writing prospectus under Rule 433 of the Rules and Regulations) does not conflict with the information contained in the Registration Statement or the Prospectus, and, when considered together with the Pricing Disclosure Package as of the Applicable Time, did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) Each Issuer Free Writing Prospectus conformed or will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations on the date of first use, and the Company has complied with all prospectus delivery and any filing requirements applicable to such Issuer Free Writing Prospectus pursuant to the Securities Act and the Rules and Regulations. The Company and the Guarantor have not made any offer relating to the Securities that would constitute an Issuer Free Writing Prospectus, without the prior written consent of the Representatives, except as set forth on Schedule II hereto. The Company and the Guarantor have retained in accordance with the Rules and Regulations all Issuer Free Writing Prospectuses that were not required to be filed pursuant to the Rules and Regulations. The Company and the Guarantor have taken all actions necessary so that any "road show" (as defined in Rule 433 of the Rules and Regulations) in connection with the offering of the Securities will not be required to be filed pursuant to the Rules and Regulations.

(k) The Guarantor has been duly incorporated and is validly existing as an exempted company with limited liability, in good standing under the laws of Bermuda and no steps have been taken or are being taken to appoint a receiver, examiner or liquidator over it or to wind it up. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware. Each other subsidiary (as defined in Section 17 below) of the Company or the Guarantor has been duly organized and is validly existing as a corporation or other business entity in good



standing under the laws of its jurisdiction of organization, except where the failure to be in good standing could not, in the aggregate, reasonably be expected to have a material adverse effect on the condition (financial or otherwise), results of operations, shareholders' equity, properties, business or prospects of the Guarantor and its subsidiaries taken as a whole (a "**Material Adverse Effect**").

(l) Each of the Guarantor and its subsidiaries has been duly qualified as a foreign company for the transaction of business and is in good standing under the laws of each other jurisdiction in which its ownership or lease of property or the conduct of its businesses require such qualification, except where the failure to be so qualified or in good standing could not, in the aggregate, reasonably be expected to have a Material Adverse Effect; each of the Guarantor and its subsidiaries has all power and authority necessary to own or hold its properties and to conduct the businesses in which it is engaged, except where the failure to have such power and authority would not, in the aggregate, have a Material Adverse Effect.

(m) All the outstanding capital shares of the Guarantor and the Company have been duly authorized and validly issued and are fully paid and non-assessable and are not subject to any preemptive or similar rights; except as described in or expressly contemplated by the Pricing Disclosure Package and the Prospectus, there are no outstanding rights (including, without limitation, preemptive rights), warrants or options to acquire, or instruments convertible into or exchangeable for, any capital shares or other equity interest in the Guarantor or any of its subsidiaries, or any contract, commitment, agreement, understanding or arrangement of any kind relating to the issuance of any capital shares of the Guarantor or any such subsidiary, any such convertible or exchangeable securities or any such rights, warrants or options; and all the outstanding capital shares or other equity interests of each subsidiary of the Guarantor have been duly authorized and validly issued, are fully paid and non-assessable and are owned directly or indirectly by the Guarantor, free and clear of any lien, charge, encumbrance, security interest, restriction on voting or transfer or any other claim of any third party, except for such liens, encumbrances, equities or claims as could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(n) Each of the Company and the Guarantor has all requisite power and authority to enter into, execute, deliver and perform its obligations under this Agreement, the Indenture and the Notes and to consummate the transactions contemplated by this Agreement and the Notes.

(o) This Agreement has been duly and validly authorized, executed and delivered by each of the Company and the Guarantor.

(p) The Notes have been duly and validly authorized and when authenticated by the Trustee in accordance with the provisions of the Indenture and delivered to and paid for by the Underwriters, the Notes will have been duly and validly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and remedies and to general equity principles, and will be entitled to the benefits provided by the Indenture; the Guarantee has been duly and validly authorized and when authenticated by the Trustee in accordance with the provisions of the Indenture and delivered to and paid for by the Underwriters, the Guarantee will have been duly and validly executed, authenticated, issued and delivered and will constitute the valid and legally binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights

and remedies and to general equity principles, and will be entitled to the benefits provided by the Indenture; the Indenture has been duly authorized by each of the Company and the Guarantor, and at the Closing Date will be duly executed and delivered by each of the Company and the Guarantor and will constitute a valid and legally binding agreement of the Company and the Guarantor, enforceable against each of the Company and the Guarantor in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and remedies and to general equity principles; as of the Closing Date, the Indenture will have been duly qualified under the Trust Indenture Act; and the Securities and the Indenture will conform to the description thereof contained in the Pricing Disclosure Package and the Prospectus; the Base Indenture is substantially in the form filed as an exhibit to the Registration Statement on Form S-3, as filed with the SEC on July 2, 2008 (File No 333-152078).

(q) The issue and sale of the Securities, the execution and delivery of this Agreement and the Indenture by each of the Company and the Guarantor and the performance and compliance by each of the Company and the Guarantor with all the provisions of this Agreement, the Indenture and, with respect to the Company, the Notes and, with respect to the Guarantor, the Guarantee and the consummation by each of the Company and the Guarantor of the transactions contemplated herein and therein and in the Pricing Disclosure Package and Prospectus, will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Guarantor and its subsidiaries, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which the Guarantor or any of its subsidiaries is a party or by which the Guarantor or any of its subsidiaries is bound or to which any of the property or assets of the Guarantor or any of its subsidiaries is subject; (ii) result in any violation of the provisions of the memorandum of association or bye-laws (or similar organizational documents) of the Guarantor or any of its subsidiaries; or (iii) result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Guarantor or any of its subsidiaries or any of their properties or assets, or any rule or regulation of any self-regulatory organization or other non-governmental regulatory authority to which the Guarantor or any of its subsidiaries is subject (including, without limitation, the rules and regulations of the New York Stock Exchange), except for such conflicts, violations and breaches in the case of clauses (i) and (iii) as could not reasonably be expected to have a Material Adverse Effect.

(r) Except as described in the Prospectus, no consent, approval, authorization or order of, or filing or registration with, any court or governmental agency or self-regulatory organization or body having jurisdiction over the Guarantor or any of its subsidiaries or any of their properties or assets is required for the issue and sale by the Company and the Guarantor of the Securities or the execution, delivery and performance of this Agreement and the Indenture by the Company and the Guarantor and the consummation of the transactions contemplated herein and therein by each of the Company and the Guarantor, except such as have been, or will have been prior to the Closing Date, obtained under the Securities Act and the Trust Indenture Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act, applicable state securities or blue sky laws, insurance securities laws or foreign securities laws, and from the Financial Industry Regulatory Authority, Inc. ("**FINRA**") in connection with the purchase and sale of the Securities by the Underwriters.

(s) The Securities will be offered and sold in compliance with Bermuda, U.S. federal and state securities laws.

(t) Except as described in the Pricing Disclosure Package and the Prospectus, neither the Guarantor nor any of its subsidiaries has sustained, since the date of the latest audited financial

statements included or incorporated by reference in the Pricing Disclosure Package, any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, which loss or interference could reasonably be expected to have a Material Adverse Effect; and since such date, there has not been any change in the capital shares or long-term debt of the Guarantor or any of its subsidiaries or any adverse change, or any development involving a prospective adverse change, in or affecting the condition (financial or otherwise), results of operations, shareholders' equity, properties, management, business or prospects of the Guarantor and its subsidiaries taken as a whole, in each case except as could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(u) Since the date as of which information is given in the Pricing Disclosure Package and except as described in the Pricing Disclosure Package and the Prospectus, neither the Guarantor nor any of its subsidiaries have (i) incurred any material liability or obligation, direct or contingent, other than liabilities and obligations that were incurred in the ordinary course of business, (ii) entered into any material transaction not in the ordinary course of business or (iii) declared or paid any dividend on its shares.

(v) The historical financial statements of the Guarantor and its consolidated subsidiaries and of the Company and its consolidated subsidiaries (including, in each case, the related notes and supporting schedules) included or incorporated by reference in each of the Pricing Disclosure Package and the Prospectus comply as to form in all material respects with the requirements of Regulation S-X under the Securities Act and present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby at the dates and for the periods indicated and have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved, except as otherwise stated therein. The interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Registration Statement, the Pricing Disclosure Package and the Prospectus have been prepared in accordance with the Commission's rules and guidelines applicable thereto.

(w) Pricewaterhouse Coopers LLP ("**PwC**"), who have audited certain financial statements of the Guarantor and its consolidated subsidiaries and of the Company and its consolidated subsidiaries, and have audited the Guarantor's internal control over financial reporting, whose reports appear in the Pricing Disclosure Package and the Prospectus or are incorporated by reference therein and who have delivered the initial letter referred to in Section 7(h) hereof, are an independent registered public accounting firm with respect to the Guarantor and its consolidated subsidiaries within the meaning of the Securities Act, the applicable Rules and Regulations and the Public Company Accounting Oversight Board (United States) and were independent public accountants as required by the Securities Act and the Rules and Regulations during the periods covered by the financial statements which they audited, contained or incorporated by reference in the Pricing Disclosure Package and the Prospectus.

(x) The Guarantor and each of its subsidiaries have good and marketable title to all material real property and good and marketable title to all material personal property owned by them, in each case free and clear of all liens, encumbrances and defects, except such as are described in each of the Pricing Disclosure Package and the Prospectus or such as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Guarantor and its subsidiaries; and all material assets held under lease by the Guarantor and its subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as do not materially interfere with the use made and proposed to be made of such assets by the Guarantor and its subsidiaries.

(y) Except as described in each of the Pricing Disclosure Package and the Prospectus, the Guarantor and each of its subsidiaries carry, or are covered by, insurance from insurers of recognized financial responsibility in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies engaged in similar businesses in similar industries. All policies of insurance of the Guarantor and its subsidiaries are in full force and effect; the Guarantor and its subsidiaries are in compliance with the terms of such policies in all material respects; and neither the Guarantor nor any of its subsidiaries has received notice from any insurer or agent of such insurer that capital improvements or other expenditures are required or necessary to be made in order to continue such insurance; there are no claims by the Guarantor or any of its subsidiaries under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause; and neither the Guarantor nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that could not reasonably be expected to have a Material Adverse Effect.

(z) Nothing has come to the attention of the Company or the Guarantor that has caused the Company or the Guarantor to believe that the statistical and market-related data included or incorporated by reference in the Pricing Disclosure Package under the captions "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Regulatory Matters" and in the consolidated financial statements of the Guarantor and its subsidiaries or the Company and its subsidiaries included or incorporated by reference in each of the Pricing Disclosure Package and the Prospectus are based on or derived from sources that are not reliable and accurate in all material respects.

(aa) Neither the Guarantor nor any subsidiary is, and after giving effect to the offering and sale of the Securities and the application of the proceeds thereof, none of them will be, (i) an "investment company" within the meaning of such term under the Investment Company Act of 1940, as amended (the "**Investment Company Act**"), and the rules and regulations of the Commission thereunder or (ii) a "business development company" (as defined in Section 2(a)(48) of the Investment Company Act).

(bb) Except as described in each of the Pricing Disclosure Package and the Prospectus, there are no legal or governmental proceedings pending to which the Guarantor or any of its subsidiaries is a party or of which any property or assets of the Guarantor or any of its subsidiaries is the subject that could, in the aggregate, reasonably be expected to have a Material Adverse Effect or could, in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of the transactions contemplated hereby; and to the Guarantor's knowledge, no such proceedings are threatened or contemplated by governmental authorities or others.

(cc) Neither the Guarantor nor any of its subsidiaries has knowledge that any other party to any material contract, agreement or arrangement has any intention not to render full performance as contemplated by the terms thereof; the statements set forth in the Pricing Disclosure Package and the Prospectus under the captions "Description of Senior Debt Securities and Subordinated Debt Securities" and "Description of the Notes," insofar as they purport to constitute a summary of the terms of the Securities and the other transaction documents described therein, and the statements made or incorporated by reference in the Pricing Disclosure Package and the Prospectus under the captions "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," "Regulatory Matters," "Certain Relationships and Related Transactions, and Director

Independence," and "Material Tax Considerations," insofar as they purport to constitute summaries of the terms of statutes, rules or regulations, legal or governmental proceedings or contracts and other documents, constitute accurate summaries of the terms of such statutes, rules and regulations, legal and governmental proceedings and contracts and other documents in all material respects.

(dd) No relationship, direct or indirect, exists between or among the Guarantor and/or the Company, on the one hand, and the directors, officers, shareholders, customers or suppliers of the Guarantor and/or the Company, on the other hand, that is required to be described in the Pricing Disclosure Package or the Prospectus which is not so described, except to the extent such relationship would not constitute an omission to state a material fact required to be stated therein or necessary to make the statement therein, in the light of the circumstances under which they were made, not misleading.

(ee) No labor disturbance by the employees of the Guarantor or its subsidiaries exists or, to the knowledge of the Guarantor, is imminent that could reasonably be expected to have a Material Adverse Effect.

(ff) (i) Each "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Security Act of 1974, as amended ("**ERISA**")) for which the Guarantor or any of its subsidiaries or, to the knowledge of the Guarantor, any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "**Code**")), would have any liability (each a "**Plan**") has been maintained in material compliance with its terms and with the requirements of all applicable statutes, rules and regulations including ERISA and the Code; (ii) except as could not reasonably be expected to have a Material Adverse Effect, with respect to each Plan subject to Title IV of ERISA (a) no "reportable event" (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur, (b) no "accumulated funding deficiency" (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred or is reasonably expected to occur, (c) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan) and (d) neither the Guarantor or any member of its Controlled Group has incurred, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the PBGC in the ordinary course and without default) in respect of a Plan (including a "multiemployer plan", within the meaning of Section 4001(c)(3) of ERISA); and (iii) except as could not reasonably be expected to have a Material Adverse Effect, each Plan that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(gg) The Guarantor and each of its subsidiaries have filed all U.S. federal, state, local Bermuda and foreign income and franchise tax returns required to be filed through the date hereof, subject to permitted extensions, and have timely paid all taxes and other assessments of a similar nature (whether imposed directly or through withholding) including any interest, additions to tax or penalties applicable thereto due or claimed to be due from such entities, except (i) taxes that are being contested in good faith in appropriate proceedings or (ii) to the extent that the failure to do so could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(hh) Neither the Guarantor nor any of its subsidiaries (i) is in violation of its articles of incorporation, memorandum of association, by laws or bye-laws (or similar organizational documents), (ii) is in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any

indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject or (iii) is in violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over it or its property or assets or has failed to obtain any license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, or any rule or regulation of any self-regulatory organization or other non-governmental regulatory authority to which the Guarantor or any of its subsidiaries is subject (including, without limitation, the rules and regulations of the New York Stock Exchange), except in the case of clauses (ii) and (iii), to the extent any such conflict, breach, violation or default could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(ii) Each of the Guarantor and its subsidiaries (i) make and keep accurate books and records and (ii) maintain and have maintained effective internal control over financial reporting as defined in Rule 13a-15 under the Exchange Act and a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorization, (B) transactions are recorded as necessary to permit preparation of the Guarantor's and the Company's financial statements in conformity with accounting principles generally accepted in the United States and to maintain accountability for its assets, (C) access to the Guarantor's and the Company's assets is permitted only in accordance with management's general or specific authorization and (D) the recorded accountability for the Guarantor's and the Company's assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(jj) (i) Each of the Guarantor and its subsidiaries have established and maintain disclosure controls and procedures (as such term is defined in Rule 13a-15 under the Exchange Act), (ii) such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Guarantor and its subsidiaries and the Company and its subsidiaries in the reports they will file or submit under the Exchange Act is accumulated and communicated to management of the Guarantor and its subsidiaries and the Company and its subsidiaries, including their respective principal executive officers and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure to be made and (iii) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(kk) Since the date of the most recent balance sheet of each of the Guarantor and its consolidated subsidiaries and the Company and its consolidated subsidiaries reviewed or audited by PwC and the audit committee of the board of directors of the Guarantor or the Company, as applicable, (i) neither the Guarantor nor the Company has not been advised of (A) any significant deficiencies in the design or operation of internal controls that could adversely affect the ability of the Guarantor and each of its subsidiaries or the Company and each of its subsidiaries, respectively, to record, process, summarize and report financial data, or any material weaknesses in internal controls and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls of the Guarantor and each of its subsidiaries or the Company and each of its subsidiaries, respectively, and (ii) since that date, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

(ll) There is and has been no failure on the part of either of the Guarantor or the Company or, to the knowledge of the Guarantor and the Company, respectively, any of the Guarantor's or the Company's respective directors or officers, in their capacities as such, to comply with the provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated in connection therewith.

(mm) The Guarantor and each of its subsidiaries have such permits, licenses, patents, franchises, certificates of need and other approvals or authorizations of governmental or regulatory authorities ("**Permits**") as are necessary under applicable law to own their properties and conduct their businesses in the manner described in the in the Pricing Disclosure Package and the Prospectus, except for any of the foregoing that could not, in the aggregate, reasonably be expected to have a Material Adverse Effect; each of the Guarantor and its subsidiaries has fulfilled and performed all of its obligations with respect to the Permits, and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other impairment of the rights of the holder or any such Permits, except for any of the foregoing that could not reasonably be expected to have a Material Adverse Effect. Without limitation of the foregoing, each subsidiary of the Guarantor that conducts the business of insurance or is licensed as such (collectively, the "**Insurance Subsidiaries**") is duly organized and licensed as an insurance company in its jurisdiction of incorporation, and is duly licensed or authorized as an insurer in each other jurisdiction in which the conduct of its business requires it to be so licensed or authorized, except to the extent that the failure to be so licensed or authorized would not, singly or in the aggregate, have a Material Adverse Effect; each of the Guarantor and each Insurance Subsidiary has made all required filings under applicable insurance company statutes and has filed all notices, reports, documents or other information required to be filed thereunder, except where the failure to make such filing, singly or in the aggregate, would not have a Material Adverse Effect, except as set forth in or contemplated in the Prospectus; and none of the Guarantor or any Insurance Subsidiary has received any notification from any insurance regulatory authority to the effect that any additional authorization, approval, order, consent, license, certificate, permit, registration or qualification from any insurance regulatory authority is needed to be obtained by any of the Guarantor or any of its subsidiaries, other than in any case where the failure to acquire such additional authorization, approval, order, consent, license, certificate, permit, registration or qualification, singly or in the aggregate, would not have a Material Adverse Effect.

(nn) Except, in the aggregate, as could not reasonably be expected to have a Material Adverse Effect, the Guarantor and each of its subsidiaries own or possess adequate rights to use all patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses, know-how, software, systems and technology (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of their respective businesses and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such rights of others.

(oo) Neither the Guarantor nor any of its subsidiaries is in violation of or has received notice of any violation with respect to any federal or state law relating to discrimination in the hiring, promotion or pay of employees, nor any applicable federal or state wage and hour laws, nor any state law precluding the denial of credit due to the neighborhood in which a property is situated, the violation of any of which could reasonably be expected to have a Material Adverse Effect.

(pp) Except as described in the in the Pricing Disclosure Package and the Prospectus, no subsidiary of the Company or Guarantor is currently prohibited, directly or indirectly, from paying any dividends to the Company or Guarantor, as applicable, from making any other distribution on such subsidiary's capital shares, from repaying to the Company or Guarantor any loans or advances to such subsidiary from the Company or Guarantor or from transferring any of such subsidiary's property or assets to the Company or Guarantor or any other subsidiary of the Company or Guarantor.

(qq) Neither the Guarantor nor any of its subsidiaries, nor, to the knowledge of the Guarantor, any director, officer, agent, employee or other person associated with or acting on behalf of the Guarantor or any of its subsidiaries, has (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (iii) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "**FCPA**"); or (iv) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment and to the knowledge of the Guarantor, the Guarantor and its subsidiaries have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures which are designed to promote and achieve compliance therewith

(rr) The operations of the Guarantor and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Guarantor or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Guarantor threatened, except, in each case, as would not reasonably be expected to have a Material Adverse Effect.

(ss) Neither the Guarantor nor any of its subsidiaries nor, to the knowledge of the Guarantor, any director, officer, agent, employee or affiliate of the Guarantor or any of its subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("**OFAC**"); and the Guarantor and its subsidiaries will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary or joint venture partner or knowingly to any other person, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(tt) The Company and the Guarantor have not, other than the final term sheet in the form attached as Schedule III hereto and to be filed pursuant to 5(a) hereof, distributed and, prior to the later to occur of any Closing Date and completion of the distribution of the Securities, will not distribute any offering material in connection with the offering and sale of the Securities other than any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus to which the Representatives have consented in accordance with Section 1(j) or 5(a)(vi) and the documents listed on Schedule II hereto.

(uu) None of the Guarantor or any of its subsidiaries has taken or will take, directly or indirectly, any action designed to or that has constituted or that could reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Guarantor or its subsidiaries in connection with the offering of the Securities in violation of the Exchange Act;

(vv) The Guarantor has no knowledge of any threatened or pending downgrading of (i) except as disclosed in the Pricing Disclosure Package, any of its Insurance Subsidiaries financial strength or claims-paying ability ratings by Moody's Investor Services, Inc. ("**Moody's**"), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"), or Fitch, Inc. ("**Fitch**"), the only "nationally recognized statistical rating organizations," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act ("**NRSRO**"), which currently rate the financial strength or claims-paying ability of the Company or any of its subsidiaries or (ii) any of its debt ratings by Moody's, S&P, or Fitch.



(ww) Except as disclosed in the Pricing Disclosure Package and the Prospectus, neither the Guarantor nor any of its Insurance Subsidiaries has made any material change in its insurance reserving practices since September 30, 2012 other than in the ordinary course of business of the type previously disclosed to the Underwriters.

(xx) Except as disclosed in the Pricing Disclosure Package and the Prospectus, (i) all reinsurance and retrocessional treaties, contracts, agreements and arrangements to which the Guarantor, or any of the Insurance Subsidiaries is a party are in full force and effect and none of the Guarantor, the Company or any of the Insurance Subsidiaries is in violation of, or in default in the performance, observance or fulfillment of, any obligation, agreement, covenant or condition contained therein, with such exceptions that would not, singularly or in the aggregate, have a Material Adverse Effect and (ii) none of the Guarantor, the Company or any of the Insurance Subsidiaries has received any notice from any of the other parties to such treaties, contracts, agreements or arrangements that such other party intends not to perform thereunder and, to the best knowledge of the Guarantor and the Insurance Subsidiaries, none of the other parties to such treaties, contracts, agreements or arrangements will be unable to perform thereunder except to the extent adequately and properly reserved for in the consolidated financial statements of the Guarantor, with such exceptions that would not, singularly or in the aggregate, have a Material Adverse Effect.

(yy) The Guarantor has received from the Bermuda Minister of Finance a standard assurance under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda to the effect set forth in the Pricing Disclosure Package and Prospectus under the caption "Risk Factors—Risks that Related to Taxes—We may become subject to taxes in Bermuda after 2035," and the Guarantor has not received any notification to the effect (and is not otherwise aware) that such assurance may be revoked or otherwise not honored by the Bermuda government; the Bermuda Monetary Authority has designated the Guarantor as non-resident for exchange control purposes; the Guarantor is an "exempted company" under Bermuda law and has not conducted its business in a manner that is prohibited for "exempted companies" under Bermuda law; the Guarantor has not received notification from the Bermuda Monetary Authority or any other Bermuda governmental authority of proceedings relating to the modification or revocation of its designation as non-resident for exchange control purposes or its status as an "exempted company."

(zz) Except as described in the Pricing Disclosure Package and the Prospectus, (A) no litigation, arbitration or administrative or other proceeding of or before any arbitrator or governmental authority of Bermuda is pending against or affecting the Guarantor or against or affecting any of its properties, rights, revenues or assets; and (B) no notice to the Bermuda Registrar of Companies of the passing of a resolution of members or creditors to wind up or the appointment of a liquidator or receiver has been given. No petition to wind up the Guarantor or application to reorganize its affairs pursuant to a scheme of arrangement or application for the appointment of a receiver has been filed with the Supreme Court of Bermuda.

([I]) It is not necessary under the laws of Bermuda in order to enable any Underwriter to enforce its rights under this Agreement to be licensed, qualified or otherwise entitled to carry on business in Bermuda; this Agreement is in proper legal form under the laws of Bermuda for the enforcement thereof against the Guarantor; and it is not necessary to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement in Bermuda that this Agreement be filed or recorded or enrolled with any court, authority or agency in, or that any stamp, registration or similar taxes or duties be paid to any court, authority or agency of Bermuda.

(aaa) The Guarantor and the Guarantor's obligations under this Agreement are subject to civil and commercial law and to suit and neither the Guarantor nor any of its properties, assets or revenues has any right of immunity, on the grounds of sovereignty or otherwise: (i) from any legal action, (ii) from any suit or proceeding, (iii) from the giving of any relief in any thereof, (iv) from setoff or counterclaim, (v) from the jurisdiction of any court, (vi) from service of process, (vii) from attachment upon prior to judgment, (viii) from attachment in aid of execution of judgment, (ix) from execution of a judgment, or (x) from other legal process or proceeding for the giving of any relief or for the enforcement of judgment; in any jurisdiction, with respect to its obligations, liabilities or any other matter under or arising out of or in connection with this Agreement.

(bbb) Any certificate signed by any officer of the Company or the Guarantor and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by the Company or the Guarantor, as applicable, as to matters covered thereby, to each Underwriter.

2. *Purchase of the Securities by the Underwriters.* Subject to the terms and conditions herein, the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price equal to 99.231% of the principal amount thereof, the aggregate principal amount of Securities set forth opposite the name of such Underwriter in Schedule I hereto.

3. *Offering of Securities by the Underwriters.* Upon the authorization by the Representatives of the release of the Securities, the several Underwriters propose to offer the Securities for sale upon the terms and conditions set forth in the Pricing Disclosure Package and the Prospectus.

4. *Delivery of and Payment for the Securities.*

(a) The Securities to be purchased by each Underwriter hereunder will be represented by one or more definitive global Securities in book-entry form, which will be deposited by or on behalf of the Company with The Depository Trust Company ("DTC") or its designated custodian. The Company will deliver the Securities to the Representatives, for the account of each Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer of Federal (same-day) funds to the account specified by the Company to the Representatives at least twenty-four hours in advance, by causing DTC to credit the Securities to the account of the Representatives at DTC. The Company will, upon request by the Representatives, cause the certificates representing the Securities to be made available to the Representatives for checking at least twenty-four hours prior to the Closing Date with respect thereto at the office of DTC or its designated custodian (the "Designated Office") or at another mutually agreed location. The time and date of such delivery and payment shall be, with respect to the Securities, 9:00 a.m., New York City time, on November 9, 2012 or such other time and date as the Representatives and the Company may agree upon in writing. Such time and date for delivery of the Securities is herein called the "**Closing Date**." Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder.

(b) The documents to be delivered at the Closing Date by or on behalf of the parties hereto pursuant to Section 7 hereof, including the cross-receipt for the Securities and any additional documents requested by the Underwriters pursuant to Section 7 hereof, will be delivered at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York 10036 (the "Closing Location"), and the Securities will be delivered at the Designated Office, all at the Closing Date.

5. *Further Agreements of the Company, the Guarantor and the Underwriters.*

(a) The Company and the Guarantor jointly and severally agree:

(i) To prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement; to make no further amendment or any supplement to the Registration Statement, the Base Prospectus or the Prospectus prior to the Closing Date except as provided herein; to advise the Representatives, promptly after they receive notice thereof, of the time when any amendment or supplement to the Registration Statement or the Prospectus has been filed and to furnish the Representatives with copies thereof; to prepare a final term sheet containing a description of the Securities, in the form attached hereto as Schedule III and approved by the Representatives, and to file such term sheet pursuant to Rule 433(d) under the Securities Act within the time required by such Rule; to file promptly all other material required to be filed by the Company with the Commission pursuant to Rule 433(d) under the Securities Act and to file promptly all reports and any definitive proxy or information statements required to be filed by the Company or the Guarantor with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Securities Act) is required in connection with the offering or sale of the Securities; to advise the Representatives, promptly after they receive notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of the Preliminary Prospectus, Prospectus or any Issuer Free Writing Prospectus, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding or examination for any such purpose or of any request by the Commission for the amending or supplementing of the Registration Statement, the Prospectus or any Issuer Free Writing Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of the Prospectus or any Issuer Free Writing Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal of such order; and in the event of the issuance of any such notice of objection, promptly to amend the Registration Statement in such manner as may be required to permit offers and sales of the Securities;

(ii) To furnish promptly upon request to the Representatives and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(iii) To deliver promptly to the Representatives such number of the following documents as the Representatives shall reasonably request: (A) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement), (B) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus, (C) each Issuer Free Writing Prospectus and (D) any document incorporated by reference in any Preliminary Prospectus or the Prospectus; and, if the delivery of a prospectus is required at any time after the date hereof in connection with the offering or sale of the Securities or any other securities relating thereto and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under

which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Securities Act or the Exchange Act, to notify the Representatives and, upon its request or otherwise, to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of an amended or supplemented Prospectus that will correct such statement or omission or effect such compliance;

(iv) To file promptly with the Commission any amendment or supplement to the Registration Statement or the Prospectus that may, in the judgment of the Company or the Representatives, be required by the Securities Act or requested by the Commission;

(v) Prior to filing with the Commission any amendment or supplement to the Registration Statement or the Prospectus, any document incorporated by reference in the Prospectus or any amendment to any document incorporated by reference in the Prospectus, to furnish a copy thereof to the Representatives and counsel for the Underwriters and obtain the consent of the Representatives to the filing, which consent shall not be unreasonably withheld;

(vi) Not to make any offer relating to the Securities that would constitute an Issuer Free Writing Prospectus without the prior written consent of the Representatives (which consent being deemed to have been given with respect to the final term sheet prepared and filed pursuant to Section 5(a) hereof in the form attached as Schedule III hereto and any other Issuer Free Writing Prospectus identified on Schedule II hereto);

(vii) To comply with all applicable requirements of Rule 433 with respect to any Issuer Free Writing Prospectus; and if at any time after the date hereof any events shall have occurred as a result of which any Issuer Free Writing Prospectus, as then amended or supplemented, would conflict with the information in the Registration Statement, the Pricing Disclosure Package or the Prospectus or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or, if for any other reason it shall be necessary to amend or supplement any Issuer Free Writing Prospectus, to notify the Representatives and, upon its request, to file such document and to prepare and furnish without charge to each Underwriter as many copies as the Representatives may from time to time reasonably request of an amended or supplemented Issuer Free Writing Prospectus that will correct such conflict, statement or omission or effect such compliance;

(viii) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Securities for offering and sale under the securities laws of such jurisdictions as the Representatives may reasonably request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities; provided that in connection therewith none of the Company, the Guarantor or any of their respective subsidiaries shall be required to (i) qualify as a foreign corporation in any jurisdiction in which it would not otherwise be required to so qualify, (ii) file a general consent to service of process in any such jurisdiction or (iii) subject itself to taxation in any jurisdiction in which it would not otherwise be subject;

(ix) During the period in which the Prospectus relating to the Securities (or in lieu thereof, the notice referred to in Rule 173(a) of the Rules and Regulations) is required to be delivered under the Securities Act, to comply with all requirements imposed by the Securities Act and by the Rules and Regulations, as from time to time in force, so far as is necessary to permit the continuance of sales of or dealings in the Securities as contemplated by the provisions of this Agreement and by the Prospectus. If during such period any event occurs as a result of which the Pricing Disclosure Package or the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances then existing, not misleading, or if during such period it is necessary to amend the Registration Statement or amend or supplement the Pricing Disclosure Package or the Prospectus or file any document to comply with the Securities Act, the Company and the Guarantor will promptly notify the Representatives and will, subject to Section 5(a)(i) hereof, amend the Registration Statement, amend or supplement the Pricing Disclosure Package or the Prospectus, as the case may be, or file any document (in each case, at the expense of the Company and the Guarantor) so as to correct such statement or omission or to effect such compliance, and will furnish without charge to each Underwriter as many written and electronic copies of any such amendment or supplement as the Representatives may from time to time reasonably request;

(x) To make generally available to its security holders as soon as practicable, but in any event not later than 18 months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Securities Act), an earnings statement of the Guarantor and its subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and Rule 158 of the Rules and Regulations;

(xi) Until 30 days following the Closing Date, neither the Company nor the Guarantor will, without the prior written consent of the Representatives, directly or indirectly, issue, sell, offer to sell, grant any option for the sale of, otherwise dispose of, or guarantee any debt securities that are substantially similar to the Securities (including, without limitation, with respect to the maturity, currency, interest rate and other material terms of the Securities), other than certain intercompany indebtedness to be issued substantially simultaneously with the closing of the Securities;

(xii) To take all reasonable actions necessary, including engaging advisers to act on behalf of the Company, to enable Moody's, S&P and Fitch, Inc. to provide at the Closing Date their respective credit ratings of the Securities; and

(xiii) The Company will use the net proceeds received by it from the sale of the Securities pursuant to this Agreement in the manner specified in the Pricing Disclosure Package and Prospectus under the caption "Use of Proceeds."

(b) (i) Each Underwriter severally agrees that such Underwriter shall not include any "issuer information" (as defined in Rule 433) in any "free writing prospectus" (as defined in Rule 405) used or referred to by such Underwriter without the prior consent of the Guarantor and the Company (any such issuer information with respect to whose use the Guarantor and the Company have given their consent, "**Permitted Issuer Information**"); *provided* that (i) no such consent shall be required with respect to any such issuer information contained in any document filed by the Guarantor or the Company with the Commission prior to the use of such free writing prospectus unless (1) informed by the Guarantor or the Company that the information contained in such filing is incorrect or (2) such

information has been amended or corrected in a document filed by the Guarantor or the Company with the Commission and (ii) "issuer information," as used in this Section 5(b), shall not be deemed to include information prepared by or on behalf of such Underwriter on the basis of or derived from issuer information.

6. *Expenses.* The Guarantor and the Company jointly and severally agree, whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all costs, expenses, fees and taxes incident to and in connection with the performance of their obligations hereunder, including without limitation, (a) the costs incident to the authorization, sale, preparation and delivery of the Securities and any taxes payable in connection therewith; (b) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statement, the Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus, the Pricing Disclosure Package and all exhibits, amendments and supplements thereto, or any document incorporated by reference therein; (c) the costs incident to the distribution of the Registration Statement, the Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus, the Pricing Disclosure Package and all exhibits, amendments and supplements thereto; (d) the costs of production, reproduction and distribution of each of this Agreement, any supplemental agreement and any other related documents in connection with the offering, purchase, sale and delivery of the Securities; (e) the fees and expenses of the Company's and the Guarantor's counsel and independent accountants; (f) the costs incident to any investor presentations on any "road show" undertaken in connection with the marketing of the Securities; (g) the fees and expenses incurred in connection with the registration or qualification and determination of eligibility for investment of the Securities under the laws of such jurisdictions as the Underwriters may designate and the preparation, printing and distribution of a Blue Sky Memorandum (including the related fees and expenses of counsel for the Underwriters); (h) any rating of the Securities by any rating agency; (i) the services of the Trustee and any agent of the Trustee (including the fees and disbursements of counsel for the Trustee); (j) all expenses and application fees incurred in connection with any filing with, and clearance of the offering by, FINRA; and (k) all other costs and expenses incident to the performance of the obligations of the Company and the Guarantor.

7. *Conditions of Underwriters' Obligations.* The respective obligations of the Underwriters hereunder are subject to the accuracy, when made and on the Closing Date, of the representations and warranties of the Company and the Guarantor contained herein, to the performance by the Company and the Guarantor of their respective obligations hereunder, and to each of the following additional terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 5(a)(i); the Company shall have complied with all filing requirements applicable to any Issuer Free Writing Prospectus used or referred to after the date hereof; no stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of the Prospectus or any Issuer Free Writing Prospectus shall have been issued and no proceeding or examination for such purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(b) The Representatives shall not have discovered and disclosed to the Company on or prior to the Closing Date that the Registration Statement, the Prospectus or the Pricing Disclosure Package, or any amendment or supplement thereto, contains an untrue statement of a fact which, in the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, counsel for the Underwriters, is material or omits

to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Indenture, the Securities, the Registration Statement, the Prospectus and any Issuer Free Writing Prospectus, and all other legal matters relating to this Agreement, the Indenture and the transactions contemplated hereby and thereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company and the Guarantor shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Cravath, Swaine & Moore LLP shall have furnished to the Representatives its written opinion, as special counsel to the Company and the Guarantor, addressed to the Underwriters and dated such Closing Date, substantially in the form attached hereto as Exhibit A-1.

(e) Conyers Dill & Pearman Limited shall have furnished to the Representatives its written opinion, as special Bermuda counsel to the Company and the Guarantor, addressed to the Underwriters and dated such Closing Date, substantially in the form attached hereto as Exhibit A-2.

(f) The General Counsel of the Company and the Guarantor shall have furnished to the Representatives his written opinion, as general counsel to the Company and the Guarantor, addressed to the Underwriters and dated such Closing Date, substantially in the form attached hereto as Exhibit A-3.

(g) The Representatives shall have received from Skadden, Arps, Slate, Meagher & Flom LLP, counsel for the Underwriters, such opinion or opinions, dated such the Closing Date, with respect to the sale of the Securities, the Registration Statement, the Prospectus and the Pricing Disclosure Package and other related matters as the Representatives may reasonably require, and the Company and the Guarantor shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(h) At the time of execution of this Agreement, the Representatives shall have received from PwC a letter, in form and substance satisfactory to the Representatives and PwC, addressed to the Underwriters and dated the date hereof (i) confirming that they are an independent registered public accounting firm with respect to the Company and the Guarantor within the meaning of the Securities Act and the applicable rules and regulations thereunder adopted by the Commission and the PCAOB and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, and (ii) stating, as of the date hereof (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Pricing Disclosure Package, as of a date not more than three Business Days prior to the date hereof), the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to underwriters in connection with registered public offerings.

(i) With respect to the letter of PwC referred to in the preceding paragraph and delivered to the Representatives concurrently with the execution of this Agreement (the "**initial letter**"), the Guarantor and the Company shall have furnished to the Representatives a letter (the "**bring-down letter**") of such accountants, addressed to the Underwriters and dated such Closing Date (i) confirming that they are an independent registered public accounting firm with respect to the Company and the Guarantor within the meaning of the Securities Act and the applicable rules and regulations thereunder adopted by the Commission and the PCAOB and are in compliance with the applicable requirements

relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than three Business Days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(j) The Company and the Guarantor shall have furnished to the Representatives a certificate, dated the Closing Date, of their respective Chief Financial Officers, substantially in the form attached hereto as Exhibit B.

(k) The Guarantor and the Company shall have furnished to the Representatives an officers' certificate, dated the Closing Date, substantially in the form attached hereto as Exhibit C.

(l) (i) Neither the Guarantor nor any of its subsidiaries shall have sustained, since the Applicable Time, any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree or (ii) since such date there shall not have been any change in the capital shares or long-term debt of the Guarantor or any of its subsidiaries or any adverse change, or any development involving a prospective adverse change, in or affecting the condition (financial or otherwise), results of operations, shareholders' equity, properties, management, business or prospects of the Guarantor and its subsidiaries taken as a whole, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Representatives, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities being delivered on the Closing Date on the terms and in the manner contemplated in the Prospectus.

(m) On or after the Applicable Time (i) except as disclosed in the Pricing Disclosure Package, no downgrading shall have occurred in the rating accorded the Securities or any of the Guarantor's or the Company's debt securities or preferred shares, or the Guarantor's or any subsidiary's financial strength or claims paying ability by any "nationally recognized statistical rating organization" (as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Securities Act), and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of the Securities or any of the Guarantor's or the Company's debt securities or preferred shares or the Guarantor's and its subsidiaries' consolidated financial strength or consolidated claims-paying ability.

(n) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange or the NASDAQ Stock Market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or materially limited or the settlement of such trading generally shall have been materially disrupted or minimum prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or Bermuda or there shall have been a declaration of a national emergency or war by the United States or Bermuda; (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions, including, without limitation, as a result of terrorist activities after the date hereof (or the effect of international conditions on



the financial markets in the United States shall be such), as to make it, in the judgment of the Representatives, impracticable or inadvisable to proceed with the public offering or delivery of the Securities being delivered on the Closing Date on the terms and in the manner contemplated in the Pricing Disclosure Package and Prospectus.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

#### 8. *Indemnification and Contribution.*

(a) The Company and the Guarantor shall jointly and severally indemnify and hold harmless each Underwriter, its directors, officers and employees and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Securities), to which that Underwriter, director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in (A) any Preliminary Prospectus, the Registration Statement, the Base Prospectus, the Prospectus or in any amendment or supplement thereto, (B) any Issuer Free Writing Prospectus or in any amendment or supplement thereto or (C) any Permitted Issuer Information used or referred to in any "free writing prospectus" (as defined in Rule 405) used or referred to by any Underwriter, or (D) any "road show" (as defined in Rule 433) not constituting an Issuer Free Writing Prospectus (a "**Non-Prospectus Road Show**"), (ii) the omission or alleged omission to state in the Registration Statement or in any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus or in any amendment or supplement thereto or in any Permitted Issuer Information, or any Non-Prospectus Road Show in the light of the circumstances under which they were made, any material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each Underwriter and each such director, officer, employee or controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter, director, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; *provided, however*, that the Company and the Guarantor shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement, the Base Prospectus, the Prospectus, any Issuer Free Writing Prospectus or in any such amendment or supplement thereto or in any Permitted Issuer Information, or any Non-Prospectus Road Show, in reliance upon and in conformity with written information concerning such Underwriter furnished to the Company or the Guarantor through the Representatives by or on behalf of any Underwriter specifically for inclusion therein, which information consists solely of the information specified in Section 8(e). The foregoing indemnity agreement is in addition to any liability which the Guarantor or the Company may otherwise have to any Underwriter or to any director, officer, employee or controlling person of that Underwriter.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, the Guarantor, their respective directors (including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company or the Guarantor, officers and employees, and each person, if any, who controls the Company or the Guarantor within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or

several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to the purchases and sales of Securities), to which the Company, the Guarantor or any such director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Base Prospectus, the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or in any amendment or supplement thereto or in any Non-Prospectus Road Show, or (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement, the Base Prospectus, the Prospectus, any Issuer Free Writing Prospectus or in any amendment or supplement thereto or in any Non-Prospectus Road Show, any material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning such Underwriter furnished to the Company or the Guarantor through the Representatives by or on behalf of that Underwriter specifically for inclusion therein, which information is limited to the information set forth in Section 8(e). The foregoing indemnity agreement is in addition to any liability that any Underwriter may otherwise have to the Company, the Guarantor or any such director, officer, employee or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided, further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that the indemnified party shall have the right to employ counsel to represent jointly the indemnified party and those other indemnified parties and their respective directors, officers, employees and controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought under this Section 8 if (i) the indemnified party and the indemnifying party shall have so mutually agreed; (ii) the indemnifying party has failed within a reasonable time to retain counsel reasonably satisfactory to the indemnified party; (iii) the indemnified party and its directors, officers, employees and controlling persons shall have reasonably concluded that there may be legal defenses available to them that are different from or in addition to those available to the indemnifying party; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the indemnified parties or their respective directors, officers, employees or controlling persons, on the one hand, and the indemnifying party, on the other hand, and representation of both sets of parties by the same counsel would be inappropriate due to actual or potential differing interests between them, and in any such event the fees and expenses of such separate counsel shall be paid by the indemnifying party. No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder

(whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and does not include any findings of fact or admissions of fault or culpability as to the indemnified party, or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with the consent of the indemnifying party or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company and the Guarantor, on the one hand, and the Underwriters, on the other, from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Guarantor, on the one hand, and the Underwriters, on the other, with respect to the statements or omissions that resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Guarantor, on the one hand, and the Underwriters, on the other, shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and the Guarantor, on the one hand, or the Underwriters, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, the Guarantor and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it were offered to investors exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11 of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The Underwriters severally confirm and the Company and the Guarantor acknowledge and agree that the statements regarding delivery of the Securities by the Underwriters set forth on the cover page of, and the sentences concerning (i) discounts and allowances; (ii) the list of Underwriters and (iii) the market-making and stabilizing transactions by the Underwriters appearing

under the caption "Underwriting" in the Pricing Disclosure Package and the Prospectus are correct and constitute the only information concerning such Underwriters furnished in writing to the Company or the Guarantor by or on behalf of the Underwriters specifically for inclusion in any Preliminary Prospectus, the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or in any amendment or supplement thereto or in any Non-Prospectus Road Show.

9. *Defaulting Underwriters.*

(a) If any Underwriter defaults in its obligation to purchase the principal amount of the Securities which it has agreed to purchase under this Agreement, the non-defaulting Underwriters will be obligated to purchase (in the respective proportions which the principal amount of the Securities set forth opposite the name of each non-defaulting Underwriter in Schedule I hereto bears to the total principal amount of the Securities less the principal amount of the Securities the defaulting Underwriter agreed to purchase set forth in Schedule I hereto) the principal amount of the Securities which the defaulting Underwriter agreed but failed to purchase; except that the non-defaulting Underwriters will not be obligated to purchase any of the Securities if the total principal amount of the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase exceed 9.09% of the total principal amount of the Securities, and any non-defaulting Underwriters will not be obligated to purchase more than 110% of the principal amount of the Securities set forth opposite its name in Schedule I hereto. If the foregoing maximums are exceeded, the non-defaulting Underwriters, and any other underwriters reasonably satisfactory to the Representatives who so agree, will have the right, but will not be obligated, to purchase (in such proportions as may be agreed upon among them) all of the Securities. If the non-defaulting Underwriters or the other underwriters reasonably satisfactory to the Representative do not elect to purchase the Securities that the defaulting Underwriter or Underwriters agreed but failed to purchase within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Guarantor and the Company, except for the indemnity and contribution agreements of the Guarantor and the Company and the Underwriters contained in Section 8 of this Agreement. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter pursuant to this Section 9.

(b) If the non-defaulting Underwriters or the other underwriters satisfactory to the Representatives are obligated or agree to purchase the Securities of a defaulting Underwriter, the Representatives may postpone the Closing Date for up to seven full Business Days in order that the Guarantor and the Company may effect any changes that may be necessary in the Registration Statement or the Prospectus or in any other document or agreement, and the Company agrees to file promptly any amendments or any supplements to the Registration Statement or the Prospectus which, in the opinion of the Representatives, may thereby be made necessary.

(c) Nothing contained herein will relieve a defaulting Underwriter of any liability it may have for damages caused by its default.

10. *Termination.* The obligations of the Underwriters hereunder may be terminated by the Representatives by notice given to and received by the Company and the Guarantor prior to delivery of and payment for the Securities if, prior to that time, any of the events described in Sections 7(l), 7(m) and 7(n) shall have occurred or if the Underwriters shall decline to purchase the Securities for any reason permitted under this Agreement.

11. *Reimbursement of Underwriters' Expenses.* If (a) the Company and the Guarantor shall fail to tender the Securities for delivery to the Underwriters by reason of any failure, refusal or inability

on the part of the Company or the Guarantor to perform any agreement on their part to be performed, or because any other condition to the Underwriters' obligations hereunder required to be fulfilled by the Company or the Guarantor is not fulfilled for any reason or (b) the Underwriters shall decline to purchase the Securities for any reason permitted under this Agreement, the Company and the Guarantor will reimburse the Underwriters for all reasonable out-of-pocket expenses (including fees and disbursements of counsel) incurred by the Underwriters in connection with this Agreement and the proposed purchase of the Securities, and upon demand the Company and the Guarantor shall pay the full amount thereof to the Representatives. If this Agreement is terminated pursuant to Section 9 by reason of the default of one or more Underwriters, neither the Company nor the Guarantor shall be obligated to reimburse any defaulting Underwriter on account of those expenses.

12. *No Fiduciary Duty.* The Company and the Guarantor acknowledge and agree that in connection with this offering, sale of the Securities or any other services the Underwriters may be deemed to be providing hereunder, notwithstanding any preexisting relationship, advisory or otherwise, between the parties or any oral representations or assurances previously or subsequently made by the Underwriters: (i) no fiduciary or agency relationship between the Company, the Guarantor and any other person, on the one hand, and the Underwriters, on the other, exists; (ii) the Underwriters are not acting as advisors, expert or otherwise, to either the Company or the Guarantor, including, without limitation, with respect to the determination of the public offering price of the Securities, and such relationship between the Company or the Guarantor, on the one hand, and the Underwriters, on the other, is entirely and solely commercial, based on arms-length negotiations; (iii) any duties and obligations that the Underwriters may have to the Company or the Guarantor shall be limited to those duties and obligations specifically stated herein; and (iv) the Underwriters and their respective affiliates may have interests that differ from those of the Company and the Guarantor. The Company and the Guarantor hereby waive any claims that the Company or the Guarantor may have against the Underwriters with respect to any breach of fiduciary duty in connection with this offering.

13. *Notices, Etc.* All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail or facsimile transmission to the Representatives in case of Barclays Capital Inc., 745 Seventh Avenue, New York, New York 10019, Attention: Syndicate Registration (Fax: 646-834-8133); and

(b) if to the Company or the Guarantor, shall be delivered or sent by mail or facsimile transmission to OneBeacon Insurance Group, Ltd., 601 Carlson Parkway, Suite 600, Minnetonka, MN 55305, Attention: Maureen A. Phillips, Esq. (Fax: 888-353-6247).

(c) Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company and the Guarantor shall be entitled to act and rely upon any request, consent, notice or agreement given or made by or on behalf of the Underwriters, by the Representatives.

14. *Persons Entitled to Benefit of Agreement.* This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company, the Guarantor and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company and the Guarantor contained in this Agreement shall also be deemed to be for the benefit of the directors, officers and employees of the Underwriters and each person or persons, if any, who control any Underwriter within the meaning of Section 15 of the Securities Act and (B) the indemnity agreement of the Underwriters

contained in Section 10(c) of this Agreement shall be deemed to be for the benefit of the directors of the Company and the Guarantor, the officers of the Company and the Guarantor who have signed the Registration Statement and any person controlling the Company and the Guarantor within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 14, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

15. *Survival.* The respective indemnities, representations, warranties and agreements of the Company, the Guarantor and the Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Securities and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

16. *Definition of the Terms "Business Day" and "Subsidiary".* For purposes of this Agreement, (a) "**Business Day**" means each Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close and (b) "**subsidiary**" has the meaning set forth in Rule 405.

17. *Governing Law.* **This Agreement shall be governed by and construed in accordance with the laws of the State of New York.**

18. *Counterparts.* This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company, the Guarantor and the Underwriters, or any of them, with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

19. *WAIVER OF JURY TRIAL.* WAIVER OF JURY TRIAL. THE GUARANTOR, THE COMPANY AND EACH OF THE UNDERWRITERS HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

20. *Authorized Agent.* The Guarantor irrevocably (i) agrees that any legal suit, action or proceeding against the Guarantor brought by any Underwriter or by any person who controls any Underwriter arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in any United States federal or state court in the city of New York, State of New York, (ii) waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any such proceeding and (iii) submit to the exclusive jurisdiction of such courts in any such suit, action or proceeding. The Guarantor has appointed Maureen A. Phillips, Esq. as its authorized agent (the "Authorized Agent") upon whom process may be served in any such action arising out of or based on this Agreement or the transactions contemplated hereby which may be instituted in the any United States federal or state court in the city of New York, State of New York by any Underwriter or by any person who controls any Underwriter, expressly consents to the jurisdiction of any such court in respect of any such action, and waives any other requirements of or objections to personal jurisdiction with respect thereto. Such appointment shall be irrevocable. The Guarantor represents and warrants that the Authorized Agent has agreed to act as such agent for service of process and agree to take any and all action, including the filing of any and all documents and instruments, that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent and

written notice of such service to the Guarantor shall be deemed, in every respect, effective service of process upon the Guarantor.

21. *Headings.* The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement among the Company, the Guarantor and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

ONEBEACON U.S. HOLDINGS, INC.

By: \_\_\_\_\_

Name:

Title:

ONEBEACON INSURANCE GROUP, LTD.

By: \_\_\_\_\_

Name:

Title:

*Underwriting Agreement Signature Page*



Accepted as of the date first set forth above.

BARCLAYS CAPITAL INC.

For itself and as Representative  
of the Underwriters named  
in Schedule I hereto

By: \_\_\_\_\_

Name:

Title:

*Authorized Representative*

HSBC SECURITIES (USA), INC.

For itself and as Representative  
of the Underwriters named  
in Schedule I hereto

By: \_\_\_\_\_

Name:

Title:

*Authorized Representative*

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

For itself and as Representative  
of the Underwriters named  
in Schedule I hereto

By: \_\_\_\_\_

Name:

Title:

*Authorized Representative*

*Underwriting Agreement Signature Page*

**SCHEDULE I**

Underwriters	Principal Amount of Securities to be Purchased
Barclays Capital Inc.	118,250,000
HSBC Securities (USA) Inc.	45,375,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	45,375,000
U.S. Bancorp Investments, Inc.	16,500,000
Wells Fargo Securities, LLC	16,500,000
BNY Mellon Capital Markets, LLC	8,250,000
Commerzbank Capital Markets Corp.	8,250,000
Lloyds Securities Inc.	8,250,000
RBS Securities Inc.	8,250,000
Total	<u><u>\$275,000,000</u></u>

Schedule I

## **SCHEDULE II**

### Issuer Free Writing Prospectuses & Documents Incorporated by Reference

#### **(a.) Issuer Free Writing Prospectuses**

- (i) Not included in the Pricing Disclosure Package
  - (i) Net roadshow
- (ii) Included in the Pricing Disclosure Package
  - (i) Final Pricing Term Sheet

#### **(b.) Additional Documents Incorporated by Reference**

- (i) None

Schedule III

**SCHEDULE III**

Filed Pursuant to Rule 433  
Registration Statement No. 333- 174867-04



**Pricing Term Sheet**

**\$275,000,000 4.600% NOTES DUE 2022**

Schedule III

<b>Issuer:</b>	OneBeacon U.S. Holdings, Inc.
<b>Guarantor</b>	OneBeacon Insurance Group, Ltd.
<b>Principal Amount:</b>	\$275,000,000
<b>Security Type:</b>	Senior Notes
<b>Legal Format:</b>	SEC Registered
<b>Price to Public:</b>	99.881% of principal amount
<b>Trade Date:</b>	November 6, 2012
<b>Settlement Date:</b>	November 9, 2012 (T+3)
<b>Maturity Date:</b>	November 9, 2022
<b>Coupon:</b>	4.600%
<b>Benchmark Treasury:</b>	1.625% due August 15, 2022
<b>Benchmark Treasury Price and Yield:</b>	98-31 / 1.740%
<b>Spread to Benchmark Treasury:</b>	2.875% (287.5 basis points)
<b>Yield to Maturity:</b>	4.615%
<b>Ratings*:</b>	Moody's: Baa2 (Stable) / S&P: BBB- (Stable) / Fitch: BBB (Stable)
<b>Interest Payment Dates:</b>	Semi-annually on May 9 and November 9, commencing on May 9, 2013
<b>Redemption Provision:</b>	At any time, OB Holdings may redeem the Senior Notes, in whole or in part, at a "make-whole" redemption price equal to the greater of (1) the principal amount being redeemed or (2) the sum of the present values of the remaining scheduled payments to maturity of the principal and interest (other than accrued interest) on the Senior Notes being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 45 basis points, plus accrued interest to the redemption date
<b>CUSIP; ISIN:</b>	68245J AB6; US68245JAB61
<b>Joint Book-Running Managers:</b>	Barclays Capital Inc. HSBC Securities (USA) Inc. Merrill Lynch, Pierce, Fenner & Smith Incorporated
<b>Co-Managers:</b>	U.S. Bancorp Investments, Inc.  Wells Fargo Securities, LLC  BNY Mellon Capital Markets, LLC  Commerzbank Capital Markets Corp.  Lloyds Securities Inc.  RBS Securities Inc.

\*Note: A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

#### **Additional Information**

Schedule III

All information (including financial information) presented in the Preliminary Prospectus Supplement is deemed to have changed to the extent affected by the changes described herein.

### **Pro Forma Ratio of Earnings (Loss) to Fixed Charges**

The table that appears in the Preliminary Prospectus Supplement under “Ratio of Earnings (Loss) to Fixed Charges” is amended to include the following additional information regarding the guarantor’s pro forma ratio of earnings (loss) to fixed charges for the year ended December 31, 2011 and the nine months ended September 30, 2012 to give effect to this offering and the use of proceeds therefrom as if the notes were issued on January 1, 2011:

	<b>Pro Forma Year Ended December 31, 2011</b>	<b>Pro Forma Nine Months Ended September 30, 2012</b>
Ratio of earnings to fixed charges	5.7	11.6
Ratio of earnings to combined fixed charges and preferred stock dividends	5.7	11.6

### **Other**

In the Preliminary Prospectus Supplement, the total principal amount of 5.875% Senior Unsecured Notes, and the principal amount of such notes held by OneBeacon Insurance Company, in each case, as of September 30, 2012, do not include an additional \$24.3 million principal amount of such notes held by OneBeacon Insurance Company on such date that was transferred to the Issuer in October 2012 for cancellation in connection with a dividend declared by OneBeacon Insurance Company in August 2012.

**The issuer and the guarantor have filed a registration statement (including a prospectus) with the U.S. Securities and Exchange Commission (SEC) for this offering. Before you invest, you should read the prospectus for this offering in that registration statement, and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by searching the SEC online database (EDGAR®) at [www.sec.gov](http://www.sec.gov). Alternatively, you may obtain a copy of the prospectus from Barclays Capital Inc. by calling 1-888-603-5847, from HSBC Securities (USA) Inc. by calling 1-866-811-8049, or from Merrill Lynch, Pierce, Fenner & Smith Incorporated by calling 1-800-294-1322.**

## **EXHIBIT A-1**

### **FORM OF OPINION OF ISSUER'S COUNSEL**

1. Based solely on a certificate of the Secretary of State of the State of Delaware, the Company has been duly incorporated and is a corporation validly existing and in good standing under the laws of the State of Delaware. The Company has full corporate power and authority to own, lease and operate its properties and conduct its business as described in the Prospectus.
2. Except as described in the Prospectus, no authorization, approval or other action by, and no notice to, consent of, order of, or filing with, any governmental authority of the United States of America, the State of New York, or the State of Delaware is required to be made or obtained by the Company or the Guarantor for the consummation of the transactions contemplated by the Underwriting Agreement, other than (i) those that have been obtained or made under the Securities Act or the Trust Indenture Act, (ii) those that may be required under the Securities Act in connection with the use of a "free writing prospectus" and (iii) those that may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters.
3. None of the execution and delivery of the Underwriting Agreement, the Base Indenture, the Supplemental Indenture and the Securities by each of the Company and the Guarantor, the consummation by the Company and the Guarantor of the transactions contemplated by the Underwriting Agreement, or the compliance by each of the Company and the Guarantor with all of the provisions of the Underwriting Agreement, the Base Indenture, the Supplemental Indenture and the Securities, (i) will result in a breach of or constitute a default under the express terms and conditions of any Specified Agreement, (ii) will violate any law, rule or regulation of the United States of America, the State of New York or the General Corporation Law of the State of Delaware, or (iii) will conflict with or violate the certificate of incorporation or by-laws of the Company. Our opinion in clause (i) of the preceding sentence relating to the Specified Agreements does not extend to compliance with any financial ratio or any limitation in any contractual restriction expressed as a dollar amount (or an amount expressed in another currency.) We note that certain of the Specified Agreements are governed by laws other than New York law; our opinions expressed herein are based solely upon our understanding of the plain language of such agreements, and we do not express any opinion with respect to the validity, binding nature or enforceability of any such agreement, and we do not assume any responsibility with respect to the effect on the opinions or statements set forth herein of any interpretation thereof inconsistent with such understanding.
4. The statements under the headings "Description of Senior Debt Securities and Subordinated Debt Securities " and "Description of the Notes" in the Pricing Disclosure Package and in the Prospectus, insofar as such statements purport to summarize certain provisions of the Securities, the Base Indenture and the Supplemental Indenture, are accurate and complete in all material respects, [and the statements under the heading "Certain Tax Considerations – United States" in the Pricing Disclosure Package and in the Prospectus, insofar as such statements purport to describe the material United States federal income tax laws, tax consequences of an investment in the Securities, fairly summarize the matters therein described].
5. The Registration Statement became effective under the Securities Act on June 30, 2011; the Prospectus Supplement was filed with the Commission pursuant to Rule 424(b) of the General

Rules and Regulations under the Securities Act on [\_\_\_\_], 2012, and thereupon the offering of the Securities as contemplated by the Prospectus became registered under the Securities Act; to our knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Securities Act.

6. Based solely on the certificate dated the date hereof, from an officer of each of the Company and the Guarantor, attached as Exhibit A hereto, neither the Company nor the Guarantor is required to register as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.
7. Each of the Base Indenture and the Supplemental Indenture has been duly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other similar laws affecting creditors' rights generally from time to time in effect and to general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, regardless of whether considered in a proceeding in equity or at law); the execution of the Supplemental Indenture is authorized or permitted by the Base Indenture; and the Indenture has been duly qualified under the Trust Indenture Act.
8. The Securities have been duly authorized and executed by the Company, and when authenticated by the Trustee in accordance with the Indenture and delivered to the Underwriters against payment therefor will have been validly issued and delivered and will constitute legal, valid and binding obligations of the Company entitled to the benefits of the Base Indenture and the Supplemental Indenture and enforceable against the Company in accordance with their terms (subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other similar laws affecting creditors' rights generally from time to time in effect and to general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, regardless of whether considered in a proceeding in equity or at law).
9. The Underwriting Agreement has been duly authorized, executed and delivered by the Company.

In rendering the foregoing opinions, counsel may make customary qualifications and assumptions.

Although we have made certain inquiries and investigations in connection with the preparation of the Registration Statement, the Pricing Disclosure Package and the Prospectus, the limitations inherent in the role of outside counsel are such that we cannot and do not assume responsibility for the accuracy or completeness of the statements made in the Registration Statement, Pricing Disclosure Package and the Prospectus, except insofar as such statements relate to us and except to the extent set forth in paragraph 4 of our opinion to you as counsel to the Company dated the date hereof. Subject to the foregoing, we confirm to you, on the basis of information gained in the course of the performance of the services rendered above, that the Registration Statement, at the time it initially became effective and the Prospectus, as of the date hereof, appeared or appears on its face to be appropriately responsive in all material respects to the requirements of the Securities Act and the applicable rules and regulations thereunder, except that we do not express any view as to the financial statements and other information of



a statistical, accounting or financial nature included therein (including, without limitation, the report of management's attestation of the effectiveness of internal control over financial reporting or the auditor's attestation report thereon). Furthermore, subject to the foregoing, we hereby advise you that our work in connection with this matter did not disclose any information that gave us reason to believe that: (i) the Registration Statement, at the time the Registration Statement was last amended or deemed to be amended, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Prospectus, as of its date or at the date hereof, included or includes, an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (iii) the Pricing Disclosure Package, considered together as of [\_\_\_\_] p.m. (New York City Time (the "Applicable Time")), included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that, in each case, we do not express any view as to the financial statements and other information of a statistical, accounting or financial nature included therein (including, without limitation, the report of management's attestation of the effectiveness of internal control over financial reporting or the auditor's attestation report thereon).

Ex A-1-3

## **EXHIBIT A-2**

### **FORM OF OPINION OF BERMUDA COUNSEL TO GUARANTOR**

1. The Guarantor is duly incorporated and existing under the laws of Bermuda as an exempted company, and is in good standing, with corporate power and authority to own its properties and conduct its business as described in the Prospectus.
2. The Guarantor has the necessary corporate power and authority to execute, deliver and perform its obligations under the Underwriting Agreement, the Base Indenture and the Supplemental Indenture (together, including the Guarantee, the "Transaction Documents,"). The execution and delivery and performance of the Transaction Documents by the Guarantor and the performance by the Guarantor of its obligations thereunder will not violate the memorandum of association or bye-laws of the Guarantor nor any applicable law, regulation, order or decree in Bermuda.
3. The Guarantor has taken all corporate action required to authorise its execution and filing of the Registration Statement and its execution, delivery of the Transaction Documents. The Registration Statement has been duly executed by or on behalf of the Guarantor. The Transaction Documents have been duly executed and delivered by or on behalf of the Guarantor, and constitute the valid and binding obligations of the Guarantor in accordance with the terms thereof.
4. No order, consent, approval, licence, authorisation or validation of, filing with or exemption by any government or public body or authority of Bermuda or any sub division thereof is required to authorise or is required in connection with the execution, delivery, performance and enforcement of the transactions contemplated by the Transaction Documents, except such as have been duly obtained or filed in accordance with Bermuda law.
5. It is not necessary or desirable to ensure the validity or enforceability in Bermuda of any of Transaction Documents that they be registered in any register kept by, or filed with, any governmental authority or regulatory body in Bermuda.
6. There are no Bermuda stamp duty, transfer or similar taxes payable in respect of the Transaction Documents. The Transaction Documents are not subject to ad valorem stamp duty in Bermuda, and no registration, documentary, recording, transfer or other similar tax, fee or charge by any Bermuda government authority is payable in connection with the execution, delivery, filing, registration or performance of the Transaction Documents.
7. There is no capital gains, income or other tax of Bermuda imposed by withholding or otherwise on any payment to be made to or by the Guarantor pursuant to the Transaction Documents.
8. The Guarantor's agreement to the choice of law provisions set forth in Section 18 of the Underwriting Agreement and Section [112] of the Base Indenture [include Supplemental Indenture as appropriate] is a valid choice of law and would be recognised and given effect to in any action brought before a court of competent jurisdiction in Bermuda, except for those laws (i) which such court considers to be procedural in nature, (ii) which are revenue or penal laws or (iii) the application of which would be inconsistent with public policy, as such term is interpreted under the laws of Bermuda. The submission in the Underwriting Agreement and the [Base/ Supplemental] Indenture to the non-exclusive jurisdiction of

United States federal court or state court in the city of Boston, State of Massachusetts (the “Foreign Courts”) is valid and binding upon the Guarantor.

9. The courts of Bermuda would recognise as a valid judgment, a final and conclusive judgment in personam obtained in the Foreign Courts against the Guarantor based upon the Transaction Documents under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of Bermuda, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of Bermuda, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of Bermuda and (f) there is due compliance with the correct procedures under the laws of Bermuda. All payments of principal, premium (if any) and interest on the Notes pursuant to the Guarantee may be paid by the Guarantor to the registered holder thereof in US dollars.

10. The statements contained (A) in the Guarantor 's Annual Report on Form 10-K under the captions "Risk Factors – Risks Relating to Our Relationship with White Mountains", "Risk Factors – Risks That Relate to Taxation", and "Regulatory Matters – Bermuda Law", (B) in the Prospectus under the caption "Enforcement of Civil Liabilities under United States Federal Securities Laws and Other Matters" and (C) in the Registration Statement in Item 15, to the extent that they purport to describe the provisions of the laws of Bermuda referred to therein including the memorandum of association and the bye-laws of the Guarantor, are accurate in all material respects.

11. Based solely on a search of the Register of Charges maintained by the Registrar of Companies pursuant to Section 55 of the Companies Act 1981 conducted at [ ] am on [ ], 2012 (which would not reveal details of matters which have been lodged for registration but not actually registered at the time of our search), there are no charges registered on the assets of the Guarantor.

12. Based solely upon a search of the Cause Book of the Supreme Court of Bermuda conducted at [ ] am on [ ], 2012 (which would not reveal details of proceedings which have been filed but not actually entered in the Cause Book at the time of our search), there are no judgments against the Guarantor, nor any legal or governmental proceedings pending in Bermuda to which the Guarantor is subject.

13. Based solely on a search of the public records in respect of the Guarantor maintained at the offices of the Registrar of Companies at [ ] am on [ ], 2012 (which would not reveal details of matters which have not been lodged for registration or have been lodged for registration but not actually registered at the time of our search) and a search of the Cause Book of the Supreme Court of Bermuda conducted at [ ] am on [ ], 2012 (which would not reveal details of proceedings which have been filed but not actually entered in the Cause Book at the time of our search), no steps have been, or are being, taken in Bermuda for the appointment of a receiver or liquidator to, or for the winding-up, dissolution, reconstruction or reorganisation of, the Guarantor, though it should be noted that the public files maintained by the Registrar of Companies do not reveal whether a winding-up petition or application to the Court for the appointment of a receiver has been presented and entries in the Cause Book may not specify the nature of the relevant proceedings.

14. Each of the Underwriters will not be deemed to be resident, domiciled or carrying on business in Bermuda by reason only of the execution, performance and/or enforcement of the Underwriting Agreement by the Underwriters.
15. Each of the Underwriters has standing to bring an action or proceedings before the appropriate courts in Bermuda for the enforcement of the Underwriting Agreement. It is not necessary or advisable in order for each of the Underwriters to enforce its rights under the Underwriting Agreement, including the exercise of remedies thereunder, that it be licensed, qualified or otherwise entitled to carry on business in Bermuda.
16. The Guarantor has been designated as non resident of Bermuda for the purposes of the Exchange Control Act, 1972 and, as such, is free to acquire, hold, transfer and sell foreign currency (including the payment of dividends or other distributions) and securities without restriction.
17. The Guarantor has received an assurance from the Ministry of Finance in Bermuda that in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to the Guarantor or any of its operations or its shares, debentures or other obligations, provided that such assurance shall not be construed so as to prevent the application of any such tax or duty to such persons as are ordinarily resident in Bermuda and shall not be construed so as to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to land in Bermuda leased by the Guarantor, with such assurance stated to be in effect until 31 March 2035.
18. [The appointment by the Guarantor of [Maureen A. Phillips, Esq.] as agent for the receipt of any service of process in respect of any United States federal or state court in the city of New York, State of New York, in connection with any matter arising out of or in connection with the Underwriting Agreement and [Base/ Supplemental] Indenture is a valid and binding appointment, if such appointment is valid and binding under the laws of the State of New York and if no other procedural requirements are necessary in order to validate such appointment.]
19. The Guarantor is not entitled to any immunity under the laws of Bermuda, whether characterised as sovereign immunity or otherwise, from any legal proceedings to enforce the Transaction Documents in respect of itself or its property.

In rendering the foregoing opinions, counsel may make customary qualifications and assumptions.

### **EXHIBIT A-3**

#### **ONEBEACON FORM OF OPINION**

1. Each of the subsidiaries listed on Annex A hereto, based solely on certificates of public officials in the jurisdictions listed on Annex A (copies of which have been delivered to you by the Company or the Guarantor) is duly qualified to do business and is in good standing in the jurisdictions listed on Annex A opposite the name of such subsidiary. To the extent any subsidiary listed on Annex B hereto is an insurance company (an "Insurance Subsidiary"), each such Insurance Subsidiary is duly licensed or authorized as an insurer in each jurisdiction in which the conduct of its business requires it to be so licensed or authorized, except to the extent that the failure to be so licensed or authorized would not, singly or in the aggregate, have a material adverse effect on the Guarantor and its subsidiaries, taken as a whole. Except as described in the Prospectus, each of the Company, the Guarantor and each Insurance Subsidiary has made all required filings under applicable insurance company statutes and has filed all notices, reports, documents or other information required to be filed thereunder, except where the failure to have such authorizations, approvals, orders, consents, licenses, certificates, permits, registrations or qualifications, singly or in the aggregate, would not have a material adverse effect on the Guarantor and its subsidiaries, taken as a whole. Except as described in the Prospectus, none of the Company, the Guarantor or any Insurance Subsidiary has received any notification from any insurance regulatory authority to the effect that any additional authorization, approval, order, consent, license, certificate, permit, registration or qualification from any insurance regulatory authority is needed to be obtained by any of the Guarantor or any of its subsidiaries, other than in any case where the failure to acquire such additional authorization, approval, order, consent, license, certificate, permit, registration or qualification, singly or in the aggregate, would not have a material adverse effect on the Guarantor and its subsidiaries, taken as a whole, or impact the performance by the Company or the Guarantor of its obligations under the Transaction Documents (as defined below) and the consummation of the transactions contemplated thereunder.

2. To my knowledge, neither the Company nor the Guarantor is in violation of any organizational document, corporate resolution or any instrument or agreement of which I have knowledge after due inquiry, in each case binding on it or affecting its property in any manner that could have a material adverse effect on the Guarantor and its subsidiaries, taken as a whole.

3. To my knowledge, (a) there is no pending or threatened action, suit, proceeding or investigation before any court or governmental agency or authority or any arbitrator against the Guarantor or any subsidiary of a character required to be disclosed in the Registration Statement or Prospectus which is not adequately disclosed as required, and (b) there is no contract, indenture, mortgage, loan agreement, note, lease or other document of a character required to be described in the Pricing Disclosure Package or Prospectus, or to be filed as an exhibit, which is not described or filed as required.

4. The execution, delivery and performance by the Company and the Guarantor of their respective obligations under the Transaction Documents and the Securities and the consummation of the transactions contemplated therein and the issuance of the sale of the Securities do not constitute a violation of, or a default under, any covenant, restriction or provision with respect to financial ratios or tests to which the Guarantor or any subsidiary of the Guarantor is subject; except for such violations as would, singly or in the aggregate, not have a material adverse effect on the Guarantor and its subsidiaries, taken as a whole.

5. The statements made in the Annual Report on Form 10-K of each of the Company and the Guarantor under the captions "Management's Discussion and Analysis of Financial Condition and Results

of Operations – Liquidity and Capital Resources – Dividend Capacity" and "Business - Regulatory Matters" insofar as they propose to constitute summaries of the terms of statutes, rules or regulations, constitute accurate summaries of the terms of such statutes, rules and regulations.

6.To my knowledge, the performance by the Company or the Guarantor of its obligations under the Underwriting Agreement and the consummation of the transactions contemplated thereby will not result in a breach of or constitute a default under the express terms and conditions of any material agreement to which the Company or the Guarantor is a party.

7.Except as described in the Pricing Disclosure Package or Prospectus, to my knowledge, there are no contracts, agreements or understandings between the Company or the Guarantor and any person granting such person the right to require the Company or the Guarantor to file a registration statement under the Securities Act with respect to any securities of the Company or the Guarantor owned or to be owned by such person or to require the Company or the Guarantor to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company or the Guarantor under the Securities Act.

In rendering the foregoing opinions, counsel may make customary qualifications and assumptions.

**ANNEX A**

**SUBSIDIARIES**

<b>Subsidiary</b>	<b>Jurisdiction of Incorporation</b>
A. W. G. Dewar, Inc.	Massachusetts
Atlantic Specialty Insurance Company	New York
The Camden Fire Insurance Association	New Jersey
EBI Claims Services, LLC	Delaware
The Employers' Fire Insurance Company	Massachusetts
Essentia Insurance Company	Missouri
Homeland Insurance Company of Delaware	Delaware
Homeland Insurance Company of New York	New York
Houston General Insurance Company	Texas
Houston General Insurance Management Company	Texas
Mill Shares Holdings (Bermuda) Ltd.	Bermuda
National Marine Underwriters, Inc.	Massachusetts
The Northern Assurance Company of America	Massachusetts
OBI National Insurance Company	Pennsylvania
OneBeacon America Insurance Company	Massachusetts
OneBeacon Entertainment, LLC	Delaware
OneBeacon Insurance Company	Pennsylvania
OneBeacon Insurance Group LLC	Delaware
OneBeacon Midwest Insurance Company	Wisconsin
OneBeacon Professional Insurance, Inc.	Delaware
OneBeacon Risk Management, Inc.	Delaware
OneBeacon Select Insurance Company	Pennsylvania
OneBeacon Services, LLC	Delaware
OneBeacon Specialty Insurance Company	Pennsylvania
OneBeacon Sports and Leisure, LLC	Delaware
OneBeacon U.S. Enterprises Holdings, Inc.	Delaware
OneBeacon U.S. Financial Services, Inc.	Delaware
OneBeacon U.S. Holdings, Inc.	Delaware
Potomac Insurance Company	Pennsylvania
Traders & General Insurance Company	Texas

Annex A to OneBeacon GC Opinion

**ANNEX B**

**INSURANCE SUBSIDIARIES**

Atlantic Specialty Insurance Company

The Camden Fire Insurance Association

The Employers' Fire Insurance Company

Essentia Insurance Company

Homeland Insurance Company of Delaware

Homeland Insurance Company of New York

Houston General Insurance Company

The Northern Assurance Company of America

OBI National Insurance Company

OneBeacon America Insurance Company

OneBeacon Insurance Company

OneBeacon Midwest Insurance Company

OneBeacon Select Insurance Company

OneBeacon Specialty Insurance Company

Potomac Insurance Company

Traders & General Insurance Company

Annex B to OneBeacon GC Opinion



**EXHIBIT B**

**ONEBEACON INSURANCE GROUP, LTD.**

November [\_\_\_\_], 2012

**BACK-UP CERTIFICATE**

I, Paul H. McDonough, in my capacity as Chief Financial Officer of OneBeacon Insurance Group, Ltd., a Bermuda exempted limited liability company (the "Guarantor") and of OneBeacon U.S. Holdings, Inc., a Delaware corporation (the "Company"), and not in my individual capacity do hereby determine and certify as follows:

(i) I have reviewed the items identified in Schedule [\_\_\_\_] attached hereto, which information is included or incorporated by reference in the Preliminary Prospectus, dated November 6, 2012, as supplemented by the Free Writing Prospectus, dated November 6, 2012, and the Prospectus, dated November [ ], 2012;

(ii) I am actively involved in the preparation of the items referred to in clause (i); and

(iii) To my knowledge, the items referred to in clause (i) are correct in all material respects.

IN WITNESS WHEREOF, I have executed this Certificate of the Company and the Guarantor as of November [\_\_\_\_], 2012.

By: \_\_\_\_\_

Name: Paul H. McDonough

Title: Chief Financial Officer of

OneBeacon Insurance Group, Ltd. and

OneBeacon U.S. Holdings, Inc.

**EXHIBIT C**

**ONEBEACON U.S. HOLDINGS, INC.**

**ONEBEACON INSURANCE GROUP, LTD.**

November [\_\_\_\_], 2012

**OFFICER'S CERTIFICATE**

Each of T. Michael Miller, in his capacity as Chief Executive Officer, and Paul H. McDonough, in his capacity as Chief Financial Officer, of OneBeacon U.S. Holdings, Inc., a company organized under the laws of the State of Delaware (the "Company") and of OneBeacon Insurance Group, Ltd., a Bermuda exempted limited liability company (the "Guarantor") and not, in each case, in his individual capacity, do hereby deliver this certificate pursuant to Section 7(k) of the Underwriting Agreement, dated November [\_\_\_\_], 2012 (the "Underwriting Agreement"), among the Company, the Guarantor and the several Underwriters named in Schedule I thereto, and do hereby certify as follows:

(i) we have carefully examined the Registration Statement, the Prospectus and the Pricing Disclosure Package, and, in our judgment, each of the representations set forth in Sections 1(e), 1(f), 1(g) and 1(h) of the Underwriting Agreement is true and correct;

(ii) each of the other representations and warranties of the Company and the Guarantor contained in Section 1 of the Underwriting Agreement is true and correct as if made on and as of the date hereof;

(iii) the Company and the Guarantor have complied with all of their respective agreements contained in the Underwriting Agreement and, at or prior to the date hereof, have satisfied all of the respective conditions on their part to be complied with or satisfied under the Underwriting Agreement at or prior to the date hereof; and

(iv) no stop order suspending the effectiveness of the Registration Statement has been issued; and no proceedings or examination for that purpose have been instituted or, to their knowledge, threatened;

Capitalized terms used in this Certificate and not otherwise defined herein have the respective meanings ascribed thereto in the Underwriting Agreement.

*[Signature Page Follows]*

Ex C-1-1

IN WITNESS WHEREOF, each of the undersigned has hereunto signed his name as of the date first written above.

By: \_\_\_\_\_  
Name: T. Michael Miller  
Title: Chief Executive Officer of  
OneBeacon Insurance Group, Ltd. and  
OneBeacon U.S. Holdings, Inc.

By: \_\_\_\_\_  
Name: Paul H. McDonough  
Title: Chief Financial Office of

OneBeacon Insurance Group, Ltd.

and  
OneBeacon U.S. Holdings, Inc.

Ex C-1-2

AMENDED AND RESTATED  
B Y E - L A W S  
of  
WHITE MOUNTAINS INSURANCE GROUP, LTD.  
MAY 29, 2008

Adopted by Members on May 29, 2008

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## INTERPRETATION

### 1. Interpretation

(1) In these Bye-laws the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively:

“Act” means the Companies Act 1981 as amended from time to time;

“Alternate Director” means an alternate Director appointed in accordance with these Bye-laws and the Act;

“Auditor” includes any individual or partnership;

“Board” means the board of Directors appointed or elected pursuant to these Bye-laws and acting by resolution in accordance with the Act and these Bye-laws or the Directors present at a meeting of Directors at which there is a quorum;

“Byrne Entity” has the meaning set forth in Bye-law 80(3)(e);

“Company” means the company for which these Bye-laws are approved and confirmed;

“Controlled Shares” has the meaning set forth in Bye-law 47;

“Director” means a director of the Company and shall include an Alternate Director;

“Exchange Act” means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder;

“Fair Market Value” means, with respect to a repurchase of any shares of the Company in accordance with Bye-law 10, (i) if such shares are listed on a securities exchange (or quoted in a securities quotation system), the average closing sale price of such shares on such exchange (or in such quotation system), or, if such shares are listed on (or quoted in) more than one exchange (or quotation system), the average closing sale price of the shares on the principal securities exchange (or quotation system) on which such shares are then traded, or, if such shares are not then listed on a securities exchange (or quotation system) but are traded in the over-the-counter market, the average of the latest bid and asked quotations for such shares in such market, in each case for the last five trading days immediately preceding the day on which notice of the repurchase of such shares is sent pursuant to these Bye-laws or (ii) if no such closing sales prices or quotations are available because such shares are not publicly traded or otherwise, the fair value of such shares as determined by one independent nationally recognized investment banking firm chosen in good faith by the Board, provided that the calculation of the Fair Market Value of the shares made by such appointed investment banking firm (i) shall not include any discount relating to the absence of a public trading market for, or any transfer restrictions on, such shares, and (ii) such calculation shall be final and the fees and expenses stemming from such calculation shall be borne by the Company or its assignee, as the case may be;

“general meeting” means either an annual or a special meeting of the Members;

“Member” means the person registered in the Register of Members as the holder of shares in the Company and, when two or more persons are so registered as joint holders of shares, means the person whose name stands first in the Register of Members as one of such joint holders or all of such persons as the context so requires;

“notice” means written notice as further defined in these Bye-laws unless otherwise specifically stated;

“Officer” means any person appointed by the Board to hold an office in the Company;

“person” means any individual, partnership, limited liability company, joint venture, firm, corporation, association, trust, fund or other enterprise;

“Purchase Notice” has the meaning set forth in Bye-law 10;

“Purchase Price” has the meaning set forth in Bye-law 10;

“Register of Directors and Officers” means the Register of Directors and Officers referred to in these Bye-laws;

“Register of Members” means the Register of Members referred to in these Bye-laws;

“Resident Representative” means any person appointed to act as resident representative and includes any deputy or assistant resident representative; and

“Secretary” means the person appointed to perform any or all the duties of secretary of the Company and includes any deputy or assistant secretary.

(2) In these Bye-laws, where not inconsistent with the context:

- (a) words denoting the plural number include the singular number and vice versa;
- (b) words denoting the masculine gender include the feminine gender;
- (c) words importing persons include companies, associations or bodies of persons whether corporate or not;
- (d) the word:
  - (i) “may” shall be construed as permissive;
  - (ii) “shall” shall be construed as imperative; and
- (e) unless otherwise provided herein words or expressions defined in the Act shall bear the same meaning in these Bye-laws.



(3) Expressions referring to writing or written shall, unless the contrary intention appears, include facsimile, printing, lithography, photography and other modes of representing words in a visible form.

(4) Headings used in these Bye-laws are for convenience only and are not to be used or relied upon in the construction hereof.

#### BOARD OF DIRECTORS

2. Management of the Company

(1) The business of the Company shall be managed and conducted by the Board. In managing the business of the Company, the Board may exercise all corporate and other powers of the Company as are not, by statute or by these Bye-laws, required to be exercised by the Company in general meeting, and the business and affairs of the Company shall be so controlled by the Board. The Board may also present any petition and make any application in connection with the liquidation or reorganization of the Company.

(2) No regulation or alteration to these Bye-laws made by the Company in general meeting shall invalidate any prior act of the Board.

(3) The Board may procure that the Company pays all expenses incurred in promoting and incorporating the Company.

3. Power to appoint managing director or chief executive officer

The Board may from time to time appoint one or more Directors to the office of managing director or chief executive officer of the Company who shall, subject to the control of the Board, supervise and administer all of the general business and affairs of the Company.

4. Power to appoint manager

The Board may appoint a person to act as manager of the Company's day to day business and may entrust to and confer upon such manager such powers and duties as it deems appropriate for the transaction or conduct of such business.

5. Power to authorize specific actions

The Board may from time to time and at any time authorize any person to act on behalf of the Company for any specific purpose and in connection therewith to execute any agreement, document or instrument on behalf of the Company.

6. Power to appoint attorney

The Board may from time to time and at any time by power of attorney appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Board, to be an attorney of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board) and for such period and subject to such conditions as

it may think fit and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions so vested in the attorney. Such attorney may, if so authorised under the seal of the Company, execute any deed or instrument under such attorney's personal seal with the same effect as the affixation of the seal of the Company.

7. Power to delegate to a committee

(1) The Board may appoint Board Committees from among its members to consist of not less than one (1) director for each Board Committee. The Board may designate one or more Directors as alternate members of any Board Committee, who may replace any absent or disqualified members at a meeting of such Board Committee. The Board Committees shall have such of the powers and authority of the Board in the management of the business and affairs of the Company as shall, from time to time, so be delegated to them by the Board.

(2) The Board may appoint other committees to consist of such number of members as may be fixed by the Board, none of whom need be a member of the Board, and may prescribe the powers and authority of such committees.

(3) Meetings and actions of Board Committees and other committees of the Company shall be governed by, held and taken in accordance with these Bye-laws, with such changes in the context of those Bye-laws as are necessary to substitute the committee and its members for the Board and its members, except that the time of regular meetings of committees may also be called by resolution of the Board and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. Further, the Board or the committee may adopt rules for the governance of any committee not inconsistent with the provisions of these Bye-laws

8. Power to appoint and dismiss employees

The Board may appoint, suspend or remove any manager, secretary, clerk, agent or employee of the Company and may fix their remuneration and determine their duties.

9. Power to borrow and charge property.

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or any third party.

10. Exercise of power to purchase shares of or discontinue the Company

(1) The Board may exercise all the powers of the Company to purchase all or any part of its own shares pursuant to Section 42A of the Act.

(2) Without limiting the foregoing, subject to Section 42A of the Act, if the Board in its absolute and unfettered discretion determines that share ownership by any Member may result in adverse tax,

regulatory or legal consequences to the Company, any of its subsidiaries or any of its Members, the Company will have the option, but not the obligation, to purchase all or part of the shares held by such Member (to the extent the Board, in the reasonable exercise of its discretion, determines it is necessary to avoid or cure such adverse consequences) with immediately available funds in an amount equal to the Fair Market Value of such shares on the date the Company sends the Purchase Notice referred to below (the "Purchase Price"); provided, that the Board will use reasonable efforts to exercise this option equally among similarly situated Members (to the extent possible under the circumstances). The Company will also be entitled to assign its purchase right to a third party, which party may be a Member. Each Member shall be bound by the determination by the Company to purchase or assign its right to purchase such Member's shares and, if so required by the Company, shall sell the number of shares that the Company requires it to sell.

In the event that the Company or its assignee(s) determines to purchase any such shares, the Company shall provide each Member concerned with written notice of such determination (a "Purchase Notice") at least seven (7) calendar days prior to such purchase or such shorter period as each such Member may authorize, specifying the date on which any such shares are to be purchased and the Purchase Price. The Company may revoke the Purchase Notice at any time before it (or its assignee(s)) pays for the shares. Neither the Company nor its assignee(s) shall be obligated to give general notice to the Members of any intention to purchase or the conclusion of any purchase of shares. The Board may authorize any person to sign, on behalf of any Member who is the subject of a Purchase Notice, an instrument of transfer relating to any of such Member's shares which the Company has an option to purchase. Payment of the Purchase Price by the Company or its assignee(s) shall be by wire transfer or certified check and made at a closing to be held no less than seven (7) calendar days after receipt of the Purchase Notice by the Member.

- (3) The Board may exercise all the powers of the Company to discontinue the Company to a named country or jurisdiction outside Bermuda pursuant to Section 132G of the Act.

#### 11. Election of Directors

(1) The Board shall consist of not less than two Directors nor more than eighteen Directors with the exact number of Directors to be determined from time to time by resolution adopted by the affirmative vote of a majority of the Board.

(2) The Directors shall be divided into three classes designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of Directors constituting the entire Board. At the date these Bye-laws become effective, the Class I directors, with a term ending in 2001, are Patrick M. Byrne, K. Thomas Kemp and Gordon S. Macklin, the Class II directors, with a term ending in 2002, are John J. Byrne, George J. Gillespie, III, John D. Gillespie and Frank A. Olson and the Class III directors, with a term ending in 2000, are Terry L. Baxter, Howard L. Clark, Jr., Robert P. Cochran and Arthur Zankel. At each succeeding annual general meeting beginning in 2000, successors to the class of directors whose term expires at that annual general meeting shall be elected for a three-year term. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible, and any additional Director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of Directors shorten the

term of any incumbent Director. A Director shall hold office until the annual general meeting for the year in which his term expires and until his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

(3) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preference Shares issued by the Company shall have the right, voting separately by class or series, to elect Directors at an annual or special general meeting, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the Board resolution creating such classes or series of Preference Shares, and such directors so elected shall not be divided into classes pursuant to this Bye-law 11 unless expressly provided by such terms.

12. Defects in appointment of Directors

All acts done bona fide by any meeting of the Board or by a committee of the Board or by any person acting as a Director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

13. Notification of Nominations

Subject to the rights of the holders of any class or series of Preference Shares, nominations for the election of Directors may be made by the Board or by any Member entitled to vote for the election of Directors. Any Member entitled to vote for the election of Directors may nominate persons for election as Directors only if written notice of such Member's intent to make such nomination is given, either by personal delivery or by mail, postage prepaid or any recognized overnight delivery service, to the Secretary of the Company not later than (i) with respect to an election to be held at an annual general meeting, 90 days prior to the anniversary date of the immediately preceding annual meeting or not later than 10 days after notice or public disclosure of the date of the annual meeting is given or made available to Members, whichever date is earlier, and (ii) with respect to an election to be held at a special general meeting for the election of Directors, the close of business on the seventh day following the date on which notice of such meeting is first given to Members. Each such notice shall set forth: (a) the name and address of the Member who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the Member is a holder of record of shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the Member and each such nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the Member; (d) such other information regarding each nominee proposed by such Member as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the United States Securities and Exchange Commission had each such nominee been nominated, or intended to be nominated, by the Board; and (e) the consent of each such nominee to serve as a director of the Company if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

14. Alternate Directors

An individual may be appointed an Alternate Director by or in accordance with a resolution of the members. Unless otherwise determined by the Board (and subject to such limitations as may be set by the Board), no Director shall have the right to appoint another person to act as his Alternate Director.

15. Vacancies on the Board, etc.

(1) Except in the case of vacancies on the Board that under applicable law must be filled by the Members, any vacancy on the Board that results from an increase in the number of directors shall be filled by a majority of the Board then in office, provided that a quorum is present, and any other vacancy occurring in the Board shall be filled by a majority of the directors then in office, even if less than a quorum, or a sole remaining director and the Board shall have the power to appoint an Alternate Director for any Director appointed to fill a vacancy. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor.

(2) Unless otherwise determined by the Board, the Members shall not be entitled to remove a Director.

16. Notice of meetings of the Board; Adjournment

(1) Notice of the time and place of each meeting of the Board, whether regular or special, shall be served upon or telephoned, or mailed or telegraphed or transmitted by facsimile to each director at his residence or usual place of business, at least twenty-four (24) hours before the time fixed for the meeting.

(2) A majority of the Directors present, whether or not a quorum is present, may adjourn any Directors meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent Directors if the time and place be fixed at the meeting adjourned.

(3) Notice of any meeting or any irregularity in any notice may be waived by any Director before the meeting is held. Attendance of a Director at a meeting shall constitute a waiver of notice of such meeting by such Director.

17. Quorum at meetings of the Board

At all meetings of the Board, one half (1/2) of the Directors then in office (but not less than two (2) Directors) if present in person at such meeting shall be sufficient to constitute a quorum for a meeting of Directors.

18. Meetings of the Board

(1) All meetings of the Directors shall be held at the principal office of the Company or at such other place either within or without Bermuda as shall be designated by the Board.

- (2) The Board may meet for the transaction of business, adjourn and otherwise regulate its meetings as it sees fit.
- (3) Directors may participate in a meeting of the Board through use of conference telephone or similar communications equipment, so long as all Directors participating in such meeting can hear one another. Participation in a meeting of the Board by this means constitutes presence in person at such meeting.
- (4) Unless a greater number is otherwise expressly required by statute or these Bye-laws, every act or decision done or made by a majority of the Directors present at a meeting duly held, at which a quorum is present, shall be regarded as the act of the Board.

19. Regular Board Meetings

The next meeting of the Board subsequent to the annual general meeting shall be held for the purpose of organizing the Board, electing officers and transacting such other business as may come before the meeting. Thereafter regular meetings of the Board shall be held at such time as may be designated by the Board. If the day fixed for any regular meeting shall fall on a holiday, the meeting shall take place on the next business day, unless otherwise determined by the Board.

20. Special Board Meetings

Special meetings of the Board may be called by the Chairman of the Board, or by the President, or by any two (2) Directors.

21. Chairman of meetings

The Chairman of the Board, or in the Chairman's absence, any Director selected by the Directors present, shall preside as chairman at meetings of the Board.

22. Unanimous written resolutions

Any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board shall consent thereto in writing. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. For the purposes of this Bye-law, "Director" shall not include an Alternate Director.

23. Contracts and disclosure of Directors' interests

- (1) Any Director, or any Director's firm, partner or any company with whom any Director is associated, may act in a professional capacity for the Company and such Director or such Director's firm, partner or such company shall be entitled to remuneration for professional services as if such Director were not a Director.
- (2) A Director who is directly or indirectly interested in a contract or proposed contract or arrangement with the Company shall declare the nature of such interest.

(3) Following a declaration being made pursuant to this Bye-law, and unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum at such meeting.

24. Remuneration of Directors

(1) The remuneration (if any) of the Directors shall be as determined by the Directors and shall be deemed to accrue from day to day. The Directors shall also be paid all travel, hotel and other expenses properly incurred by them in attending and returning from meetings of the Board, any committee appointed by the Board, general meetings of the Company, or in connection with the business of the Company or their duties as Directors generally.

(2) The Directors may by resolution award special remuneration to any Director of the Company undertaking any special work or services for, or undertaking any special mission on behalf of, the Company other than his ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity, shall be in addition to his remuneration as a Director.

25. Register of Directors and Officers

The Board shall cause to be kept in one or more books at the registered office of the Company a Register of Directors and Officers and shall enter therein the particulars required by the Act.

OFFICERS

26. Principal Officers

The principal Officers of the Company shall be such officers as the Board may determine. Any two or more of such offices, except those of President and Secretary, may be held by the same person except as prohibited by the Act. The Chairman of the Board need not be an executive officer of the Company.

27. Other Officers

The Board, the Chairman of the Board or the President may appoint such other Officers as the conduct of the business of the Company may require, each of whom shall hold office for such period as the Board, the Chairman of the Board or the President may from time to time determine.

28. Remuneration of Officers

The Officers shall receive such remuneration as the Board may from time to time determine.

29. Duties of Officers

Each Officer shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to him by the Board, or, if such Officer was appointed by the Chairman of the Board or the President, as may be delegated to him by either such person, from time to time.

30. Election

Each principal Officer shall be elected annually by the Board at its organization meeting after the annual general meeting, or any subsequent meeting of the Board, and (subject to the power of removal by the Board) shall hold office until a successor is elected and qualified or until the officer's death, resignation, disqualification or removal.

31. Removal

Any principal Officer may be removed either with or without cause by the Board. Upon removal of an Officer, such office shall be deemed vacant.

MINUTES

32. Obligations of Board to keep minutes

(1) The Board shall cause minutes to be duly entered in books provided for the purpose:

- (a) of all elections and appointments of Officers;
- (b) of the names of the Directors present at each meeting of the Board and of any committee appointed by the Board; and
- (c) all resolutions and proceedings of general meetings of the Members, meetings of the Board and meetings of committees appointed by the Board.

(2) Minutes prepared in accordance with the Act and these Bye-laws shall be kept by the Secretary at the registered office of the Company.

INDEMNITY

33. Right to Indemnification

The Company shall indemnify its officers and directors to the fullest extent possible except as prohibited by the Act. Without limiting the foregoing, the Directors, Secretary and other Officers (such term to include, for the purposes of this Bye-law, any Alternate Director or any person appointed to any committee by the Board or any person who is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan)) and every one of them, and their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted (actual or alleged) in or about the execution of



their duty, or supposed duty, or in their respective offices or trusts, and none of them shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, provided that this indemnity shall not extend to any matter in respect of which such person is, or may be, found guilty of fraud or dishonesty.

(1) The Company may purchase and maintain insurance to protect itself and any Director, Officer or other person entitled to indemnification pursuant to this Bye-law to the fullest extent permitted by law.

(2) All reasonable expenses incurred by or on behalf of any person entitled to indemnification pursuant to Bye-law 33(1) in connection with any proceeding shall be advanced to such person by the Company within twenty (20) business days after the receipt by the Company of a statement or statements from such person requesting such advance or advances from time to time, whether prior to or after final disposition of such proceeding. Such statement or statements shall reasonably evidence the expenses incurred by such person and, if required by law or requested by the Company at the time of such advance, shall include or be accompanied by an undertaking by or on behalf of such person to repay the amounts advanced if it should ultimately be determined that such person is not entitled to be indemnified against such expenses pursuant to this Bye-law.

(3) The right of indemnification and advancement of expenses provided in this Bye-law shall not be exclusive of any other rights to which those seeking indemnification may otherwise be entitled, and the provisions of this Bye-law shall inure to the benefit of the heirs and legal representatives of any person entitled to indemnity under this Bye-law and shall be applicable to proceedings commenced or continuing after the adoption of this Bye-law, whether arising from acts or omissions occurring before or after such adoption. Any repeal or modification of the foregoing provisions of this section shall not adversely affect any right or protection existing at the time of such repeal or modification.

34. Waiver of claims

The Company and each Member agrees to waive any claim or right of action it might have, whether individually or by or in the right of the Company, against any Director or Officer, and no Director or Officer shall have any liability for monetary damages, on account of any action taken by such Director or Officer, or the failure of such Director or Officer to take any action in the performance of his duties with or for the Company, provided that such waiver shall not extend to any matter in respect of which such person is, or may be, found guilty of fraud or dishonesty.

35. Indemnification of Employees

The Board may provide indemnification and advancement of expenses to the employees of the Company for their acts or omissions as the Board may, from time to time, determine.

## MEMBERS MEETINGS

### 36. Place of Meeting

All meetings of Members shall be held either at the principal office of the Company or at any other place within or without Bermuda as may be designated by the Board.

### 37. Annual Meeting

(1) The annual general meeting shall be held on such date, at such time and at such place as shall be designated by the Board and any annual general meeting may be adjourned as provided by law or pursuant to these Bye-laws. At each annual general meeting there shall be elected Directors to serve for the designated term, and such other business shall be transacted as shall properly come before the meeting.

(2) Any business properly brought before an annual general meeting of the Members of the Company may be transacted at such meeting.

### 38. Business to be conducted at Meetings

Subject to the Act, to be properly brought before a general meeting, business must be specified in the notice of the meeting (or any supplement thereto). Only business which the Board has concluded can be properly brought before a general meeting of Members in accordance with these Bye-laws and applicable law shall be conducted at such meeting, and the chairman of such meeting may refuse to permit any business to be brought before such meeting which has not been properly brought before it in accordance with these Bye-laws and applicable law.

### 39. Notice of general meeting

(1) Notice of each general meeting, whether annual or special, shall be given in writing to the Members entitled to vote thereat, not less than ten (10) nor more than sixty (60) days before such meeting. Notice of any meeting of Members shall specify the place, the day, and the hour of the meeting, as well as the general nature of the business to be transacted. A notice may be given by the Company to any Member either personally or by mail or by transmitting it by electronic means (including facsimile and electronic mail) or in accordance with Bye-law 39(2).

(2) Where a Member indicates his consent (in a form and manner satisfactory to the Board) to receive information or documents by accessing them on a website rather than by other means, or receipt in this manner is otherwise permitted by the Act, the Company may deliver such information or documents by notifying the Member of their availability and including therein the address of the website, the place on the website where the information or document may be found, and instructions as to how the information or document may be accessed on the website.

### 40. Accidental omission of notice of general meeting

The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a general meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

41. Call of Special General Meeting

(1) Special general meetings for any purpose or purposes may be called only (i) by the Chairman of the Board; (ii) by the President; (iii) by a majority of the entire Board or (iv) as required by the Act.

(2) Only such business as is specified in the notice of any special general meeting shall come before such meeting.

42. Postponement of meetings

The Secretary may postpone any general meeting called in accordance with the provisions of these Bye-laws (other than a meeting requisitioned under these Bye-laws) provided that notice of postponement is given to each Member before the time for such meeting. Fresh notice of the date, time and place for the postponed meeting shall be given to each Member in accordance with the provisions of these Bye-laws.

43. Quorum for general meeting

The presence of two or more persons representing, in person or by proxy, not less than a majority of the voting power represented by the shares entitled to vote thereat shall constitute a quorum for the transaction of business at any general meeting.

44. Adjournment of meetings

(1) Any general meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the voting power represented by the shares represented at the meeting, either in person or by proxy, but in the absence of a quorum no other business may be transacted at that meeting.

(2) When any general meeting, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the date, time and place are announced at a meeting at which the adjournment occurs, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days from the date set for the original meeting, in which case the Board shall set a new record date. Notice of any such adjourned meeting, if required, shall be given to each Member of record entitled to vote at the adjourned meeting in accordance with the provisions of Bye-law 39. At any adjourned meeting the Company may transact any business that might have been transacted at the original meeting.

45. Written resolutions

Subject to applicable law, no action required to be taken, or which may be taken, at any annual or special general meeting may be taken without a meeting, and the Members shall have no power to consent in writing, without a meeting, to the taking of any action.

46. Attendance of Directors

The Directors of the Company shall be entitled to receive notice of and to attend and be heard at any general meeting.

47. Limitation on voting rights of Controlled Shares

(1) Every Member of record owning shares conferring the right to vote present in person or by proxy shall have one vote, or such other number of votes as may be specified in the terms of the issue and rights and privileges attaching to such shares or in these Bye-laws, for each such share registered in such Member's name, provided that if and so long as the votes conferred by the Controlled Shares of any person constitute ten percent (10%) or more of the votes conferred by the issued shares of the Company, each issued share comprised in such Controlled Shares shall confer only a fraction of a vote that would otherwise be applicable according to the following formula:  
$$\{(T \text{ divided by } 10) - 1\} \text{ divided by } C.$$

Where: "T" is the aggregate number of votes conferred by all the issued shares of the Company; and "C" is the number of votes conferred by the Controlled Shares of such person.

"Controlled Shares" in reference to any person means:

- (i) all shares of the Company directly, indirectly or constructively owned by such person within the meaning of Section 958 of the Internal Revenue Code of 1986, as amended, of the United States of America; and
- (ii) all shares of the Company directly, indirectly or constructively owned by any person or "group" of persons within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, of the United States of America and the rules and regulations promulgated thereunder; provided that this clause (ii) shall not apply to (a) any person (or any group that includes any person) that is excluded from the definition of Interested Member (set forth in Bye-law 80) or (b) any person or group that the Board, by the affirmative vote of at least seventy-five percent (75%) of the entire Board, may exempt from the provisions of this clause (ii).

For the purposes of this Bye-law 47, "person" shall mean any individual, firm, partnership, corporation, association, or other entity, or any "group" of persons within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, of the United States of America and the rules and regulations thereunder.

The limitations contained in this Bye-law 47(1) shall not apply to any Member which is a Byrne Entity for any matter submitted to the vote of shareholders, except with respect to the election of directors.

- (2) If, as a result of giving effect to the forgoing provisions of Bye-law 47 or otherwise, the votes conferred by the Controlled Shares of any person would otherwise represent 10% or more of the votes conferred by all the issued shares of the Company, the votes conferred by the Controlled Shares of such person shall be reduced in accordance with the foregoing provisions of Bye-law 47. Such process shall be repeated until the votes conferred by the Controlled Shares of each person represent less than 10% of the votes conferred by all the issued shares of the Company.

(3) Upon written notification by a Member to the Board, the number of votes conferred by the total number of shares held by such Member shall be reduced to that percentage of the total voting power of the Company, as so designated by such Member (subject to acceptance of such reduction by the Board in its sole discretion) so that (and to the extent that) such Member may meet any applicable insurance or other regulatory requirement or voting threshold or limitation that may be applicable to such Member or to evidence that such person's voting power is no greater than such threshold.

(4) Notwithstanding the foregoing provisions of this Bye-law 47, after having applied such provisions as best as they consider reasonably practicable, the Board may make such final adjustments to the aggregate number of votes conferred by the Controlled Shares of any person that they consider fair and reasonable in all the circumstances to ensure that such votes represent less than 10% (or the percentage designated by a Member pursuant to paragraph (3) of this Bye-law 47) of the aggregate voting power of the votes conferred by all the issued shares of the Company.

48. Voting at meetings

(1) Unless a different number is otherwise expressly required by statute (without modification of these Bye-laws) or these Bye-laws, every act or decision (including any act or resolution regarding any amalgamation, scheme of arrangement, merger, consolidation or sale or transfer of assets that has been approved by the affirmative vote of at least two-thirds of the entire Board) done or made by a majority of the voting power held by the Members present in person or by proxy at a meeting duly held, at which a quorum is present, shall be regarded as the act or resolution of the Members. At any election of Directors, the nominees receiving the highest number of votes, up to the number of Directors to be elected, at such election shall be deemed elected.

(2) No Member shall be entitled to vote at any general meeting unless he or she is a Member on the record date for such meeting.

(3) No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at such general meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the general meeting whose decision shall be final and conclusive. Notwithstanding the foregoing, however, the Chairman of the general meeting may, in his discretion, whether or not an objection has been raised, and if the Chairman considers that such action is necessary to determine accurately the vote count, defer until after the conclusion of the general meeting a decision as to the proper application of Bye-law 47 to any vote at such meeting. If the decision has been so deferred, then the Chairman of the general meeting or, failing such decision within ninety (90) days of the general meeting, the Board, shall make such decision and such decision shall be final and conclusive.

49. Presiding Officer

The Chairman of the Board, the President, or another person selected by the Board shall act as chairman of general meetings. The Secretary of the Company, or, in the Secretary's absence, an Assistant Secretary of the Company, shall act as secretary of every meeting, but if neither the Secretary nor an Assistant Secretary is present, the meeting shall choose any person present to act as secretary of the meeting.

50. Conduct of meeting; Decision of Chairman

(1) The Chairman shall conduct each general meeting in a manner consistent with the Act and these Bye-laws, but shall not be obligated to follow any technical, formal or parliamentary rules or principles of procedure. The chairman's rulings on procedural matters shall be conclusive and binding on all Members, unless at the time of such ruling a request for a vote on the ruling is made by a Member entitled to vote and represented in person or by proxy at the meeting, in which case the decision of a majority of such Members shall be conclusive and binding on all Members.

(2) At any general meeting if an amendment shall be proposed to any resolution under consideration but shall be ruled out of order by the chairman of the meeting the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.

(3) At any general meeting a declaration by the chairman of the meeting that a question proposed for consideration has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in a book containing the minutes of the proceedings of the Company shall, subject to the provisions of these Bye-laws, be conclusive evidence of that fact.

51. Seniority of joint holders voting

In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

52. Proxies

Every person entitled to vote shares has the right to do so either in person or by one or more persons authorized by (a) a written proxy in such form as the Board may determine from time to time or (b) such telephonic, electronic or other means as may be approved by the Board from time to time. The appointment of a proxy must be received by the Company at such place and in such manner as is specified in the notice convening the meeting or in any instrument of proxy sent out by the Company in relation to the meeting at which the person named in the appointment proposes to vote. Any such proxy shall continue in full force and effect unless revoked by the person executing it by a writing delivered to the Company stating that the proxy is revoked or by a subsequent proxy executed by such Member presented to the meeting or by attendance at a meeting and voting in person by such Member. However, no proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless otherwise provided in the proxy. The decision of the Chairman of any general meeting as to the validity of any instrument of proxy shall be final.

53. Representation of corporations at meetings

A corporation which is a Member may, by written instrument, authorize such person as it thinks fit to act as its representative at any general meeting and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which such person represents as that corporation could exercise if it were an individual Member. Notwithstanding the foregoing, the chairman of the meeting may accept such assurances as he or she thinks fit as to the right of any person to attend and vote at general meetings on behalf of a corporation which is a Member.

## SHARE CAPITAL AND SHARES

### 54. Rights of shares

(1) At the date these Bye-laws become effective, the total number of authorized common shares is fifty million (50,000,000) common shares having a par value of U.S. one dollar (\$1.00) per share (the “Common Shares”), and the total number of authorized preference shares is twenty million (20,000,000) preference shares having a par value of U.S. one dollar (\$1.00) per share (the “Preference Shares”).

(2) The holders of Common Shares shall, subject to the provisions of these Bye-laws:

- (a) be entitled (subject to Bye-law 47) to one vote per share;
- (b) be entitled to such dividends as the Board may from time to time declare;
- (c) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganisation or otherwise or upon any distribution of capital, be entitled to the surplus assets of the Company; and
- (d) generally be entitled to enjoy all of the rights attaching to shares.

(3) The Board shall have the full power to issue any unissued shares of the Company on such terms and conditions as it may, in its absolute discretion, determine. The Board is authorized to provide for the issuance of the Preference Shares in one or more series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

- (a) The number of shares constituting that series and the distinctive designation of that series;
- (b) The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;
- (c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- (d) Whether that series shall have conversion or exchange privileges (including, without limitation, conversion into Common Shares), and, if so, the terms and conditions of such conversion or exchange, including provision for adjustment of the conversion or exchange rate in such events as the Board shall determine;

- (e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the manner of selecting shares for redemption if less than all shares are to be redeemed, the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;
- (f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;
- (g) The right of the shares of that series to the benefit of conditions and restrictions upon the creation of indebtedness of the Company or any subsidiary, upon the issue of any additional shares (including additional shares of such series or any other series) and upon the payment of dividends or the making of other distributions on, and the purchase, redemption or other acquisition by the Company or any subsidiary of any outstanding shares of the Company;
- (h) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, and the relative rights of priority, if any, of payment of shares of that series; and
- (i) Any other relative participating, optional or other special rights, qualifications, limitations or restrictions of that series.

55. Power to issue shares

- (1) The issuance of any authorized Common Shares or Preference Shares and any other actions permitted to be taken by the Board pursuant to Bye-law 54 must be authorized by the affirmative vote of at least sixty-six and two-thirds percent (66 <sup>2</sup>/<sub>3</sub>%) of the entire Board.
- (2) Any Preference Shares of any series which have been redeemed (whether through the operation of a sinking fund or otherwise) or which, if convertible or exchangeable, have been converted into or exchanged for shares of any other class or classes shall have the status of authorized and unissued Preference Shares of the same series and may be reissued as a part of the series of which they were originally a part or may be reclassified and reissued as part of a new series of Preference Shares to be created by resolution or resolutions of the Board or as part of any other series of Preference Shares, all subject to the conditions and the restrictions on issuance set forth in the resolution or resolutions adopted by the Board providing for the issue of any series of Preference Shares.
- (3) At the discretion of the Board, whether or not in connection with the issuance and sale of any of its shares or other securities, the Company may issue securities, contracts, warrants or other instruments evidencing any shares, option rights, securities having conversion or option rights, or obligations on such terms, conditions and other provisions as are fixed by the Board, including, without limiting the generality of this authority, conditions that preclude or limit any person or persons owning or offering to acquire a specified number or percentage of the outstanding Common Shares, other shares, option rights, securities having conversion or option rights, or obligations of the company or transferee of the person or persons from exercising, converting, transferring or receiving the shares, option rights, securities having conversion or option rights, or obligations.



56. Variation of rights, alteration of share capital and purchase of shares of the Company

(1) If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of a majority of the voting power represented by the issued shares of that class or with the sanction of a resolution passed by a majority of the voting power represented by the votes cast at a separate general meeting of the holders of the shares of the class in accordance with Section 47(7) of the Act. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(2) The Company may from time to time if authorized by resolution of the Members change the currency denomination of, increase, alter or reduce its share capital in accordance with the provisions of Sections 45 and 46 of the Act. Where, on any alteration of share capital, fractions of shares or some other difficulty would arise, the Board may deal with or resolve the same in such manner as it thinks fit including, without limiting the generality of the foregoing, the issue to Members, as appropriate, of fractions of shares and/or arranging for the sale or transfer of the fractions of shares of Members.

(3) The Company may from time to time, acting through the Board, purchase its own shares in accordance with the provisions of Section 42A of the Act.

57. Registered holder of shares

(1) The Company shall be entitled to treat the registered holder of any share as the absolute owner thereof and accordingly shall not be bound to recognise any equitable or other claim to, or interest in, such share on the part of any other person.

(2) Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or draft sent through the post directed to the Member at such Member's address in the Register of Members or, in the case of joint holders, to such address of the holder first named in the Register of Members, or to such person and to such address as the holder or joint holders may in writing direct. If two or more persons are registered as joint holders of any shares any one can give an effectual receipt for any dividend paid in respect of such shares.

58. Death of a joint holder

Where two or more persons are registered as joint holders of a share or shares then in the event of the death of any joint holder or holders the remaining joint holder or holders shall be absolutely entitled to the said share or shares and the Company shall recognise no claim in respect of the estate of any joint holder except in the case of the last survivor of such joint holders.

59. Share certificates

(1) Share certificates shall be in such form as shall be required by law and as shall be approved by the Board. Each certificate shall have the corporate seal affixed thereto by impression or in facsimile and shall be signed by the Chairman of the Board, the President, or any Vice President, and countersigned by the Secretary or any Assistant Secretary; provided that certificates may be signed, countersigned or authenticated by facsimile signatures as provided by law.

(2) Except as provided in this Bye-law 59, new certificates for shares shall not be issued to replace an old certificate unless the latter is surrendered to the Company and cancelled at the same time. The Board may, in case any share certificate or certificate for any other security is lost, stolen, or destroyed, authorize the issuance of a replacement certificate on such terms and conditions as the Board may require, including provision for indemnification of the Company secured by a bond or other adequate security which the Board deems sufficient to protect the Company against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft, or destruction of the certificate or the issuance of the replacement certificate.

RECORD DATES

60. Determination of record dates

Notwithstanding any other provision of these Bye-laws, the Board may fix any date as the record date for:

- (a) determining the Members entitled to receive any dividend; and
- (b) determining the Members entitled to receive notice of and to vote at any general meeting of the Company.

TRANSFER OF SHARES

61. Instrument of transfer

(1) An instrument of transfer shall be in such common form as the Board may accept. Such instrument of transfer shall be signed by or on behalf of the transferor. The transferor shall be deemed to remain the holder of such share until the same has been transferred to the transferee in the Register of Members.

(2) The Board may refuse to recognize any instrument of transfer unless it is accompanied by the certificate in respect of the shares to which it relates and by such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

62. Restriction on transfer

(1) The Board shall refuse to register a transfer unless all applicable consents, authorisations and permissions of any governmental body or agency in Bermuda have been obtained.

(2) If the Board refuses to register a transfer of any share the Secretary shall, within three months after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal.

(3) (a) As used in this Bye-law only, the term:

(i) “Company Securities” means (I) Common Shares of the Company, (II) Preference Shares of the Company, (III) warrants, rights, or options (within the meaning of Treasury Regulation ss.1.382-2T(h)(4)(v)) to purchase Common Shares or Preference Shares of the Company, and (IV) any other interests that would be treated as “stock” of the Company pursuant to Treasury Regulation ss.1.382-2T(f)(18).

(ii) “Percentage Stock Ownership” means percentage stock ownership as determined in accordance with Treasury Regulation ss.1.382-2T(g), (h), (j), and (k).

(iii) “Five-Percent Shareholder” means a Person or group of Persons that is identified as a “5-percent shareholder” of the Company pursuant to Treasury Regulation ss.1.382-2T(g)(1).

(iv) “Person” means an individual, Company, estate, trust, association, company, partnership, joint venture or similar organization.

(v) “Prohibited Transfer” means any purported Transfer of Company Securities to the extent that such Transfer is prohibited and void under this Bye-law 62(3).

(vi) “Restriction Release Date” means, as determined by the Board in its sole discretion, the earlier to occur of (x) the five-year anniversary of the effective date of this Bye-law 62(3) (the “Expiration Time”), (y) the repeal of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) (and any comparable successor provision) (“Section 382”), or (z) the beginning of a taxable year of the Company (or any successor thereof) to which no Tax Benefits may be carried forward; provided, that, the Board may in its sole discretion resolve from time to time to extend the Expiration Time for up to an additional five years.

(vii) “Tax Benefits” means the net operating loss carry-overs, capital loss carry-overs, general business credit carry-overs, alternative minimum tax credit carry-overs and foreign tax credit carry-overs, as well as any “net unrealized built-in loss” within the meaning of Section 382, of the Company or any direct or indirect subsidiary thereof.

(viii) “Transfer” means any direct or indirect sale, transfer, assignment, conveyance, pledge, or other disposition. A Transfer also shall include the creation or grant of an option (within the meaning of Treasury Regulation ss.1.382-2T(h)(4)(v)) to effect a Transfer. A Transfer shall not include an issuance, allotment or grant of Company Securities by the Company or any repurchase of Company Securities by the Company.

(ix) "Treasury Regulation ss.1.382-2T" means the temporary income tax regulations promulgated under Section 382 and any successor regulations. References to any subsection of such regulations include references to any successor subsection thereof.

(b) Restrictions. Any attempted Transfer of Company Securities prior to the Restriction Release Date, or any attempted Transfer of Company Securities pursuant to an agreement entered into prior to the Restriction Release Date, shall be prohibited and void ab initio to the extent that, as a result of such Transfer (or any series of Transfers of which such Transfer is a part), either (1) any Person or group of Persons shall become a Five-Percent Shareholder, or (2) the Percentage Stock Ownership interest in the Company of any Five-Percent Shareholder shall be increased; provided, however, that nothing herein contained shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange, Inc. in the Company Securities.

(c) Certain Exceptions. The restrictions set forth in sub-paragraph (b) of this Bye-law 62(3) shall not apply to an attempted Transfer if the transferor or the transferee obtains the approval of the Board. As a condition to granting its approval, the Board may, in its discretion, require an opinion of counsel selected by the Board that the Transfer shall not result in the application of any Section 382 limitation on the use of the Tax Benefits. The restrictions set forth in sub-paragraph (b) of this Bye-law 62(3) shall not apply to any attempted Transfer which occurs after the Board shall have suspended the effectiveness of the restrictions set forth in sub-paragraph (b) by public announcement and prior to the time that the restrictions set forth in sub-paragraph (b) are restored to full force and effect by the Board.

(d) Treatment of Excess Securities.

(i) No employee, officer or agent of the Company shall record any Prohibited Transfer, and the purported transferee of such a Prohibited Transfer (the "Purported Transferee") shall not be recognized as a Member of the Company for any purpose whatsoever in respect of the Company Securities which are the subject of the Prohibited Transfer (the "Excess Securities"). Until the Excess Securities are acquired by another Person in a Transfer that is not a Prohibited Transfer, the Purported Transferee shall not be entitled with respect to such Excess Securities to any rights of Members of the Company, including without limitation, the right to vote such Excess Securities and to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any. Once the Excess Securities have been acquired in a Transfer that is not a Prohibited Transfer, the Company Securities shall cease to be Excess Securities.

(ii) If the Board determines that a Transfer of Company Securities constitutes a Prohibited Transfer then, upon written demand by the Company, the Purported Transferee shall transfer or cause to be transferred the Excess Securities, accompanied by the certificate for the Excess Securities (if any has been issued), together with any dividends or other distributions that were received by the Purported Transferee from the Company with respect to the Excess Securities ("Prohibited Distributions"), to an agent designated by the Board (the "Agent"). The Agent shall thereupon sell to a buyer or buyers, which may include the Company, the Excess Securities transferred to it in one or more arm's-length transactions (over the New York Stock Exchange, if possible); provided, however, that the Agent shall effect such sale or sales in an orderly fashion and shall not be required to effect any such sale within any specific time frame if, in the Agent's discretion, such sale or sales would disrupt the market for the Company Securities or otherwise

would adversely affect the value of the Company Securities. If the Purported Transferee has resold the Excess Securities before receiving the Company's demand to surrender the Excess Securities to the Agent, the Purported Transferee shall be deemed to have sold the Excess Securities for the Agent, and shall be required to transfer to the Agent any Prohibited Distributions and the proceeds of such sale, except to the extent that the Agent grants written permission to the Purported Transferee to retain a portion of such sales proceeds not exceeding the amount that the Purported Transferee would have received from the Agent pursuant to sub-paragraph (d)(iii) of this Bye-law 62(3) if the Agent rather than the Purported Transferee had resold the Excess Securities.

(iii) The Agent shall apply any proceeds of a sale by it of Excess Securities and, if the Purported Transferee had previously resold the Excess Securities, any amounts received by it from a Purported Transferee, as follows: (1) first, such amounts shall be paid to the Agent to the extent necessary to cover its costs and expenses incurred in connection with its duties hereunder; (2) second, any remaining amounts shall be paid to the Purported Transferee, up to the amount paid by the Purported Transferee for the Excess Securities (or the fair market value, calculated on the basis of the closing market price for Company Securities on the day before the Transfer, of the Excess Securities at the time of the attempted Transfer to the Purported Transferee by gift, inheritance, or similar Transfer), which amount (or fair market value) shall be determined in the discretion of the Board; and (3) third, any remaining amounts shall be paid to one or more organizations qualifying under Section 501(c)(3) of the Code (and any comparable successor provision) ("Section 501(c)(3)") selected by the Board. The recourse of any Purported Transferee in respect of any Prohibited Transfer shall be limited to the amount payable to the Purported Transferee pursuant to clause (2) of the preceding sentence. In no event shall the proceeds of any sale of Excess Securities pursuant to this Bye-law 62(3) inure to the benefit of the Company.

(iv) If the Purported Transferee fails to surrender the Excess Securities or the proceeds of a sale thereof to the Agent within thirty business days from the date on which the Company makes a demand pursuant to sub-paragraph (d)(ii) of this Bye-law 62(3), then the Company shall institute legal proceedings to compel the surrender.

(v) The Company shall make the demand described in sub-paragraph (d)(ii) of this Bye-law 62(3) within thirty days of the date on which the Board determines that the attempted Transfer would result in Excess Securities; provided, however, that if the Company makes such demand at a later date, the provisions of this Bye-law 62(3) shall apply nonetheless.

(e) Legends, Determinations.

(i) All certificates representing Company Securities issued after the effectiveness of this Bye-law 62(3) shall bear a conspicuous legend as follows:

THE TRANSFER OF THE SECURITIES REPRESENTED HEREBY IS SUBJECT TO RESTRICTIONS PURSUANT TO BYE-LAW 62(3) OF WHITE MOUNTAINS INSURANCE GROUP, LTD. REPRINTED IN ITS ENTIRETY ON THE BACK OF THIS CERTIFICATE.

(ii) The Board shall have the power to determine all matters necessary to determine compliance with this Bye-law 62(3), including without limitation (1) whether a new Five-Percent

Shareholder would be required to be identified in certain circumstances, (2) whether a Transfer is a Prohibited Transfer, (3) the Percentage Stock Ownership in the Company of any Five-Percent Shareholder, (4) whether an instrument constitutes a Company Security, (5) the amount (or fair market value) due to a Purported Transferee pursuant to clause (2) of sub-paragraph (d)(iii) of this Bye-law 62(3), and (6) any other matters which the Board determines to be relevant; and the good faith determination of the Board on such matters shall be conclusive and binding for all the purposes of this Bye-law 62(3).

63. Transfers by joint shareholders

The joint holders of any share or shares may transfer such share or shares to one or more of such joint holders, and the surviving holder or holders of any share or shares previously held by them jointly with a deceased Member may transfer any such share to the executors or administrators of such deceased Member.

### TRANSMISSION OF SHARES

64. Representative of deceased Member

In the case of the death of a Member, the survivor or survivors where the deceased Member was a joint holder, and the legal personal representatives of the deceased Member where the deceased Member was a sole holder, shall be the only persons recognized by the Company as having any title to the deceased Member's interest in the shares. Nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by such deceased Member with other persons. Subject to the provisions of Section 52 of the Act, for the purpose of this Bye-law, legal personal representative means the executor or administrator of a deceased Member or such other person as the Board may in its absolute discretion decide as being properly authorized to deal with the shares of a deceased Member.

65. Registration on death or bankruptcy

Any person becoming entitled to a share in consequence of the death or bankruptcy of any Member may be registered as a Member upon such evidence as the Board may deem sufficient or may elect to nominate some person to be registered as a transferee of such share, and in such case the person becoming entitled shall execute in favour of such nominee an instrument of transfer satisfactory to the Board. On the presentation thereof to the Board, accompanied by such evidence as the Board may require to prove the title of the transferor, the transferee shall be registered as a Member but the Board shall, in either case, have the same right to decline or suspend registration as it would have had in the case of a transfer of the share by that Member before such Member's death or bankruptcy, as the case may be.

## DIVIDENDS AND OTHER DISTRIBUTIONS

66. Declaration of dividends by the Board

The Board may declare and make such dividends or other distributions (in each case in cash or in specie, as valued by the Board, or a combination thereof) to the Members as may be lawfully made out of the assets of the Company.

67. Unclaimed Dividends

Any dividend or other monies payable in respect of a share which has remained unclaimed for 5 years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company. The payment of any unclaimed dividend or other moneys payable in respect of a share may (but need not) be paid by the Company into an account separate from the Company's own account. Such payment shall not constitute the Company a trustee in respect thereof.

68. Undelivered Payments

The Company shall be entitled to cease sending dividend payments and cheques by post or otherwise to a Member if those instruments have been returned undelivered to, or left uncashed by, that Member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish the Member's new address. The entitlement conferred on the Company by this Bye-law in respect of any Member shall cease if the Member claims a dividend or cashes a dividend warrant or cheque.

69. Interest on Dividends

No dividend or distribution shall bear interest against the Company.

## CAPITALIZATION

70. Issue of bonus shares

The Board may resolve to capitalize any part of the amount for the time being standing to the credit of any of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares to the Members.

## FISCAL YEAR

71. Financial year end

The financial year end of the Company may be determined by resolution of the Board and failing such resolution shall be 31st December in each year.

## AUDIT

72. Appointment of Auditor

Subject to Section 88 of the Act, at the annual general meeting or at a subsequent special general meeting in each year, an independent representative of the Members shall be appointed by them as Auditor of the accounts of the Company.

73. Remuneration of Auditor

The Board may fix the remuneration of the Auditor as it may determine.

## NOTICES

74. Notices to Members of the Company

A notice may be given by the Company to any Member either by delivering it to such Member in person or by sending it to such Member's address in the Register of Members or to such other address given for the purpose. For the purposes of this Bye-law, a notice may be sent by mail, courier service, cable, telex, telecopier, facsimile or other mode of representing words in a legible and non-transitory form.

75. Notices to joint Members

Any notice required to be given to a Member shall, with respect to any shares held jointly by two or more persons, be given to whichever of such persons is named first in the Register of Members and notice so given shall be sufficient notice to all the holders of such shares.

76. Service and delivery of notice

Any notice shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission and, in proving such service, it shall be sufficient to prove that the notice was properly addressed and prepaid, if posted, and the time when it was posted, delivered to the courier or transmitted by cable, telex, telecopier, facsimile or other method as the case may be.

## CERTAIN SUBSIDIARIES

77. Certain Subsidiaries

With respect to any subsidiary of the Company designated by the Board (a "Designated Company"), (i) the Members of the Company by resolution in general meeting shall designate the persons who are to be elected pursuant to this Bye-law 77 as the board of directors of each such Designated Company (the "Designated Company Directors") and (ii) the Members of the Company by resolution in general meeting shall designate the persons who are to be removed pursuant to this Bye-law 77 as directors of such Designated Company (the "Removed Designated Company Directors").



If the need for the appointment or removal of a director (including the requirement to appoint or remove directors to comply with the laws of the jurisdiction in which such Designated Company is organized) of a Designated Company arises between annual general meetings of the Members, such action shall be taken on an interim basis (A) by appointment or removal by the existing Designated Company Directors of such Designated Company or (B) if such appointment or removal is not possible by such Designated Company Directors, then by the Board acting on behalf of the Company.

Notwithstanding the general authority set out in Bye-law 2(l), the Board shall cause the Company to vote all shares owned by the Company in each Designated Company, or if such shares are owned by a subsidiary of the Company, the Board shall cause such subsidiary to vote such shares to elect the Designated Company Directors as the directors of such Designated Company and to remove the Removed Designated Company Directors as directors of such Designated Company. The Company shall take such other actions as are necessary to effectuate or implement this Bye-law 77.

#### SEAL OF THE COMPANY

78. The Seal

The seal of the Company shall be in such form as the Board may from time to time determine. The Board may adopt one or more duplicate seals for use outside Bermuda.

#### WINDING-UP

79. Winding-up/distribution by liquidator

If the Company shall be wound up the liquidator may, with the sanction of a resolution of the Members, divide amongst the Members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he or she deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator shall think fit, but so that no Member shall be compelled to accept any shares or other securities or assets whereon there is any liability.

#### BUSINESS COMBINATIONS

80. Business Combinations

(1) The Company shall not engage in any business combination with any Interested Member for a period of three years following the time that such Member became an Interested Member, unless:

- (a) prior to such time the Board approved either the business combination or the transaction which resulted in the Member becoming an Interested Member, or

- (b) upon consummation of the transaction which resulted in the Member becoming an Interested Member, the Interested Member owned at least 85% of the voting shares of the Company outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (i) by persons who are Directors and also officers and (ii) employee share plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer, or
- (c) at or subsequent to such time the business combination is approved by the Board and authorized at an annual or special general meeting, and not by written consent, by the affirmative vote of at least 66 <sup>2</sup>/<sub>3</sub>% of the outstanding voting shares which are not owned by the Interested Member.

(2) The restrictions contained in this Bye-law shall not apply if:

- (a) a Member becomes an Interested Member inadvertently and (i) as soon as practicable divests itself of ownership of sufficient shares so that the Member ceases to be an Interested Member and (ii) would not, at any time within the 3 year period immediately prior to a business combination between the Company and such Member, have been an Interested Member but for the inadvertent acquisition of ownership; or
- (b) the business combination is proposed prior to the consummation or abandonment of and subsequent to the earlier of the public announcement or the notice required hereunder of a proposed transaction which (i) constitutes one of the transactions described in the second sentence of this paragraph; (ii) is with or by a person who either was not an Interested Member during the previous 3 years or who became an Interested Member with the approval of the Board; and (iii) is approved or not opposed by a majority of the members of the Board then in office (but not less than 1) who were Directors prior to any person becoming an Interested Member during the previous 3 years or were recommended for election or elected to succeed such Directors by a majority of such Directors. The proposed transactions referred to in the preceding sentence are limited to (x) an amalgamation, scheme of arrangement, merger, consolidation or similar transaction involving the Company (except for any such transaction in respect of which no vote of the Members of the Company is required); (y) a sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), whether as part of a dissolution or otherwise, of assets of the Company or of any direct or indirect subsidiary of the Company (other than to any direct or indirect wholly-owned subsidiary of the Company or to the Company) having an aggregate market value equal to 50% or more of either that aggregate market value of all of the assets of the Company determined on a consolidated basis or the aggregate market value of all the outstanding shares of the Company; or (z) a proposed tender or exchange offer for 50% or more of the outstanding voting shares of the Company. The Company shall give not less than 20 days notice to all Interested Members prior to the consummation of any of the transactions described in clauses (x) or (y) of the second sentence of this paragraph.

(3)

As used in this Bye-law only, the term:

- (a) “affiliate” means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another person.
- (b) “associate,” when used to indicate a relationship with any person, means (i) any corporation, partnership, unincorporated association or other entity of which such person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting shares, (ii) any trust or other estate in which such person has at least a 20% beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity, and (iii) any relative or spouse of such person, or any relative of such spouse, who has the same residence as such person.
- (c) “business combination,” when used in reference to the Company and any Interested Member of the Company, means:
  - (i) any amalgamation, scheme of arrangement, merger, consolidation or similar transaction involving the Company or any direct or indirect subsidiary of the Company with (A) the Interested Member, or (B) with any other corporation, partnership, unincorporated association or other entity if such transaction is caused by the Interested Member and as a result of such transaction subsection (a) of this section is not applicable to the surviving entity;
  - (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), except proportionately as a Member of such Company, to or with the Interested Member, whether as part of a dissolution or otherwise, of assets of the Company or of any direct or indirect subsidiary of the Company which assets have an aggregate market value equal to 10% or more of either the aggregate market value of all the assets of the Company determined on a consolidated basis or the aggregate market value of all the outstanding shares of the Company;
  - (iii) any transaction which results in the issuance or transfer by the Company or by any direct or indirect subsidiary of the Company of any shares of the Company or of such subsidiary to the Interested Member, except (A) pursuant to the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into shares of the Company or any such subsidiary which securities were outstanding prior to the time that the

- Interested Member became such, (B) pursuant to a Subsidiary Amalgamation, (C) pursuant to a dividend or distribution paid or made, or the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into shares of the Company or any such subsidiary which security is distributed, pro rata to all holders of a class or series of shares of the Company subsequent to the time the Interested Member became such, (D) pursuant to an exchange offer by the Company to purchase shares made on the same terms to all holders of said shares, or (E) any issuance or transfer of shares by the Company, provided however, that in no case under (C)-(E) above shall there be an increase in the Interested Member's proportionate share of the shares of any class or series of the Company or of the voting shares of the Company;
- (iv) any transaction involving the Company or any direct or indirect subsidiary of the Company which has the effect, directly or indirectly, of increasing the proportionate share of the shares of any class or series, or securities convertible into the shares of any class or series, of the Company or of any such subsidiary which is owned by the Interested Member, except as a result of immaterial changes due to fractional share adjustments or as a result of any purchase or redemption of any shares of stock not caused, directly or indirectly, by the Interested Member; or
  - (v) any receipt by the Interested Member of the benefit, directly or indirectly (except proportionately as a Member of the Company) of any loans, advances, guarantees, pledges, or other financial benefits (other than those expressly permitted in subparagraphs (i)-(iv) above) provided by or through the Company or any direct or indirect subsidiary.
- (d) “control,” including the term “controlling,” “controlled by” and “under common control with,” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting stock, by contract, or otherwise. A person who is the owner of 20% or more of the outstanding voting stock of any corporation, partnership, unincorporated association or other entity shall be presumed to have control of such entity, in the absence of proof by a preponderance of the evidence to the contrary. Notwithstanding the foregoing, a presumption of control shall not apply where such person holds voting stock, in good faith and not for the purpose of circumventing this Bye-law, as an agent, bank, broker, nominee, custodian or trustee for one or more owners who do not individually or as a group have control of such entity.
- (e) “Interested Member” means any person (other than the Company and any direct or indirect subsidiary of the Company) that (i) is the owner of 15% or more of the outstanding voting shares of the Company, or (ii) is an affiliate or

associate of the Company and was the owner of 15% or more of the outstanding voting shares of the Company at any time within the 3-year period immediately prior to the date on which it is sought to be determined whether such person is an Interested Member, and the affiliates and associates of such person; provided, however, that the term “Interested Member” shall not include (x) any person whose ownership of shares in excess of the 15% limitation set forth herein is the result of action taken solely by the Company provided that such person shall be an Interested Member if thereafter such person acquires additional shares of voting shares of the Company, except as a result of further corporate action not caused, directly or indirectly, by such person or (y) any Byrne Entity. “Byrne Entity” means any of John J. Byrne, any foundation or trust established by John J. Byrne, Patrick Byrne, and any associate or affiliate of any of them (or any group of which any of them is a part), as defined under Section 13(d) of the United States Securities Exchange Act of 1934, as amended. For the purpose of determining whether a person is an Interested Member, the voting shares of the Company deemed to be outstanding shall include shares deemed to be owned by the person through application of paragraph (h) of this subsection but shall not include any other unissued shares of such Company which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

- (f) “stock” means, with respect to any corporation, capital stock and, with respect to any other entity, any equity interest.
- (g) “voting stock” means, with respect to any corporation, stock of any class or series entitled to vote generally in the election of directors and, with respect to any entity that is not a corporation, any equity interest entitled to vote generally in the election of the governing body of such entity.
- (h) “owner” including the terms “own” and “owned” when used with respect to any stock means a person that individually or with or through any of its affiliates or associates:
  - (i) beneficially owns such stock, directly or indirectly; or
  - (ii) has (A) the right to acquire such stock (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; provided, however, that a person shall not be deemed the owner of stock tendered pursuant to a tender or exchange offer made by such person or any of such person's affiliates or associates until such tendered stock is accepted for purchase or exchange; or (B) the right to vote such stock pursuant to any agreement, arrangement or understanding; provided, however, that a person shall not be deemed the owner of any stock because of such person's right to vote such stock if

the

- agreement, arrangement or understanding to vote such stock arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made to 10 or more persons; or
- (iii) has any arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent as described in item (B) of clause (ii) of this paragraph), or disposing of such stock with any other person that beneficially owns, or whose affiliates or associates beneficially own, directly or indirectly, such stock.
- (i) “Subsidiary Amalgamation” means an amalgamation, scheme of arrangement, merger, consolidation or similar transaction with or into a single direct or indirect wholly-owned subsidiary of the Company if: (1) the Company and the direct or indirect wholly-owned subsidiary of the Company are the only constituent companies to such transaction; (2) each share or fraction of a share of the Company outstanding immediately prior to the effective time of such transaction is converted in such transaction into a share or equal fraction of a share of shares of a holding company having the same designations, rights, powers and preferences, and the qualifications, limitations and restrictions thereof, as the share of the constituent company being converted in such transaction; (3) the holding company and each of the constituent companies to such transaction are companies incorporated in Bermuda; (4) the memorandum of association and bye-laws of the holding company immediately following the effective time of such transaction contain provisions identical to the memorandum of continuance and bye-laws of the Company immediately prior to the effective time of such transaction (other than provisions, if any, regarding the incorporator or incorporators, the corporate name, the registered office and agent, the initial board of directors and the initial subscribers for shares and such provisions contained in any amendment to the charter documents as were necessary to effect a change, exchange, reclassification or cancellation of shares, if such change, exchange, reclassification or cancellation has become effective); (5) as a result of such transaction the Company or its successor or continuing company becomes or remains a direct or indirect wholly-owned subsidiary of the holding company; (6) the directors of the Company become or remain the directors of the holding company upon the effective time of such transaction; (7) the memorandum of association and bye-laws of the surviving or continuing company immediately following the effective time of such transaction are identical to the memorandum of association and bye-laws of the Company immediately prior to the effective time of such transaction (other than provisions, if any, regarding the incorporator or incorporators, the corporate name, the registered office and agent, the initial board of directors and the initial subscribers for shares and such provisions contained in any amendment to the charter documents as were necessary to effect a change, exchange, reclassification or cancellation of shares, if such change, exchange, reclassification or cancellation has become effective); provided, however, that

(i) the memorandum of association and bye-laws of the surviving or continuing company shall be amended in such transaction to contain a provision requiring that any act or transaction by or involving the surviving or continuing company that requires for its adoption under the Act or its bye-laws the approval of the Members of the surviving or continuing company shall, by specific reference to this subsection, require, in addition, the approval of the Members of the holding company (or any successor), by the same vote as is required by the Act and/or by its bye-laws of the surviving or continuing company, and (ii) the bye-laws of the surviving or continuing company may be amended in such transaction to reduce the number of classes and shares of capital stock that the surviving or continuing company is authorized to issue; and (8) the Members of the Company do not recognize gain or loss for United States federal income tax purposes as determined by the board of directors of the constituent company.

(4) Notwithstanding any other provisions of these Bye-laws (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law or these Bye-laws), the affirmative vote of the holders of not less than sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) of the voting power represented by the votes entitled to be cast by the holders of all the then outstanding voting shares voting together as a single class, excluding voting shares beneficially owned by any Interested Member, shall be required to amend, alter, change or repeal, or adopt any provision as part of these Bye-laws inconsistent with the purpose and intent of, this Bye-law 80; *provided, however*, that this Bye-law 80 (4) shall not apply to, and such sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) vote shall not be required for, any such amendment, repeal or adoption recommended by the affirmative vote of at least seventy-five percent (75%) of the entire Board (not including Directors who are affiliates of any Interested Member).

#### ALTERATION OF BYE-LAWS

81. Alteration of Bye-laws

No Bye-law shall be rescinded, altered or amended and no new Bye-law shall be made until the same has been approved both by a resolution of the Board and by a resolution of the Members, provided that, if under applicable law, action by the Board would be sufficient to amend a Bye-law (in the absence of this sentence), then only a resolution of the Board shall be required to amend such Bye-law.

Notwithstanding any other provision of these Bye-laws, the affirmative vote of the holders of at least seventy-five percent (75%) of the voting power of the shares entitled to vote at an election of directors shall be required to amend, alter, change or repeal, or adopt any provision inconsistent with the purpose or intent of, Bye-laws 10(2), 11, 15, 34, 41, 47, 48(3), 54, 55 and 80. In addition, the affirmative vote set forth in Bye-law 80(4) shall be required to amend, alter, change or repeal, or adopt any provision inconsistent with the purpose or intent of, Bye-law 81. In addition, the consent of a majority of the shares held by the Byrne Entities shall be required to amend, alter, change or repeal, or adopt any provision that would adversely affect, the exemptions provided to the Byrne Entity (or its constituent members) under Bye-law 47 or 80.

ONEBEACON U.S. HOLDINGS, INC.  
ONEBEACON INSURANCE GROUP, LTD.

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

Trustee

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SENIOR INDENTURE

Dated as of November 9, 2012

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Providing for Issuance of Securities in Series



## CROSS-REFERENCE TABLE

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(b)  
318(a)

1003  
107

N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of the Indenture.

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SENIOR INDENTURE (this “Indenture”) among ONEBEACON INSURANCE GROUP, LTD. a company existing under the laws of Bermuda (the “Guarantor”) having its principal office at 601 Carlson Parkway, Minnetonka, Minnesota 55305, ONEBEACON U.S. HOLDINGS, INC., a Delaware corporation (the “Company”) having its principal office at 601 Carlson Parkway, Minnetonka, Minnesota 55305, and The Bank of New York Mellon Trust Company, N.A., trustee (hereinafter called the “Trustee”), is made and entered into as of this 9th day of November, 2012.

## RECITALS OF THE COMPANY AND THE GUARANTOR

The Company and the Guarantor each has duly authorized the execution and delivery of this Indenture to provide for, in the case of the Company, the issuance of, and in the case of the Guarantor, the guarantee of, the Company’s debentures, notes, bonds or other evidences of indebtedness, to be issued in one or more fully registered series.

All things necessary to make this Indenture a valid agreement of each of the Company and the Guarantor, in accordance with its terms, have been done.

## AGREEMENTS OF THE PARTIES

To set forth or to provide for the establishment of the terms and conditions upon which the Securities are and are to be authenticated, issued and delivered, and in consideration of the premises and the purchase of Securities by the Holders thereof, it is mutually covenanted and agreed as follows, for the equal and proportionate benefit of each other and all Holders of the Securities or of a series thereof, as the case may be:

## ARTICLE 1

### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

#### Section 101. *Definitions.*

For all purposes of this Indenture and of any indenture supplemental hereto, except as otherwise expressly provided or unless the context otherwise requires:

- (a) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular;
- (b) all other terms used herein which are defined in the Trust Indenture Act or by Commission rule under the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
- (c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles and, except as otherwise herein expressly provided, the term “generally accepted accounting principles” with respect to any computation required or permitted hereunder shall mean

such accounting principles as are generally accepted in the United States of America at the date of such computation;

(d) all references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and

(e) “including” and words of similar import shall be deemed to be followed by “without limitation”.

Certain terms, used principally in Article Six, are defined in that Article.

“Act”, when used with respect to any Securityholder, has the meaning specified in Section 104.

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“*Applicable Procedures*” means, with respect to any payment, tender, redemption, transfer or exchange of or for beneficial interests in any Global Security, the rules and procedures of the Depositary that apply to such payment, tender, redemption, transfer or exchange.

“*Authenticating Agent*” means any Person authorized by the Trustee to authenticate Securities under Section 614.

“*Board of Directors*” means either the board of directors of the Company or any duly authorized committee of that board.

“*Board Resolution*” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“*Business Day*” means each day which is neither a Saturday, Sunday or other day on which banking institutions in the pertinent Place or Places of Payment are authorized or required by law or executive order to be closed.

“*Commission*” means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties on such date.

“*Company*” means the Person named as the “Company” in the first paragraph of this instrument until a successor replaces it and, thereafter, “*Company*” shall mean the successor and, for purposes of any provision contained herein and required by the TIA, each other obligor on the Securities.

“*Company Request*”, “*Company Order*” and “*Company Consent*” mean, respectively, a written request, order or consent signed in the name of the Company by its Chairman of the Board, President, Chief Financial Officer or a Vice President, and by another of the foregoing individuals or its Treasurer, an Assistant Treasurer, Controller, an Assistant Controller, Secretary or an Assistant Secretary, and delivered to the Trustee.

“*Corporate Trust Office*” means the principal office of the Trustee in Chicago, Illinois at which at any particular time its corporate trust business for purposes of this Indenture shall be principally administered, which office at the date hereof is located at 2 North LaSalle Street, Suite 1020, Chicago, IL 60602, except that with respect to the presentation of Securities for payment or for registration of transfer and exchange, such term shall mean the office or the agency of the Trustee in said city at which at any particular time its corporate agency business shall be conducted, which office at the date hereof is located at 101 Barclay Street, New York, NY 10286.

“*Debt*” means indebtedness for money borrowed.

“*Defaulted Interest*” has the meaning specified in Section 307.

“*Depository*” means, unless otherwise specified by the Company pursuant to either Section 204 or 301, with respect to Securities of any series issuable or issued as a Global Security, The Depository Trust Company, New York, New York, or any successor thereto registered as a clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation.

“*Event of Default*” has the meaning specified in Article Five.

“*Global Security*” means with respect to any series of Securities issued hereunder, a Security which is executed by the Company and authenticated and delivered by the Trustee to the Depository or pursuant to the Depository’s instruction, all in accordance with this Indenture and an indenture supplemental hereto, if any, or Board Resolution and pursuant to a Company Request, which shall be registered in the name of the Depository or its nominee and which shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, all of the Outstanding Securities of such series or any portion thereof, in either case having the same terms, including the same original issue date, date or dates on which principal is due, and interest rate or method of determining interest.

“*Guarantee*” means the irrevocable and unconditional guarantee by the Guarantor of any Security of any series of the Company authenticated and delivered pursuant to Article Twelve.

“*Guarantor*” means the Person named as the “Guarantor” in the first paragraph of this instrument until a successor replaces it and, thereafter, “Guarantor” shall mean the successor.

“*Guarantor Board of Directors*” means either the board of directors of the Guarantor or any duly authorized committee of that board.

“*Guarantor’s Board Resolution*” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Guarantor to have been duly adopted by the Guarantor Board of Directors.

“*Guarantor Request*”, “*Guarantor Order*”, “*Guarantor Consent*” means, respectively, a written request, order or consent signed in the name of the Guarantor by its Chairman of the Board, President, Chief Financial Officer or a Vice President, and by another of the foregoing individuals or its Treasurer, an Assistant Treasurer, Controller, an Assistant Controller, Secretary or an Assistant Secretary, and delivered to the Trustee.

“*Holder*”, when used with respect to any Security, means a Securityholder.

“*Indenture*” or “*this Indenture*” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of particular series of Securities established as contemplated by Section 301.

“*Interest*”, when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

“*Interest Payment Date*”, when used with respect to any series of Securities, means the Stated Maturity of any installment of interest on those Securities.

“*Maturity*”, when used with respect to any Securities, means the date on which the principal of any such Security becomes due and payable as therein or herein provided, whether on a Repayment Date, at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

“*Officers’ Certificate*” means, with respect to the Company or the Guarantor, a certificate signed by the Chairman of the Board, the President, Chief Financial Officer or a Vice President, and by another of the foregoing individuals or the Treasurer, an Assistant Treasurer, the Controller, an Assistant Controller, the Secretary or an Assistant Secretary of the Company or the Guarantor, as the case may be, and delivered to the Trustee. Wherever this Indenture requires that an Officers’ Certificate be signed also by an engineer or an accountant or other expert, such engineer, accountant or other expert (except as otherwise expressly provided in this Indenture) may be in the employ of the Company or the Guarantor, as the case may be, and shall be acceptable to the Trustee.

“*Opinion of Counsel*” means a written opinion of counsel, who may (except as otherwise expressly provided in this Indenture) be an employee of or of counsel to the Company or the

Guarantor. Such counsel shall be acceptable to the Trustee, whose acceptance shall not be unreasonably withheld.

“*Original Issue Discount Security*” means (i) any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof, and (ii) any other Security deemed an Original Issue Discount Security for United States Federal income tax purposes.

“*Outstanding*”, when used with respect to Securities or Securities of any series, means, as of the date of determination, all such Securities theretofore authenticated and delivered under this Indenture, except:

- (i) such Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (ii) such Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and
- (iii) such Securities in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, or which shall have been paid pursuant to the terms of Section 306 (except with respect to any such Security as to which proof satisfactory to the Trustee is presented that such Security is held by a person in whose hands such Security is a legal, valid and binding obligation of the Company).

In determining whether the Holders of the requisite principal amount of such Securities Outstanding have given any request, demand, authorization, direction, notice, consent or waiver hereunder, (i) the principal amount of any Original Issue Discount Security that shall be deemed to be Outstanding shall be the amount of the principal thereof that would be due and payable as of the date of the taking of such action upon a declaration of acceleration of the Maturity thereof and (ii) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding. In determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Responsible Officer assigned to the corporate trust department of the Trustee knows to be owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right to act as owner with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor.

*“Paying Agent”* means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Company.

*“Person”* means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

*“Place of Payment”* means with respect to any series of Securities issued hereunder the city or political subdivision so designated with respect to the series of Securities in question in accordance with the provisions of Section 301.

*“Predecessor Securities”* of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Security.

*“Redemption Date”*, when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

*“Redemption Price”*, when used with respect to any Security to be redeemed, means the price specified in the Security at which it is to be redeemed pursuant to this Indenture.

*“Regular Record Date”* for the interest payable on any Security on any Interest Payment Date means the date specified in such Security as the Regular Record Date.

*“Repayment Date”*, when used with respect to any Security to be repaid, means the date fixed for such repayment pursuant to such Security.

*“Repayment Price”*, when used with respect to any Security to be repaid, means the price at which it is to be repaid pursuant to such Security.

*“Responsible Officer”*, when used with respect to the Trustee, means any officer within the corporate trust department of the Trustee, including any vice president, any assistant secretary, any senior trust officer or trust officer or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

*“Security”* or *“Securities”* means any note or notes, bond or bonds, debenture or debentures, or any other evidences of indebtedness, as the case may be, of any series authenticated and delivered from time to time under this Indenture.

*“Security Register”* shall have the meaning specified in Section 305.

“*Security Registrar*” means the Person who keeps the Security Register specified in Section 305.

“*Securityholder*” means a Person in whose name a Security is registered in the Security Register.

“*Special Record Date*” for the payment of any Defaulted Interest (as defined in Section 307) means a date fixed by the Trustee pursuant to Section 307.

“*Stated Maturity*” when used with respect to any Security or any installment of principal thereof or interest thereon means the date specified in such Security as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

“*Subsidiary*” of any specified Person means any corporation, limited liability company, limited or general partnership, business trust or other business entity at least a majority of whose outstanding Voting Stock shall at the time be owned, directly or indirectly, by the specified Person or by one or more of its Subsidiaries, or both.

“*Trust Indenture Act*” or “*TIA*” means the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990, as in force at the date as of which this instrument was executed except as provided in Section 905.

“*Trustee*” means the Person named as the Trustee in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “*Trustee*” shall mean and include each Person who is then a Trustee hereunder. If at any time there is more than one such Person, “*Trustee*” as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

“*U.S. Government Obligations*” means securities that are (x) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (y) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the full and timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof.

“*Vice President*” when used with respect to the Guarantor, the Company or the Trustee means any vice president, whether or not designated by a number or a word or words added before or after the title “vice president”, including an assistant vice president.

“*Voting Stock*”, as applied to the stock of any Person, means stock of any class or classes (however designated) having by the terms thereof ordinary voting power to elect a majority of the members of the board of directors (or other governing body) of such Person other than stock having such power only by reason of the happening of a contingency.

Section 102. *Compliance Certificates and Opinions.*

Upon any application or request by the Company or the Guarantor to the Trustee to take any action under any provision of this Indenture, the Company or the Guarantor, as applicable, shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such Counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

1 Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (except for the written statement required by Section 1004) shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

#### Section 103. *Form of Documents Delivered to Trustee.*

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to the other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company or the Guarantor may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company or the Guarantor, as the case may be, stating that the information with respect to such factual matters is in the possession of the Company or the Guarantor, as the case may be, unless such counsel knows, or in the exercise of reasonable care



should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. *Acts of Securityholders.*

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Securityholders or Securityholders of any series may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Securityholders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Company or the Guarantor or both of them. If any Securities are denominated in coin or currency other than that of the United States, then for the purposes of determining whether the Holders of the requisite principal amount of Securities have taken any action as herein described, the principal amount of such Securities shall be deemed to be that amount of United States dollars that could be obtained for such principal amount on the basis of the spot rate of exchange into United States dollars for the currency in which such Securities are denominated (as evidenced to the Trustee by an Officers' Certificate) as of the date the taking of such action by the Holders of such requisite principal amount is evidenced to the Trustee as provided in the immediately preceding sentence. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Securityholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee, the Guarantor and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness to such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Securities shall be proved by the Security Register.

(d) If the Company or the Guarantor shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other action, the

Company or the Guarantor, as the case may be, may, at its option, by Board Resolution or Guarantor's Board Resolution, as applicable, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action, but the Company or the Guarantor, as the case may be, shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after the record date, but only the Holders of record at the close of business on the record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Securities Outstanding have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the Securities Outstanding shall be computed as of the record date; provided that no such authorization, agreement or consent by the Holders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Security shall bind the Holder of every Security issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Company or the Guarantor in reliance thereon whether or not notation of such action is made upon such Security.

Section 105. *Notices, etc., to Trustee, Guarantor and Company.*

1 Any request, demand, authorization, direction, notice, consent, waiver or Act of Securityholders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Securityholder or by the Company or the Guarantor shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, or

(2) the Company or the Guarantor by the Trustee or by any Securityholder shall be sufficient for every purpose hereunder (except as provided in Section 501(4) or, in the case of a request for repayment, as specified in the Security carrying the right to repayment) if in writing and mailed, first-class postage prepaid, to the Company or the Guarantor, as the case may be, addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company or the Guarantor, as the case may be.

The Trustee shall have the right to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that the Company or the Guarantor shall provide to the Trustee an incumbency certificate listing designated persons with the authority to provide such instructions and containing specimen signatures of such designated persons, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Company or the Guarantor elects to give the Trustee e-mail or facsimile instructions (or

instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Company and Guarantor agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section 106. *Notices to Securityholders; Waiver.*

Where this Indenture or any Security provides for notice to Securityholders of any event, such notice shall be sufficiently given (unless otherwise herein or in such Security expressly provided) if in writing and mailed, first-class postage prepaid, to each Securityholder affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Securityholders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Securityholder shall affect the sufficiency of such notice with respect to other Securityholders. Where this Indenture or any Security provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Securityholders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Notwithstanding any other provision of this Indenture or any Security, where this Indenture or any Security provides for notice of any event (including any notice of redemption or repurchase) to a Holder of a Global Security (whether by mail or otherwise), such notice shall be sufficiently given if given to the Depositary (or its designee) pursuant to the standing instructions from the Depositary or its designee, including by electronic mail in accordance with Applicable Procedures.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or otherwise, it shall be impractical to mail notice of any event to any Securityholder when such notice is required to be given pursuant to any provision of this Indenture, then any method of notification as shall be satisfactory to the Trustee, the Guarantor and the Company shall be deemed to be a sufficient giving of such notice.

Section 107. *Conflict with Trust Indenture Act.*

If any provision hereof limits, qualifies or conflicts with the duties imposed by any of Sections 310 to 317, inclusive, of the Trust Indenture Act through the operation of Section 318(c) thereof, such imposed duties shall control.

Section 108. *Effect of Headings and Table of Contents.*

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 109. *Successors and Assigns.*

All covenants and agreements in this Indenture by each of the Company and the Guarantor shall bind its successors and assigns, whether so expressed or not.

Section 110. *Separability Clause.*

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 111. *Benefits of Indenture.*

Nothing in this Indenture or in any Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any Authenticating Agent or Paying Agent, the Security Registrar and the Holders of Securities (or such of them as may be affected thereby), any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 112. *Governing Law.*

This Indenture shall be construed in accordance with and governed by the laws of the State of New York.

Section 113. *Counterparts.*

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument. The exchange of copies of this Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Indenture as to the parties hereto and may be used in lieu of the original Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

Section 114. *Judgment Currency.*

The Company and the Guarantor each agrees, to the fullest extent that it may effectively do so under applicable law, that (a) if for the purpose of obtaining judgment in any court it is necessary to convert the sum due in respect of the principal of, or premium or interest, if any, on the Securities of any series (the "Required Currency") into a currency in which a judgment will be rendered (the "Judgment Currency"), the rate of exchange used shall be the rate at which in accordance with normal banking procedures the Trustee could purchase in New York City the Required Currency with the Judgment Currency on the Banking Day (as defined below) immediately preceding the date on which final unappealable judgment is given and (b) its obligations under this Indenture to make payments in the Required Currency (i) shall not be discharged or satisfied by any tender, or any recovery pursuant to any judgment (whether or not entered in accordance with subsection (a)), in any currency other than the Required Currency,

except to the extent that such tender or recovery shall result in the actual receipt, by the payee, of the full amount of the Required Currency expressed to be payable in respect of such payments, (ii) shall be enforceable as an alternative or additional cause of action for the purpose of recovering in the Required Currency the amount, if any, by which such actual receipt shall fall short of the full amount of the Required Currency so expressed to be payable and (iii) shall not be affected by judgment being obtained for any other sum due under this Indenture. For purposes of the foregoing, “Banking Day” means any day except a Saturday, Sunday or a legal holiday in New York City or a day on which banking institutions in New York City are authorized or required by law or executive order to close.

Section 115. *Waiver of Jury Trial.*

EACH OF THE COMPANY, THE GUARANTOR, THE TRUSTEE, AND BY THEIR ACCEPTANCE THEREOF, EACH HOLDER OF THE SECURITIES, HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE SECURITIES, THE GUARANTEE OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 116. *Consent to Jurisdiction.*

Any legal suit, action or proceeding arising out of or based upon this Indenture or the transactions contemplated hereby (“Related Proceedings”) may be instituted in the federal courts of the United States of America located in the City of New York or the courts of the State of New York in each case located in the City of New York (collectively, the “Specified Courts”), and each party irrevocably submits to the non-exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of any process, summons, notice or document by mail (to the extent allowed under any applicable statute or rule of court) to such party’s address set forth above shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or other proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plead or claim any such suit, action or other proceeding has been brought in an inconvenient forum.

## ARTICLE 2

### SECURITY FORMS

Section 201. *Forms Generally.*

The Securities shall have such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon, as may be required to comply with applicable laws or regulations or with the rules of any securities exchange, or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. Any portion of the text of any

Security may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Security.

The definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities, subject, with respect to the Securities of any series, to the rules of any securities exchange on which such Securities are listed.

Section 202. *Forms of Securities.*

Each Security shall be in one of the forms approved from time to time by or pursuant to a Board Resolution, or established in one or more indentures supplemental hereto. Prior to the delivery of a Security to the Trustee for authentication in any form approved by or pursuant to a Board Resolution, the Company shall deliver to the Trustee the Board Resolution by or pursuant to which such form of Security has been approved, which Board Resolution shall have attached thereto a true and correct copy of the form of Security which has been approved thereby or, if a Board Resolution authorizes a specific officer or officers to approve a form of Security, a certificate of such officer or officers approving the form of Security attached thereto. Any form of Security approved by or pursuant to a Board Resolution must be acceptable as to form to the Trustee, such acceptance to be evidenced by the Trustee's authentication of Securities in that form or a certificate signed by a Responsible Officer of the Trustee and delivered to the Company.

Each Security shall bear a notation of Guarantee in substantially the form set forth in Section 205. Notwithstanding the foregoing, the notation of Guarantee to be endorsed on the Securities of any series may have such appropriate insertions, omissions, substitutions and other corrections from the form thereof referred to above as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers delivering the same, in each case as evidenced by such delivery.

Section 203. *Form of Trustee's Certificate of Authentication.*

The form of Trustee's Certificate of Authentication for any Security issued pursuant to this Indenture shall be substantially as follows:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

The Bank of New York Mellon Trust Company, N.A., as Trustee,

Dated: \_\_\_\_

By: \_\_\_\_  
Authorized Signatory

Section 204. *Securities Issuable in the Form of a Global Security.*

(b) If the Company shall establish pursuant to Sections 202 and 301 that the Securities of a particular series are to be issued in whole or in part in the form of one or more Global Securities, then the Company shall execute and the Trustee or its agent shall, in accordance with Section 303 and the Company Request delivered to the Trustee or its agent thereunder, authenticate and deliver, such Global Security or Securities, which (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, the Outstanding Securities of such series to be represented by such Global Security or Securities, or such portion thereof as the Company shall specify in a Company Request, (ii) shall be registered in the name of the Depositary for such Global Security or Securities or its nominee, (iii) shall be delivered by the Trustee or its agent to the Depositary or pursuant to the Depositary's instruction and (iv) shall bear a legend substantially to the following effect:

“Unless and until it is exchanged in whole or in part for the individual Securities represented hereby, this Global Security may not be transferred except as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.”

(c) Notwithstanding any other provisions of this Section 204 or of Section 305, and subject to the provisions of paragraph (c) below, unless the terms of a Global Security expressly permit such Global Security to be exchanged in whole or in part for individual Securities, a Global Security may be transferred, in whole but not in part and in the manner provided in Section 305, only to a nominee of the Depositary for such Global Security, or to the Depositary, or a successor Depositary for such Global Security selected or approved by the Company, or to a nominee of such successor Depositary.

(d)

(i) If at any time the Depositary for a Global Security notifies the Company that it is unwilling or unable to continue as Depositary for such Global Security or if at any time the Depositary for the Securities for such series ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, the Company shall appoint a successor Depositary with respect to such Global Security. If a successor Depositary for such Global Security is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such

ineligibility, the Company will execute, and the Trustee or its agent, upon receipt of a Company Request for the authentication and delivery of individual Securities of such series in exchange for such Global Security, will authenticate and deliver, individual Securities of such series of like tenor and terms in an aggregate principal amount equal to the principal amount of the Global Security in exchange for such Global Security.

(ii) The Company may at any time and in its sole discretion determine that the Securities of any series or portion thereof issued or issuable in the form of one or more Global Securities shall no longer be represented by such Global Security or Securities. In such event the Company will execute, and the Trustee, upon receipt of a Company Request for the authentication and delivery of individual Securities of such series in exchange in whole or in part for such Global Security, will authenticate and deliver individual Securities of such series of like tenor and terms in definitive form in an aggregate principal amount equal to the principal amount of such Global Security or Securities representing such series or portion thereof in exchange for such Global Security or Securities.

(iii) If specified by the Company pursuant to Sections 202 and 301 with respect to Securities issued or issuable in the form of a Global Security, the Depositary for such Global Security may surrender such Global Security in exchange in whole or in part for individual Securities of such series of like tenor and terms in definitive form on such terms as are acceptable to the Company and such Depositary. Thereupon the Company shall execute, and the Trustee or its agent shall authenticate and deliver, without service charge, (1) to each Person specified by such Depositary a new Security or Securities of the same series of like tenor and terms and of any authorized denomination as requested by such Person in aggregate principal amount equal to and in exchange for such Person's beneficial interest in the Global Security; and (2) to such Depositary a new Global Security of like tenor and terms and in an authorized denomination equal to the difference, if any, between the principal amount of the surrendered Global Security and the aggregate principal amount of Securities delivered to the Holders thereof.

(iv) In any exchange provided for in any of the preceding three paragraphs, the Company will execute and the Trustee or its agent will authenticate and deliver individual Securities in definitive registered form in authorized denominations. Upon the exchange of the entire principal amount of a Global Security for individual Securities, such Global Security shall be canceled by the Trustee or its agent. Except as provided in the preceding paragraph, Securities issued in exchange for a Global Security pursuant to this Section shall be registered in such names and in such authorized denominations as the Depositary for such Global Security, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee or the Security



Registrar. The Trustee or the Security Registrar shall deliver such Securities to the Persons in whose names such Securities are so registered.

**Section 205. *Form of Notation of Guarantee.***

The form of notation of Guarantee to be endorsed on any Security issued pursuant to this Indenture shall be substantially as follows:

**NOTATION OF GUARANTEE**

OneBeacon Insurance Group, Ltd., a company existing under the law of Bermuda (the “Guarantor”, which term includes any successor thereto under the Indenture (the “Indenture”) referred to in the Security on which this notation is endorsed) has unconditionally guaranteed, pursuant to the terms of the Guarantee contained in Article Twelve of the Indenture, the due and punctual payment of the principal of and any premium and interest on this Security, when and as the same shall become due and payable, whether at the Stated Maturity, by declaration of acceleration, call for redemption, early repayment or otherwise, in accordance with the terms of this Security and the Indenture.

The obligations of the Guarantor to the Holders of the Securities and to the Trustee pursuant to the Guarantee and the Indenture are expressly set forth in Article Twelve of the Indenture, and reference is hereby made to such Article and Indenture for the precise terms of the Guarantee.

The Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Security upon which this notation of the Guarantee is endorsed shall have been executed by the Trustee under the Indenture by the manual signature of one of its authorized signatories.

ONEBEACON INSURANCE  
GROUP, LTD.

by

Name:

Title:

**ARTICLE 3**

**THE SECURITIES**

**Section 301. *General Title; General Limitations; Issuable in Series; Terms of Particular Series.***

The aggregate principal amount of Securities which may be authenticated and delivered and Outstanding under this Indenture is not limited.

The Securities may be issued in one or more series up to an aggregate principal amount of Securities as from time to time may be authorized by the Board of Directors. All Securities of each series under this Indenture shall in all respects be equally and ratably entitled to the benefits hereof with respect to such series without preference, priority or distinction on account of the actual time of the authentication and delivery or Stated Maturity of the Securities of such series.

Each series of Securities shall be created either by or pursuant to a Board Resolution or by or pursuant to an indenture supplemental hereto. The Securities of each such series may bear such date or dates, be payable at such place or places, have such Stated Maturity or Maturities, be issuable at such premium over or discount from their face value, bear interest at such rate or rates (which may be fixed or floating), from such date or dates, payable in such installments and on such dates and at such place or places to the Holders of Securities registered as such on such Regular Record Dates, or may bear no interest, and may be redeemable or repayable at such Redemption Price or Prices or Repayment Price or Prices, as the case may be, whether at the option of the Holder or otherwise, and upon such terms, all as shall be provided for in or pursuant to the Board Resolution or in or pursuant to the supplemental indenture creating that series.

1 There may also be established in or pursuant to a Board Resolution or in or pursuant to a supplemental indenture prior to the issuance of Securities of each such series, provision for:

(1) the exchange or conversion of the Securities of that series, at the option of the Holders thereof, for or into new Securities of a different series or other securities or other property of the Company, the Guarantor or another Person, including shares of common stock, preferred stock, indebtedness or securities of any kind of the Company, the Guarantor, any Subsidiary of the Company or of the Guarantor or of any other Person or securities directly or indirectly convertible into or exchangeable for any such securities;

(2) a sinking or purchase fund or other analogous obligation;

(3) if other than U.S. dollars, the currency or currencies or units based on or related to currencies (including European Currency Units) in which the Securities of such series shall be denominated and in which payments of principal of, and any premium and interest on, such Securities shall or may be payable;

(4) if the principal of (and premium, if any) or interest, if any, on the Securities of such series are to be payable, at the election of the Company or a holder thereof, in a currency or currencies or units based on or related to currencies (including European Currency Units) other than that in which the Securities are stated to be payable, the period or periods within which, and the terms and conditions upon which, such election may be made;

(5) if the amount of payments of principal of (and premium, if any) or interest, if any, on the Securities of such series may be determined with reference to an

index based on (i) a currency or currencies or units based on or related to currencies (including European Currency Units) other than that in which the Securities are stated to be payable, (ii) changes in the price of one or more other securities or groups or indexes of securities or (iii) changes in the prices of one or more commodities or groups or indexes of commodities, or any combination of the foregoing, the manner in which such amounts shall be determined;

(6) if the aggregate principal amount of the Securities of that series is to be limited, such limitations, and the maturity date of the principal amount of such Securities of that series (which may be fixed or extendible), and the rate or rates (which may be fixed or floating) per annum at which the Securities of that series will bear interest, if any, or the method of determining such rate or rates, and the payment dates and record dates relating to such interest payments;

(7) the exchange of Securities of that series, at the option of the Holders thereof, for other Securities of the same series of the same aggregate principal amount of a different authorized kind or different authorized denomination or denominations, or both;

(8) the appointment by the Trustee of an Authenticating Agent in one or more places other than the location of the office of the Trustee with power to act on behalf of the Trustee and subject to its direction in the authentication and delivery of the Securities of any one or more series in connection with such transactions as shall be specified in the provisions of this Indenture or in or pursuant to the Board Resolution or the supplemental indenture creating such series;

(9) the percentage of their principal amount at which such Securities will be issued, and the portion of the principal amount of Securities of the series, if other than the total principal amount thereof, which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502 or provable in bankruptcy pursuant to Section 504;

(10) any Event of Default with respect to the Securities of such series, if not set forth herein and any additions, deletions or other changes to the Events of Default set forth herein that shall be applicable to the Securities of such series (including a provision making any Event of Default set forth herein inapplicable to the Securities of that series);

(11) any covenant solely for the benefit of the Securities of such series and any additions, deletions or other changes to the provisions of Article Ten or any definitions relating to such Article that shall be applicable to the Securities of such series (including a provision making any Section of such Article inapplicable to the Securities of such series);

(12) the applicability of Section 402(b) of this Indenture to the Securities of such series;

(13) if the Securities of the series shall be issued in whole or in part in the form of a Global Security or Global Securities, the terms and conditions, if any, upon which such Global Security or Global Securities may be exchanged in whole or in part for other individual Securities; and the Depositary for such Global Security or Global Securities (if other than the Depositary specified in Section 101 hereof);

(14) [Reserved]; and

(15) any other terms of the series, which shall not be inconsistent with the provisions of this Indenture, all upon such terms as may be determined in or pursuant to a Board Resolution or in or pursuant to a supplemental indenture with respect to such series. All Securities of the same series shall be substantially identical in tenor and effect, except as to denomination.

The form of the Securities of each series shall be established pursuant to the provisions of this Indenture in or pursuant to the Board Resolution or in or pursuant to the supplemental indenture creating such series. The Securities of each series shall be distinguished from the Securities of each other series in such manner, reasonably satisfactory to the Trustee, as the Board of Directors may determine.

Unless otherwise provided with respect to Securities of a particular series, the Securities of any series may only be issuable in registered form, without coupons.

Any terms or provisions in respect of the Securities of any series issued under this Indenture may be determined pursuant to this Section by providing in a Board Resolution or supplemental indenture for the method by which such terms or provisions shall be determined.

#### Section 302. *Denominations.*

The Securities of each series shall be issuable in such denominations and currency as shall be provided in the provisions of this Indenture or in or pursuant to the Board Resolution or the supplemental indenture creating such series. In the absence of any such provisions with respect to the Securities of any series, the Securities of that series shall be issuable only in fully registered form in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

#### Section 303. *Execution, Authentication and Delivery and Dating.*

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its President, one of its Vice Presidents or its Treasurer. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities executed by the Company to the Trustee for authentication; and the Trustee shall, upon Company Order, authenticate and make available for delivery such Securities as in this Indenture provided and not otherwise.

1 Prior to any such authentication and delivery, the Trustee shall be entitled to receive, in addition to any Officers' Certificate and Opinion of Counsel required to be furnished to the Trustee pursuant to Section 102, and the Board Resolution and any certificate relating to the issuance of the series of Securities required to be furnished pursuant to Section 202, an Opinion of Counsel stating that:

(1) all instruments furnished to the Trustee conform to the requirements of the Indenture and constitute sufficient authority hereunder for the Trustee to authenticate and deliver such Securities;

(2) the form and terms (or in connection with the issuance of medium-term Securities under Section 311, the manner of determining the terms) of such Securities have been established in conformity with the provisions of this Indenture;

(3) all laws and requirements with respect to the execution and delivery by the Company or the Guarantor of such Securities have been complied with, the Company and the Guarantor each has the corporate power to issue such Securities and such Securities have been duly authorized and delivered by the Company and the Guarantor and, assuming due authentication and delivery by the Trustee, constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium or other laws and legal principles affecting creditors' rights generally from time to time in effect and to general equitable principles, whether applied in an action at law or in equity) and entitled to the benefits of this Indenture, equally and ratably with all other Securities, if any, of such series Outstanding; and

(4) such other matters as the Trustee may reasonably request; and, if the authentication and delivery relates to a new series of Securities created by an indenture supplemental hereto, also stating that all laws and requirements with respect to the form and execution by the Company and the Guarantor of the supplemental indenture with respect to that series of Securities have been complied with, the Company and the Guarantor each has corporate power to execute and deliver any such supplemental indenture and has taken all necessary corporate action for those purposes and any such supplemental indenture has been executed and delivered and constitutes the legal, valid and binding obligation of the Company and the Guarantor enforceable in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium or other laws and legal principles affecting creditors' rights generally from time to time in effect and to general equitable principles, whether applied in an action at law or in equity).

The Trustee shall not be required to authenticate such Securities if the issue thereof will adversely affect the Trustee's own rights, duties or immunities under the Securities and this Indenture.

Unless otherwise provided in the form of Security for any series, all Securities shall be dated the date of their authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

#### Section 304. *Temporary Securities.*

Pending the preparation of definitive Securities of any series, the Company may execute, and, upon receipt of the documents required by Section 303, together with a Company Order, the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of such series to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment, without charge to the Holder; and upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of such series of authorized denominations and of like tenor and terms. Until so exchanged the temporary Securities of such series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

#### Section 305. *Registration, Transfer and Exchange.*

The Company shall keep or cause to be kept a register (herein sometimes referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities, or of Securities of a particular series, and for transfers of Securities or of Securities of such series. Any such register shall be in written form or in any other form capable of being converted into written form within a reasonable time. At all reasonable times the information contained in such register or registers shall be available for inspection by the Trustee at the office or agency to be maintained by the Company as provided in Section 1002.

Subject to Section 204, upon surrender for transfer of any Security of any series at the office or agency of the Company in a Place of Payment, the Company shall execute, and the Trustee shall authenticate and make available for delivery, in the name of the designated transferee or transferees, one or more new Securities of such series of any authorized denominations, of a like aggregate principal amount and Stated Maturity and of like tenor and terms.

Subject to Section 204, at the option of the Holder, Securities of any series may be exchanged for other Securities of such series of any authorized denominations, of a like aggregate principal amount and Stated Maturity and of like tenor and terms, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and make available for delivery, the Securities which the Securityholder making the exchange is entitled to receive.

All Securities issued upon any transfer or exchange of Securities shall be the valid obligations of the Company and the Guarantor, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such transfer or exchange.

Every Security presented or surrendered for transfer or exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

Unless otherwise provided in the Security to be transferred or exchanged, no service charge shall be made on any Securityholder for any transfer or exchange of Securities, but the Company may (unless otherwise provided in such Security) require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Securities, other than exchanges pursuant to Section 304 or 906 not involving any transfer.

The Company shall not be required (i) to issue, transfer or exchange any Security of any series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities of such series selected for redemption under Section 1103 and ending at the close of business on the date of such mailing, or (ii) to transfer or exchange any Security so selected for redemption in whole or in part, except for the portion of such Security not so selected for redemption.

None of the Company, the Guarantor, the Trustee, any agent of the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company initially appoints the Trustee to act as Security Registrar for the Securities on its behalf. The Company may at any time and from time to time authorize any Person to act

as Security Registrar in place of the Trustee with respect to any series of Securities issued under this Indenture.

**Section 306. *Mutilated, Destroyed, Lost and Stolen Securities.***

If (i) any mutilated Security is surrendered to the Trustee, or the Company, the Guarantor and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and (ii) there is delivered to the Company, the Guarantor and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Company, the Guarantor or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Security, a new Security of like tenor, series, Stated Maturity and principal amount, bearing a number not contemporaneously Outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company and the Guarantor, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of the same series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

**Section 307. *Payment of Interest; Interest Rights Preserved.***

Unless otherwise provided with respect to such Security pursuant to Section 301, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

1 Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered Holder on the relevant Regular Record Date by virtue of his having been such Holder; and, except as hereinafter provided, such Defaulted Interest may be



paid by the Company or the Guarantor, at its election in each case, as provided in Clause (1) or Clause (2) below:

(1) The Company or the Guarantor may elect to make payment of any Defaulted Interest to the Persons in whose names any such Securities (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company or the Guarantor, as the case may be, shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Security and the date of the proposed payment, and at the same time the Company or the Guarantor, as the case may be, shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Company shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Company shall promptly notify the Trustee and the Guarantor of such Special Record Date and, in the name and at the expense of the Company or the Guarantor, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to the Holder of each such Security at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company or the Guarantor may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company or the Guarantor, as the case may be, to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

If any installment of interest the Stated Maturity of which is on or prior to the Redemption Date for any Security called for redemption pursuant to Article Eleven is not paid or duly provided for on or prior to the Redemption Date in accordance with the foregoing provisions of this Section, such interest shall be payable as part of the Redemption Price of such Securities.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 308. *Persons Deemed Owners.*

The Company, the Guarantor, the Trustee and any agent of the Company, the Guarantor or the Trustee may treat the Person in whose name any Security is registered in the Security Register as the owner of such Security for the purpose of receiving payment of principal of (and premium, if any), and (subject to Section 307) interest on, such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Guarantor, the Trustee nor any agent of the Company, the Guarantor or the Trustee shall be affected by notice to the contrary.

Section 309. *Cancellation.*

All Securities surrendered for payment, redemption, transfer, conversion or exchange or credit against a sinking fund shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and, if not already canceled, shall be promptly canceled by it. The Company or the Guarantor may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company or the Guarantor may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly canceled by the Trustee. No Security shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. The Trustee shall return all canceled Securities to the Company.

Section 310. *Computation Of Interest.*

Unless otherwise provided as contemplated in Section 301, interest on the Securities shall be calculated on the basis of a 360-day year of twelve 30-day months.

Section 311. *Medium-Term Securities.*

Notwithstanding any contrary provision herein, if all Securities of a series are not to be originally issued at one time, it shall not be necessary for the Company to deliver to the Trustee an Officers' Certificate, Board Resolution, supplemental indenture, Opinion of Counsel or Company Request otherwise required pursuant to Sections 202, 301 and 303 at or prior to the time of authentication of each Security of such series if such documents are delivered to the Trustee or its agent at or prior to the authentication upon original issuance of the first Security of such series to be issued; provided that any subsequent request by the Company to the Trustee to authenticate Securities of such series upon original issuance shall constitute a representation and warranty by the Company that as of the date of such request, the statements made in the Officers' Certificate delivered pursuant to Section 102 shall be true and correct as if made on such date.

An Officers' Certificate, supplemental indenture or Board Resolution delivered by the Company to the Trustee in the circumstances set forth in the preceding paragraph may provide that Securities which are the subject thereof will be authenticated and delivered by the Trustee or its agent on original issue from time to time upon the telephonic or written order of persons designated in such Officers' Certificate, Board Resolution or supplemental indenture (any such telephonic instructions to be confirmed promptly in writing by such persons) and that such

persons are authorized to determine, consistent with such Officers' Certificate, supplemental indenture or Board Resolution, such terms and conditions of said Securities as are specified in such Officers' Certificate, supplemental indenture or Board Resolution.

#### Section 312. *CUSIP Numbers.*

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee may use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

#### Section 313. *Global Securities.*

(a) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated by the Company for such Global Security or a nominee thereof and delivered to such Depositary or a nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(b) Notwithstanding any other provision of this Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (i) such Depositary (A) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or (B) has ceased to be a clearing agency registered as such under the Exchange Act or announces an intention permanently to cease business or does in fact do so or (ii) there shall have occurred and be continuing an Event of Default with respect to such Global Security.

(c) If any Global Security is to be exchanged for other Securities or canceled in whole, it shall be surrendered by or on behalf of the Depositary or its nominee to the Trustee, as Security Registrar, for exchange or cancellation, as provided in this Article Three. If any Global Security is to be exchanged for other Securities or canceled in part, or if another Security is to be exchanged in whole or in part for a beneficial interest in any Global Security, in each case, as provided in Section 305, then either (i) such Global Security shall be so surrendered for exchange or cancellation, as provided in this Article Three or (ii) the principal amount thereof shall be reduced or increased by an amount equal to the portion thereof to be so exchanged or canceled, or equal to the principal amount of such other Security to be so exchanged for a beneficial interest therein, as the case may be, by means of an appropriate adjustment made on the records of the Trustee, as Security Registrar, whereupon the Trustee, in accordance with the Applicable Procedures, shall instruct the Depositary or its authorized representative to make a

corresponding adjustment to its records. Upon any such surrender or adjustment of a Global Security, the Trustee shall, subject to Section 305 and as otherwise provided in this Article Three authenticate and deliver any Securities issuable in exchange for such Global Security (or any portion thereof) to or upon the order of, and registered in such names as may be directed by, the Depositary or its authorized representative. Upon the request of the Trustee in connection with the occurrence of any of the events specified in the preceding paragraph, the Company shall promptly make available to the Trustee a reasonable supply of Securities that are not in the form of Global Securities. The Trustee shall be entitled to rely upon any order, direction or request of the Depositary or its authorized representative which is given or made pursuant to this Article Three if such order, direction or request is given or made in accordance with the Applicable Procedures.

(d) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Article Three or otherwise, shall be authenticated and delivered in the form of, and shall be, a registered Global Security, unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof, in which case such Registered Security shall be authenticated and delivered in definitive, fully registered form, without interest coupons.

(e) The Depositary or its nominee, as registered owner of a Global Security, shall be the Holder of such Global Security for all purposes under the Indenture and the Registered Securities, and owners of beneficial interests in a Global Security shall hold such interests pursuant to the Applicable Procedures. Accordingly, any such owner's beneficial interest in a Global Security will be shown only on, and the transfer of such interest shall be effected only through, records maintained by the Depositary or its nominee or its Agent Members and such owners of beneficial interests in a Global Security will not be considered the owners or holders thereof. The Company, the Guarantor, the Trustee, the Registrar, and the Paying Agent shall have no responsibility for any actions taken or not taken by the Depositary.

#### **ARTICLE 4**

##### **SATISFACTION AND DISCHARGE OF INDENTURE; DEFEASANCE; UNCLAIMED MONEYS**

###### **Section 401. *Applicability of Article.***

If, pursuant to Section 301, provision is made for the defeasance of Securities of a series and if the Securities of such series are denominated and payable only in U.S. dollars (except as provided pursuant to Section 301), then the provisions of this Article Four relating to defeasance of Securities shall be applicable except as otherwise specified pursuant to Section 301 for Securities of such series. Defeasance provisions, if any, for Securities denominated in a currency other than U.S. dollars may be specified pursuant to Section 301.

Section 402. *Satisfaction and Discharge of Indenture; Defeasance.*

(e) If at any time (i) the Company or the Guarantor shall have delivered to the Trustee for cancellation all Securities of any series theretofore authenticated and delivered (other than (1) any Securities of such series which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 306 and (2) Securities for whose payment money has theretofore been deposited in trust and thereafter repaid to the Company or the Guarantor as provided in Section 405) or (ii) all Securities of such series not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit with the Trustee as trust funds the entire amount in the currency in which such Securities are denominated (except as otherwise provided pursuant to Section 301) sufficient (in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee) without consideration of any reinvestment and after payment of all taxes or other charges and assessments in respect thereof payable by the Trustee, to pay at maturity or upon redemption all Securities of such series not theretofore delivered to the Trustee for cancellation, including principal and premium, if any, and interest due or to become due on such date of maturity or redemption date, as the case may be, no default with respect to the Securities has occurred and is continuing on the date of such deposit, such deposit does not result in a breach or violation of, or constitute a default under, the Indenture or any other agreement or instrument to which the Company or the Guarantor is a party and the Company delivers an Officers' Certificate and an Opinion of Counsel each stating that such conditions have been complied with and if in either case the Company or the Guarantor shall also pay or cause to be paid all other sums payable hereunder by the Company or the Guarantor, then this Indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of such Securities herein expressly provided for and rights to receive payments of principal of, and premium, if any, and interest on, such Securities) with respect to the Securities of such series, and the Trustee, on demand of the Company or the Guarantor, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture.

(f) Subject to Sections 402(c), 403 and 407, the Company at any time may terminate, with respect to Securities of a particular series, (i) all of the Company's and the Guarantor's obligations under the Securities of such series and this Indenture with respect to the Securities of such series ("legal defeasance option") or (ii) the Company's and the Guarantor's obligations under any covenants specified pursuant to Section 301 applicable to the Securities of such series ("covenant defeasance option"). The Company or the Guarantor may exercise its legal defeasance option notwithstanding the prior exercise of the covenant defeasance option.

If the Company exercises the legal defeasance option, payment of the Securities of the defeased series may not be accelerated because of an Event of Default. If the Company

exercises the covenant defeasance option, payment of the Securities may not be accelerated because of an Event of Default related to the specified covenants.

Upon satisfaction of the conditions set forth herein and upon request of the Company or the Guarantor, the Trustee shall acknowledge in writing the discharge of those obligations that the Company terminates.

(g) Notwithstanding clause (a) above and the exercise of the legal defeasance option in clause (b) above, the Company's and the Guarantor's obligations in Sections 305, 306, 405, 406, 407, 607, 701 and 1002 shall survive until the Securities of the defeased series have been paid in full. Thereafter, the Company's and the Guarantor's obligations in Sections 607, 405 and 406 shall survive.

#### Section 403. *Conditions of Defeasance.*

1 The Company may exercise the legal defeasance option or the covenant defeasance option with respect to Securities of a particular series only if:

(1) the Company or the Guarantor irrevocably deposits in trust with the Trustee money or U.S. Government Obligations for the payment of principal of, and premium, if any, and interest on, the Securities of such series to maturity or redemption, as the case may be;

(2) the Company or the Guarantor delivers to the Trustee a certificate from a nationally recognized firm of independent public accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay the principal, premium, if any, and interest when due on all the Securities of such series to maturity or redemption, as the case may be;

(3) 91 days pass after the deposit is made and during the 91-day period no Default specified in Section 501(5) or (6) with respect to the Company occurs which is continuing at the end of the period;

(4) no Default has occurred and is continuing on the date of such deposit and after giving effect thereto;

(5) the deposit does not constitute a default under any other agreement binding on the Company or the Guarantor;

(6) in the event of the legal defeasance option, the Company or the Guarantor shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from the Internal Revenue Service a ruling, or (ii) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the

Holders of Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred;

(7) in the event of the covenant defeasance option, the Company or the Guarantor shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; and

(8) the Company or the Guarantor delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and discharge of the Securities of such series as contemplated by this Article Four have been complied with.

Before or after a deposit, the Company or the Guarantor may make arrangements satisfactory to the Trustee for the redemption of Securities of such series at a future date in accordance with Article Eleven.

#### Section 404. *Application of Trust Money.*

The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to this Article Four. It shall apply the deposited money and the money from U.S. Government Obligations through any paying agent and in accordance with this Indenture to the payment of principal of, and premium, if any, and interest on, the Securities of the defeased series.

#### Section 405. *Repayment to Company or Guarantor.*

The Trustee and any paying agent shall promptly turn over to the Company or the Guarantor upon request any excess money or securities held by them at any time.

Subject to any applicable abandoned property law, the Trustee and any paying agent shall pay to the Company or the Guarantor upon request any money held by them for the payment of principal, premium or interest that remains unclaimed for two years, and, thereafter, Holders entitled to such money must look to the Company or the Guarantor for payment as general creditors and all liability of the Trustee or such paying agent with respect to such money shall thereupon cease.

#### Section 406. *Indemnity For U.S. Government Obligations.*

The Company and the Guarantor (without duplication) shall pay and shall indemnify the Trustee and the Holders against any tax, fee or other charge imposed on or assessed against

deposited U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations.

Section 407. *Reinstatement.*

If the Trustee or any paying agent is unable to apply any money or U.S. Government Obligations in accordance with this Article Four by reason of any legal proceeding or by reason of any order or judgment of any court or government authority enjoining, restraining or otherwise prohibiting such application, the Company's and the Guarantor's obligations under this Indenture and the Securities of the defeased series shall be revived and reinstated as though no deposit had occurred pursuant to this Article Four until such time as the Trustee or any paying agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Article Four.

**ARTICLE 5**

**REMEDIES**

Section 501. *Events of Default.*

2 "Event of Default", wherever used herein, means with respect to any series of Securities any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), unless such event is either inapplicable to a particular series or it is specifically deleted or modified in the supplemental indenture creating such series of Securities or in the form of Security for such series:

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of (or premium, if any, on) any Security of that series at its Maturity; or

(3) default in the payment of any sinking or purchase fund or analogous obligation when the same becomes due by the terms of the Securities of such series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company or the Guarantor in this Indenture in respect of the Securities of such series (other than a covenant or warranty in respect of the Securities of such series a default in the performance of which or the breach of which is elsewhere in this Section specifically dealt with), all of such covenants and warranties in the Indenture which are not expressly stated to be for the benefit of a particular series of Securities being deemed in respect of the Securities of all series for this purpose, and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail or overnight



courier guaranteeing next day delivery, to the Company and the Guarantor by the Trustee or to the Company, the Guarantor and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of such series, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; or

(5) the entry of an order for relief against the Company or the Guarantor under the Federal Bankruptcy Code by a court having jurisdiction in the premises or a decree or order by a court having jurisdiction in the premises adjudging the Company or the Guarantor a bankrupt or insolvent under any other applicable Federal, State or foreign law, or the entry of a decree or order approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company or the Guarantor under the Federal Bankruptcy Code or any other applicable Federal, State or foreign law (other than a reorganization under a foreign law that does not relate to insolvency), or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or the Guarantor or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or

(6) the consent by the Company or the Guarantor to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other applicable Federal, State or foreign law (other than a reorganization under a foreign law that does not relate to insolvency), or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or the Guarantor or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company or the Guarantor in furtherance of any such action; or

(7) any other Event of Default provided in the supplemental indenture under which such series of Securities is issued or in the form of Security for such series.

#### Section 502. *Acceleration of Maturity; Rescission and Annulment.*

If an Event of Default described in paragraph (1), (2), (3), (4) or (7) (if the Event of Default under paragraph (4) or (7) is with respect to less than all series of Securities then Outstanding) of Section 501 occurs and is continuing with respect to any series, then and in each and every such case, unless the principal of all the Securities of such series shall have already become due and payable, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Securities of such series then Outstanding hereunder (each such series acting as a separate class), by notice in writing to the Company and the Guarantor (and to the Trustee if given by Holders), may declare the principal amount (or, if the Securities of such series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that series) of all the Securities of such series then Outstanding and all

accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Securities of such series contained to the contrary notwithstanding. If an Event of Default described in paragraph (4) or (7) (if the Event of Default under paragraph (4) or (7) is with respect to all series of Securities then Outstanding) of Section 501 occurs and is continuing, then and in each and every such case, unless the principal of all the Securities shall have already become due and payable, either the Trustee or the Holders of not less than 25% in aggregate principal amount of all the Securities then Outstanding hereunder (treated as one class), by notice in writing to the Company and the Guarantor (and to the Trustee if given by Holders), may declare the principal amount (or, if any Securities are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms thereof) of all the Securities then Outstanding and all accrued interest thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Securities contained to the contrary notwithstanding.

2 At any time after such a declaration of acceleration has been made with respect to the Securities of any series and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of such series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(3) the Company or the Guarantor has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue installments of interest on the Securities of such series,

(B) the principal of (and premium, if any, on) any Securities of such series which have become due otherwise than by such declaration of acceleration, and interest thereon at the rate or rates prescribed therefor by the terms of the Securities of such series, to the extent that payment of such interest is lawful,

(C) interest upon overdue installments of interest at the rate or rates prescribed therefor by the terms of the Securities of such series to the extent that payment of such interest is lawful, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due the Trustee under Section 607; and

(4) all Events of Default with respect to such series of Securities, other than the nonpayment of the principal of the Securities of such series which have become due solely by such acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

If an Event of Default described in paragraph (5) or (6) of Section 501 occurs, then and in each and every such case, the principal amount (or, if any Securities are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms thereof) of all the Securities then Outstanding and all accrued interest thereon, if any, shall automatically become immediately due and payable, anything in this Indenture or in the Securities contained to the contrary notwithstanding.

Section 503. *Collection of Indebtedness and Suits for Enforcement by Trustee.*

2 The Company and the Guarantor each covenants that if

- (1) default is made in the payment of any installment of interest on any Security of any series when such interest becomes due and payable, or
- (2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof, or
- (3) default is made in the payment of any sinking or purchase fund or analogous obligation when the same becomes due by the terms of the Securities of any series,

and any such default continues for any period of grace provided with respect to the Securities of such series, the Company or the Guarantor, as the case may be, will, upon demand of the Trustee, pay to it, for the benefit of the Holder of any such Security (or the Holders of any such series in the case of Clause (3) above), the whole amount then due and payable on any such Security (or on the Securities of any such series in the case of Clause (3) above) for principal (and premium, if any) and interest, with interest, to the extent that payment of such interest shall be legally enforceable, upon the overdue principal (and premium, if any) and upon overdue installments of interest, at such rate or rates as may be prescribed therefor by the terms of any such Security (or of Securities of any such series in the case of Clause (3) above); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due the Trustee under Section 607.

If the Company or the Guarantor fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or the Guarantor or any other obligor upon the Securities of such series and collect the money adjudged or decreed to be payable in the manner provided by law out of the property of the Company or the Guarantor or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to any series of Securities occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement

of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

*Section 504. Trustee May File Proofs of Claim.*

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company, Guarantor or any other obligor upon the Securities or the property of the Company, Guarantor or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company or the Guarantor for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceedings or otherwise,

(v) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary and advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due the Trustee under Section 607) and of the Securityholders allowed in such judicial proceeding, and

(vi) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Securityholder to make such payment to the Trustee and in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan or reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

*Section 505. Trustee May Enforce Claims Without Possession of Securities.*

All rights of action and claims under this Indenture or the Securities of any series may be prosecuted and enforced by the Trustee without the possession of any of the Securities of such series or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agent and counsel, be for the ratable

benefit of the Holders of the Securities of the series in respect of which such judgment has been recovered.

Section 506. *Application of Money Collected.*

Any money or property collected by the Trustee with respect to a series of Securities pursuant to this Article, and after an Event of Default, any money or other property distributable in respect of the Company's or Guarantors' obligations under this Indenture, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities of such series and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607.

SECOND: To the payment of the amounts then due and unpaid upon the Securities of that series for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively.

THIRD: To the Company or the Guarantor or both, as they are entitled.

Section 507. *Limitation on Suits.*

3 No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to Securities of such series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of such series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Securities of such series;

it being understood and intended that no one or more Holders of Securities of such series shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Securities of such series, or to obtain or to seek to obtain priority or preference over any other such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and proportionate benefit of all the Holders of all Securities of such series.

Section 508. *Unconditional Right of Security Holders to Receive Principal, Premium and Interest.*

Notwithstanding any other provisions in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption or repayment, on the Redemption Date or Repayment Date, as the case may be) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

Section 509. *Restoration of Rights and Remedies.*

If the Trustee or any Securityholder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, then and in every such case the Company, the Guarantor, the Trustee and the Securityholders shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Securityholders shall continue as though no such proceeding had been instituted.

Section 510. *Rights and Remedies Cumulative.*

No right or remedy herein conferred upon or reserved to the Trustee or to the Securityholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 511. *Delay or Omission Not Waiver.*

No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Securityholders, as the case may be.

Section 512. *Control by Securityholders.*

1 The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Securities of such series, provided that

(1) the Trustee shall have the right to decline to follow any such direction if the Trustee, being advised by counsel, determines that the action so directed may not lawfully be taken or would conflict with this Indenture or if the Trustee in good faith shall, by a Responsible Officer, determine that the proceedings so directed would involve it in personal liability or be unjustly prejudicial to the Holders not taking part in such direction, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

#### Section 513. *Waiver of Past Defaults.*

1 The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default not theretofore cured

(1) in the payment of the principal of (or premium, if any) or interest on any Security of such series, or in the payment of any sinking or purchase fund or analogous obligation with respect to the Securities of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

#### Section 514. *Undertaking for Costs.*

All parties to this Indenture agree, and each Holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities of any series to which the suit

relates, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security on or after the respective Stated Maturities expressed in such Security (or, in the case of redemption or repayment, on or after the Redemption Date or Repayment Date).

Section 515. *Waiver of Stay or Extension Laws.*

The Company and the Guarantor each covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company and the Guarantor each (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

**ARTICLE 6**

**THE TRUSTEE**

Section 601. *Certain Duties and Responsibilities.*

(b) Except during the continuance of an Event of Default with respect to any series of Securities,

(4) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture with respect to the Securities of such series, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(5) in the absence of bad faith on its part, the Trustee may, with respect to Securities of such series, conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein).

(c) In case an Event of Default with respect to any series of Securities has occurred and is continuing, the Trustee shall exercise with respect to the Securities of such series such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.



(d) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(3) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(4) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(5) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities of any series relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities of such series; and

(6) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

#### Section 602. *Notice of Defaults.*

Within 90 days after the occurrence of any default hereunder with respect to Securities of any series, or, if later, after a Responsible Officer of the Trustee obtains knowledge of such default, the Trustee shall transmit by mail to all Securityholders of such series, as their names and addresses appear in the Security Register, notice of such default hereunder known to the Trustee, unless such default shall have been cured or waived; *provided, however*, that, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Security of such series or in the payment of any sinking or purchase fund installment or analogous obligation with respect to Securities of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interests of the Securityholders of such series; and provided, further, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series no such notice to Securityholders of such series shall be given until at least 60 days after the occurrence thereof. For the purpose of this Section, the term “default”, with respect to Securities of any series, means any event which is, or after notice or

lapse of time or both would become, an Event of Default with respect to Securities of such series.

Section 603. *Certain Rights of Trustee.*

Except as otherwise provided in Section 601:

(b) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(c) any request or direction of the Company or the Guarantor mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, or a Guarantor Request or Guarantor Order, as applicable, and any resolution of the Board of Directors or the Guarantor Board of Directors may be sufficiently evidenced by a Board Resolution or a Guarantor's Board Resolution, as applicable;

(d) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(e) the Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(f) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Securityholders pursuant to this Indenture, unless such Securityholders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(g) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, or inquire as to the performance by the Company or Guarantor of any of their covenants in this Indenture, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company and the Guarantor, personally or by agent or attorney; and

(h) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

(i) In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(j) The Trustee may request that the Company deliver a certificate setting forth the names of individuals and/or titles of officers authorized at such time to furnish the Trustee with directions relating to any other matter requiring direction from the Company pursuant to this Indenture.

(k) In no event shall the Trustee be responsible or liable for any special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit), irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(l) The rights, privileges, protections, immunities and benefits given to the Trustee, including without limitation its right to be compensated, reimbursed, and indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder.

(m) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within the rights or powers conferred upon it by this Indenture. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty of the Trustee.

(n) The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default hereunder unless a Responsible Officer of the Trustee shall be specifically notified in writing of such default or Event of Default by the Company or by the Holders of at least 25% of the aggregate principal amount of the Securities by written notice of such event sent to the Trustee in accordance with Section 1.05, and such notice references the Securities and this Indenture.

Section 604. *Not Responsible for Recitals or Issuance of Securities.*

The recitals contained herein and in the Securities and Guarantee, except the certificates of authentication, shall be taken as the statements of the Company or the Guarantor, as

applicable, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company or the Guarantor of Securities or the proceeds thereof. The Trustee shall not be responsible for any money paid to the Company or upon the Company's direction under any provision of this Indenture. The Trustee shall not be responsible for and makes no representation as to any statement in any document in connection with the issuance or sale of the Securities.

Section 605. *May Hold Securities.*

The Trustee, any Paying Agent, the Security Registrar or any other agent of the Company or the Guarantor, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company or the Guarantor with the same rights it would have if it were not Trustee, Paying Agent, Security Registrar or such other agent.

Section 606. *Money Held in Trust.*

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company or the Guarantor.

Section 607. *Compensation and Reimbursement.*

1 The Company and the Guarantor jointly and severally (without duplication) agrees

(8) to pay to the Trustee from time to time as the parties shall agree from time to time such compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(9) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or willful misconduct; and

(10) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

As security for the performance of the obligations of the Company and the Guarantor under this Section the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (and premium, if any) or interest on particular Securities.

When the Trustee incurs expenses or renders services after an Event of Default specified in Sections 501(5) or (6) hereof occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under the Federal Bankruptcy Code or applicable State law. "Trustee" for the purposes of this Section 607 shall include any predecessor Trustee and the Trustee in each of its capacities hereunder and each agent, custodian and other person employed to act hereunder; provided, however, that the negligence, willful misconduct or bad faith of any Trustee hereunder shall not affect the rights of any other Trustee hereunder.

**Section 608. *Disqualification; Conflicting Interests.***

The Trustee for the Securities of any series issued hereunder shall be subject to the provisions of Section 310(b) of the Trust Indenture Act during the period of time provided for therein. In determining whether the Trustee has a conflicting interest as defined in Section 310(b) of the Trust Indenture Act with respect to the Securities of any series, there shall be excluded for purposes of the conflicting interest provisions of such Section 310(b) the Securities of every other series issued under this Indenture and every series of securities issued under any other indentures if the requirements for such exclusion set forth in Section 310(b) of the Trust Indenture Act are met. Nothing herein shall prevent the Trustee from filing with the Commission the application referred to in the second to last paragraph of Section 310(b) of the Trust Indenture Act.

**Section 609. *Corporate Trustee Required; Eligibility.***

There shall at all times be a Trustee hereunder with respect to each series of Securities, which shall be a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 and subject to supervision or examination by Federal or State authority and shall not be an Affiliate of the Company or the Guarantor. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee with respect to any series of Securities shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

**Section 610. *Resignation and Removal; Appointment of Successor.***

(f) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 611.

(g) The Trustee may resign with respect to any series of Securities at any time by giving written notice thereof to the Company and the Guarantor. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(h) The Trustee may be removed with respect to any series of Securities at any time by Act of the Holders of a majority in principal amount of the Outstanding Securities of that series, delivered to the Trustee and to the Company and the Guarantor. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of removal, the removed Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(i) If at any time:

(1) the Trustee shall fail to comply with Section 310(b) of the Trust Indenture Act pursuant to Section 608(a) with respect to any series of Securities after written request therefor by the Company, by the Guarantor or by any Securityholder who has been a bona fide Holder of a Security of that series for at least 6 months, or

(2) the Trustee shall cease to be eligible under Section 609 with respect to any series of Securities and shall fail to resign after written request therefor by the Company, by the Guarantor or by any such Securityholder, or

(3) the Trustee shall become incapable of acting with respect to any series of Securities, or

(4) the Trustee shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution, or the Guarantor by a Guarantor's Board Resolution, may remove the Trustee, with respect to the series, or in the case of Clause (4), with respect to all series, or (ii) subject to Section 514, any Securityholder who has been a bona fide Holder of a Security of such series for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee with respect to the series, or, in the case of Clause (4), with respect to all series.

(j) If the Trustee shall resign, be removed or become incapable of acting with respect to any series of Securities, or if a vacancy shall occur in the office of the Trustee with respect to any series of Securities for any cause, the Company, shall promptly appoint a successor Trustee for that series of Securities. If, within one year after such resignation, removal or incapacity, or the occurrence of such vacancy, a successor Trustee with respect to such series of Securities shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company, the Guarantor and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee with respect to such series and supersede the successor Trustee appointed by the Company with respect to such series. If no successor Trustee with respect to such series shall have been so appointed by the Company or the Securityholders of such series and accepted appointment in the manner hereinafter provided, any Securityholder who has been a bona fide Holder of a Security of that series for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to such series.

(k) The Company shall give notice of each resignation and each removal of the Trustee with respect to any series and each appointment of a successor Trustee with respect to any series by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of Securities of that series as their names and addresses appear in the Security Register. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

Section 611. *Acceptance of Appointment by Successor.*

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company, the Guarantor and to the predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective with respect to any series as to which it is resigning or being removed as Trustee, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the predecessor Trustee with respect to any such series; but, on request of the Company, the Guarantor or the successor Trustee, such predecessor Trustee shall, upon payment of its reasonable charges, if any, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the predecessor Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such predecessor Trustee hereunder with respect to all or any such series, subject nevertheless to its lien, if any, provided for in Section 607. Upon request of any such successor Trustee, the Company and the Guarantor shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the Guarantor, the predecessor Trustee and each successor Trustee with respect to the Securities of any applicable series shall execute and deliver an indenture supplemental hereto which shall contain such provisions as shall be deemed

necessary or desirable to confirm that all the rights, powers, trusts and duties of the predecessor Trustee with respect to the Securities of any series as to which the predecessor Trustee is not being succeeded shall continue to be vested in the predecessor Trustee, and shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be Trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee.

No successor Trustee with respect to any series of Securities shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible with respect to that series under this Article.

Section 612. *Merger, Conversion, Consolidation or Succession to Business.*

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 613. *Preferential Collection of Claims Against Company.*

(a) Subject to Subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within 3 months prior to a default, as defined in Subsection (c) of this Section, or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the Holders of the Securities and the holders of other indenture securities (as defined in Subsection (c) of this Section):

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such 3-month period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this Subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and



(2) all property received by the Trustee in respect of any claim as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such 3-month period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

2 Nothing herein contained, however, shall affect the right of the Trustee

(A) to retain for its own account (i) payments made on account of any such claim by any Person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third person, and (iii) distributions made in cash, securities or other property in respect of claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such 3-month period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such 3-month period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default as defined in Subsection (c) of this Section would occur within 3 months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security for such claim as provided in paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such 3-month period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the Securityholders and the holders of other indenture securities in such manner that the Trustee, the Securityholders and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or

receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee and the Securityholders and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term “dividends” shall include any distribution with respect to such claim, in bankruptcy or receivership or proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, whether such distribution is made in cash, securities, or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or proceedings for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee and the Securityholders and the holders of other indenture securities in accordance with the provisions of this paragraph, the funds and property held in such special account and proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee and the Securityholders and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee which has resigned or been removed after the beginning of such 3-month period shall be subject to the provisions of this Subsection as though such resignation or removal had not occurred. If any Trustee has resigned or been removed prior to the beginning of such 3-month period, it shall be subject to the provisions of this Subsection if and only if the following conditions exist:

- (i) the receipt of property or reduction of claim, which would have given rise to the obligation to account, if such Trustee had continued as Trustee, occurred after the beginning of such 3-month period; and

- (ii) such receipt of property or reduction of claim occurred within 3 months after such resignation or removal.

- (b) There shall be excluded from the operation of Subsection (a) of this Section a creditor relationship arising from

- (2) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

(3) advances authorized by a receivership or bankruptcy court of competent jurisdiction, or by this Indenture, for the purpose of preserving any property which shall at any time be subject to the lien of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advances and of the circumstances surrounding the making thereof is given to the Securityholders at the time and in the manner provided in this Indenture;

(4) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depositary, or other similar capacity;

(5) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction as defined in Subsection (c) of this Section;

(6) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or

(7) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self liquidating paper as defined in Subsection (c) of this Section.

(c) For the purposes of this Section only:

(1) The term “default” means any failure to make payment in full of the principal of or interest on any of the Securities or upon the other indenture securities when and as such principal or interest becomes due and payable.

(2) The term “other indenture securities” means securities upon which the Company is an obligor outstanding under any other indenture (i) under which the Trustee is also trustee, (ii) which contains provisions substantially similar to the provisions of this Section, and (iii) under which a default exists at the time of the apportionment of the funds and property held in such special account.

(3) The term “cash transaction” means any transaction in which full payment for goods or securities sold is made within 7 days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand.

(4) The term “self-liquidating paper” means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the

sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

(5) The term “Company” means any obligor upon the Securities.

Section 614. *Appointment of Authenticating Agent.*

At any time when any of the Securities remain Outstanding the Trustee, with the approval of the Company, may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee’s certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as an Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and, if other than the Company itself, subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and, if other than the Company, to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and, if other than the Company, to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee, with the

approval of the Company, may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent (other than an Authenticating Agent appointed at the request of the Company from time to time) reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 607. If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

The Bank of New York Mellon Trust Company, N.A.  
as Trustee

By: \_\_\_\_\_  
As Authenticating Agent

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Signatory

#### **ARTICLE 7**

#### **SECURITYHOLDERS' LISTS AND REPORTS BY TRUSTEE, GUARANTOR AND COMPANY**

Section 701. *Company to Furnish Trustee Names and Addresses of Securityholders.*

The Company will furnish or cause to be furnished to the Trustee

(b) semi-annually, not more than 30 days after each Regular Record Date, in each year in such form as the Trustee may reasonably require, a list of the names and addresses of the Holders of Securities of such series as of such date, and

(c) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as

of a date not more than 30 days prior to the time such list is furnished, excluding from any such list names and addresses received by the Trustee in its capacity as Security Registrar.

*Section 702. Preservation of Information; Communications to Securityholders.*

(o) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders of Securities contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders of Securities received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

(p) If 3 or more Holders of Securities of any series (hereinafter referred to as “applicants”) apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned a Security of such series for a period of at least 6 months preceding the date of such application, and such application states that the applicants desire to communicate with other Holders of Securities of such series or with the Holders of all Securities with respect to their rights under this Indenture or under such Securities and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within 5 Business Days after the receipt of such application, at its election, either

(ii) afford such applicants access to the information preserved at the time by the Trustee in accordance with Section 702(a), or

(iii) inform such applicants as to the approximate number of Holders of Securities of such series or all Securities, as the case may be, whose names and addresses appear in the information preserved at the time by the Trustee in accordance with Section 702(a), and as to the approximate cost of mailing to such Securityholders the form of proxy or other communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Holder of a Security of such series or to all Security holders, as the case may be, whose names and addresses appear in the information preserved at the time by the Trustee in accordance with Section 702(a), a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless, within 5 days after such tender, the Trustee shall mail to such applicants and file with the Commission, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the Holders of Securities of such series or all Securityholders, as the case may be, or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If the Commission, after

opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, the Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all Securityholders of such series or all Securityholders, as the case may be, with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(q) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders of Securities in accordance with Section 702(b), regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 702(b).

### Section 703. *Reports by Trustee.*

(b) The term “reporting date” as used in this Section means October 15 of each year. Within 60 days after the reporting date in each year, beginning in 2013, the Trustee shall transmit by mail to all Securityholders, as their names and addresses appear in the Security Register, a brief report dated as of such reporting date with respect to any of the following events which may have occurred during the 12 months preceding the date of such report (but if no such event has occurred within such period no report need be transmitted):

- (1) any change to its eligibility under Section 609 and its qualifications under Section 608;
- (2) the creation of or any material change to a relationship specified in Section 310(b)(1) through Section 310(b)(10) of the Trust Indenture Act;
- (3) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of Securities of any series, on any property or funds held or collected by it as Trustee, except that the Trustee shall not be required (but may elect) to report such advances if such advances so remaining unpaid aggregate not more than  $\frac{1}{2}$  of 1% of the principal amount of the Securities of such series outstanding on the date of such report;
- (4) any change to the amount, interest rate and maturity date of all other indebtedness owing by the Company (or by any other obligor on the

Securities) to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in a manner described in Section 613(b)(2), (3), (4) or (6);

(5) any change to the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;

(6) any additional issue of Securities which the Trustee has not previously reported; and

(7) any action taken by the Trustee in the performance of its duties hereunder which it has not previously reported and which in its opinion materially affects the Securities, except action in respect of a default, notice of which has been or is to be withheld by the Trustee in accordance with Section 602.

(c) The Trustee shall transmit by mail to all Securityholders, as their names and addresses appear in the Security Register, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) since the date of the last report transmitted pursuant to Subsection (a) of this Section (or if no such report has yet been so transmitted, since the date of execution of this instrument) for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities of any series, on property or funds held or collected by it as Trustee, and which it has not previously reported pursuant to this Subsection, except that the Trustee shall not be required (but may elect) to report such advances if such advances remaining unpaid at any time aggregate 10% or less of the principal amount of the Securities Outstanding of such series at such time, such report to be transmitted within 90 days after such time.

(d) A copy of each such report shall, at the time of such transmission to Securityholders, be filed by the Trustee with each stock exchange upon which the Securities are listed, and also with the Commission. The Company will notify the Trustee when the Securities are listed on any stock exchange.

Section 704. *Reports by Company and Guarantor.*

2 The Company and the Guarantor each will:

(5) file with the Trustee, within 30 days after the Company or the Guarantor is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Company or the Guarantor may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934; or, if neither the Company nor the Guarantor is required to file information, documents or reports pursuant to either of said Sections, then the Guarantor will file with the Trustee



and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(6) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company or the Guarantor with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(7) transmit by mail to all Securityholders, as their names and addresses appear in the Security Register, within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company or the Guarantor pursuant to paragraphs (1) and (2) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

Delivery of such statements, reports, notices and other information and documents to the Trustee pursuant to any of the provisions of this Section 704 is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's or the Guarantor's compliance with any of their covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates or statements delivered to it pursuant to Section 1004).

## **ARTICLE 8**

### **CONSOLIDATION, AMALGAMATION, MERGER, CONVEYANCE OR TRANSFER**

Section 801. *Company may Consolidate, etc., Only on Certain Terms.*

1 The Company shall not consolidate or amalgamate with or merge into any other Person or convey or transfer its properties and assets substantially as an entirety to any Person, unless:

(1) the Person formed by such consolidation or amalgamation or into which the Company is merged or the Person which acquires by conveyance or transfer the properties and assets of the Company substantially as an entirety shall be a corporation or limited liability company organized and existing under the laws of the United States of America, any State thereof, the District of Columbia or Bermuda, and shall expressly assume, by an indenture supplemental hereto, executed by the successor Person and the Guarantor and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have happened and be continuing; and

(3) either the Company or the successor Person has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, amalgamation, merger, conveyance or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 802. *Successor Person Substituted for Company.*

Upon any consolidation, amalgamation or merger, or any conveyance or transfer of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor Person formed by such consolidation or amalgamation into which the Company is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein. In the event of any such conveyance or transfer, the Company as the predecessor corporation may be dissolved, wound up or liquidated at any time thereafter.

Section 803. *Guarantor May Consolidate, etc., Only on Certain Terms.*

3 The Guarantor shall not consolidate or amalgamate with or merge into any other Person or convey or transfer its properties and assets substantially as an entirety to any Person, unless:

(11) the Person formed by such consolidation or amalgamation or into which the Guarantor is merged or the Person which acquires by conveyance or transfer the properties and assets of the Guarantor substantially as an entirety shall be a corporation or limited liability company organized and existing under the laws of the United States of America, any State thereof, the District of Columbia or Bermuda, and shall expressly assume, by an indenture supplemental hereto, executed by the successor Person and the Company and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of this Indenture on the part of the Guarantor to be performed or observed;

(12) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have happened and be continuing; and

(13) either the Guarantor or the successor Person has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, amalgamation, merger, conveyance or transfer and such supplemental indenture comply

with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

**Section 804. *Successor Person Substituted for Guarantor.***

Upon any consolidation, amalgamation or merger, or any conveyance or transfer of the properties and assets of the Guarantor substantially as an entirety in accordance with Section 803, the successor Person formed by such consolidation or amalgamation or into which the Guarantor is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Guarantor under this Indenture with the same effect as if such successor Person had been named as the Guarantor herein.

In the event of any such conveyance or transfer, the Guarantor as the predecessor corporation may be dissolved, wound up or liquidated at any time thereafter.

**ARTICLE 9**

**SUPPLEMENTAL INDENTURES**

**Section 901. *Supplemental Indentures Without Consent of Securityholders.***

2 Without the consent of the Holders of any Securities, the Company, when authorized by a Board Resolution, the Guarantor, when authorized by a Guarantor's Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(6) to evidence the succession of another Person to the Company or the Guarantor, and the assumption by any such successor of the covenants of the Company or the Guarantor herein and in the Securities contained; or

(7) to add to the covenants of the Company or the Guarantor or to surrender any right or power herein conferred upon the Company or the Guarantor, for the benefit of the Holders of the Securities of any or all series (and if such covenants or the surrender of such right or power are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included or such surrenders are expressly being made solely for the benefit of one or more specified series); or

(8) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture; or

(9) to add to this Indenture such provisions as may be expressly permitted by the TIA, excluding, however, the provisions referred to in Section 316(a)(2) of the TIA as in effect at the date as of which this instrument was executed or any corresponding provision in any similar federal statute hereafter enacted; or

(10) to establish any form of Security, as provided in Article Two, and to provide for the issuance of any series of Securities as provided in Article Three and to set forth the terms thereof, and/or to add to the rights of the Holders of the Securities of any series; or

(11) to evidence and provide for the acceptance of appointment by another corporation as a successor Trustee hereunder with respect to one or more series of Securities and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to Section 611; or

(12) to add any additional Events of Default in respect of the Securities of any or all series (and if such additional Events of Default are to be in respect of less than all series of Securities, stating that such Events of Default are expressly being included solely for the benefit of one or more specified series); or

(13) to provide for the issuance of Securities in coupon as well as fully registered form.

No supplemental indenture for the purposes identified in Clauses (2), (3), (5) or (7) above may be entered into if to do so would adversely affect the interest of the Holders of Securities of any series.

Section 902. *Supplemental Indentures with Consent of Securityholders.*

4 With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture or indentures, by Act of said Holders delivered to the Company, the Guarantor and the Trustee, the Company, when authorized by a Board Resolution, the Guarantor, when authorized by a Guarantor's Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of the Securities of each such series under this Indenture; *provided, however*, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(14) change the Maturity of the principal of, or the Stated Maturity of any premium on, or any installment of interest on, any Security, or reduce the principal amount thereof or the interest or any premium thereon, or change the method of computing the amount of principal thereof or interest thereon on any date or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Maturity or the Stated Maturity, as the case may be, thereof (or, in the case of redemption or repayment, on or after the Redemption Date or the Repayment Date, as the case may be); or

(15) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences, provided for in this Indenture; or

(16) modify any of the provisions of this Section or Section 513, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby.

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Securityholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

#### Section 903. *Execution of Supplemental Indentures.*

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not (except to the extent required in the case of a supplemental indenture entered into under Section 901(4) or 901(6)) be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

#### Section 904. *Effect of Supplemental Indentures.*

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby to the extent provided therein.

#### Section 905. *Conformity With Trust Indenture Act.*

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the TIA as then in effect.

#### Section 906. *Reference in Securities to Supplemental Indentures.*

Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

## **ARTICLE 10**

### **COVENANTS**

#### **Section 1001. *Payment of Principal, Premium and Interest.***

With respect to each series of Securities, the Company will duly and punctually pay the principal of (and premium, if any) and interest on such Securities in accordance with their terms and this Indenture, and will duly comply with all the other terms, agreements and conditions contained in, or made in the Indenture for the benefit of, the Securities of such series.

#### **Section 1002. *Maintenance of Office or Agency.***

The Company will maintain an office or agency in each Place of Payment where Securities may be presented or surrendered for payment, where Securities may be surrendered for transfer or exchange and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and of any change in the location, of such office or agency. If at any time the Company shall fail to maintain such office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the principal Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee its agent to receive all such presentations, surrenders, notices and demands.

The Guarantor will maintain an office or agency in each Place of Payment where Securities to which the Guarantee applies may be presented or surrendered for payment pursuant to the Guarantee and where notices and demands to or upon the Guarantor in respect of the Guarantee and this Indenture may be served. The Guarantor will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Guarantor shall fail to maintain any such office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders and demands may be made or served at the Corporate Trust Office of the Trustee, and the Guarantor hereby appoints the Trustee as its agent to receive all such presentations, surrenders and demands.

#### **Section 1003. *Money For Security Payments to be Held In Trust.***

If the Company shall at any time act as its own Paying Agent for any series of Securities, it will, on or before each due date of the principal of (and premium, if any) or interest on, any of the Securities of such series, segregate and hold in trust for the benefit of the Persons entitled

thereto a sum sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided, and will promptly notify the Trustee of its action or failure to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, on or prior to each due date of the principal of (and premium, if any) or interest on, any Securities of such series, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal (and premium, if any) or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

3 The Company will cause each Paying Agent other than the Trustee for any series of Securities to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Securities of such series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities of such series) in the making of any such payment of principal (and premium, if any) or interest on the Securities of such series; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company or the Guarantor may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture with respect to any series of Securities or for any other purpose, pay, or by Company Order or Guarantor Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company, the Guarantor or such Paying Agent in respect of each and every series of Securities as to which it seeks to discharge this Indenture or, if for any other purpose, all sums so held in trust by the Company or the Guarantor in respect of all Securities, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company, the Guarantor or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company or the Guarantor, in trust for the payment of the principal of (and premium, if any) or interest on any Security of any series and remaining unclaimed for two years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request (or, if deposited by the Guarantor, paid to the Guarantor upon Guarantor Request), or (if then held by the Company or the Guarantor) shall be discharged from such trust;

and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company and the Guarantor for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease. The Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company and the Guarantor mail to the Holders of the Securities as to which the money to be repaid was held in trust, as their names and addresses appear in the Security Register, a notice that such moneys remain unclaimed and that, after a date specified in the notice, which shall not be less than 30 days from the date on which the notice was first mailed to the Holders of the Securities as to which the money to be repaid was held in trust, any unclaimed balance of such moneys then remaining will be paid to the Company or the Guarantor, as the case may be, free of the trust formerly impressed upon it.

The Company initially authorizes the Trustee to act as Paying Agent for the Securities on its behalf. The Company may at any time and from time to time authorize one or more Persons to act as Paying Agent in addition to or in place of the Trustee with respect to any series of Securities issued under this Indenture.

Section 1004. *Statement as to Compliance.*

1 The Company and the Guarantor each will deliver to the Trustee, within 120 days after the end of each fiscal year, a written statement signed by the principal executive officer, principal financial officer or principal accounting officer of the Company or the Guarantor, as the case may be, stating that

(17) a review of the activities of the Company or the Guarantor, as the case may be, during such year and of its performance under this Indenture and under the terms of the Securities has been made under his supervision; and

(18) to the best of his knowledge, based on such review, the Company or the Guarantor, as the case may be, has complied with all conditions and covenants under this Indenture through such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to him and the nature and status thereof.

For purposes of this Section 1004, compliance shall be determined without regard to any grace period or requirement of notice provided pursuant to the terms of this Indenture.

Section 1005. *Corporate Existence.*

Subject to Article Eight each of the Company and the Guarantor will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

## **ARTICLE 11**

### **REDEMPTION OF SECURITIES**

Section 1101. *Applicability of Article.*



The Company may reserve the right to redeem and pay before Stated Maturity all or any part of the Securities of any series, either by optional redemption, sinking or purchase fund or analogous obligation or otherwise, by provision therefor in the form of Security for such series established and approved pursuant to Section 202 and on such terms as are specified in such form or in the Board Resolution or indenture supplemental hereto with respect to Securities of such series as provided in Section 301. Redemption of Securities of any series shall be made in accordance with the terms of such Securities and, to the extent that this Article does not conflict with such terms, the succeeding Sections of this Article.

Section 1102. *Election to Redeem; Notice to Trustee.*

The election of the Company to redeem any Securities redeemable at the election of the Company shall be evidenced by, or made pursuant to authority granted by, a Board Resolution. In case of any redemption at the election of the Company of any Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed. Upon Company Request setting forth the information to be stated in such notice delivered to the Trustee at least 45 days prior to the Redemption Date (unless a shorter period shall be satisfactory to the Trustee), the Trustee shall give the notice of redemption in the Company's name and at its expense.

In the case of any redemption of Securities (i) prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, or (ii) pursuant to an election of the Company which is subject to a condition specified in the terms of such Securities, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction or condition.

Section 1103. *Selection by Trustee of Securities to be Redeemed.*

If less than all the Securities of like tenor and terms of any series are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee subject to Applicable Procedures, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may include provision for the selection for redemption of portions of the principal of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of that series. Unless otherwise provided in the terms of a particular series of Securities, the portions of the principal of Securities so selected for partial redemption shall be equal to the minimum authorized denomination of the Securities of such series, or an integral multiple thereof, and the principal amount which remains outstanding shall not be less than the minimum authorized denomination for Securities of such series. If less than all the Securities of unlike tenor and terms of a series are to be redeemed, the particular Securities to be redeemed shall be selected by the Company.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Security selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal of such Security which has been or is to be redeemed.

Section 1104. *Notice of Redemption.*

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each holder of Securities to be redeemed, at his address appearing in the Security Register.

1 All notices of redemption shall state:

(4) the Redemption Date;

(5) the Redemption Price (or manner of calculation if not then known);

(6) if less than all Outstanding Securities of any series are to be redeemed, the identification, including CUSIP Numbers (and, in the case of partial redemption, the respective principal amounts) of the Securities to be redeemed, from the Holder to whom the notice is given;

(7) that on the Redemption Date the Redemption Price will become due and payable upon each such Security, and that interest, if any, thereon shall cease to accrue from and after said date;

(8) the place where such Securities are to be surrendered for payment of the Redemption Price, which shall be the office or agency of the Company in the Place of Payment; and

(9) that the redemption is on account of a sinking or purchase fund, or other analogous obligation, if that be the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request pursuant to Section 1102, by the Trustee in the name and at the expense of the Company. Such notice shall be deemed to have been given to each Holder if sent in accordance with Section 105 hereof.

Section 1105. *Deposit of Redemption Price.*

On or prior to 10:00 a.m. on any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of all the Securities which are to be redeemed on that date.

Section 1106. *Securities Payable on Redemption Date.*

Notice of Redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified and from and after such date (unless the Company shall default in the payment of the Redemption Price) such Securities shall cease to bear interest. Upon surrender of such Securities for redemption in accordance with the notice, such Securities shall be paid by the Company at the Redemption Price. Installments of interest the Stated Maturity of which is on or prior to the Redemption Date shall be payable to the Holders of such Securities registered as such on the relevant Regular Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the Redemption Date at the rate borne by the Security, or as otherwise provided in such Security.

*Section 1107. Securities Redeemed in Part.*

Any Security which is to be redeemed only in part shall be surrendered at the office or agency of the Company in the Place of Payment with respect to that series (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and Stated Maturity and of like tenor and terms, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

*Section 1108. Provisions With Respect to any Sinking Funds.*

Unless the form or terms of any series of Securities shall provide otherwise, in lieu of making all or any part of any mandatory sinking fund payment with respect to such series of Securities in cash, the Company may at its option (1) deliver to the Trustee for cancellation any Securities of such series theretofore acquired by the Company, or (2) receive credit for any Securities of such series (not previously so credited) acquired by the Company and theretofore delivered to the Trustee for cancellation or redeemed by the Company other than through the mandatory sinking fund, and if it does so then (i) Securities so delivered or credited shall be credited at the applicable sinking fund Redemption Price with respect to Securities of such series, and (ii) on or before the 60th day next preceding each sinking fund Redemption Date with respect to such series of Securities, the Company will deliver to the Trustee (A) an Officers' Certificate specifying the portions of such sinking fund payment to be satisfied by payment of cash and by delivery or credit of Securities of such series acquired by the Company or so redeemed, and (B) such Securities so acquired, to the extent not previously surrendered. Such Officers' Certificate shall also state the basis for such credit and that the Securities for which the Company elects to receive credit have not been previously so credited and were not redeemed by the Company through operation of the mandatory sinking fund, if any, provided with respect to such Securities and shall also state that no Event of Default with respect to Securities of such series has occurred and is continuing. All Securities so delivered to the Trustee shall be canceled by the Trustee and no Securities shall be authenticated in lieu thereof.

If the sinking fund payment or payments (mandatory or optional) with respect to any series of Securities made in cash plus any unused balance of any preceding sinking fund payments with respect to Securities of such series made in cash shall exceed \$50,000 (or a lesser sum if the Company shall so request), unless otherwise provided by the terms of such series of Securities, that cash shall be applied by the Trustee on the sinking fund Redemption Date with respect to Securities of such series next following the date of such payment to the redemption of Securities of such series at the applicable sinking fund Redemption Price with respect to Securities of such series, together with accrued interest, if any, to the date fixed for redemption, with the effect provided in Section 1106. The Trustee shall select, in the manner provided in Section 1103, for redemption on such sinking fund Redemption Date a sufficient principal amount of Securities of such series to utilize that cash and shall thereupon cause notice of redemption of the Securities of such series for the sinking fund to be given in the manner provided in Section 1104 (and with the effect provided in Section 1106) for the redemption of Securities in part at the option of the Company. Any sinking fund moneys not so applied or allocated by the Trustee to the redemption of Securities of such series shall be added to the next cash sinking fund payment with respect to Securities of such series received by the Trustee and, together with such payment, shall be applied in accordance with the provisions of this Section 1108. Any and all sinking fund moneys with respect to Securities of any series held by the Trustee at the Maturity of Securities of such series, and not held for the payment or redemption of particular Securities of such series, shall be applied by the Trustee, together with other moneys, if necessary, to be deposited sufficient for the purpose, to the payment of the principal of the Securities of such series at Maturity.

On or before each sinking fund Redemption Date provided with respect to Securities of any series, the Company shall pay to the Trustee in cash a sum equal to all accrued interest, if any, to the date fixed for redemption on Securities to be redeemed on such sinking fund Redemption Date pursuant to this Section 1108.

## **ARTICLE 12**

### **GUARANTEE OF SECURITIES**

#### **Section 1201. *Guarantee.***

The Guarantor hereby fully and unconditionally guarantees to each Holder of a Security of each series issued by the Company, authenticated and delivered by the Trustee, and to the Trustee, the due and punctual payment of the principal (including any amount due in respect of any Original Issue Discount Security) of and any premium and interest on such Security, and the due and punctual payment of any sinking fund payments provided for pursuant to the terms of such Security, when and as the same shall become due and payable, whether at the Stated Maturity, by declaration of acceleration, call for redemption, early repayment or otherwise, and all other obligations of the Company to the Trustee under this Indenture, in accordance with the terms of such Security and this Indenture. The Guarantor hereby agrees that in the event of an Event of Default its obligations hereunder shall be as if it were a principal debtor and not merely a surety, and shall be absolute and unconditional, irrespective of, and shall be unaffected by, any invalidity, irregularity or unenforceability of any Security of any series or this Indenture, any

failure to enforce the provisions of any Security of any series or this Indenture, any waiver, modification or indulgence granted to the Company with respect thereto by the Holder of any Security of any series or the Trustee, or any other circumstances which may otherwise constitute a legal or equitable discharge of a surety or guarantor; provided, however, that, notwithstanding the foregoing, no such waiver, modification or indulgence shall, without the consent of the Guarantor, increase the principal amount of any Security or the interest rate thereon or increase any premium payable upon redemption thereof. The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Company, any right to require a proceeding first against the Company, the benefit of discussion, protest or notice with respect to any Security or the indebtedness evidenced thereby or with respect to any sinking fund payment required pursuant to the terms of such Security issued under this Indenture and all demands whatsoever, and covenants that this Guarantee will not be discharged with respect to such Security except by payment in full of the principal thereof and any premium and interest thereon or as provided in Article Four or Section 802. If any Holder or the Trustee is required by any court or otherwise to return to the Company, the Guarantor, or any custodian, trustee, liquidator or other similar official acting in relation to the Company or the Guarantor any amount paid by the Company or the Guarantor to the Trustee or such Holder, this Guarantee to the extent theretofore discharged, shall be reinstated in full force and effect. The Guarantor further agrees that, as between the Guarantor, on the one hand, and the Holders and the Trustee, on the other hand, the Maturity of the obligations guaranteed hereby may be accelerated as provided in Article Five hereof for the purposes of this Guarantee, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed hereby.

The Guarantor also agrees, to pay any and all reasonable costs and expenses (including reasonable attorneys' fees and expenses) incurred by the Trustee or any Holders in enforcing any rights under this Guarantee.

The Guarantor hereby waives any right of set off which the Guarantor may have against the Holder of any Security in respect of any amounts which are or may become payable by such Holder to the Company.

The Guarantor shall be subrogated to all rights of the Holders of any series of Securities and the Trustee against the Company in respect of any amounts paid to such Holders and the Trustee by the Guarantor pursuant to the provisions of the Guarantee; provided, however, that the Guarantor shall not be entitled to enforce or to receive any payments arising out of or based upon, such right of subrogation until the principal of, premium, if any, and interest, if any, on all of the Securities of such series shall have been paid in full.

No past, present or future stockholder, officer, director, employee or incorporator of the Guarantor shall have any personal liability under the Guarantees set forth in this Section 1201 by reason of his, her or its status as such stockholder, officer, director, employee or incorporator.

The Guarantee set forth in this Section 1201 shall not be valid or become obligatory for any purpose with respect to any Security until the certificate of authentication on such Security shall have been signed by or on behalf of the Trustee.

Section 1202. *Execution of Notations of Guarantee.*

To evidence its Guarantee to the Holders specified in Section 1201, the Guarantor hereby agrees to execute the notation of the Guarantee in substantially the form set forth in Section 205 to be endorsed on each Security authenticated and delivered by the Trustee. The Guarantor hereby agrees that its Guarantee set forth in Section 1201 shall remain in full force and effect notwithstanding any failure to endorse on any Security a notation of such Guarantee. Each such notation of Guarantee shall be signed on behalf of the Guarantor by any proper officer of the Guarantor prior to the authentication of the Security on which it is endorsed, and the delivery of such Security by the Trustee, after the due authentication thereof by the Trustee hereunder, shall constitute due delivery of the Guarantee on behalf of the Guarantor. Such signatures upon the notation of the Guarantee may be manual, facsimile or pdf signatures of any present, past or future proper officer of the Guarantor and may be imprinted or otherwise reproduced below the notation of the Guarantee, and in case any such proper officer of the Guarantor who shall have signed the notation of the Guarantee shall cease to be such officer before the Security on which such notation is endorsed shall have been authenticated and delivered by the Trustee or disposed of by the Company, such Security nevertheless may be authenticated and delivered or disposed of as though the person who signed the notation of the Guarantee had not ceased to be such officer of the Guarantor.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the day and year first above written.

ONEBEACON U.S. HOLDINGS, INC.

By: \_\_\_\_  
Name:  
Title:

ONEBEACON INSURANCE GROUP, LTD.

By: \_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: \_\_\_\_  
Name:  
Title:

ONEBEACON U.S. HOLDINGS, INC.

AND

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

as Trustee

AND

ONEBEACON INSURANCE GROUP, LTD.

as Guarantor

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FIRST SUPPLEMENTAL INDENTURE

to the

INDENTURE

dated as of November 9, 2012

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Dated as of November 9, 2012



THIS FIRST SUPPLEMENTAL INDENTURE (this “**Supplemental Indenture**”), dated as of November 9, 2012, is among ONEBEACON U.S. HOLDINGS, INC., a Delaware corporation (the “**Company**”), ONEBEACON INSURANCE GROUP, LTD., a company existing under the laws of Bermuda (the “**Guarantor**”), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association, as trustee (the “**Trustee**”).

**W I T N E S S E T H:**

WHEREAS, the Company has executed and delivered to the Trustee an Indenture dated as of November 9, 2012 (the “**Base Indenture**”, as supplemented by this Supplemental Indenture, the “**Indenture**”) among the Company, the Guarantor and the Trustee, providing for the issuance from time to time of one or more series of Securities;

WHEREAS, pursuant to Section 901(5) of the Indenture, the Company, the Guarantor and the Trustee may enter into a supplemental indenture, without the consent of any Holders of Securities, to establish the form or terms of Securities of any series as permitted by Article Two and Article Three of the Indenture, and/or to add to the rights of the Holders of the Securities of any series;

WHEREAS, pursuant to this Supplemental Indenture, the Company and the Guarantor desire to issue a new series of Securities under the Indenture to be designated the “4.60% Senior Notes due 2022” in an initial aggregate principal amount of \$275,000,000 (the “**Notes**”) and to establish the forms and the terms thereof and of the Guarantee of the Notes;

WHEREAS, the Notes have been duly authorized pursuant to a Board Resolution and all other necessary corporate action on the part of the Company and the Guarantor; and

WHEREAS, the Company has requested that the Trustee join the Company and the Guarantor in the execution and delivery of this Supplemental Indenture.

NOW, THEREFORE, in consideration of the covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

This Supplemental Indenture shall become effective upon the execution and delivery by the Company, the Guarantor and the Trustee.

Article 1  
DEFINITIONS

Section 1.01 . *Definitions*. Unless the context otherwise requires for all purposes of this Supplemental Indenture:

- (a) each term defined in the Base Indenture has the same meaning when used in this Supplemental Indenture; and
- (b) a reference to a Section or Article is to a Section or Article of this Supplemental Indenture unless otherwise indicated.

## ARTICLE 2 TERMS OF THE NOTES

Section 2.01 . *Title and Principal Amount*. There is hereby authorized and established a new series of Securities under the Indenture designated as the “4.60% Senior Notes due 2022,” which is not limited in aggregate principal amount. The initial aggregate principal amount of the Notes to be issued under this Supplemental Indenture shall be \$275,000,000.

Section 2.02 . *Form and Denomination*. The Notes and the Trustee’s Certificate of Authentication to be endorsed thereon are to be substantially in the form set forth in Exhibit A hereto. The Notes shall be initially issued in global form in accordance with Section 204 of the Base Indenture. The Company shall issue the Notes in minimum denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof.

Section 2.03 . *Terms of Notes*. The Notes shall be issued as Registered Securities. The terms of the Notes set forth in the form of Note attached as Exhibit A hereto are incorporated by reference into this Supplemental Indenture. Except as otherwise provided in this Supplemental Indenture or the Notes, the Notes shall be subject to the terms of the Base Indenture. In the event of any inconsistency between the provisions of this Supplemental Indenture and the provisions of the Base Indenture, the provisions of this Supplemental Indenture shall be controlling with respect to the Notes.

Section 2.04 . *Guarantee*. Article Twelve of the Base Indenture provides for a Guarantee by the Guarantor of selected series of Securities. Article Twelve of the Indenture is expressly made applicable to the Notes.

Section 2.05 . *Defeasance and Covenant Defeasance*. Section 402 of the Indenture and Section 403 of the Indenture shall apply to the Notes.

Section 2.06 . *Additional Notes*. The Company will initially issue \$275,000,000 aggregate principal amount of the Notes. The Company may issue additional Notes without the consent of the Holders of Notes. Any additional Notes shall be consolidated and form a single series with, and shall have the same terms as to status, redemption or otherwise as the Notes then Outstanding, except

for issue date, issue price and, if applicable, first interest payment date and the first date from which interest accrues. Additional Notes may be issued, even if an Event of Default under the Indenture has occurred and is continuing with respect to the Notes.

Section 2.07 . *Original Issue of Notes*. The Notes may, upon effectiveness of this Supplemental Indenture, be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall, upon receipt of a Company Order, authenticate and deliver such Notes as in such Company Order provided.

Section 2.8. *Amendments to Article Five of the Base Indenture*. A new clause (8) shall be added to Section 501 of the Base Indenture, and shall hereinafter be deemed a part of the Indenture and applicable to the Notes.

(8) a default under the terms of any instrument evidencing or securing guarantees, notes, bonds, debentures or other similar evidences of Debt ("Indebtedness") of the Company, the Guarantor or any Subsidiary of the Company or the Guarantor results in the acceleration of the payment of such Indebtedness or constitutes the failure to pay the principal of such Indebtedness when due (after the expiration of any applicable grace period) and, in each case, the total amount of such Indebtedness has an outstanding aggregate principal amount greater than \$75,000,000.

Section 2.9. *Amendments to Article Ten of the Base Indenture*. The following Sections 1006 and 1007 shall be added to Article Ten of the Base Indenture, and shall hereinafter be deemed a part of the Indenture and applicable to the Notes.

Section 1006. *Limitations on Liens*.

(1) The Company and the Guarantor will not, and will not permit any Subsidiary of the Company and the Guarantor to, create, incur, assume or permit to exist any mortgage, pledge, encumbrance, charge or security interest of any kind (each a "Lien") on any stock or Indebtedness of a Subsidiary of the Company or the Guarantor or property of the Company, the Guarantor or any Subsidiary of the Company or the Guarantor, to secure any Indebtedness of the Company, the Guarantor or any Subsidiary of the Company or the Guarantor or any other person, or permit any Subsidiary of the Company or the Guarantor to do so, without securing the Notes equally and ratably with such Indebtedness for so long as such Indebtedness shall be so secured; provided that the foregoing restrictions shall not apply to Indebtedness secured by:

- a. Liens existing on the date hereof;

- b. Liens on stock or Indebtedness of entities existing at the time they become Subsidiaries of the Company or the Guarantor or on stock or Indebtedness of a Subsidiary of the Company or the Guarantor existing at the time of acquisition of such stock or Indebtedness;
- c. Liens on property of entities existing at the time they become Subsidiaries of the Company or the Guarantor;
- d. Liens on property existing when acquired, or incurred to finance the purchase price, development or construction thereof; provided that such Liens do not extend to property owned by the Company, the Guarantor or a Subsidiary of the Company or the Guarantor immediately prior thereto;
- e. Liens to extend, renew or replace any Liens referred to in subsections (a) through (d) above;
- f. Liens relating to sale and leaseback transactions described in clauses (a) through (d) of Section 1007(2);
- g. Liens in favor of the Company or the Guarantor or one or more Subsidiaries of the Company or the Guarantor granted by the Company or the Guarantor or one or more Subsidiaries of the Company or the Guarantor to secure any intercompany obligations;
- h. mechanics', landlords and similar Liens;
- i. Liens arising out of legal proceedings being contested;
- j. Liens for taxes not yet due, or being contested;
- k. easements and similar Liens not impairing the use or value of the property involved;
- l. pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;
- m. deposits to secure performance of letters of credit, bids, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;
- n. any interest or title of a lessor under any lease entered into in the ordinary course of business; and
- o. Liens on assets of any Subsidiary of the Company or the Guarantor which is required to be licensed as an insurer or reinsurer (or any

Subsidiary of such Subsidiary) securing (a) Indebtedness of such a Subsidiary to any other such Subsidiary, (b) short-term Indebtedness (i.e. with a maturity of less than one year when issued, provided that such Indebtedness may include an option to extend for up to an additional one year period) incurred or issued to provide short-term liquidity to facilitate claims payments in the event of catastrophes, (c) Indebtedness incurred or issued in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Indebtedness) and letters of credit, bank guarantees, surety bonds or similar instruments issued for the account of any such Subsidiary in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Indebtedness) or (d) insurance-related obligations (that do not constitute Indebtedness); (e) judgment Liens in respect of judgments that do not constitute an Event of Default; (f) Liens on securities that are lent pursuant to securities lending activities.

(2) Notwithstanding the provisions of Section 1006(1), the Company, the Guarantor and any Subsidiary of the Company and the Guarantor may create, incur, assume or permit to exist any Liens on stock, Indebtedness or property that would otherwise be subject to Section 1006(1), securing Indebtedness, if the aggregate amount of all Indebtedness then outstanding secured by such Liens and all other Liens pursuant to this clause (2) (excluding Liens otherwise permitted under the Indenture) does not exceed 10% of the total consolidated shareholders' equity (including preferred equity) of the Guarantor as shown on the consolidated balance sheet, determined in accordance with generally accepted accounting principles, contained in the latest annual or quarterly report to shareholders of the Guarantor.

#### Section 1007. *Limitation on Sale and Leasebacks.*

(1) The Company and the Guarantor will not, and will not permit any Subsidiary of the Company and the Guarantor to, enter into any arrangement with any person pursuant to which the Company, the Guarantor or any Subsidiary of the Company and the Guarantor leases any property that has been or is to be sold or transferred by the Company, the Guarantor or the Subsidiary of the Company and the Guarantor to such person (a "sale and leaseback transaction"), except that a sale and leaseback transaction is permitted if the Company, the Guarantor or such Subsidiary would be entitled to secure the property to be leased (without equally and ratably securing the Notes then Outstanding) in an amount equal to the present value (as determined in good faith by the Company) of the lease payments with respect to the term of the lease remaining on the date as of which the amount is being determined under Section 1006.

(2) In addition, the limitation in Section 1007(1) shall not apply to:

- a. leases existing on the date hereof;
- b. leases for a term, including renewals at the option of the lessee, of not more than five years;
- c. leases between the Company or the Guarantor and a Subsidiary of the Company or the Guarantor or between Subsidiaries of the Company or the Guarantor; and
- d. leases of property executed by the time of, or within 12 months after the latest of, the acquisition, the completion of construction or improvement, or the commencement of commercial operation of the property.

### ARTICLE 3 MISCELLANEOUS

Section 3.01 . *Effect of Guarantee; Guarantor to be Bound by Indenture.* The Guarantor hereby irrevocably, fully and unconditionally Guarantees to each Holder of the Notes and to the Trustee and its successors and assigns, irrespective of the validity and enforceability of the Indenture, the Notes or the obligations of the Company under the Indenture or the Notes, the obligations of the Company with respect to payment and performance of the Notes and the other obligations of the Company under the Indenture with respect to the Notes on the terms, and subject to the conditions, contained in Article Twelve of the Base Indenture and agrees to be bound by all other terms of the Indenture.

Section 3.02 . *Ratification of Indenture.* The Base Indenture is in all respects ratified and confirmed, and this Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided; provided that the provisions of this Supplemental Indenture apply solely with respect to the Notes.

Section 3.03 . *Trustee Not Responsible for Recitals.* The recitals herein contained are made by the Company and the Guarantor and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture.

Section 3.04 . *Governing Law.* THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAW PROVISIONS THEREOF TO THE EXTENT A DIFFERENT LAW WOULD GOVERN AS A RESULT.

Section 3.05 . *Conflict With Trust Indenture Act.* If any provision of this Supplemental Indenture limits, qualifies or conflicts with any provision of the Trust Indenture Act that is required under the Trust Indenture Act to be part of and govern any provision of this Supplemental Indenture, the provision of the Trust Indenture Act shall control. If any provision of this Supplemental Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the provision of the Trust Indenture Act shall be deemed to apply to the Indenture as so modified or to be excluded by this Supplemental Indenture, as the case may be.

Section 3.06 . *Separability.* In case any provision in this Supplemental Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 3.07 . *Counterparts Originals.* This Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.

**ONEBEACON U.S. HOLDINGS, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**ONEBEACON INSURANCE GROUP,  
LTD.**

By: \_\_\_\_\_  
Name:  
Title:

**THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Trustee**

By: \_\_\_\_\_  
Name:  
Title:

*[Signature page to First Supplemental Indenture]*



## NOTATION OF GUARANTEE

OneBeacon Insurance Group, Ltd., a company existing under the law of Bermuda (the “Guarantor”, which term includes any successor thereto under the Indenture (the “Indenture”) referred to in the Security on which this notation is endorsed) has unconditionally guaranteed, pursuant to the terms of the Guarantee contained in Article Twelve of the Indenture, the due and punctual payment of the principal of and any premium and interest on this Security, when and as the same shall become due and payable, whether at the Stated Maturity, by declaration of acceleration, call for redemption, early repayment or otherwise, in accordance with the terms of this Security and the Indenture.

The obligations of the Guarantor to the Holders of the Securities and to the Trustee pursuant to the Guarantee and the Indenture are expressly set forth in Article Twelve of the Indenture, and reference is hereby made to such Article and Indenture for the precise terms of the Guarantee.

The Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Security upon which this notation of the Guarantee is endorsed shall have been executed by the Trustee under the Indenture by the manual signature of one of its authorized signatories.

Capitalized terms used but not defined herein have the meanings given to them in the Indenture.

ONEBEACON INSURANCE GROUP, LTD.

By: \_\_  
Name:  
Title:

## **EXHIBIT A**

[UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR THE INDIVIDUAL SECURITIES REPRESENTED HEREBY, THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.]\*

REGISTERED PRINCIPAL AMOUNT: \$  
No. CUSIP:

**ONEBEACON U.S. HOLDINGS, INC.**

**4.60% SENIOR NOTE DUE 2022**

ONEBEACON U.S. HOLDINGS, INC., a corporation duly organized and existing under the laws of the State of Delaware (herein referred to as the “**Company**”, which terms includes any successor Person under the Indenture), for value received, hereby promises to pay to [CEDE & CO.]\*, or its registered assigns, the principal sum [of ][set forth in Schedule I hereto]\* on November 9, 2022 (the “**Stated Maturity**”), and to pay interest on said principal sum semi-annually in arrears on May 9 and November 9 of each year commencing May 9, 2013 (each an “**Interest Payment Date**”) at the rate of 4.60% per annum, until the principal hereof is paid or made available for payment. Interest on the Securities of this series will accrue from November 9, 2012 (the “**Issue Date**”), to the first Interest Payment Date, and thereafter will accrue from the last Interest Payment Date to which interest has been paid or duly provided for. In the event that any Interest Payment Date or the date of Stated Maturity is not a Business Day, then payment of interest, principal or premium, if any, payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of such delay) with the same force and effect as if made on the Interest Payment Date or the date of Stated Maturity, as the case may be. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the April 24 or October 24, as the case may be (the “**Regular Record Date**”), immediately preceding the relevant Interest Payment Date, provided, however, that interest payable at Maturity will be paid to the Person to whom principal is paid. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Company, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture referred to on the reverse hereof.

The principal of and premium, if any, and each installment of interest on this Security, and registrations of transfers and exchanges, will be made at the office or agency of the Company in The City of New York; provided that the

payment of interest may be made at the option of the Company by check mailed to the address of the persons entitled thereto or by wire transfer to an account designated by the person entitled thereto; and provided further that so long as the Securities of this series are registered in the name of The Depository Trust Company or its nominee all payments of principal, premium, if any, and interest in respect of this Security will be made in immediately available funds. Notices and demands to or upon the Company in respect of this Security or the Indenture (as hereinafter defined) may be made at the office of the Trustee at The Bank of New York Mellon Trust Company, N.A., 2 North LaSalle Street, Suite 1020, Chicago, IL 60602.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place. Any capitalized term which is used herein and not otherwise defined shall have the meaning ascribed to such term in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee referred to below by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

ONEBEACON U.S. HOLDINGS, INC.

By: \_\_\_\_\_  
Name:  
Title:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date:

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Trustee

By: \_\_\_\_\_  
Authorized Signatory

## REVERSE OF SECURITY

This Security is one of a duly authorized issue of securities of the Company (herein called the “**Securities**”), designated as its 4.60% Senior Notes due 2022, all issued and to be issued under the Indenture, dated as of November 9, 2012 (the “**Base Indenture**”) among the Company, OneBeacon Insurance Group, Ltd., as guarantor (the “**Guarantor**”), and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”), as supplemented by the First Supplemental Indenture dated as of November 9, 2012 (the “**First Supplemental Indenture**” and, together with the Base Indenture, the “**Indenture**”), among the Company, the Guarantor, and the Trustee, creating such issue and to which reference is made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Guarantor, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered.

### General Provisions

The provisions for defeasance of the entire Indebtedness of this Security upon compliance with certain conditions set forth in the Indenture shall apply to the Securities.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof by supplemental indenture and the modification of the rights and obligations of the Company, the Guarantor and the rights of the Holders of the Securities of each series to be affected under the Indenture by the Company (when authorized by or pursuant to a Board Resolution), the Guarantor and the Trustee with the consent of the Holders of a majority in principal amount of the securities at the time Outstanding of each series to be affected. The Indenture contains provisions permitting the Holders of a majority in aggregate principal amount of the securities of all series then Outstanding to waive compliance by the Company and the Guarantor with certain provisions of the Indenture. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the securities of each series at the time Outstanding, on behalf of the Holders of all securities of such series, to waive certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor on in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in aggregate principal amount of the Securities of such series at the time Outstanding in respect of which an Event of Default shall have occurred and be continuing, shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee and offered the Trustee indemnity reasonably satisfactory to the Trustee, the Trustee for 60 days after receipt of such notice, request and offer of indemnity shall have failed to institute any such proceeding, and no direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Securities of such series at the time Outstanding in respect of which an Event of Default shall have occurred and be continuing. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof, any premium, or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company and the Guarantor, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

The Securities of this issue are issuable only in registered form without coupons in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

As provided in the Indenture and subject to certain limitations therein set forth, Securities of this issue are exchangeable for a like aggregate principal amount of Securities of this issue and of like tenor and of authorized denominations, as requested by the Holder surrendering the same. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Company, the Guarantor, the Trustee and any agent of the Company, the Guarantor or the Trustee may treat the Person in whose name this Security is registered as the absolute owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Guarantor, the Trustee nor any such agent shall be affected by notice to the contrary.

This Security shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the conflicts of law provisions thereof.

This Security is guaranteed by the Guarantor as set forth in the Indenture.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

### **Optional Redemption**

The Company may redeem the Securities of this series, in whole or in part (equal to an integral multiple of \$1,000), at its option at any time and from time to time. The redemption price for the Securities to be redeemed will be equal to the greater of (i) the principal amount being redeemed, or (ii) the sum of the present values of the remaining scheduled payments of interest and principal on the Securities to be redeemed (exclusive of interest accrued and unpaid to, but not including, the date of redemption) discounted to the date of redemption on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 45 basis points, plus accrued and unpaid interest to the date of redemption. The principal amount of a Security remaining outstanding after a redemption in part shall be \$2,000 or an integral multiple of \$1,000 in excess thereof. Notice of redemption shall be given to each registered Holder of the Securities to be redeemed at least 30 days, and not more than 60 days, prior to the redemption date. Once notice of redemption is mailed, the Securities called for redemption shall become due and payable on the redemption date and at the redemption price, plus accrued and unpaid interest to the redemption date. Unless the Company defaults in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Securities redeemed.

For purposes of this paragraph, the following definitions are applicable:

**“Treasury Rate”** means, for any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date. The Treasury Rate shall be calculated on the third Business Day preceding the redemption date.

**“Comparable Treasury Issue”** means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Securities being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate notes of comparable maturity to the remaining term of such notes.



**“Comparable Treasury Price”** means, for any redemption date, (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding the redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities” or (2) if that release (or any successor release) is not published or does not contain those prices on that business day, (A) the average of the Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations for that redemption date, or (B) if OB Holdings obtains fewer than four Reference Treasury Dealer Quotations, the average of all the Reference Treasury Dealer Quotations obtained.

**“Independent Investment Banker”** means one of the Reference Treasury Dealers appointed by the Company.

**“Reference Treasury Dealer”** means (1) each of Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and HSBC Securities (USA) Inc. and, in each case, their respective successors; provided, however, that if any of them ceases to be a primary U.S. Government securities dealer in New York City, the Company will appoint another primary U.S. Government securities dealer as a substitute and (2) any other U.S. Government securities dealers selected by the Company.

**“Reference Treasury Dealer Quotations”** means, for each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by the Reference Treasury Dealer at 3:30 p.m. New York City time on the third business day preceding the redemption date for the Senior Notes being redeemed.

If the Company elects to redeem less than all of the Securities, then the Trustee will select the particular Securities to be redeemed in accordance with the Terms of the Indenture.

The Securities shall not be convertible into shares of Common Stock and/or exchangeable for other securities.

#### **Further Issues**

The Company will initially issue \$275,000,000 aggregate principal amount of the Securities. The Company may issue additional Securities without the consent of the Holders of Securities. Any additional Securities shall be consolidated and form a single series with, and shall have the same terms as to status, interest rate, maturity or otherwise as the Securities then Outstanding,

except for issue date, issue price and, if applicable, first interest payment date and the first date from which interest accrues. Additional Securities may be issued, even if an Event of Default under the Indenture has occurred and is continuing with respect to the Securities.

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**TRANSFER NOTICE**

FOR VALUE RECEIVED the undersigned registered holder hereby sell(s), assign(s) and transfer(s) unto

(Insert Taxpayer Identification No.)

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(Please print or typewrite name and address including zip code of assignee)

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the within Security and all rights thereunder, hereby irrevocably constituting and appointing

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attorney to transfer such Security on the books of the Company with full power of substitution in the premises.

Date:

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within-mentioned instrument in every particular, without alteration or any change whatsoever.

Signature Guarantee:

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[Attach to Global Security only]

Schedule I to

OneBeacon U.S. Holdings, Inc.

4.60% Note Due 2022

No. [ ]

SCHEDULE OF PRINCIPAL AMOUNT OF GLOBAL NOTE

The original principal amount of the note is: \$275,000,000

The following increases or decreases in this Global Note have been made:

Date	Amount of decrease in Principal Amount of this Global Note	Amount of increase in Principal Amount of this Global Note	Principal Amount of this Global Note following such decrease or increase	Signature of authorized signatory of Trustee or Note Custodian
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# OneBeacon Deferred Compensation Plan

*Restated  
As of April, 2011*

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ONEBEACON  
DEFERRED COMPENSATION PLAN

ARTICLE I

Purpose

SECTION 1.01. Purpose. The purpose of this Plan is to provide Directors and Key Employees with the ability to defer the receipt of Compensation. The Plan is also intended to establish a method of attracting and retaining persons whose abilities, experience and judgment can contribute to the long-term strategic objectives of the Company or a Controlled Group Entity.

SECTION 1.02. Unfunded Plan. The Company intends that the Plan be an unfunded non-qualified deferred compensation plan maintained primarily for the purpose of providing deferred benefits for Directors and a select group of management or highly compensated service providers of the Company and its affiliates.

SECTION 1.03. Specified Employees. As permitted by Treas. Reg. Section 1.409A-1(i)(5), the Administrator shall treat all Participants in the Plan as “specified employees”.

SECTION 1.04. Effective Date; Pre-2005 Deferrals. This Plan has been amended and restated as of December 31, 2008 with respect to amounts deferred under the Plan on or after January 1, 2005 (within the meaning of Section 409A of the Code). All amounts deferred under the Plan on or prior to December 31, 2004 (within the meaning of Section 409A of the Code) shall be subject to the terms of the Plan as in effect on October 3, 2004.

ARTICLE II

Definitions

The following terms when used in this Plan have the designated meanings unless a different meaning is clearly required by the context.

SECTION 2.01. “Account” means the records maintained on the books of the Company to reflect deferrals of Compensation by a Participant pursuant to Section 3.03.

SECTION 2.02. “Administrator” means the Committee or such other person or committee designated by the Committee as responsible for the day-to-day administration of the Plan.

SECTION 2.03. “Beneficiary” means the person or persons designated pursuant to Article 5 to receive a benefit pursuant to Section 4.04(a) in the event of a Participant’s death before his benefit under this Plan has been paid.

SECTION 2.04. “Board” means the Board of Directors of OneBeacon Insurance Group, Ltd.

SECTION 2.05. “Change in Control” means with respect to any Participant, a Control Event occurring with respect to (i) the Controlled Group Entity for which such Participant performs services at the time of such Control Event, (ii) the Controlled Group Entity that is liable for the payment of such Participant’s Account (or all Controlled Group liable for the payment if more than one Controlled Group Entity is liable) or (iii) any Controlled Group Entity that is either a majority equity holder of any Controlled Group Entity described in clauses (i) or (ii) above or that is in a chain of entities that each are majority equity holders of another entity in the chain, ending in a Controlled Group Entity described in clauses (i) or (ii), above. For purposes hereof, a “majority equity holder” is a person or entity owning more than 50% of the total fair market value and total voting power of the applicable Controlled Group Entity. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur if such event would not be considered to be a “change in control event” within the meaning of Section 409A of the Code.

SECTION 2.06. “Code” means the Internal Revenue Code of 1986, as amended.

SECTION 2.07. “Committee” means the Benefits Committee of the Company; provided that any determination involving a Participant who is a member of the Committee shall be made by the Board.

SECTION 2.08. “Company” means OneBeacon Insurance Company and any successor thereto.

SECTION 2.09. “Compensation” means, for any Plan Year, (i) the base salary, annual bonus or long-term incentive compensation, if any, to be earned by an eligible employee in respect of services to be performed for such Plan Year, or any other compensation to be earned by an eligible employee in respect of services to be performed by an eligible employee during that Plan Year that is designated as “Compensation” hereunder by the Administrator; or (ii) any retainer or, to the extent approved by the Committee, any other fee to be earned by a Director in respect of services to be performed for the Board or any committee thereof for such Plan Year.

SECTION 2.10. “Controlled Group Entity” means any entity within the Controlled Group.

SECTION 2.11. “Controlled Group” means the Company and each entity that is treated with the Company as a single “service recipient” under the default ownership test (at least fifty percent) set forth in Treas. Reg. 1.409A-1(h)(3).

SECTION 2.12. “Control Event” means any event which qualified as a “change in control event” within the meaning of Section 409A of the Code.

SECTION 2.13. “Director” means any member of the Board who is not an employee of the Company or a Controlled Group Entity.

SECTION 2.14. “Fund” means any investment fund selected by the Administrator to be offered under the Plan.

SECTION 2.15. “Key Employee” means any executive employee or other overtime-exempt employee of the Company or a Controlled Group Entity who the Administrator, in its sole discretion, decides is important to the ongoing business objectives of the Company or a Controlled Group Entity and designates as an eligible participant under the Plan.

SECTION 2.16. “Participant” means any person who has deferred Compensation pursuant to this Plan and who has an Account to which amounts stand credited.

SECTION 2.17. “Payment Period” means the quarter and year designated pursuant to Section 3.04 for the commencement of payment of a Participant’s Account.

SECTION 2.18. “Plan” means this “OneBeacon Deferred Compensation Plan” as set forth herein and as amended from time to time.

SECTION 2.19. “Plan Year” means the calendar year.

SECTION 2.20. “Termination of Service” means, as applicable, (i) cessation for any reason of a Director’s service as a member of the Board, or (ii) cessation or permanent reduction to a level no more than 20% of the average level of bona fide services performed for the service recipient during the immediately preceding 36-month period (or the full period of service to the service recipient if shorter than 36 months), for any reason of a Key Employee’s service as an employee of the Company or a Controlled Group Entity, in each case, only to the extent such termination constitutes a separation from service with the Controlled Group within the meaning of Section 409A(a)(2), as determined by the Committee in its sole discretion, but, in the case of clause (ii) only to the extent such cessation or termination of service is considered to be a “separation from service” from the Controlled Group as described in Section 409A(a)(2) of the Code.

SECTION 2.21. “Treas. Reg.” means Treasury Regulation of the Code.

SECTION 2.22. “Valuation Date” means the date that the Administrator makes a valuation of an Account. Unless otherwise provided by the Administrator, each deemed investment alternative within each Account shall be valued as of each day on which a value for such deemed investment alternative reasonably is available to the Administrator.

### ARTICLE III

#### Eligibility and Deferrals

SECTION 3.01. Eligibility. Each Director and each Key Employee designated by the Administrator as eligible to participate in the Plan shall be eligible to be a Participant hereunder. The Administrator has the sole and complete discretion to determine which Key Employees are eligible to participate on a Plan Year by Plan Year basis. No Key Employee shall have a right to be designated as a Participant and the designation of a Key Employee as a Participant in one Plan Year shall not obligate the Administrator to continue such Key Employee as a Participant in subsequent Plan Years.

SECTION 3.02. Accounts. The Administrator shall establish an Account for each Director or Key Employee who elects to defer Compensation pursuant to Section 3.03. Amounts deferred pursuant to Section 3.03, and the value thereof determined pursuant to Section 3.05, shall be credited to such Account.

SECTION 3.03. Deferral of Compensation. A Director or Key Employee may elect to reduce the Compensation otherwise payable to him during or in respect of a Plan Year and to have such amount credited to his Account. A deferral election pursuant to this Section 3.03 shall be made in writing at such time and in such manner as the Administrator shall prescribe but must in any event be made before the applicable deadline for making such a deferral election pursuant to Section 409A of the Code. Specifically, a deferral election with respect to Compensation by a Participant must be irrevocably executed and filed with the Administrator prior to the first day of the Plan Year in which the services related to such Compensation will be rendered, except as otherwise provided in this section. In the case of a Participant who is first hired by the Company or a Controlled Group Entity or elected to the Board during a Plan Year, such Participant may make an irrevocable election within 30 days of becoming eligible to participate in the Plan to defer any unearned portion of his Compensation in respect of such Plan Year related to services to be performed after the date of such election, to the extent permitted under Treas. Reg. § 1.409A-2(a)(7). In the case of any Compensation that constitutes “performance-based compensation” within the meaning of Treas. Reg. § 1.409A-1(e), the Administrator may permit a Participant to make a deferral election with respect to such Compensation that does not become irrevocable until the date that is six months prior to the end of the applicable performance period, to the extent permitted under Treas. Reg. § 1.409A-2(a)(8). A deferral election shall apply only with respect to Compensation payable in respect of the Plan Year for which the election is made and shall not continue in effect for any subsequent Plan Year.

SECTION 3.04. Payment Period. (a) Designation. Each deferral election given pursuant to Section 3.03 shall include a designation of the Payment Period for the value of the amount deferred subject to the limitation set forth in Section 3.04(d).

(b) Adjustments to Deferral Elections. To the extent permitted by Section 409A of the Code, the Administrator may permit a Participant to irrevocably elect to make additional deferral elections with respect to amounts previously deferred under the Plan to further delay the relevant Payment Period; provided that the following conditions are met:

(i) the redeferral election may not take effect until at least twelve (12) months after the date on which such redeferral election is made;

(ii) the first payment with respect to which such redeferral election is made must be deferred for a period of not less than five (5) years from the date such payment would otherwise have been made based on the prior deferral election; and

(iii) the redeferral election must be made at least twelve (12) months prior to the date of the first scheduled payment pursuant to the prior applicable deferral election.

Notwithstanding the foregoing, the Administrator may, in its sole discretion, permit Participants to change their deferral elections under the Plan without meeting the conditions set forth in this Section 3.04(b) provided that such deferral election changes comply with transitional relief rules promulgated by the Treasury Department under Section 409A of the Code.

(c) Initial Payment Period. A Participant may select an initial Payment Period that begins no sooner than the first anniversary of the date of such election.

(d) If and to the extent required by Section 457A of the Code, if any Payment Period election previously made by a Participant calls for distribution from the Plan to be made later than October 31, 2017, all such elections shall be deemed amended without any further action to make a single payment not later than October 31, 2017 for any deferred amounts remaining in the Plan as of such date.

(e) Methods of Payments. A Participant may elect, at the time a Payment Period is selected, to receive the amount which will become payable as of such Payment Period in no more than 10 annual installments. Except as may be elected pursuant to this Section 3.04(e), all amounts becoming payable under this Plan shall be paid in a single payment.

(f) Irrevocability. Except as provided in Section 3.04(b) or as set forth in Article IV, a designation of a Payment Period and an election of installment payments shall be irrevocable; provided, however, that payment may be made at a different time as provided in Section 4.04.

SECTION 3.05. Value of Participants' Accounts. Compensation deferrals shall be allocated to each Participant's Account on the first business day following the date such Compensation is withheld from the Participant's Compensation and shall be deemed invested pursuant to this Section 3.05, as soon as practicable thereafter.

(a) Crediting of Income, Gains and Losses. As of each Valuation Date, income, gain and loss equivalents (determined as if the Account is invested in the manner set forth below) attributable to the period following the next preceding Valuation Date shall be credited to and/or deducted from the Account.

(b) Investment of Account Balance. The Participant may select, from various Funds made available hereunder, the Funds in which all or part of his Account shall be deemed to be invested.

(i) The Participant shall make an investment designation on a form provided by the Administrator, which shall remain effective until another valid designation has been made by the Participant as herein provided. The Participant may amend his investment designation by giving written direction to the Administrator in accordance with procedures established by the Administrator. A timely change to a Participant's investment designation shall become effective on the date determined under the applicable procedures established by the Administrator.

(ii) Any changes to the Funds to be made available to the Participant, and any limitation on the maximum or minimum percentages of the Participant's Account that may be

invested in any particular medium, shall be communicated from time to time to the Participant by the Administrator.

(c) Default Provision. Except as provided below, the Participant's Account shall be deemed to be invested in accordance with his investment designations, provided such designations conform to the provisions of this Section. Notwithstanding the above, the Committee, in its sole discretion, may disregard the Participant's election and determine that all Compensation deferrals shall be deemed to be invested in a Fund determined by the Committee. In the event that any Fund under which any portion of the Participant's Account is deemed to be invested ceases to exist, such portion of the Account thereafter shall be deemed held in the Fund selected by the Participant or, in the absence of any instructions from the Participant, by the Committee, subject to subsequent deemed investment elections.

(d) Statements. The Company shall provide an annual statement to the Participant showing such information as is appropriate, including the aggregate amount credited to the Account, as of a reasonably current date.

SECTION 3.06. Limit on Account Balance. Notwithstanding anything to the contrary contained herein, a Participant shall not be entitled to make new deferral elections for a subsequent year under the Plan if such new deferrals, when added to the amounts previously deferred under the Plan by such Participant, would be reasonably likely, in the sole and absolute discretion of the Committee, to result in the aggregate amount credited to the Participant's Account (including, without limitation, Compensation deferrals and investment gains thereon) exceeding \$50,000,000 or such other amount as may be designated by the Committee.

## ARTICLE IV

### Payment of Benefits

SECTION 4.01. Nonforfeitability. Participant's right to a deferred amount of Compensation and his right to the income and gains credited thereon, shall be fully vested and nonforfeitable at all times.

SECTION 4.02. Income. Any payment made pursuant to Sections 4.03, 4.04, 4.05 or 4.06 shall include the income, gains and losses calculated in the manner described in Section 3.05 through the nearest practicable Valuation Date preceding the date upon which such payment is made.

SECTION 4.03. Time of Payment. Except as provided in Section 4.04, 4.05 and 4.06, the amount credited to the Account of each Participant shall become payable to the Participant according to the Payment Period designated pursuant to Section 3.04. If the Participant has elected installment payments, such payments shall begin within thirty days following the commencement of the Payment Period. In any other case, payment shall be made as a single sum within thirty days following the commencement of the Payment Period.

SECTION 4.04. Termination of Service. In the event of a Participant's Termination of Service while amounts stand credited to his Account, such amounts (which shall

include income, gains and losses credited thereon) shall be disposed of as provided in this Section 4.04.

(a) Death of Participant. If the Participant's Termination of Service is on account of his death, or if he dies following Termination of Service prior to receiving his Account in a single payment or while receiving installment payments, his Account shall be paid to his Beneficiary in a single payment as soon as practicable, but not later than 90 days following the Participant's death.

(b) Other Termination. If the Participant's Termination of Service is for a reason other than death, and except in the event of an intervening death following Termination of Service as described in Section 4.04(a), his Account shall be paid to him as follows (depending on the applicable year of deferral and the Participant's age at the time of Termination of Service):

<b>Year of Deferral</b>	<b>Under Age 55 at Termination</b>	<b>Age 55+ at Termination</b>
Pre-2007	Payment Period will accelerate to the date of Termination of Service, and commence as soon as administratively practicable after the participant's Termination of Service, but in any event not later than three months after the end of the year in which the Termination of Service occurs. The form of distribution will be pursuant to the terms of the Participant's deferral election.	Payment Period will accelerate the date of Termination of Service, and commence as soon as administratively practicable after the participant's Termination of Service, but in any event not later than three months after the end of the year in which the Termination of Service occurs. The form of distribution will be pursuant to the terms of the Participant's deferral election.
2007 or Later	Subject to Section 6.18 of this Plan, Payment Period will accelerate to the date of Termination of Service, and shall be paid out in a single lump sum within 90 days following the date that is 6 months following the participant's Termination of Service.	Subject to Section 6.18 of this Plan, Payment Period will accelerate to the date of Termination of Service, and commence (or shall continue to be paid, to the extent payment commenced prior to the Termination of Service) within 90 days following the date that is 6 months following the participant's Termination of Service and be paid out in the number of installments previously elected by the Participant.

All subsequent installment payments shall be paid annually on each anniversary of the date of distribution of the first installment payment.

SECTION 4.05. Withdrawal and/or Cancellation of Deferral Election for Emergency Need. (a) Authorization. The Committee may permit a Participant who demonstrates an unforeseeable emergency need to (i) withdraw from the Plan an amount no

greater than the amount determined by the Committee to be reasonably necessary to satisfy such unforeseeable emergency need, to the extent permitted under Section 409A(a)(2)(B)(ii) of the Code; and/or (i) cancel a deferral election (with the effect of ceasing all subsequent deferrals of Compensation with respect to such election) to extent permitted under Treas. Reg. 1-409A-3(j)(4)(viii).

(b) Unforeseen Emergency Need. For purposes of this Plan, an “unforeseen emergency need” means a severe financial hardship of a Participant resulting from (i) an illness or accident of the Participant or the Participant’s spouse, beneficiary or dependent within the meaning of Section 152(a) of the Code, (ii) a casualty loss to the Participant’s property or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant’s control, in each case, only to the extent such event is considered to be an “unforeseeable emergency” under Section 409A(a)(2) of the Code. A need will not be considered an unforeseeable emergency to the extent that it is or will be relieved by reimbursement or compensation by insurance or otherwise, or by liquidation of the Participant’s assets insofar as such liquidation would not cause severe financial hardship, or by cessation of deferrals under the Plan.

(c) Priority. Prior to receiving any withdrawal from the Plan for a financial hardship, a Participant must first cancel any deferral elections if, in the Administrator’s sole discretion, the cessation of deferrals relating to such elections would contribute to the relief of the financial hardship.

SECTION 4.06. Change in Control. A Participant’s Account shall be distributed in full in a cash lump sum immediately prior to a Change in Control.

SECTION 4.07. Source of Payment. The Compensation deferred pursuant to this Plan (and the income, gains and losses credited thereon) shall be a general obligation of the Company. The claim of a Participant or Beneficiary to a benefit shall at all times be merely the claim of an unsecured creditor of the Company. No trust, security, escrow, or similar account need be established for the purpose of paying benefits hereunder. The Company shall not be required to purchase, hold or dispose of any investments pursuant to this Plan; however, if in order to cover its obligations hereunder the Company elects to purchase any investments the same shall continue for all purposes to be a part of the general assets and property of the Company, subject to the claims of its general creditors and no person other than the Company shall by virtue of the provisions of this Plan have any interest in such assets other than an interest as an general creditor.

SECTION 4.08. Withholding. All amounts credited to Participants’ Accounts pursuant to this Plan and all payments under the Plan shall be subject to any applicable withholding requirements imposed by any tax (including, without limitation, FICA) or other law. If any of the taxes referred to above are due at the time of deferral, instead of at the time of payout, the Participant will be required to pay (by payroll deduction or check) to the Company the Participant’s share of any such taxes then due and payable.

SECTION 4.09. Right of Offset. Any amount payable pursuant to this Plan shall be reduced at the discretion of the Administrator consistent with the provisions of Treas. Reg. section 1.409A-3(j)(4)(xiii) (or any successor regulation thereto) to take account of any



amount due, and not paid, by the Participant to the Company at the time payment is to be made hereunder.

SECTION 4.10. Payment Denomination. Except as otherwise determined by the Committee in its sole and absolute discretion, all distributions under the Plan (including all distributions made pursuant to Sections 4.03, 4.04 and 4.05) shall be made in cash.

SECTION 4.11. Distribution Limitation. Notwithstanding anything to the contrary contained herein, the Committee may defer, in a manner consistent with Treas. Reg. § 1.409A-2(b)(7)(i), distributions to Participants that it reasonably determines in its sole and absolute discretion would not be deductible by the Company or its affiliates solely by reason of the applicability of Section 162(m) of the Code. Notwithstanding anything to the contrary contained in this Plan, no payment from the Plan shall be made later than December 31, 2017; provided, however, that the foregoing distribution limitation shall apply if and only to the extent required to comply with the provisions of Section 457A of the Code.

## ARTICLE V

### Beneficiaries

SECTION 5.01. Beneficiary Designation. (a) Designation. A Participant may from time to time designate, in the manner specified by the Administrator, a Beneficiary to receive payment pursuant to Section 4.04 in the event of his death.

(b) Absence of Beneficiary. In the event that there is no properly designated Beneficiary living at the time of a Participant's death, his benefit hereunder shall be paid to his estate.

SECTION 5.02. Payment to Incompetent. If any person entitled to benefits under this Plan shall be a minor or shall be physically or mentally incompetent in the judgment of the Administrator, such benefits may be paid in any one or more of the following ways, as the Administrator in his sole discretion shall determine:

- (a) to the legal representatives of such minor or incompetent person;
- (b) directly to such minor or incompetent person; or
- (c) to a parent or guardian of such minor or incompetent person, to the person with whom such minor or incompetent person resides, or to a custodian for such minor under the Uniform Gifts to Minors Act (or similar statute) of any jurisdiction.

Payment to any person in accordance with the foregoing provisions of this Section 5.02 shall to that extent discharge the Company, which shall not be required to see to the proper application of any such payment.

SECTION 5.03. Doubt as to Right To Payment. If reasonable doubt exists as to the right of any person to any benefits under this Plan or the amount or time of payment of such benefits (including, without limitation, any case of doubt as to identity, or any case in which any notice has been received from any other person claiming any interest in amounts payable

hereunder, or any case in which a claim from other persons may exist by reason of community property or similar laws), the Administrator may, in its discretion, direct that payment of such benefits be deferred in a manner consistent with Section 409A of the Code until such right or amount or time is determined, or pay such benefits into a court of competent jurisdiction in accordance with appropriate rules of law, or direct that payment be made only upon receipt of a bond or similar indemnification (in such amount and in such form as is satisfactory to the Administrator).

SECTION 5.04. Spendthrift Clause. No benefit, distribution or payment under the Plan may be anticipated, assigned (either at law or in equity), alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process whether pursuant to a “qualified domestic relations order” as defined in Section 414(p) of the Code or otherwise.

## ARTICLE VI

### Administration and Reservation of Rights

SECTION 6.01. Powers of the Committee. The Committee shall have the power and sole and absolute discretion to

- (a) determine all questions arising in law or fact in the interpretation and application of the Plan;
- (b) determine the person or persons to whom benefits under the Plan shall be paid;
- (c) decide any dispute arising hereunder;
- (d) correct defects, supply omissions and reconcile inconsistencies to the extent necessary to effectuate the Plan; and
- (e) have all such other powers as may be necessary to discharge its duties hereunder.

SECTION 6.02. Powers of the Administrator. The Administrator shall have the power and sole and absolute discretion to

- (a) promulgate and enforce such rules, regulations and procedures as shall be proper for the efficient administration of the Plan;
- (b) determine all questions arising in the administration of the Plan;
- (c) compute the amount of benefits and other payments which shall be payable to any Participant in accordance with the provisions of the Plan;
- (d) make recommendations to the Board with respect to proposed amendments to the Plan;
- (e) advise the Board regarding the known future need for funds to be available for distribution;

(f) file all reports with government agencies, Participants and other parties as may be required by law, whether such reports are initially the obligation of the Company or the Plan; and

(g) have all such other powers as may be necessary to discharge its duties hereunder.

SECTION 6.03. Claims Procedure. If the Committee denies any Participant's or Beneficiary's claim for benefits under the Plan:

(a) the Committee shall notify such Participant or Beneficiary of such denial by written notice which shall set forth the specific reasons for such denial;

(b) the Participant or Beneficiary shall be afforded a reasonable opportunity for a full and fair review by the Committee of the decision to deny his claim for Plan benefits; and

(c) the claim shall in all respects be handled in accordance with the claims procedures maintained by the Administrator, a copy of which shall be made available to any Participant who so requests in writing.

SECTION 6.04. Action by the Committee. The Chief Human Resources Officer of the Company shall act as Chairman of the Committee. The Benefits Committee shall act by majority vote. A quorum to do business shall be at least half of those who are then members. Resolutions may be adopted or other action taken without a meeting upon written consent signed by at least a majority of the members. All documents, instruments, orders, requests, directions, instructions and other papers shall be executed on behalf of the Committee by either the Chairman or the Secretary of the Committee, if any, or by any member or agent of the Committee duly authorized to act on the Committee's behalf. Subject to the terms of this Plan, the Benefits Committee may, in its discretion, set and change its rules for transacting business and administering the Plan.

SECTION 6.05. Consent. By electing to become a Participant, each Participant shall be deemed conclusively to (i) have accepted and consented to all terms of the Plan and all actions or decisions made by the Administrator, the Company, the Controlled Group, the Committee or the Board of the Company with regard to the Plan and (ii) have agreed that the Company, the Controlled Group, the Administrator, the Committee and the Board of the Company (and any person who is employed by, is a member of, or provides services to or on behalf of, any of the foregoing) shall not have any liability related to, or be responsible for any claim related to, the incurrence by the Participant of any tax, interest expense, loss of deferral benefit, or any other obligation, liability or damage, in each case, arising under or related to Section 409A of the Code. This Section 6.05 shall also apply to, and be binding upon, the Beneficiaries, distributees and personal representatives and other successors in interest of each Participant.

SECTION 6.06. Agents and Expenses. The Administrator or the Committee may employ agents and provide for such clerical, legal, actuarial, accounting, medical, advisory or other services as it deems necessary to perform its duties under this Plan. The cost of such

services and all other expenses incurred by the Administrator or the Committee in connection with the administration of the Plan shall be paid by the Company.

SECTION 6.07. Allocation of Duties. The duties, powers and responsibilities reserved to the Committee may be allocated among its members so long as such allocation is pursuant to written procedures adopted by the Committee, in which case no Committee member shall have any liability, with respect to any duties, powers or responsibilities not allocated to him, for the acts or omissions of any other Committee member.

SECTION 6.08. Delegation of Duties. The Administrator and the Committee may delegate any of their respective duties to employees of the Company or its subsidiaries.

SECTION 6.09. Actions Conclusive. Any action on matters within the discretion of the Administrator or the Committee shall be final, binding and conclusive.

SECTION 6.10. Records and Reports. The Administrator and the Committee shall maintain adequate records of their respective actions and proceedings in administering this Plan and shall file all reports and take all other actions as are deemed appropriate in order to comply with any Federal or state law. Without limiting the foregoing, the Administrator shall provide to the Committee no less frequently than annually a list of the investment alternatives made available under the Plan, the aggregate amounts deemed invested under the Plan in each such alternative and such other information requested by the Committee.

SECTION 6.11. Liability and Indemnification. The Administrator and the Committee shall perform all duties required of them under this Plan in a prudent manner. The Administrator and the Committee shall not be responsible in any way for any action or omission of the Company, its subsidiaries or their employees in the performance of their duties and obligations as set forth in this Plan. The Administrator and the Committee also shall not be responsible for any act or omission of any of their respective agents provided that such agents were prudently chosen by the Administrator or the Committee and that the Administrator or the Committee relied in good faith upon the action of such agents.

SECTION 6.12. Right to Amend or Terminate. The Board of the Company or the Committee may at any time amend the Plan in any respect, retroactively or otherwise, or terminate the Plan in whole or in part for any other reason, to the extent permitted under Treas. Reg. § 1.409A-3(j)(4)(ix). However, no such amendment or termination shall reduce the amount standing credited to any Participant's Account as of the date of such amendment or termination. In the event of the termination of the Plan, the Board of the Company or the Committee, in its sole discretion, may choose to pay out Participants' Accounts prior to the designated Payment Periods (a "Termination Distribution"), to the extent permitted under Treas. Reg. § 1.409A-3(j)(4)(ix). Each Participant may, in the discretion of the Board of the Company or the Committee, be compensated for the early distribution of his/her Account pursuant to a Termination Distribution by a payment from the Company in an amount determined by the Committee to be appropriate to make the Participant whole for such Termination Distribution. Otherwise, following a termination of the Plan, income, gains and losses shall continue to be credited to each Account in accordance with the provisions of this Plan until the time such Accounts are paid out.

SECTION 6.13. Usage. Whenever applicable, the masculine gender, when used in the Plan, includes the feminine gender, and the singular includes the plural.

SECTION 6.14. Separability. If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provisions of the Plan, and the Plan shall be construed and enforced as if such provision had not been included therein.

SECTION 6.15. Captions. The captions in this document and in the table of contents are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge or describe the scope or intent of the Plan and shall in no way affect the Plan or the construction of any provision thereof.

SECTION 6.16. Right of Discharge Reserved. Nothing contained in this Plan shall be construed as a guarantee or right of any Participant to be continued as a Director or an employee of the Company or a Controlled Group Entity (or of a right of a Key Employee or Director to any specific level of Compensation) or as a limitation of the right of the Company or a Controlled Group Entity to terminate any Key Employee or Director.

SECTION 6.17. Governing Law and Construction. The Plan is intended to constitute an unfunded, nonqualified deferred compensation arrangement. Except to the extent preempted by Federal law, all rights under the Plan shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of law. No action shall be brought by or on behalf of any Participant or Beneficiary for or with respect to benefits due under this Plan unless the person bringing such action has timely exhausted the Plan's claim review procedure.

SECTION 6.18. Compliance with Section 409A of the Code. This Plan is intended to comply with Section 409A of the Code and will be interpreted by the Committee and the Administrator, each in their sole and absolute discretion, in a manner intended to comply with Section 409A of the Code. In furtherance thereof, no payments may be accelerated under the Plan if such acceleration would cause amounts deferred under the Plan to become subject to (i) the gross income inclusion set forth within Code Section 409A(a)(1)(A) (the "Gross Income Inclusion"), (ii) the interest and additional tax set forth within Code Section 409A(a)(1)(B) (the "Interest and Additional Taxes") or (iii) any similar state or local income inclusion, interest or additional tax ("State and Local Taxes" and, together with the Gross Income Inclusion and the Interest and Additional Taxes, referred to herein as the "Section 409A Penalties"). To the extent that any provision of the Plan violates Section 409A of the Code so as to cause amounts deferred under the Plan to become subject to Section 409A Penalties, such provision shall be automatically reformed or stricken to preserve the intent hereof. Notwithstanding anything herein to the contrary, (i) if at the time of a Participant's Termination of Service the Participant is a "specified employee" as defined in Section 409A of the Code (and any related regulations or other pronouncements thereunder) and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such Termination of Service is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company shall defer the commencement of the payment of any such payments or benefits hereunder until the date that is six months following the Participant's Termination of Service (or the earliest date as is permitted under Section 409A of the Code) and (ii) if any other payments due to a Participant hereunder could give rise to Section 409A Penalties with respect to the

payment, such payments or other benefits shall be deferred if the Board of the Company or the Committee in its sole and absolute discretion determines that deferral will make such payment compliant under Section 409A of the Code so as to avoid Section 409A Penalties with respect to the payment, or otherwise such payment shall be restructured, to the extent possible, in a manner, determined by the Committee in its sole and absolute discretion, that does not cause application of Section 409A Penalties. The Board of the Company, the Committee and the Administrator shall in their sole and absolute discretion implement the provisions of this Section 6.18 in good faith.

**ONEBEACON'S 2012 MANAGEMENT INCENTIVE PLAN****Purpose**

The Management Incentive Plan (MIP) is an integral part of the total compensation program for managers and certain senior key individual contributors. Its primary purpose is to focus attention on 2012 profitability goals and to reward eligible participants for the achievement of those goals.

**Eligibility**

The Plan is limited to senior staff who have a significant impact on OneBeacon's operating results.

**Target Awards**

Target awards for all participants are expressed as a percent of salary.

**Performance Measures**

The corporate MIP pool will be established primarily based upon achievement of solid financial and economic performance. The OneBeacon Insurance Group, Ltd. Compensation Committee (the "Compensation Committee") set the 2012 MIP primary performance objective at a 93.7% adjusted combined ratio, together with secondary strategic objectives with respect to expense management and capital management. The 93.7% combined ratio represents an appropriately challenging performance goal for the 2012 MIP as we continue to fully transition to our new organization. The other performance goals are consistent with the Company's strategic and operational objectives including the reduction of expenses while continuing to write profitable specialty business, and substantially meeting these objectives will yield an expected payment at or near target.

The Compensation Committee may adjust the size of the pool based on under- or over-achievement of the Company's target combined ratio and other objectives at its sole discretion.

**Individual Awards**

Each business unit will be judged against a number of performance metrics including, where appropriate, a combined ratio target. Generally these metrics will relate to the aggregate financial plan rolled up by line of business. If the financial metrics are achieved, in conjunction with other business metrics, the business may be awarded 100% of its indicated share of the corporate pool. Businesses failing to meet goals may or may not, at the discretion of the CEO, receive a reduced, partial allocation of the pool. Businesses exceeding objectives may receive greater than 100% of indicated allocation. In no event will the sum of the performance-adjusted business unit pools be greater than the performance-adjusted Company pool as authorized by the Compensation Committee.

Within each business, it will be the prerogative of the business leader, with guidance from and after consultation with the CEO, to further allocate the business' pool amount to the constituent branches, lines of business and individuals, based upon performance.

For corporate or administrative functions that support all or multiple businesses, participants will receive allocations from the corporate pool based upon attainment of their department and individual goals for 2012.

The salary used to determine the amount of the individual awards will be that in effect at the end of the plan year (12/31/12).

### **Plan Participation for New Hires**

Employees hired during the plan year are eligible to participate in the MIP. Awards will be pro-rated specifically based on date of hire unless other arrangements are agreed to at the time of the employment offer.

### **Payment of Awards**

Unless payment is deferred in accordance with an election made pursuant to the OneBeacon Deferred Compensation Plan and any related procedures adopted by the Company, payment of any MIP award shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such MIP award is earned, but in any event not prior to the Compensation Committee's certification of performance results following the end of the plan year. **In all cases, payment will not be made unless and until the Compensation Committee approves the overall corporate performance factor and performance-adjusted MIP pool and no payment will be made to the CEO, the Executive Team or any of the other executive officers without specific approval from the Committee.**

### **Clawback Policy**

Amounts paid pursuant to the MIP are subject to clawback by OneBeacon pursuant to the Clawback Policy adopted by the Board of Directors of OBIG on June 16, 2010. The Clawback Policy provides that, in the event of a restatement of the financial statements of OBIG for failure to comply with the federal securities laws due to misconduct of a MIP participant, the Board of Directors of OBIG may require the participant to reimburse OneBeacon for all or a portion of his or her MIP award; provided, however, that in the event of fraud, the MIP participant shall reimburse OneBeacon for all of his or her MIP award.

### **Special Circumstances**

The Compensation Committee may, in its sole discretion, also recognize extraordinary conditions or circumstances in determining payment levels.

In the event of termination prior to the payment of awards, no incentive payments will be made. However, in the event of retirement or reduction in force at or after the end of the plan year, but before payment is made, MIP payments may be made if approved by the senior business leader. Payment shall be contingent upon the participant signing a OneBeacon Agreement and Release as consideration for all incentive payments. No participant who was terminated prior to the payment of awards due to a reduction in force may be considered for a MIP payment unless the participant also signed the Agreement and Release provided to the participant at the time of termination within the time period specified in the Agreement and Release. For purposes of the MIP, "retirement" shall mean termination of service with the Company, other than for cause, at any time after attaining age sixty (60) or termination of service under circumstances which the Committee deems equivalent to retirement. These exceptions will be made on a case by case basis. In the event of death or disability, the participant or beneficiary may be considered for a partial award payment if approved by the senior business leader.

The MIP is discretionary; in no way does eligibility in this plan imply an obligation of payment on the part of OneBeacon nor should it be construed as a promise of continued employment.

### **Effect on Benefit Plans**

Amounts paid under the terms of the MIP will not be counted for purposes of determining compensation under any other employee benefit plan sponsored by OneBeacon.

### **Plan Continuation**

Notwithstanding any of the aforementioned, the MIP may be amended or terminated, in whole or in part, at any time, by the Compensation Committee.



**WHITE MOUNTAINS INSURANCE GROUP, LTD.**  
**Statement Re Computation of Ratio of Earnings to Fixed Charges**  
**(\$ in millions except ratios)**

	Year Ended				
	2012	2011	2010	2009	2008 (1)
Consolidated pre-tax income (loss) from continuing operations before equity in earnings of affiliates, accounting changes and extraordinary items	\$ 262.8	\$ 98.0	\$ 189.3	\$ 781.0	\$ (1,016.00)
Distributed income of equity investees			—	—	—
Interest expense on debt	44.8	55.2	57.3	70.8	81.6
Interest portion of rental expense	6.3	7.6	9.4	11.7	13.1
Earnings (loss)	\$ 313.9	\$ 160.8	\$ 256.0	\$ 863.5	\$ (921.30)
Interest expense on debt	44.8	55.2	\$ 57.3	\$ 70.8	\$ 81.6
Interest portion of rental expense	6.3	7.6	9.4	11.7	13.1
Fixed charges	\$ 51.1	\$ 62.8	\$ 66.7	\$ 82.5	\$ 94.7
<b>Ratio of earnings to fixed charges</b>	<b>6.1</b>	<b>2.6</b>	<b>3.8</b>	<b>10.5</b>	<b>—</b>

(1) Earnings were inadequate to cover fixed charges by \$1,016.4 for the year ended December 31, 2008.

**SUBSIDIARIES OF THE REGISTRANT  
AS OF DECEMBER 31, 2012**

<b>FULL NAME OF SUBSIDIARY</b>	<b>PLACE OF INCORPORATION</b>
CENTRAL NATIONAL INSURANCE COMPANY OF OMAHA	NEBRASKA, USA
SIRIUS INTERNATIONAL HOLDING COMPANY, INC.	NEW YORK, USA
SIRIUS AMERICA INSURANCE COMPANY	NEW YORK, USA
FUND AMERICAN HOLDINGS AB	SWEDEN
GUILFORD HOLDINGS, INC.	DELAWARE, USA
HOMELAND INSURANCE COMPANY OF DELAWARE	DELAWARE, USA
LONE TREE HOLDINGS LTD.	BERMUDA
MILL SHARES HOLDINGS BERMUDA LIMITED	BERMUDA
ONEBEACON U.S. ENTERPRISES HOLDINGS, INC.	DELAWARE, USA
ONEBEACON U.S. FINANCIAL SERVICES, INC.	DELAWARE, USA
ONEBEACON U.S. HOLDINGS, INC.	DELAWARE, USA
ONEBEACON AMERICA INSURANCE COMPANY	MASSACHUSETTS, USA
ONEBEACON HOLDINGS (GIBRALTAR) LIMITED	GIBRALTAR
S.I. HOLDINGS (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
ONEBEACON INSURANCE COMPANY	PENNSYLVANIA, USA
ATLANTIC SPECIALTY INSURANCE COMPANY	NEW YORK, USA
ONEBEACON INSURANCE GROUP LLC	DELAWARE, USA
ONEBEACON INSURANCE GROUP LTD.	BERMUDA
ONEBEACON INVESTMENTS (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
PSC HOLDINGS LTD.	BERMUDA
SIRIUS INSURANCE HOLDING SWEDEN AB	SWEDEN
SIRIUS INTERNATIONAL INSURANCE CORPORATION	SWEDEN
THE NORTHERN ASSURANCE COMPANY OF AMERICA	MASSACHUSETTS, USA
WHITE MOUNTAINS ADVISORS LLC	DELAWARE, USA
WHITE MOUNTAIN HOLDING (NL)B.V.	NETHERLANDS
WHITE MOUNTAINS HOLDINGS (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WHITE MOUNTAINS INTERNATIONAL S.A.R.L.	LUXEMBOURG
WHITE MOUNTAINS INVESTMENTS BERMUDA LTD.	BERMUDA
WHITE MOUNTAINS LIFE REINSURANCE (BERMUDA) LTD.	BERMUDA
SIRIUS INTERNATIONAL FINANCIAL SERVICES LTD.	BERMUDA
SIRIUS INTERNATIONAL GROUP, LTD.	BERMUDA
SIRIUS RE HOLDINGS, INC.	DELAWARE, USA
SIRIUS INTERNATIONAL HOLDINGS, LTD.	BERMUDA
SIRIUS INTERNATIONAL INSURANCE GROUP, LTD.	BERMUDA
WHITE MOUNTAINS RE UNDERWRITING SERVICES LTD	BERMUDA
WHITE ROCK HOLDINGS (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WHITE SANDS HOLDINGS (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM ALAMEDA (GIBRALTAR) LIMITED	GIBRALTAR
WM BECH (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM BELVAUX (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM CALETA (GIBRALTAR) LIMITED	GIBRALTAR
WM CLAY (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM CUMBERLAND (GIBRALTAR) LIMITED	GIBRALTAR
WM FINDEL (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM KAOLIN (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM KEHLEN (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM LAGUNA (GIBRALTAR) LIMITED.	GIBRALTAR
WM LIMESTONE (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM LINGER (LUXEMBOURG) S.A.R.L.	LUXEMBOURG

WM MERL (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM MONTAGU (GIBRALTAR) LIMITED	GIBRALTAR
WM OLM (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM QUEENSWAY (GIBRALTAR) LIMITED	GIBRALTAR
WM REULER (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM VIANDEN (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM PHOENIX (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WHITE SHOALS RE LTD.	BERMUDA
WHITE MOUNTAINS RE SIRIUS CAPITAL LTD.	UNITED KINGDOM
WHITE MOUNTAINS RE UNDERWRITING SERVICES AMERICA LLC.	NEW YORK, USA
SIRIUS GLOBAL SERVICES LLC.	DELAWARE, USA
WHITE MOUNTAINS SPECIALTY UNDERWRITING, INC.	CONNECTICUT, USA
WHITE MOUNTAINS SOLUTIONS HOLDINGS COMPANY	CONNECTICUT, USA
WHITE MOUNTAINS SOLUTIONS INC	CONNECTICUT, USA
SIRIUS INTERNATIONAL HOLDINGS (NL)B.V.	NETHERLANDS
STAR RE LTD	BERMUDA
BRIDGE HOLDINGS (BERMUDA) LTD	BERMUDA
WHITE MOUNTAINS CAPITAL, INC	DELAWARE, USA
WHITE MOUNTAINS FINANCIAL SERVICES LLC	DELAWARE, USA
WHITE MOUNTAINS SERVICES LLC	DELAWARE, USA
ONEBEACON SERVICES LLC	DELAWARE, USA
SYA INSURANCE HOLDINGS (NL)B.V.	NETHERLANDS
HG GLOBAL LTD	BERMUDA
HG HOLDINGS LTD	BERMUDA
HG SERVICES LTD	BERMUDA
HG RE LTD	BERMUDA
HG (GIBRALTAR) LIMITED	GIBRALTAR
HGR (GIBRALTAR) LIMITED	GIBRALTAR
HG ROOSEVELT (LUXEMBOURG) S.A.R.L	LUXEMBOURG
HGR PATTON (LUXEMBOURG) S.A.R.L	LUXEMBOURG
WHITE MOUNTAINS INVESTMENTS (LUXEMBOURG) S.A.R.L	LUXEMBOURG
TLP HOLDINGS (GIBRALTAR) LIMITED	GIBRALTAR
TLP HOLDINGS (LUXEMBOURG) S.A.R.L	LUXEMBOURG
AMERICAN GENERAL PROPERTY INSURANCE COMPANY	TENNESSEE, USA
PHYSICIAN'S INSURANCE COMPANY OF OHIO	OHIO, USA
CITATION INSURANCE COMPANY	CALIFORNIA, USA
AMERICAN GENERAL INDEMNITY COMPANY	ILLINOIS, USA

Certain other subsidiaries of the Company have been omitted since, in the aggregate, they would not constitute a significant subsidiary.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements, as amended, on Form S-8 (No. 333-82563, 333-83206, 333-68438, 333-68460, 333-132388, 333-143574) of White Mountains Insurance Group, Ltd. of our report dated February 28, 2013 relating to the financial statements, the financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers  
Boston, Massachusetts  
February 28, 2013

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that Raymond Barrette does hereby make, constitute and appoint himself and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ RAYMOND BARRETTE

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that Howard L. Clark does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ HOWARD L. CLARK

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that Morgan W. Davis does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ MORGAN W. DAVIS

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that A. Michael Frinquelli does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ A. MICHAEL FRINQUELLI



**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that Yves Brouillette does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ YVES BROUILLETTE

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that John D. Gillespie does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ JOHN D. GILLESPIE

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that Edith E. Holiday does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ EDITH E. HOLIDAY

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that Lowndes A. Smith does hereby make, constitute and appoint Raymond Barrette and himself, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ LOWNDES A. SMITH

**WHITE MOUNTAINS INSURANCE GROUP, LTD.  
POWER OF ATTORNEY**

**KNOW ALL MEN** by these presents, that Allan L. Waters does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

**IN WITNESS WHEREOF**, the undersigned has duly executed these presents this 27 day of February 2013.

/s/ ALLAN L. WATERS

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

I, Raymond Barrette, Chairman & Chief Executive Officer of White Mountains Insurance Group, Ltd., certify that:

I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2012 of White Mountains Insurance Group, Ltd.;

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

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

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

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2013

By: /s/ RAYMOND BARRETTE

Chairman and Chief Executive Officer  
(Principal Executive Officer)

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

I, David T. Foy, Executive Vice President & Chief Financial Officer of White Mountains Insurance Group, Ltd. certify that:

I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2012 of White Mountains Insurance Group, Ltd.;

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

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

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

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2013

By: /s/ DAVID T. FOY

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the Annual Report on Form 10-K of White Mountains Insurance Group, Ltd. (the "Company"), for the period ending December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raymond Barrette, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ RAYMOND BARRETTE

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Chairman and Chief Executive Officer  
(Principal Executive Officer)

February 28, 2013



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

In connection with the Annual Report on Form 10-K of White Mountains Insurance Group, Ltd. (the "Company"), for the period ending December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David T. Foy, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ DAVID T. FOY

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Executive Vice President and Chief Financial Officer  
(Principal Executive Officer)

February 28, 2013