SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
(AMENDMENT NO. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

AUGUST 18, 1998
Date of Report (Date of earliest event reported)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	1-8993	94-2708455
(State or other jurisdiction of incorporation or organization)	(Commission File number)	(I.R.S. Employer) Identification No.)

80 SOUTH MAIN STREET, HANOVER, NEW HAMPSHIRE 03755
(Address of principal executive offices)

(603) 643-1567
(Registrant's telephone number, including area code)

This Amendment No. 1 amends and supplements the Form 8-K Current Report originally filed on August 18, 1998, relating to the Company's acquisition of all the outstanding common stock of Folksamerica Holding Company, Inc. ("Folksamerica") that it did not previously own. Folksamerica is the parent company of Folksamerica Reinsurance Company.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

Item 7 is hereby amended by adding the following information:

(a) Financial Statements of Businesses Acquired.

Unaudited historical condensed consolidated financial statements of Folksamerica and its subsidiaries as of December 31, 1997 and June 30, 1998 and for the three and six-month periods ended June 30, 1998 and 1997, filed as Exhibit 99(a) hereto.

Audited historical consolidated financial statements of Folksamerica and its subsidiaries as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997, including the report of PricewaterhouseCoopers LLP, filed as Exhibit 99(b) hereto.

(b) Pro Forma Financial Information.

Unaudited pro forma condensed combined financial statements of the Registrant and its subsidiaries consisting of a pro forma balance sheet as of June 30, 1998, a pro forma income statement for the six months ended June 30, 1998 and a pro forma income statement for the twelve months ended December 31, 1997, together with the notes thereto, filed as Exhibit 99(c) hereto.

(c) Exhibits. The following exhibits are filed herewith:

Exhibit No.	Description
10 (a)	Stock Purchase Agreement dated as of July 1, 1998, by and among Fund American Enterprises Holdings, Inc., White Mountains Holdings, Inc. and the Sellers (as defined therein).*
10 (b)	Assignment and Assumption Agreement dated as of August 18, 1998, by and among Folksam Omsesidig Sakforsakring, Samvirke Skadeforsikring AS and Fund American Enterprises Holdings, Inc.*
23 (a)	Consent of PricewaterhouseCoopers LLP

99 (a)	Unaudited historical condensed consolidated financial statements of Folksamerica and its subsidiaries as of December 31, 1997 and June 30, 1998 and for the three and six-month periods ended June 30, 1998 and 1997.
99 (b)	Audited historical consolidated financial statements of Folksamerica and its subsidiaries as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997, including the report of PricewaterhouseCoopers LLP.
99 (c)	Unaudited pro forma condensed combined financial statements of the Registrant and its subsidiaries consisting of a pro forma balance sheet as of June 30, 1998, a pro forma income statement for the six months ended June 30, 1998 and a pro forma income statement for the twelve months ended December 31, 1997, together with the notes thereto.

* previously filed

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

Dated: October 16, 1998 By: /s/

--------------- ---------------

Michael S. Paquette
Senior Vice President and
Controller

Exhibit Index

Exhibit No.	Description
10 (a)	Stock Purchase Agreement dated as of July 1, 1998, by and among Fund American Enterprises Holdings, Inc., White Mountains Holdings, Inc. and the Sellers (as defined therein).*
10 (b)	Assignment and Assumption Agreement dated as of August 18, 1998, by and among Folksam Omsesidig Sakforsakring, Samvirke Skadeforsikring AS and Fund American Enterprises Holdings, Inc.*
23 (a)	Consent of PricewaterhouseCoopers LLP
99 (a)	Unaudited historical condensed consolidated financial statements of Folksamerica and its subsidiaries as of December 31, 1997 and June 30, 1998 and for the three and six-month periods ended June 30, 1998 and 1997
99 (b)	Audited historical financial statements of Folksamerica and its subsidiaries as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997, including the report of PricewaterhouseCoopers LLP.
99 (c)	Unaudited pro forma condensed combined financial statements of the Registrant and its subsidiaries consisting of a pro forma balance sheet as of June 30, 1998, a pro forma income statement for the six months ended June 30, 1998 and a pro forma income statement for the twelve months ended December 31, 1997, together with the notes thereto.

* previously filed

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference (from this Form 8-K filed by Fund American Enterprises Holdings, Inc.) in the Registration Statements, as amended, pertaining to the Long-Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006), Common Stock Warrants (Form S-3, No. 33-54749) and the Valley Group Employees' 401(K) Savings Plan (Form S-8, No. 333-30233) of Fund American Enterprises Holdings, Inc. and to the Source One Mortgage Services Corporation Employee Stock Ownership and 401(K) Plan (Form S-8, No. 333-13027) of our report dated February 27, 1998, except for Note 16, as to which the date is August 18, 1998, with respect to the consolidated financial statements of Folksamerica Holding Company, Inc. and Subsidiaries as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997.

/s/ PricewaterhouseCoopers LLP

New York, New York
October 16, 1998

FOLKSAMERICA HOLDING COMPANY, INC.

UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
JUNE 30, 1998

FOLKSAMERICA HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

FOLKSAMERICA HOLDING COMPANY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	June 30, 1998 (unaudited)	December 31, 1997
ASSETS:		
Bonds, at amortized cost	$ 93,090	$ 115,722
Bonds, at market value	669,638	656,166
Equity securities, at market value	108,428	80,747
Short term investments	5,670	5,326
Cash and cash equivalents	63,566	68,099
Total cash and investments	940,392	926,060
Reinsurance recoverable on paid and unpaid losses	128,468	126,909
Reinsurance balances receivable	67,631	74,198
Accrued interest and dividends receivable	12,830	13,185
Deferred acquisition costs	25,115	27,154
Deferred income taxes	19,431	27,888
Funds held by ceding companies	13,680	11,172
Other assets	12,227	7,014
Total assets	$1,219,774	$1,213,580
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 729,429	$ 739,072
Loan payable	55,553	55,553
Unearned premiums	86,379	96,514
Funds held under reinsurance treaties	21,822	21,004
Accounts payable and accrued expenses	12,514	9,689
Deferred credit	32,854	36,758
Total liabilities	938,551	958,590
STOCKHOLDERS' EQUITY:		
Common stock	100	100
Preferred stock Series B	79,372	79,372
Paid-in capital	80,194	80,194
Unrealized appreciation on investments, net of taxes	33,653	20,877
Foreign currency translation adjustment, net of taxes	(1,775)	(1,507)
Retained earnings	89,679	75,954
Total stockholders' equity	281,223	254,990
Total liabilities and stockholders' equity	$1,219,774	$1,213,580

See accompanying notes to condensed consolidated financial statements.

FOLKSAMERICA HOLDING COMPANY, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

UNAUDITED
(IN THOUSANDS)

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Revenues:				
Net premiums written	$55,540	$41,008	$114,082	$ 87,736
Decrease in net unearned premiums	1,724	3,037	9,685	2,080
Net premiums earned	57,264	44,045	123,767	89,816
Investment income, net of expenses	12,710	10,490	25,445	20,927
Net realized gains from sale of investments	922	6,305	5,123	6,229
Total revenues	70,896	60,840	154,335	116,972
Expenses:				
Losses and LAE incurred	41,624	31,852	88,715	64,188
Acquisition and other underwriting expenses	22,023	15,438	44,713	31,610
Interest expense	939	1,302	1,889	2,575
Amortization, net (primarily deferred credit)	(1,782)	(1,512)	(3,704)	(3,024)
Total expenses	62,804	47,080	131,613	95,349
Income before Federal and foreign income tax expense	8,092	13,760	22,722	21,623
Federal and foreign income tax expense	1,664	3,792	5,705	5,522
Net income	6,428	9,968	17,017	16,101
Net unrealized gains and foreign exchange	5,625	7,269	12,508	2,546
Comprehensive income	$12,053	$17,237	$ 29,525	$ 18,647

See accompanying notes to condensed consolidated financial statements.

FOLKSAMERICA HOLDING COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 1998 AND 1997
UNAUDITED
(IN THOUSANDS)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,017	$ 16,101
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Reinsurance balances and funds held	4,877	13,959
Reinsurance recoverable	(1,559)	2,663
Investment income due and accrued	236	409
Deferred acquisition costs	2,039	350
Deferred income taxes	1,659	857
Unpaid losses & LAE	(9,642)	(16,827)
Unearned premiums	(10,135)	(2,572)
Depreciation and amortization, net	(3,461)	(2,871)
Amortization of bond discount/premium, net	741	558
Net realized capital gains on investments	(5,123)	(6,229)
Other, net	18	(601)
Net cash (used in) provided by operating activities	(3,333)	5,797
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of FGIC, net of cash sold	10,612	
Sale of CGIC, net of cash sold		12,680
Bonds available for sale		
Purchases	(74,620)	(42,002)
Maturities/calls	36,073	15,928
Sales	20,919	716
Bonds held to maturity		
Purchases	(700)	(100)
Maturities/calls	23,531	31,472
Net short term investment purchases	(400)	(112)
Purchases of equities	(12,854)	(12,873)
Sales of equities		1,600
Purchase of furniture, equipment and leasehold improvements, net	(19)	(114)
Net cash provided by in investing activities	2,092	7,195
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common dividends paid	(503)	
Preferred dividends paid	(2,789)	(2,580)
Net cash used in financing activities	(3,292)	(2,580)
(Decrease) increase in cash and cash equivalents	(4,533)	10,412
Cash and cash equivalents, beginning of year	68,099	45,508
Cash and cash equivalents, end of period	$ 63,566	$ 55,920

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION:

As of June 30, 1998, Folksamerica Holding Company, Inc. (the "Company") was owned by the following companies ("Stockholders"): White Mountains Holdings,Inc. ("White Mountains") (Hanover, New Hampshire), a wholly owned subsidiary of Fund American Enterprises Holdings, Inc. ("Fund American"), Folksam Mutual General Insurance Co. ("Folksam") (Stockholm, Sweden), Wiener Staedtische Allgemeine Versicherung ("Wiener") (Vienna, Austria), P&V Assurances S.C. ("P&V") (Brussels, Belgium) and Forsikringsaktieselskapet Samvirke ("Samvirke") (Oslo, Norway).

The Company owns 100% of Folksamerica Reinsurance Company ("FRC") and Fester, Fothergill and Hartung, Ltd. ("FF&H"). FRC underwrites property and liability reinsurance in the U.S., Latin America and Canada and direct insurance business through managing general agents in the United States. All assumed reinsurance is obtained through reinsurance brokers and intermediaries. The Company principally derives its revenue from underwriting property treaty business, casualty treaty business and property facultative business for both commercial and personal lines. FF&H is an underwriting manager for a property catastrophe reinsurance facility underwritten by FRC.

On March 4, 1998, FRC sold 100% of the outstanding stock of Folksamerica General Insurance Company ("FGIC") (formerly known as Great Lakes American Reinsurance Company) for $4,060,000 over its book value on that date. The gain is included in net realized capital gains on investments in the June 30, 1998 statement of operations. The sale of FGIC will not have a material impact on the Company's future results of operations.

The financial statements have been prepared in accordance with generally accepted accounting principles and include all adjustments (consisting of normal recurring adjustments) considered necessary by management to fairly present the financial position, results of operations and cash flows of the Company. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company's 1997 audited financial statements. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation.

2. NEW PRONOUNCEMENTS:

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be explicitly reported in a financial statement. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997 and reclassification of earlier periods is required. There is no impact on the Company's net income or financial position as a result of adoption of this statement in 1998.

The components of the Company's comprehensive income are net income, changes in foreign currency translation adjustments and changes in unrealized appreciation of investments.

3. SUBSEQUENT EVENT

Pursuant to a Stock Purchase Agreement dated July 1, 1998, White Mountains and Fund American Enterprises, Inc., a wholly owned subsidiary of Fund American, acquired the remaining 50% of the Company that they did not previously own for approximately $169.1 million. The transaction was completed on August 18, 1998 at which time the Company became a wholly owned subsidiary of Fund American.

FOLKSAMERICA HOLDING COMPANY, INC.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Folksamerica Holding Company, Inc.:

We have audited the accompanying consolidated balance sheets of FOLKSAMERICA HOLDING COMPANY, INC. and SUBSIDIARIES as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Folksamerica Holding Company, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

PricewaterhouseCoopers LLP

New York, New York
February 27, 1998, except for
Note 16, as to which the date
is August 18, 1998.

FOLKSAMERICA HOLDING COMPANY, INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1996

(IN THOUSANDS)

	1997	1996
ASSETS:		
Bonds, at amortized cost	$ 115,722	$155,492
Bonds, at market value	656,166	479,150
Equity securities, at market value	80,747	22,044
Short term investments	5,326	9,226
Cash and cash equivalents	68,099	45,508
Total cash and investments	926,060	711,420
Reinsurance recoverable on paid and unpaid losses	126,909	138,850
Reinsurance balances receivable	74,198	63,033
Accrued interest and dividends receivable	13,185	10,606
Deferred acquisition costs	27,154	17,000
Deferred income taxes	27,888	30,959
Funds held by ceding companies	11,172	17,690
Other assets	7,014	5,274
Total assets	$1,213,580	$994,832
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 739,072	$628,894
Loan payable	55,553	70,000
Note payable to Folksam		4,000
Unearned premiums	96,514	61,451
Funds held under reinsurance treaties	21,004	21,257
Accounts payable and accrued expenses	9,689	7,459
Deferred credit	36,758	34,212
Total liabilities	958,590	827,273
STOCKHOLDERS' EQUITY:		
Common stock	100	69
Preferred stock Series B	79,372	79,372
Paid-in capital	80,194	38,531
Unrealized appreciation on investments, net of taxes	20,877	5,360
Foreign currency translation adjustment, net of taxes	(1,507)	(1,014)
Retained earnings	75,954	45,241
Total stockholders' equity	254,990	167,559
Total liabilities and stockholders' equity	$1,213,580	$994,832

See accompanying notes to condensed consolidated financial statements.

FOLKSAMERICA HOLDING COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

(IN THOUSANDS)

	1997	1996	1995
REVENUES:			
Net premiums written	$232,386	$171,901	$159,747
Decrease (increase) in unearned premiums	5,443	9,538	(410)
Net premiums earned	237,829	181,439	159,337
Management fees		166	52
Investment income, net of related expenses of $1,565 in 1997, $1,186 in 1996 and $1,301 in 1995	46,673	32,430	23,293
Net realized capital gains on investments	7,373	3,432	1,136
Total revenues	291,875	217,467	183,818
EXPENSES:			
Losses and loss adjustment expenses	165,946	135,643	116,922
Acquisition and other underwriting expenses	81,082	57,922	51,435
Amortization, net (primarily deferred credit)	(6,845)	(2,964)	120
Interest expense	5,028	4,924	5,243
Total expenses	245,211	195,525	173,720
Income before Federal and foreign income tax expense	46,664	21,942	10,098
Federal and foreign income tax expense	10,792	4,837	2,269
Net income	$ 35,872	$ 17,105	$ 7,829

See accompanying notes to consolidated financial statements.

FOLKSAMERICA HOLDING COMPANY, INC.
Consolidated Statements of Stockholders' Equity
December 31, 1997, 1996 and 1995
(in thousands, except for share information)

	Common Stock		Preferred Stock		Additional	Net unrealized		Foreign		Total
	Shares	Par Value	Shares	Par Value	Paid-in Capital	Equities	Bonds	Currency Translation	Retained Earnings	Stockholders' Equity
Balance at December 31, 1994	4,500,000	$ 45	484,000	$24,200	$14,355	$ (24)	$ (902)	$(1,751)	$26,914	$62,837
Net income									7,829	7,829
Change in net unrealized						866	4,600			5,466
Change in foreign currency translation								253		253
Preferred dividends paid									(908)	(908)
Balance at December 31, 1995	4,500,000	$ 45	484,000	$24,200	$14,355	$ 842	$ 3,698	$(1,498)	$33,835	$75,477
Net income									17,105	17,105
Change in net unrealized						2,522	(1,702)			820
Change in foreign currency translation								484		484
Preferred dividends paid									(5,699)	(5,699)
Conversion of "A" Preferred	2,420,000	24	(484,000)	(24,200)	24,176					
Issuance of "B" Preferred			6,920,000	79,372						79,372
Balance at December 31, 1996	6,920,00	69	6,920,000	79,372	38,531	3,364	1,996	(1,014)	45,241	167,559
Net income									35,872	35,872
Change in net unrealized						7,498	8,019			15,517
Change in foreign currency translation								(493)		(493)
Issuance of Common Stock	3,127,814	31				41,663				41,694
Preferred dividends paid									(5,159)	(5,159)
Balance at December 31, 1997	10,047,814	$100	6,920,000	$79,372	$80,194	$10,862	$10,015	$(1,507)	$75,954	$254,990

See accompanying notes to consolidated financial statements.

FOLKSAMERICA HOLDING COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS)

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 35,872	$ 17,105	$ 7,829
Adjustments to reconcile net income to net cash provided by operating activities:			
Reinsurance balances receivable and funds held	10,106	10,653	(4,909)
Reinsurance recoverable on paid and unpaid losses	12,267	1,528	5,176
Accrued interest and dividends receivable	1,578	235	(207)
Deferred acquisition costs	1,848	1,872	60
Deferred income taxes	2,436	2,152	(1,172)
Unpaid losses and loss adjustment expenses	(20,846)	(13,073)	23,583
Unearned premiums	(6,330)	(9,746)	263
Depreciation and amortization, net	(6,453)	(2,469)	187
Amortization of bond (discount) premium, net	1,431	606	1,148
Net realized capital gains on investments	(7,373)	(3,432)	(1,136)
Other, net	(1,224)	(2,570)	2,265
Net cash provided by operating activities	23,312	2,861	33,087
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of FGIC (net of cash acquired of $20)	(107,042)		
Sale of CGIC (net of cash sold of $128)	12,685		
Purchase of CGIC (net of cash acquired of $62,504)		(29,496)	
Sale of FNRC (net of cash sold of $3,622)		7,382	
Purchase of Surety Re		(452)	
BONDS AVAILABLE FOR SALE:			
Purchases	(78,976)	(244,278)	(97,128)
Maturities/calls	68,506	38,264	22,795
Sales	77,751	74,162	1,000
BONDS HELD TO MATURITY:			
Purchases	(100)	(8,909)	(10,416)
Maturities	39,225	35,549	57,385
Purchases of equities	(49,310)	(10,562)	(2,725)
Sales of equities	4,651	556	5,530
Net short term investment sales	14,005	60,032	172
Purchase (sale) of furniture, equipment and leasehold improvements, net	(204)	(62)	(121)
Other		(37)	
Net cash used in investing activities	(18,809)	(77,851)	(23,508)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of preferred stock		79,372	
Proceeds from issuance of common stock	41,694		
Preferred dividends paid	(5,159)	(5,699)	(908)
Principal payments on loans	(18,447)	(1,500)	(1,500)
Net cash provided by (used in) financing activities	18,088	72,173	(2,408)
Increase (decrease) in cash and cash equivalents	22,591	(2,817)	7,171
Cash and cash equivalents, beginning of year	45,508	48,325	41,154
Cash and cash equivalents, end of year	$ 68,099	$ 45,508	$ 48,325

See accompanying notes to consolidated financial statements

1. ORGANIZATION:

Folksamerica Holding Company, Inc. ("Holding Company") is owned by the following companies ("Stockholders"): White Mountains Holdings, Inc. ("White Mountains") (Hanover, New Hampshire), a wholly owned subsidiary of Fund American Enterprises Holdings, Inc. ("Fund American"), Folksam Mutual General Insurance Co. ("Folksam") (Stockholm, Sweden), Wiener Staedtische Allgemeine Versicherung ("Wiener") (Vienna, Austria), P&V Assurances S.C. ("P&V") (Brussels, Belgium) and Forsikringsaktieselskapet Samvirke ("Samvirke") (Oslo, Norway) (see Note 13). Folksam, Wiener, P&V and Samvirke are collectively the "Founding Stockholders".

The Holding Company owns 100% of Folksamerica Reinsurance Company ("FRC") and Fester, Fothergill and Hartung, Ltd. ("FF&H"). FRC owns 100% of the outstanding stock of Folksamerica General Insurance Company ("FGIC") (formerly known as "Great Lakes American Reinsurance Company") and 100% of the outstanding stock of Surety Reinsurance Company ("Surety") (collectively, the "Company"). FRC and FGIC underwrite property and liability reinsurance in the U.S., Latin America and Canada. They also write direct insurance business through managing general agents in the United States. All assumed reinsurance is obtained through reinsurance brokers and intermediaries. The Company principally derives its revenue from underwriting property treaty business, casualty treaty business and property facultative business for both commercial and personal lines. FF&H is an underwriting manager for a property catastrophe reinsurance facility underwritten by FRC.

On May 14, 1997, FRC sold 100% of Christiania General Insurance Corporation of New York ("CGIC") for $5,200,000 over its book value on that date. This gain is included in net realized capital gains on investments in the 1997 statement of operations. The sale of CGIC will not have a material impact on the Holding Company's future results of operations.

On July 9, 1996, FRC sold 100% of Folksamerica National Reinsurance Company ("FNRC") for $2,100,000 over its book value on that date. This gain is included in net realized capital gains on investments in the 1996 statement of operations. The sale of FNRC will not have a material impact on the Holding Company's future results of operations.

2. ACQUISITION OF GREAT LAKES AMERICAN REINSURANCE COMPANY:

On July 22, 1997, FRC acquired 100% of Great Lakes American Reinsurance Company, subsequently renamed Folksamerica General Insurance Company ("FGIC") for $105,912,337 from Munich Re (Munich, Germany). The transaction was approved by the Insurance Department of the State of New York ("Insurance Department"). For financial reporting purposes, the acquisition date was designated as July 1, 1997. The acquisition was accounted for as a purchase in accordance with Accounting Principles Board Statement ("APB") No. 16 "Business Combinations". The results of operations of FGIC have been included in the consolidated financial statements from July 1, 1997.

The excess of the fair value of the purchased net assets of FGIC as of July 1, 1997 over the acquisition price, is included in the consolidated balance sheet as a deferred credit, and is being amortized over 6 years. Amortization of the deferred credit of $797,000 is included in the 1997 statement of operations. The deferred credit as of July 1, 1997 was calculated as follows (in thousands):

Fair value of net assets acquired	$ 116,622
Cash paid for capital stock	(105,912)
Acquisition expenses	(1,150)
Deferred credit	$ 9,560

Included in the 1997 statement of operations are net premiums earned of approximately $59,165,000 and losses incurred of approximately $43,059,000 related to FGIC.

Continued

3. ACQUISITION OF CHRISTIANIA GENERAL INSURANCE CORPORATION OF NEW YORK:

On June 19, 1996, the Holding Company and FRC acquired 100% of CGIC for $88,000,000 from Oslo Reinsurance Company AS (Oslo, Norway). The transaction was approved by the Insurance Department. For financial reporting purposes, the acquisition date was designated as June 30, 1996. The acquisition was accounted for as a purchase in accordance with Accounting Principles Board Statement ("APB") No. 16 "Business Combinations". The acquisition was primarily financed by the issuance of Series B Preferred Stock as further described in Note 13 to the Consolidated Financial Statements. The results of operations of CGIC have been included in the consolidated financial statements from July 1, 1996.

The excess of the fair value of the purchased net assets of CGIC as of June 30, 1996 over the acquisition price, is included in the consolidated balance sheet as a deferred credit, and is being amortized over 6 years. Amortization of the deferred credit of $6,168,000 and $3,084,000 in 1997 and 1996 statements of operations, respectively. The deferred credit as of June 30, 1996 was calculated as follows (in thousands):

Fair value of net assets acquired	$129,490
Cash paid for capital stock	(88,000)
Acquisition expenses	(4,000)
Deferred credit	$ 37,490

Included in the 1996 statement of operations are net premiums earned of approximately $38,169,000 and income before income taxes of approximately $6,711,000 related to CGIC.

CGIC owned 52.5% of Surety on June 30, 1996. As of December 31, 1996, FRC acquired the remaining 47.5% of Surety. The financial position and results of operations of Surety are immaterial.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Holding Company's consolidated financial statements have been prepared on the basis of generally accepted accounting principles which differ in certain respects from statutory accounting practices prescribed or permitted by the Insurance Department. The following is a description of the significant accounting policies and practices employed by the Holding Company:

BASIS OF CONSOLIDATION:
The consolidated financial statements include the accounts of the Holding Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated. Certain reclassifications have been made to conform the prior years presentation with 1997.

ESTIMATES:
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

INVESTMENTS:
Bonds that the Company has both the ability and the intent to hold until maturity are stated at amortized cost. Equity securities and bonds that may not be held until maturity (i.e. "available for sale") are stated at market values. Short-term investments are carried at amortized cost, which approximates market value and comprise securities which mature in less than one year, but greater than three months from the date of acquisition. The differences between the cost and market values of equity securities and available for sale bonds are reflected as unrealized appreciation/depreciation, net of deferred income taxes, as a separate component of stockholders' equity. Realized gains or losses from the sale of investments are determined on the basis of average cost. Investment income is recognized when earned. Market values for investment securities are based on quoted market prices.

Continued

CASH EQUIVALENTS:
Cash equivalents are stated at cost, which approximates market value, and consist of certificates of deposit, commercial paper, and United States Treasury bills acquired with original maturities of three months or less.

GOODWILL:
The Holding Company recognized goodwill related to the acquisition of FF&H. Goodwill, which is amortized on a straight line basis over 20 years, was recorded as the excess of the acquisition price over the sum of the fair values of the purchased net assets. Goodwill of $1,227,000 and $1,347,000 as of December 31, 1997 and 1996, respectively, is included in other assets.

PREMIUM REVENUE AND RELATED EXPENSES:
Premiums written, which include the effect of premium adjustments for deposits and experience-rated contracts, are recognized as revenues ratably over the terms of the related reinsurance treaties or policies in force. Unearned premiums are established to cover the unexpired portion of premiums written and are computed by pro rata methods on the basis of statistical data or reports received from ceding companies.

Deferred policy acquisition costs represent commissions and brokerage expenses, which are deferred and amortized over the applicable premium recognition period, generally one year. These deferred costs have been limited to the amount expected to be recovered from future earned premiums and anticipated investment income. Acquisition costs which have been amortized were approximately $66,784,000, $47,598,000 and $44,142,000 in 1997, 1996 and 1995, respectively. Premiums written and acquisition costs and the change in unearned premiums are presented after deductions for reinsurance ceded to other insurance companies (see Note 8).

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES:
The estimated liability for unpaid losses and loss adjustment expenses is based on reports received from ceding companies. A provision, which is based on historical experience and modified for current trends, is also included for losses and loss adjustment expenses which have been incurred but not reported (IBNR). The methods of determining such estimates and establishing the resulting reserves are continually reviewed and modified to reflect current conditions. Unpaid losses and loss adjustment expenses also include a provision for certain types of latent injury or toxic tort exposures which cannot be estimated with traditional reserving techniques since such exposures are subject to evolving legal interpretation and environmental liability reform. Accordingly, the reserves carried for these exposures represent management's informed estimate based on currently available information. Such reserves are subject to a higher degree of potential variability than the reserves established for the majority of the book of business using traditional reserving techniques (see Note 6). Any adjustments relating to changes in reserve estimates are reflected in results of operations currently.

REINSURANCE:
In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

FEDERAL INCOME TAXES:
The Holding Company and its consolidated subsidiaries file a consolidated federal income tax return. Deferred income taxes have been provided for expenses and revenues recognized for financial statement purposes in periods different from those for income tax purposes, net of a valuation allowance against net deductible temporary differences, if applicable. The principal differences are deferred acquisition costs, unearned premiums and the discounting of unpaid losses and loss adjustment expense reserves for tax purposes.

NEW PRONOUNCEMENTS:
In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be explicitly reported in a financial statement. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997 and reclassification of earlier periods is required. There will be no impact on the Company's net income or financial position upon adoption of this statement in 1998. Comprehensive income for 1997 is $50,896,000.

Continued

5. INVESTMENTS:

The amortized cost and estimated market value of investments in bonds and equity securities at December 31, 1997 and 1996 are as follows (in thousands):

	Amortized Cost*	Unrealized Gains	Unrealized Losses	Market Value
1997				
HELD TO MATURITY				
U.S. Government	$ 49,356	$ 639	$ 199	$ 49,796
States, municipalities and political subdivisions	3,717	69		3,786
Foreign Governments	7,299	70	40	7,329
Corporate	41,735	563	137	42,161
Mortgage-backed	5,683	13	39	5,657
Other	7,932	19	14	7,937
Subtotal	$115,722	$ 1,373	$ 429	$116,666
AVAILABLE FOR SALE				
U.S. Government	$187,027	$ 3,375	$ 105	$190,297
States, municipalities and political subdivisions	99,951	3,247	124	103,074
Foreign Governments	28,140	253	457	27,936
Corporate	218,896	7,452	52	226,296
Mortgage-backed	87,973	1,447	104	89,316
Other	18,798	452	3	19,247
Subtotal	$640,785	$16,226	$ 845	$656,166
Total Bonds	$756,507	$17,599	$ 1,274	$772,832
Equity Securities	$ 64,044	$17,922	$ 1,219	$ 80,747
1996				
HELD TO MATURITY				
U.S. Government	$ 58,746	$ 564	$ 684	$ 58,626
States, municipalities and political subdivisions	4,194	104		4,298
Foreign Governments	7,613	101	69	7,645
Corporate	61,178	416	541	61,053
Mortgage-backed	9,729	32	68	9,693
Other	14,032	92	94	14,030
Subtotal	$155,492	$ 1,309	$ 1,456	$155,345
AVAILABLE FOR SALE				
U.S. Government	$166,718	$ 417	$ 1,400	$165,735
States, municipalities and political subdivisions	49,888	464	365	49,987
Foreign Governments	30,313	382	11	30,684
Corporate	182,144	3,720	733	185,131
Mortgage-backed	25,305	231	41	25,495
Other	21,696	434	12	22,118
Subtotal	$476,064	$ 5,648	$ 2,562	$479,150
Total Bonds	$631,556	$ 6,957	$ 4,018	$634,495
Equity securities	$ 16,945	$ 5,224	$ 125	$ 22,044

*Equity securities are at cost.

Continued

FRC and FGIC have investments in bonds with an amortized cost and market value of approximately $192,593,000 and $195,983,000, respectively as of December 31, 1997, which are issued by several different banks and financial service companies. These securities are rated either "BBB" or higher by Moody's Investors Service, Inc. or Standard and Poor's Corporation. Cash and cash equivalents includes approximately $30,266,000 held with one institution.

The amortized cost and estimated market value of investments in bonds as of December 31, 1997, by contractual maturity, are shown below (in thousands). Expected maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

HELD TO MATURITY	Amortized Cost	Estimated Market Value
Due in one year or less	$ 35,968	$ 35,929
Due after one year through five years	40,717	41,217
Due after five years through ten years	33,354	33,864
Subtotal	110,039	111,010
Mortgage-backed securities	5,683	5,656
Subtotal	115,722	116,666
AVAILABLE FOR SALE		
Due in one year or less	54,753	54,942
Due after one year through five years	201,922	206,698
Due after five years through ten years	260,949	269,142
Due after ten years	35,188	36,068
Subtotal	552,812	566,850
Mortgaged-backed securities	87,973	89,316
Subtotal	640,785	656,166
Total bonds	$756,507	$772,832

Gross realized gains and gross realized losses on sales of bonds were $10,000 and $465,000 during 1997, $1,076,000 and $611,000 during 1996 and none in 1995. Gross realized gains and gross realized losses on sales of equities were $2,476,000 and $0 during 1997, $15,968 and $1,533 during 1996 and $1,263,503 and $127,898 during 1995. Investments stated at approximately $48,023,000 and $21,672,000 as of December 31, 1997 and 1996, respectively, were on deposit with state and foreign regulatory authorities, to comply with insurance laws.

The components of net investment income are presented in the table below:

	Years ended December 31, 1997	1996	1995
Bonds	$ 44,197	$ 25,959	$ 20,420
Equity securities	638	289	193
Short term investments	1,161	5,836	2,627
Cash & cash equivalents	2,242	1,532	1,354
Total gross investment income	48,238	33,616	24,594
Investment expenses	1,565	1,186	1,301
Total net investment income	$ 46,673	$ 32,430	$ 23,293

Continued

6. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES:

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows (in thousands):

	1997	1996	1995
Balance at January 1	$628,894	$358,491	$334,908
less: reinsurance recoverable	131,861	66,134	66,974
Net balance at January 1	497,033	292,357	267,934
FGIC reserves at July 1, 1997	130,726		
CGIC reserves at June 30, 1996		210,919	
Incurred losses, related to:			
Current accident year	155,382	128,013	108,418
Prior accident years	10,564	7,630	8,503
Total incurred losses	165,946	135,643	116,921
Paid losses, related to:			
Current accident year	37,283	45,376	22,718
Prior accident years	140,151	96,510	69,780
Total paid losses	177,434	141,886	92,498
Balance at December 31	739,072	628,894	358,491
less: reinsurance recoverable	122,801	131,861	66,134
Net balance at December 31	$616,271	$497,033	$292,357

Incurred losses during 1997, 1996 and 1995 related to prior accident years, are primarily attributable to reserve additions relating to asbestos, environmental liability and breast implant exposures.

Asbestos and Environmental Reserves (in millions):

	Environmental			Asbestos		
	1997	1996	1995	1997	1996	1995
GROSS OF REINSURANCE:						
Beginning reserves	$11.6	$ 7.9	$7.7	$19.1	$19.0	$15.7
FGIC as of January 1, 1997	.5			.1		
CGIC as of January 1, 1996		3.1			7.4	
Incurred loss & LAE	3.5	3.7	2.2	4.1	4.0	5.5
Payments	2.2	3.1	2.0	4.5	11.3	2.2
Ending reserves	$13.4	$11.6	$7.9	$18.8	$19.1	$19.0
NET OF REINSURANCE:						
Beginning reserves	$ 9.4	$ 7.7	$7.4	$14.1	$13.0	$12.1
FGIC as of January 1, 1997	.5			.1		
CGIC as of January 1, 1996		1.8			3.6	
Incurred loss & LAE	2.3	2.4	2.3	3.3	1.8	3.1
Payments	1.8	2.5	2.0	2.9	4.3	2.2
Ending reserves	$10.4	$ 9.4	$7.7	$14.6	$14.1	$13.0

FGIC paid and incurred losses are included in the above table for the full year of 1997. CGIC paid and incurred losses are included in the above table for the full year of 1996. The Company also holds IBNR for these exposures of $19.2 million net and $25.1 million gross at December 31, 1997. The IBNR held at December 31, 1996 was $18.6 million net and $24.5 million gross.

Continued

7. TRANSACTIONS WITH AFFILIATES:

The Company provides investment management services for certain insurance subsidiaries of Folksam. Fees earned from these services for 1997, 1996 and 1995 were $864,000, $476,000 and $275,000, respectively.

FRC assumed premiums earned through an affiliated entity of approximately $1,827,000, $2,202,000 and $3,542,000 and losses and loss adjustment expenses of approximately $315,000, $649,000 and $1,623,000 for the years ended December 31, 1997, 1996 and 1995, respectively. Funds held related to this business were approximately $4,000 as of December 31, 1997 and $5,035,000 as of December 31, 1996, respectively, and were reflected in funds held by ceding reinsurers.

8. COMMITMENTS AND CONTINGENCIES:

REINSURANCE:
Contingent liabilities exist with respect to reinsurance ceded, which would become an ultimate liability of FRC in the event that the assuming companies were unable to meet their obligations under reinsurance agreements in force. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar activities or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At December 31, 1997, reinsurance recoverables with a carrying value of $41.7 million were associated with a single reinsurer. The Company holds collateral from this reinsurer in the form of a letter of credit totaling $21.4 million and funds withheld totaling $20.3 million that can be drawn on for amounts that remain unpaid.

The amounts deducted from revenues and expenses for reinsurance ceded were as follows (in thousands):

	1997	1996	1995
Income and expenses:			
Premiums written	$18,663	$15,306	$12,549
Premiums earned	19,316	15,514	12,696
Acquisition costs	2,465	1,771	(43)
Losses and loss adjustment expenses incurred	14,063	16,272	6,899

LEASES:
The Holding Company leases office space under noncancelable leases expiring at various dates through July 2008. Rental expense, for the years ended December 31, 1997, 1996 and 1995 was approximately $1,725,000, $1,858,000 and $1,427,000, respectively. The future annual minimum rental payments required under noncancelable leases for office space are as follows (in thousands):

YEAR	AMOUNT
1998	$ 1,498
1999	1,632
2000	1,595
2001	1,538
2002	1,540
Thereafter	9,761
	$17,564

9. EMPLOYEE BENEFIT PLANS:

HOLDING COMPANY
The Holding Company is the sponsor of a defined-contribution employee savings plan ("savings plan") which covers participating employees. The plan allows participating employees to contribute up to 12% of their annual salary to the plan. The Holding Company matches and contributes an amount equal to the first 6% of annual salary contributed by the employee. Contributions are expensed when incurred. The annual amount contributed by the Holding Company to the plan was approximately $375,000, $263,000 and $260,000 for the years 1997, 1996 and 1995, respectively.

Continued

Health care and life insurance benefits for active employees are provided by the Holding Company through insurance companies whose annual premiums charged to the Holding Company are based on historical experience of the underlying policies. These costs were not material in 1997, 1996 and 1995.

The Holding Company maintains a qualified, noncontributory, defined-benefit pension plan ("pension plan") covering all full-time employees who have fulfilled minimum age and service requirements. The pension plan provides retirement benefits at age 65, with an early retirement option. The Holding Company makes annual contributions to the pension plan equal to the minimum funding required in accordance with ERISA. The net periodic pension cost includes the following components (in thousands):

	1997	1996	1995
Service cost (benefits earned during the year)	$471	$219	$192
Interest cost on projected benefit obligation	475	234	246
Actual return on assets	(380)	(154)	(144)
Net amortization and deferred asset gain	22	(2)	24
Net periodic pension cost	$588	$297	$318

The aggregate funded status and aggregate net pension liability are as follows (in thousands):

	1997	1996
Actuarial present value of accumulated benefit obligation		
Vested	$5,474	$2,676
Nonvested	369	121
Accumulated benefit obligation	$5,843	$2,797
Projected benefit obligation	$7,455	$3,440
Plan assets at fair value	5,356	2,347
Projected benefit obligation in excess of plan assets	(2,099)	(1,093)
Unrecognized transition amount	(69)	(43)
Unrecognized net loss	1,462	789
Unrecognized prior service cost	263	(380)
Net pension liability	$ (443)	$ (727)

The development of the projected benefit obligation as of December 31, 1997 and 1996 was based upon 7.25% and a 7.75% discount rate, respectively, and a 5.5% average rate of increase in employee compensation. The expected long-term rate of return on assets was 8% as of December 31, 1997 and 1996. Plan assets are invested primarily in bonds, stocks, private placement loans, urban mortgages, short-term securities and cash equivalents.

The Holding Company provides pension benefits for certain employees above amounts allowed under the tax qualified plan, through an unfunded non-qualified non-contributory plan. No contributions to the plan were made in 1997. Included in the Consolidated Balance Sheet was a pension liability of $200,000 related to this plan as of December 31, 1997. The Company previously provided benefits through a funded non-qualified plan which has been terminated. The amount contributed by the Holding Company was approximately $298,000 for the year ending December 31, 1997.

During 1997 the Board of Directors adopted a Long Term Incentive Plan ("Incentive Plan"). The Incentive Plan provides for the granting of performance shares to executive officers and other key employees of the Company. Such grants are determined by the Human Resources Committee (the "Committee") of the Company's Board of Directors based upon recommendations by the Company's Chief Executive Officer. Performance shares are conditional grants of a specified number of theoretical shares of Company stock. The grants are payable in cash at the end of three year performance periods, subject to the attainment of specified return on equity targets established by the Committee. Payments, based on the fully diluted book value per share of the Company's common stock, can range between 0% and 200% of performance shares granted based upon the level of performance achieved during a three year performance period. Compensation expense related to this plan for 1997 was $950,000.

CHRISTIANIA GENERAL INSURANCE CORPORATION OF NEW YORK

CGIC is also a sponsor of a defined contribution employee savings plan ("savings plan") which covers participating employees. CGIC's plan matches 100% of the employee's contribution up to a maximum matching contribution of 6% of the employee's salary. This plan was merged into the Holding Company plan as of January 1, 1997.

Through December 31, 1996, CGIC maintained a non-contributory defined benefit pension plan covering substantially all employees. This plan was merged into the Holding Company plan as of January 1, 1997. The benefits were based on years of service and the employee's final compensation. The cost of this plan was not material in 1996.

10. INCOME TAXES:

Income taxes in the statements of operations give effect to permanent differences between financial and taxable income. The income tax expense for 1997, 1996 and 1995 as reflected in the statements of operations are summarized as follows (in thousands):

	1997	1996	1995
Current	$ 8,356	$2,685	$ 3,442
Deferred	2,436	2,152	(1,173)
Income tax expense	$10,792	$4,837	$ 2,269

Deferred income taxes reflect the tax impact of the temporary differences between the value of assets and liabilities for financial statement purposes and such values as measured by the tax laws and regulations. The principal items making up the net deferred income tax asset are as follows:

	Years ended December 31, 1997	1996
Deferred tax assets:		
Reserve for losses and loss adjustment expenses	$37,140	$29,214
Unearned premium reserve	6,698	4,076
Foreign currency translation	851	524
Pension	1,339	1,129
Other	4,338	7,159
Total deferred tax assets	50,366	42,102
Deferred tax liabilities:		
Deferred acquisition costs	9,504	5,780
Net unrealized appreciation on investments	11,207	2,825
Other	1,767	2,538
Total deferred tax liabilities	22,478	11,143
Net deferred tax assets	$27,888	$30,959

Continued

The Holding Company's effective income tax rate for the years ended December 31, 1997, 1996 and 1995 differs from the statutory rate on ordinary income as follows (in thousands):

	1997		1996		1995	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income taxes computed on pretax income	$16,332	35.0	$ 7,475	34.0	$3,434	34.0
Increase (decrease) in taxes resulting from:						
Non-taxable purchase accounting	(3,028)	(6.5)	(2,553)	(11.6)	163	1.6
Prior period deferred tax benefits recognized currently					(367)	(3.6)
Accrual of ceded premium written					(442)	(4.4)
Effect of deferred tax rate change	(896)	(1.9)				
Tax-exempt bond interest	(1,138)	(2.4)	(556)	(2.5)	(203)	(2.0)
Dividend-received deduction	(123)	(0.3)	(55)	(.3)	(39)	(.4)
Other	(355)	(0.8)	526	2.4	(277)	(2.7)
Income tax expense	$10,792	23.1	$ 4,837	22.0	$2,269	22.5

Income taxes recoverable of approximately $1,159,000 and $477,000 as of December 31, 1997 and 1996 are reflected in other assets. Income tax payments made by the Holding Company totaled approximately $7,025,000, $1,300,000 and $2,855,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

11. DIVIDENDS:

The Holding Company is subject to the Insurance Holding Company Act of the State of New York. The Holding Company's cash flow is dependent upon the ability of its subsidiaries to transfer funds in the form of loans, advances, or cash dividends. The insurance holding company laws require the filing of annual reports by FRC and FGIC and regulate transactions between the Holding Company and its reinsurance subsidiaries to ensure the maintenance of the reinsurance subsidiaries surplus in relation to liabilities and financial needs.

Under New York law, FRC and FGIC may pay dividends only from earned surplus determined on a statutory basis. Generally, the maximum amount of cash dividends that a company may pay out of its statutory earned surplus without prior regulatory approval in any twelve-month period is the lesser of net investment income, as defined, or 10% of statutory surplus to policyholders. Accordingly, as of December 31, 1997, FRC had the ability to pay dividends to the Holding Company of approximately $27,583,000, during 1998, without prior regulatory approval, however, in connection with the acquisition of CGIC, the Company consented to the Insurance Department's standard 2 year dividend moratorium period during which FRC and CGIC may not pay dividends without prior Insurance Department approval. The moratorium period ends June 19, 1998. During 1997, 1996 and 1995 FRC paid dividends of $10,000,000, $9,500,000 and $6,750,000, respectively, to the Holding Company. FRC has received approval from the Insurance Department for a $3,000,000 dividend to be paid in the first quarter of 1998. CGIC paid dividends of $2,000,000 to the Company in 1996.

12. STATUTORY FINANCIAL INFORMATION:

FRC and FGIC file financial statements in accordance with accounting practices prescribed or permitted by the Insurance Department of the State of New York. Statutory financial statements do not reflect deferred acquisition costs, furniture and equipment, deferred income taxes and certain other items recognized under generally accepted accounting principles. FRC's statutory net income for the years ended December 31, 1997, 1996 and 1995 was approximately $34,516,000, $19,372,000 and $11,251,000, respectively, and the

Continued

statutory surplus as of December 31, 1997 and 1996 was approximately $275,830,000 and $223,178,000, respectively. FGIC's statutory net loss was approximately $6,306,000 for the year ended December 31, 1997. FGIC's statutory surplus was approximately $7,316,000 as of December 31, 1997.

13. CAPITAL STOCK:

There are 20,760,000 authorized shares of common stock with a par value of $.01 per share. On November 20, 1997, 3,127,814 additional shares of common stock were issued, at $13.33 per share, to the existing shareholders, including the conversion of the Folksam Loan. A portion of the proceeds from these additional shares was used to repay principal on the $70 million loan payable (see Note 14). At December 31, 1997, there are 10,047,814 shares of common stock issued and outstanding, owned 15.5% by White Mountains, 35.7% by Folksam, 22.5% by Wiener, 18.7% by P&V and 7.6% by Samvirke.

On June 19, 1996, the holders of the 484,000 shares of Series A Convertible Preferred Stock exercised their conversion option and received 5 shares of common stock for each share of preferred stock. Additionally, in accordance with the Shareholders' Agreement, executed in connection with the issuance of the Series B Preferred Stock (see below), cumulative preferred dividends of $3,176,000 were paid upon conversion of the Series A Preferred Stock. At December 31, 1996, there were 6,920,000 shares of common stock issued and outstanding, owned 47.5% by Folksam, 23.2% by Wiener, 20.3% by P&V and 9% by Samvirke.

There are 20,760,000 authorized shares of Series B Preferred Stock. On June 19, 1996, 6,920,000 shares of Series B Preferred Stock were issued to White Mountains for $11.47 per share. The Series B Preferred Stock is ten-year voting stock with an annual dividend of 6 1/2% and carries warrants to purchase up to 6,920,000 shares of common stock for $11.47. The Series B Preferred Stock is redeemable in 10 years, and at the option of the Company, it may be redeemed in cash or common stock. The exercise price of the warrants is subject to adjustment under certain circumstances, to reflect changes in the December 31, 1995 combined loss reserves of the Company and CGIC. On exercise of the warrants, the Series B Preferred Shares would be converted to Series C Preferred Shares (non-voting) with the same characteristics as the Series B Preferred Shares other than voting rights. The proceeds of the issuance of the Series B Preferred Stock were primarily used to finance the acquisition of CGIC as further described in Note 3 to the Consolidated Financial Statements. Preferred dividends of $5,159,900 and $2,523,000 were paid to White Mountains during 1997 and 1996, respectively.

14. LOANS PAYABLE:

At December 31, 1996, the Holding Company had a $70,000,000 note payable to a foreign bank which was guaranteed by the Founding Stockholders or their affiliates, with an annual guarantee fee of .45%. On November 21, 1997, the Holding Company made a principal payment of $14,447,000. In connection with the repayment, certain Founding Stockholders were released from their proportionate share of the loan guarantee. The remaining loan balance is $55,553,000 and is guaranteed by Folksam ($51,100,000) and Samvirke ($4,453,000). On June 14, 1996, the Holding Company refinanced the loan for a term of 10 years. The remaining loan carries an interest rate of LIBOR plus .55%. The one-year LIBOR rate was 5.969% as of December 31, 1997. Interest paid by the Holding Company was $4,473,000, $4,977,000 and $4,614,000 for the years ended December 31, 1997, 1996 and 1995, respectively. Principal payments will be due as follows:

2001	$ 5,000,000
2002	5,000,000
2003	5,000,000
2004	5,000,000
2005	35,553,000
	$55,553,000

During 1997, the $4 million note payable to Folksam was converted to common stock for $13.33 per share or 300,075 shares (see Note 13).

The carrying value of loans payable approximates market value.

Continued

15. MONY REINSURANCE CORPORATION:

During 1991, the Holding Company acquired 100% of MONY Reinsurance Corporation (renamed Folksamerica National Reinsurance Company ("FNRC") after the acquisition) from The Mutual Life Insurance Company of New York ("MONY"). The Holding Company issued a contingent promissory note, guaranteed by Folksam, to MONY for $30,000,000 of the purchase price. Payment of the contingent promissory note, including interest at 11% on the unamortized balance, is contingent principally upon the adequacy of FNRC's reserve for unpaid losses and loss adjustment expenses as of December 31, 1990. In the event unpaid losses and loss adjustment expense reserves develop adversely, the contingent promissory note will be reduced dollar for dollar for the first $20,000,000 of adverse development and by 90% of the next $11,111,111 of adverse development. As of December 31, 1992, the contingent promissory note was fully amortized.

The purchase agreement requires that independent actuarial valuations be performed as of December 31, 1992, 1995, 1998 and 2000 to determine the value of the contingent promissory note and the amount of related payments. An independent actuarial review was completed in September of 1993 and resulted in no adjustment to the recorded value of the contingent promissory note (i.e. "zero"). MONY and the Company mutually agreed to forego the actuarial valuation as of December 31, 1995, based on the results of the 1993 independent actuarial valuation.

16. SUBSEQUENT EVENTS:

On March 4, 1998 FRC sold 100% of FGIC for $4,060,000 over its book value on that date. The sale of FGIC will not have a material impact on the Holding Company's future results of operations.

Pursuant to a Stock Purchase Agreement dated July 1, 1998, White Mountains and Fund American Enterprises, Inc., a wholly owned subsidiary of Fund American, acquired the remaining 50% of the Company that they did not previously own for approximately $169.1 million. The transaction was completed on August 18, 1998 at which time the Company became a wholly owned subsidiary of Fund American.

Continued

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information of Fund American Enterprises Holdings, Inc. and its subsidiaries ("Fund American") is being presented in connection with Fund American's purchase, on August 18, 1998, of all the outstanding common stock of Folksamerica Holding Company, Inc. and its subsidiaries ("Folksamerica") that it did not previously own (the "Transaction").

The accompanying unaudited pro forma condensed combined income statements of Fund American for the periods ended June 30, 1998 and December 31, 1997 present results for Fund American as if the Transaction and certain transactions and adjustments related to the Transaction (the "Related Events") had occurred as of January 1, 1998 and January 1, 1997, respectively. The accompanying unaudited pro forma condensed combined balance sheet of Fund American as of June 30, 1998 presents Fund American's financial position as if the Transaction and the Related Events had occurred as of June 30, 1998. The unaudited pro forma financial information does not purport to represent what Fund American's financial position or results of operations actually would have been had the Transaction and the Related Events in fact occurred as of the dates indicated, or to project Fund American's financial position or results of operations for any future date or period. The pro forma adjustments are based on available information and certain assumptions that Fund American currently believes are reasonable under the circumstances. The unaudited pro forma financial information should be read in conjunction with: (i) Fund American's Annual Report on Form 10-K for the year ended December 31, 1997; (ii) Fund American's Quarterly Report on Form 10-Q for the three and six month periods ended June 30, 1998; (iii) the separate historical financial statements of Folksamerica as of June 30, 1998 and for the three and six month periods ended June 30, 1998; and (iv) the separate historical financial statements of Folksamerica as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997.

As a result of the Transaction, Fund American will restate its historic balance sheets to account for the portion of its investment in Folksamerica that was reported at fair value in accordance with Statement of Financial Accounting Standards No. 115 entitled "Accounting for Certain Investments in Debt and Equity Securities" to its original cost in accordance with the purchase accounting principles of Accounting Principles Board Opinion No. 18 entitled "The Equity Method of Accounting for Investments in Common Stock".

The pro forma adjustments and pro forma combined amounts are provided for informational purposes only. Fund American's financial statements will reflect the actual effects of the Transaction and the Related Events only from the date such events occur. The pro forma adjustments are applied to the historical financial statements to, among other things, account for the acquisition as a purchase. Under purchase accounting, the amount by which the fair value of the net identifiable assets of Folksamerica exceeds the total purchase price will be first used to reduce the carrying value of Folksamerica's non-current, non-monetary assets with any residual amount being allocated to deferred credit. Such allocations have not yet been formally completed and final allocations will differ. Although the final allocations will differ, the unaudited pro forma financial information reflects management's best estimate based on currently available information.

The pro forma financial information included herein excludes the recognition of a realized investment gain in connection with the pro forma sale of $92.1 million of the common stock of White River Corporation ("White River"). The sale of White River, which occurred on July 10, 1998, was a principal source of funds used in the Transaction and was executed at a price not materially different from Fund American's June 30, 1998 carrying value, thus, the recognition of pro forma realized gains associated with the sale of these securities would not have a material impact on Fund American's book value or comprehensive income as of and for the pro forma periods presented herein.

The pro forma adjustments contained herein assume that the tax rate is 35%, the maximum Federal statutory rate for corporations.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 1998
(in millions of dollars)

	Fund American Historical	Fund American Restated	Folksamerica Historical	Pro Forma Adjustments for the Transaction	Pro Forma Adjustments for the Related Events	Pro Forma Combined
ASSETS						
Equity securities at market	$ 153.0	$ 153.0	$ 108.4			$ 261.4
Fixed maturities at amort cost	--	--	93.1	$ 1.3 [A]	(94.4)[D]	--
Fixed maturities at market	173.9	173.9	669.7		94.4 [D]	938.0
Other investments	109.3	109.3	--		(65.3)[C]	44.0
Short term investments	30.5	30.5	67.5	(169.1)[A]	142.1 [C]	71.0
TOTAL INVESTMENTS	466.7	466.7	938.7	(167.8)	76.8	1,314.4
Cash	4.3	4.3	1.7			6.0
Capitalized mortgage servicing	204.4	204.4	--			204.4
Mortgage loans held for sale	568.2	568.2	--			568.2
Other mortgage orig and servicing assets	193.2	193.2	--			193.2
Reinsurance balances receivable	--	--	67.6			67.6
Reinsurance recoverables	8.1	8.1	128.5			136.6
Insurance premiums receivable	56.7	56.7	--			56.7
Investments in unconsolidated affiliates	384.2	384.2	--			384.2
Investment in Folksamerica	139.2	105.8		169.1 [A] (274.9)[B]		--
Goodwill	2.8	2.8	1.0	(1.0)[A]		2.8
Other assets	184.5	184.5	82.3		(26.8)[C] (19.4)[D]	220.6
TOTAL ASSETS	$ 2,212.3	$ 2,178.9	$ 1,219.8	$ (274.6)	$ 30.6	$3,154.7
LIABILITIES						
Short term debt	$ 601.7	$ 601.7	$ -			$ 601.7
Long term debt	304.8	304.8	55.6		50.0 [C]	410.4
Unpaid losses and LAE	77.6	77.6	729.4			807.0
Unearned insurance premiums	80.2	80.2	86.4			166.6
Accounts payable and other liabilities	392.5	379.1	34.2	0.5 [A]	(19.4)[D]	394.4
Deferred credit	--	--	32.9	6.4 [B] (0.2)[A]		39.1
TOTAL LIABILITIES	1,456.8	1,443.4	938.5	6.7	30.6	2,419.2
MINORITY INTEREST	44.0	44.0	--	--	--	44.0
SHAREHOLDERS' EQUITY						
Common stock	30.9	30.9	0.1	(0.1)[B]		30.9
Preferred stock	--	--	79.4	(79.4)[B]		--
Paid in surplus	354.4	354.4	80.2	(80.2)[B]		354.4
Retained earnings	1,004.0	1,007.6	89.7	(89.7)[B]		1,007.6
Common stock in treasury	(871.0)	(871.0)	--			(871.0)
Foreign currency translation	--	--	(1.8)	1.8 [B]		--
Net unrealized investment gains and other, after tax	193.2	169.6	33.7	(33.7)[B]		169.6
TOTAL SHAREHOLDERS' EQUITY	711.5	691.5	281.3	(281.3)	--	691.5
TOTAL LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	$ 2,212.3	$ 2,178.9	$ 1,219.8	$ (274.6)	$ 30.6	$3,154.7

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET
(in millions of dollars)

A. The following pro forma adjustments reflect the payment of $169.1 million for all of the outstanding common stock Folksamerica that Fund American did not previously own and certain other adjustments associated with the determination of the amounts to be recorded as a result of the Transaction:

Folksamerica's shareholders' equity at 6/30/98	$ 281.3
Adjustment to mark fixed maturity investments to market	1.3
Income tax provision at 35%	(.5)
Elimination of Folksamerica deferred credit existing upon acquisition	32.9
Elimination of Folksamerica goodwill existing upon acquisition	(1.0)
Adjusted shareholders' equity at 6/30/98	314.0
Purchase price paid with short-term investment proceeds	(169.1)
Basis of previous investments in Folksamerica:	
Investment in preferred stock at cost	(79.9)
Investment in common stock at equity value	(25.9)
Total deferred credit resulting from the Transaction	$ 39.1

B. Adjustments to eliminate Folksamerica shareholders' equity and to reflect the change in deferred credit resulting from the Transaction.

C. The following pro forma adjustments reflect certain transactions that occurred subsequent to June 30, 1998 which served to fund the Transaction:

Third party sales of 718,818 shares of the common stock of White River Corporation which were classified as other investments	$ 65.3
Third party sales of 295,432 shares of the common stock of White River Corporation which were classified as other assets	26.8
Issuance of $50 million of indebtedness pursuant to Fund American's existing credit facility	50.0
Funds raised pursuant to the Transaction	$142.1
Sales of short-term investments	27.0
Total source of cash used to fund the Transaction	$169.1

D. Certain reclassifications to conform to the current presentation.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 1998
(in millions of dollars)

	Fund American Historical	Fund American Restated	Folksamerica Historical	Pro Forma Adjustments for the Transaction	Pro Forma Adjustments for the Related Events	Pro Forma Combined
REVENUES						
Net written premiums	$ 81.0	$ 81.0	$ 114.1			$ 195.1
Change in unearned insurance premiums	(2.3)	(2.3)	9.7			7.4
Earned insurance premiums	78.7	78.7	123.8	--	--	202.5
Earnings from unconsolidated ins affiliates	15.2	15.2	--	(4.4)[A]		10.8
Other ins operations revenues	4.2	4.2				4.2
Gross mortgage servicing revenue	41.1	41.1	--			41.1
Amortization and impairment of servicing	(29.4)	(29.4)	--			(29.4)
Gain on financial instruments	5.5	5.5	--			5.5
Net mortgage servicing revenue	17.2	17.2	--	--	--	17.2
Net gain on sales of mortgages	42.2	42.2	--			42.2
Gain on sale of mortgage servicing	9.0	9.0	--			9.0
Other mortgage servicing revenues	13.7	13.7	--			13.7
Net investment income	47.1	47.1	25.4	(0.7)[B]		71.8
TOTAL REVENUES	$ 227.3	$ 227.3	$ 149.2	$ (5.1)	$ --	$ 371.4
EXPENSES						
Ins losses and loss adj expenses	$ 54.6	$ 54.6	$ 88.7			$ 143.3
Compensation and benefits	63.0	63.0	--		7.0 [E]	70.0
Insurance and reinsurance acquisition expenses	--	--	44.7		4.6 [E]	49.3
Interest expense	41.2	41.2	1.9		1.5 [F]	44.6
General expenses	45.0	45.0	--		(11.6)[E]	33.4
Amortization of intangible assets and liabilities	--	--	(3.7)	(0.6)[C]		(4.3)
TOTAL EXPENSES	203.8	203.8	131.6	(0.6)	1.5	336.3
PRETAX OPERATING EARNINGS	23.5	23.5	17.6	(4.5)	(1.5)	35.1
Net realized investment gains	4.2	4.2	5.1	--	--	9.3
PRETAX EARNINGS	27.7	27.7	22.7	(4.5)	(1.5)	44.4
Income tax provision	12.2	12.2	5.7	(1.0)[D]	(0.5)[G]	16.4
NET INCOME	15.5	15.5	17.0	(3.5)	(1.0)	28.0
Other comprehensive income, after tax	44.4	36.9	12.5			49.4
COMPREHENSIVE NET INCOME	$ 59.9	$ 52.4	$ 29.5	$ (3.5)	$ (1.0)	$ 77.4
Basic earnings per share:						
Net income	$ 2.63	$ 2.63				$ 4.75
Comprehensive net income	10.16	8.89				13.13
Diluted earnings per share:						
Net income	$ 2.33	$ 2.33				$ 4.24
Comprehensive net income	9.10	7.96				11.76

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1997
(in millions of dollars)

				Pro Forma Adjustments		
REVENUES	Fund American Historical	Fund American Restated	Folksamerica Historical	for the Transaction	for the Related Events	Pro Forma Combined
Net written premiums	$ 150.8	$ 150.8	$ 232.4			$ 383.2
Change in unearned insurance premiums	(5.5)	(5.5)	5.4			(0.1)
Earned insurance premiums	145.3	145.3	237.8	-	-	383.1
Earnings from unconsolidated ins affiliates	21.3	21.3	-	(6.1)[A]		15.2
Other ins operations revenues	7.8	7.8				7.8
Gross mortgage servicing revenue	95.0	95.0	-			95.0
Amortization and impairment of servicing	(64.2)	(64.2	-			(64.2)
Gain on financial instruments	11.3	11.3	-			11.3
Net mortgage servicing revenue	42.1	42.1	-	-	-	42.1
Net gain on sales of mortgages	21.5	21.5	-			21.5
Loss on sale of mortgage servicing	(8.0)	(8.0)	-			(8.0)
Other mortgage servicing revenues	19.1	19.1	-			19.1
Net investment income	65.1	65.1	46.7	(1.5)[B]		110.3
TOTAL REVENUES	$ 314.2	$ 314.2	$ 284.5	$ (7.6)	$ -	$ 591.1
EXPENSES						
Ins losses and loss adj expenses	$ 97.1	$ 97.1	$ 165.9			$ 263.0
Compensation and benefits	101.8	101.8	-		11.4 [E]	113.2
Insurance and reinsurance acquisition expense	-	-	81.1		8.9 [E]	90.0
Interest expense	49.7	49.7	5.0		3.1 [F]	57.8
General expenses	87.6	87.6	-		(20.3)[E]	67.3
Amortization of intangible assets and liabilities	-	-	(6.8)	(1.2)[C]		(8.0)
TOTAL EXPENSES	336.2	336.2	245.2	(1.2)	3.1	583.3
PRETAX OPERATING EARNINGS (LOSS)	(22.0)	(22.0)	39.3	(6.4)	3.1	7.8
Net realized investment gains	96.7	96.7	7.4	-	-	104.1
PRETAX EARNINGS	74.7	74.7	46.7	(6.4)	(3.1)	111.9
Income tax provision	29.4	29.4	10.8	(1.2)[D]	(1.1)[G]	37.9
AFTER TAX EARNINGS	45.3	45.3	35.9	(5.2)	(2.0)	74.0
Loss on early extinguishment of debt, after tax	(6.0)	(6.0)	-			(6.0)
NET INCOME	39.3	39.3	35.9	(5.2)	(2.0)	68.0
Other comprehensive income, after tax	56.3	40.5	15.0			55.5
COMPREHENSIVE NET INCOME	$ 95.6	$ 79.8	$ 50.9	$ (5.2)	$ (2.0)	$ 123.5
Basic earnings per share:						
After tax earnings	$ 6.89	$ 6.89				$ 11.26
Net income	5.98	5.98				10.35
Comprehensive net income	14.55	12.15				18.80
Diluted earnings per share:						
After tax earnings	$ 6.22	$ 6.22				$ 10.18
Net income	5.40	5.40				9.36
Comprehensive net income	13.17	10.98				17.02

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENTS
(in millions of dollars)

A. Pro forma adjustment to eliminate Fund American's equity in earnings of Folksamerica and preferred stock dividends received during the periods.

B. Pro forma adjustment to reflect a reduction in net investment income earned on the portion of short-term investment balances deemed to have partially financed the Transaction ($27.0 million). The consolidated pro forma income information assumes that the annualized yield on short-term investments used to partially fund the Transaction was 5.50% and 5.60% for the periods ended June 30, 1998 and December 31, 1997, respectively.

C. Pro forma adjustment to reflect the amortization of the net change in goodwill and the related incremental deferred credit associated with the Transaction ($6.2 million). Fund American's amortization period is expected to be five years.

D. Adjustment to reflect the income tax effects of A and B above.

E. Certain reclassifications to conform to the current presentation.

F. Pro forma adjustment to reflect additional interest expense associated with the monies borrowed under Fund American's existing debt arrangements ($50.0 million) to partially fund the Transaction. The consolidated pro forma income information assumes that the annualized applicable interest rate on such indebtedness was 6.04% and 6.10% for the periods ended June 30, 1998 and December 31, 1997, respectively.

G. Adjustment to reflect the income tax effect of F above.

H. No adjustments have been made to the December 31, 1997 pro forma income statement to reflect Folksamerica's acquisition of Great Lakes American Reinsurance Company on July 22, 1997 because such adjustments are not considered meaningful.