

Letter to Shareholders

10-31-2001

Dear Fellow Shareholder,

I recently saw many of you at our annual meeting where we tried to be detailed and informative. Developments of the last months make our communication with you seem stale. Let's catch up:

The steps to implement our partnership with Liberty Mutual are proceeding smoothly. We have signed the detailed agreements necessary. I refer you to our announcement earlier this morning. The two field organizations are getting to know each other and the operating structure is falling into place. The actual implementation will take place mostly over the next six months and will be complex. I have every reason to believe it will go forward in a businesslike fashion. Both companies should benefit from the transaction.

OneBeacon insurance operations remain a challenge. Our focus on becoming a Northeast super-regional company and nurturing selected specialty businesses has significantly improved our chances of quickly achieving an acceptable trade ratio. The energetic actions put in place by Ray Barrette and his team will not begin to show in our reported results for a while, but the underlying trends are swell. I expect the tragedies in New York and Washington to settle out between 2% and 3% of our tangible net worth, including Folksamerica, and net of reinsurance and taxes. We have solid reinsurers backing our recoveries. These terrible events have reminded customers everywhere of the critical value insurance provides just when capacity is getting scarce. We are prepared to meet this demand with the solid talent we inherited, the focused platform we have created, and plenty of capital.

As most of you know, Folksamerica was headquartered at One Liberty Plaza, just across the street from the World Trade Center. In spite of their shattered home, Steve Fass and his team were up and running in two days, with data restored and backup facilities occupied in Staten Island. The opportunities emerging in the reinsurance market might be attractive. Steve is working around the clock to be an active participant. We will bring his capital up to \$1BB so that he can be a heavier player. We trust Steve to use it with care.

In addition, we are working on a couple of other ideas to participate in new insurance opportunities. These opportunities may be temporary but attractive. You might hear about these in the next few days.

Our claims costs from the terrorist attacks have been more than offset by the outstanding performance of our investment portfolio since September 11th. John Gillespie has been remarkably prescient to move us completely out of equities a few months ago, converting us to short and medium term bonds with lots of treasuries. John also sold our \$1 billion mortgage portfolio in August. Our balance sheet is big, solid and hugely liquid.

So, an eventful period, filled with challenges and sorrow. Yet I emerge with renewed optimism for the spirit of America and for the future of our enterprise.

"The rhythm of the universe is like the drawing of a bow" . . . Lao Zi.

Respectfully submitted,

JACK

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John J. Byrne
Chairman