

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 13E-4

ISSUER TENDER OFFER STATEMENT  
(PURSUANT TO SECTION 13(E)(1) OF THE SECURITIES EXCHANGE ACT OF 1934)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
(Name of Issuer)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
(Name of Person(s) Filing Statement)

COMMON STOCK, PAR VALUE \$1.00 PER SHARE  
(Title of Class of Securities)

360768 10 5  
(CUSIP Number of Class of Securities)

MICHAEL S. PAQUETTE  
VICE PRESIDENT AND CONTROLLER  
FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
80 SOUTH MAIN STREET  
HANOVER, NEW HAMPSHIRE 03755-2053  
(603) 643-1567

COPY TO:  
Philip A. Gelston, Esq.  
Cravath, Swaine & Moore  
825 Eighth Avenue - Worldwide Plaza  
New York, New York 10019  
(212) 474-1000

(Name, address and Telephone Number of Person Authorized to Receive Notices  
and Communications on Behalf of the Person(s) Filing Statement)

NOVEMBER 3, 1997  
(Date Tender Offer First Published, Sent, or Given to Security Holders)

Transaction Value*	Amount of Filing Fee*
\$125,000,000	\$25,000

\*Calculated solely for purposes of determining the filing fee, based on the purchase of 1,000,000 shares at the maximum tender offer price per share of \$125.00.

// Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

ITEM 1. SECURITY AND ISSUER.

(a) The name of the issuer is Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"). The Company's principal executive offices are located at 80 South Main Street, Hanover, New Hampshire 03755-2053.

(b) The class of securities to which this statement relates is the Company's Common Stock, par value \$1.00 per share ("Shares"). As of November 3, 1997, there were 6,377,757 Shares outstanding. The Company is inviting shareholders to tender Shares to the Company at prices not greater than \$125.00 nor less than \$105.00 per Share, net to the seller in cash, specified by the tendering shareholders, pursuant to the Offer to Purchase dated November 3, 1997 (the "Offer to Purchase") and the related Letter of Transmittal (which together constitute the "Offer"), copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively, and are herein incorporated by reference. All Shares properly tendered at or above the Purchase Price (as determined by the Company in accordance with the Offer to Purchase) and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to conditions of the Offer, including the proration provisions thereof. The Company reserves the right, in its sole discretion but subject to any applicable legal requirements, to purchase more than 1,000,000 Shares pursuant to the Offer. Reference is hereby made to the "Introduction", Section 1, "Number of Shares; Proration; Extension of Offer", and Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, each of which is herein incorporated by reference, for information regarding whether Shares are to be purchased from any officer, director or affiliate of the Company.

(c) Reference is hereby made to Section 7, "Price Range of Shares; Dividends", of the Offer to Purchase, which Section is herein incorporated by reference.

(d) Not applicable.

ITEM 2. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

(a) Reference is hereby made to Section 10, "Source and Amount of Funds", of the Offer to Purchase, which Section is herein incorporated by reference.

(b) Not applicable.

ITEM 3. PURPOSE OF THE TENDER OFFER AND PLANS OR PROPOSALS OF THE ISSUER OR AFFILIATES.

Reference is hereby made to the cover page, the "Introduction", Section 6, "Certain Conditions of the Offer", Section 7, "Price Range of Shares; Dividends", Section 8, "Purpose of the Offer; Certain Effects of the Offer" and Section 9, "Certain Information Concerning the Company", each of which is herein incorporated by reference. Other than as disclosed therein, the Company has no present plans or proposals which would relate to or would result in any transaction or other occurrence with respect to the Company or its Shares of the type listed in paragraphs (a) through (j) of Item 3 of

ITEM 4. INTEREST IN SECURITIES OF THE ISSUER.

Reference is hereby made to Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, which Section is herein incorporated by reference.

ITEM 5. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO THE ISSUER'S SECURITIES.

Reference is hereby made to Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, which Section is herein incorporated by reference.

ITEM 6. PERSONS RETAINED, EMPLOYED OR TO BE COMPENSATED.

Reference is hereby made to the "Introduction" and Section 16, "Fees and Expenses", of the Offer to Purchase, each of which is herein incorporated by reference.

ITEM 7. FINANCIAL INFORMATION.

(a) Reference is hereby made to Section 9, "Certain Information Concerning the Company", of the Offer to Purchase, which Section is herein incorporated by reference.

(b) Reference is hereby made to Section 9, "Certain Information Concerning the Company", of the Offer to Purchase, which Section is herein incorporated by reference.

ITEM 8. ADDITIONAL INFORMATION.

(a) Reference is hereby made to Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, which Section is herein incorporated by reference.

(b) Reference is hereby made to Section 13, "Certain Legal Matters; Regulatory and Foreign Approvals", of the Offer to Purchase, which Section is herein incorporated by reference.

(c) Reference is hereby made to Section 8, "Purpose of the Offer; Certain Effects of the Offer", of the Offer to Purchase, which Section is herein incorporated by reference.

(d) None.

(e) Reference is hereby made to the Offer to Purchase, which is herein incorporated by reference in its entirety.

ITEM 9. MATERIAL TO BE FILED AS EXHIBITS.

- (a)(1) Offer to Purchase dated November 3, 1997.
- (a)(2) Letter of Transmittal (together with Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9).
- (a)(3) Notice of Guaranteed Delivery.
- (a)(4) Letter from the Company's non-executive Chairman to shareholders dated November 3, 1997.
- (a)(5) Form of Letter from Lehman Brothers Inc. to Brokers, Dealers, Commercial Banks, Trust Companies and Nominees.
- (a)(6) Form of Letter from Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees to their clients.
- (a)(7) Form of summary advertisement dated November 3, 1997.
- (a)(8) Text of press release dated October 30, 1997.
- (a)(9) Text of press release dated November 3, 1997.
- (b) Not applicable.
- (c) None.
- (d) None.
- (e) Not applicable.
- (f) None.
- (g)(1) Text of Third Quarter Earnings Release dated October 27, 1997.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

November 3, 1997

By: /s/ Michael S. Paquette  
-----  
Michael S. Paquette  
Vice President and Controller

EXHIBIT INDEX

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OFFER TO PURCHASE FOR CASH  
BY  
FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
UP TO  
1,000,000 SHARES OF ITS COMMON STOCK

-----  
THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,  
NEW YORK CITY TIME, ON MONDAY, DECEMBER 1, 1997, UNLESS THE OFFER IS EXTENDED.  
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Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is offering to purchase up to 1,000,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), at prices not greater than \$125.00 nor less than \$105.00 per share, net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer"), including the proration provisions described herein. The Company will, upon the terms and subject to the conditions of the Offer, determine a single price per Share that it will pay for the Shares (the "Purchase Price") properly tendered and not withdrawn pursuant to the Offer, taking into account the number of Shares so tendered and the prices specified by tendering shareholders of the Shares that will allow it to buy 1,000,000 Shares (or such lesser number of Shares as are properly tendered and not withdrawn) at prices not greater than \$125.00 nor less than \$105.00 pursuant to the Offer. All Shares properly tendered at prices at or below the Purchase Price and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration terms hereof. The Company reserves the right, in its sole discretion but subject to any applicable legal requirements, to purchase more than 1,000,000 Shares pursuant to the Offer.

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THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING TENDERED.  
THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 6.  
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The Shares are listed and traded on the New York Stock Exchange (the "NYSE"). On October 30, 1997, the last full trading day before the announcement of the terms of the Offer, the reported closing sales price of the Shares on the NYSE Composite Tape was \$108 1/8 per Share, and on October 31, 1997, the last full trading day before the commencement of the Offer, the reported closing sales price was \$119 1/2 per Share. SHAREHOLDERS ARE URGED TO OBTAIN A CURRENT MARKET QUOTATION FOR THE SHARES.

-----  
NEITHER THE COMPANY NOR ITS BOARD OF DIRECTORS MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OR ALL OF SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER AND THE PRICE OR PRICES AT WHICH SHARES SHOULD BE TENDERED.  
-----

THE DEALER MANAGER FOR THE OFFER IS:

LEHMAN BROTHERS

November 3, 1997

IMPORTANT

Any shareholder desiring to tender all or any portion of such shareholder's Shares should either (1) complete and sign the Letter of Transmittal or a facsimile copy thereof in accordance with the instructions in the Letter of Transmittal, mail or deliver it and any other documents required by the Letter of Transmittal to First Chicago Trust Company of New York, the depository for the Offer (the "Depository"), and either mail or deliver the certificates for such Shares to the Depository along with the Letter of Transmittal or follow the procedure for book-entry transfer set forth in Section 3, or (2) request such shareholder's broker, dealer, commercial bank, trust company or other nominee to effect the transaction for such shareholder. A SHAREHOLDER HAVING SHARES REGISTERED IN THE NAME OF A BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR OTHER NOMINEE MUST CONTACT SUCH BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR OTHER NOMINEE IF SUCH SHAREHOLDER DESIRES TO TENDER SUCH SHARES.

SHAREHOLDERS MUST PROPERLY COMPLETE THE LETTER OF TRANSMITTAL INCLUDING THE SECTION OF THE LETTER OF TRANSMITTAL RELATING TO THE PRICE AT WHICH THEY ARE TENDERING SHARES IN ORDER TO EFFECT A VALID TENDER OF THEIR SHARES.

A shareholder who desires to tender Shares and whose certificates for such Shares are not immediately available (or who cannot follow the procedure for book-entry transfer on a timely basis) or who cannot transmit the Letter of Transmittal and all other required documents to the Depository before the Expiration Date (as defined in Section 1) should tender such Shares by following the procedure for guaranteed delivery set forth in Section 3.

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Any questions or requests for assistance or for additional copies of this Offer to Purchase, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers set forth on the back cover of this Offer to Purchase. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

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NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY RECOMMENDATION ON BEHALF OF THE COMPANY AS TO WHETHER SHAREHOLDERS SHOULD TENDER OR REFRAIN FROM TENDERING SHARES PURSUANT TO THE OFFER. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFER OTHER THAN THOSE CONTAINED IN THIS OFFER TO PURCHASE OR IN THE LETTER OF TRANSMITTAL. IF MADE OR GIVEN, SUCH RECOMMENDATION AND SUCH INFORMATION AND REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY.



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TO THE HOLDERS OF COMMON STOCK OF  
FUND AMERICAN ENTERPRISES HOLDINGS, INC.:

#### INTRODUCTION

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is offering to purchase up to 1,000,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price not greater than \$125.00 nor less than \$105.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer"). The Company will, upon the terms and subject to the conditions of the Offer, determine a single price per Share that it will pay for the Shares (the "Purchase Price") properly tendered and not withdrawn pursuant to the Offer, taking into account the number of Shares so tendered and the prices specified by tendering shareholders of the Shares that will allow it to buy 1,000,000 Shares (or such lesser number of Shares as are properly tendered and not withdrawn) at prices not greater than \$125.00 nor less than \$105.00 pursuant to the Offer. All Shares properly tendered at prices at or below the Purchase Price and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration terms hereof.

NEITHER THE COMPANY NOR ITS BOARD OF DIRECTORS (THE "BOARD") MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OR ALL OF SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER AND THE PRICE OR PRICES AT WHICH SHARES SHOULD BE TENDERED.

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 6.

As of November 3, 1997, there were 6,377,757 Shares outstanding. Pursuant to the Fund American Long-Term Incentive Plan (the "Incentive Plan"), as of November 3, 1997, an additional 2,000 Shares were issuable upon the exercise of outstanding employee stock options. In addition to the Shares potentially issuable pursuant to the Incentive Plan, another 1,000,000 Shares were potentially issuable as of November 3, 1997, upon the exercise of warrants held by John J. Byrne, non executive Chairman of the Company.

Accordingly, the 1,000,000 Shares which the Company is offering to purchase in the Offer represent approximately 15.7% of the Shares outstanding as of November 3, 1997, and approximately 13.6% of the sum of the Shares then outstanding and all Shares which may be issued upon exercise of outstanding options and warrants as of such date. Holders of options and warrants would have to exercise such options or warrants and convert them irrevocably into Shares in order to tender such Shares pursuant to the Offer.

Neither the Company nor the Board makes any recommendation to any holder of options or warrants as to whether to exercise any or all such options or warrants or to tender any or all Shares issuable upon such exercise.

The Company has been informed by its directors and executive officers that they do not intend to tender Shares owned by them pursuant to the Offer, except that John J. Byrne, the Company's non-executive Chairman, has informed the Company that he and/or his affiliates currently intend to tender 100,000 Shares pursuant to the Offer with a specified price of \$116 per Share.

If before the Expiration Date (as defined in Section 1), a greater number of Shares is properly tendered at or below the Purchase Price and not withdrawn than will be accepted for purchase by the Company, the Company will accept Shares for purchase, first, from all Shares properly tendered at or below the Purchase Price by any Odd Lot Holder (as defined in Section 1) who tenders all Shares beneficially owned by such Odd Lot Holder and complies with the requirements set forth in Section 2 and then, on a pro rata basis, from all other Shares properly tendered at or below the Purchase Price and not withdrawn. See Sections 1 and 2. All Shares not purchased pursuant to the Offer, including Shares not

purchased because of proration, will be returned to the tendering shareholders at the Company's expense. Tendering shareholders will not be obligated to pay brokerage commissions, solicitation fees or, subject to Instruction 6 of the Letter of Transmittal, stock transfer taxes on the purchase of Shares by the Company. The Company will pay all reasonable charges and expenses incurred by Lehman Brothers Inc., which has been appointed as the dealer manager (the "Dealer Manager"), and First Chicago Trust Company of New York, which has been appointed as the depository (the "Depository") and the information agent (the "Information Agent") for the Offer. See Section 16.

The Shares are listed and traded on the New York Stock Exchange (the "NYSE"). On October 30, 1997, the last full trading day before the announcement of the terms of the Offer, the reported closing sales price on the NYSE Composite Tape was \$108 1/8 per Share, and on October 31, 1997, the last full trading day before the commencement of the Offer, the reported closing sales price was \$119 1/2 per Share. See Section 7. SHAREHOLDERS ARE URGED TO OBTAIN A CURRENT MARKET QUOTATION FOR THE SHARES.

Participants in the Allianz Asset Accumulation Plan (the "Allianz Plan"), the Source One Mortgage Services Corporation Employee Stock Ownership and 401(k) Savings Plan (the "Source One Plan") or the Valley Group Employees' 401(k) Savings Plan (the "Valley Group Plan") may direct the respective trustee of such plan to tender any or all Shares allocated to their respective accounts in the Allianz Plan, the Source One Plan or the Valley Group Plan, as the case may be, pursuant to the Offer. See Sections 3 and 14.

## THE OFFER

### 1. NUMBER OF SHARES; PRORATION; EXTENSION OF THE OFFER

Upon the terms and subject to the conditions of the Offer, the Company will accept for payment (and will thereby purchase) up to 1,000,000 Shares or such lesser number of Shares as are properly tendered (and not withdrawn in accordance with Section 4) before the Expiration Date at a price (determined in the manner set forth below) not greater than \$125.00 nor less than \$105.00 per Share. The term "Expiration Date" means 12:00 midnight, New York City time, on Monday, December 1, 1997, unless and until the Company shall have extended the period of time for which the Offer is open, in which event the term "Expiration Date" shall refer to the latest time and date at which the Offer, as so extended by the Company, shall expire. For a description of the Company's rights to extend the period of time during which the Offer is open and to delay, terminate or amend the Offer, see Section 15. See also Section 6. Subject to the purchase of Shares properly tendered and not withdrawn by Odd Lot Holders as set forth in Section 2, if the Offer is oversubscribed, Shares tendered before the Expiration Date will be subject to proration. The proration period also expires on the Expiration Date.

The Company reserves the right, in its sole discretion, at any time or from time to time, to extend the period of time during which the Offer is open by giving oral or written notice of such extension to the Depository and making a public announcement thereof. See Section 15. There can be no assurance, however, that the Company will exercise its right to extend the Offer.

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 6.

The Company will, upon the terms and subject to the conditions of the Offer, determine a single Purchase Price, taking into account the number of Shares so tendered and the prices specified by tendering shareholders that will allow it to buy 1,000,000 Shares (or such lesser number as are properly tendered and not withdrawn) at a price not greater than \$125.00 nor less than \$105.00 per Share pursuant to the Offer.

All Shares purchased pursuant to the Offer will be purchased at the Purchase Price, net to the seller in cash. The Company reserves the right, in its sole discretion but subject to any applicable legal requirements, to purchase more than 1,000,000 Shares pursuant to the Offer, in which case the Purchase Price will be determined taking into account the number

of Shares tendered and the prices specified by tendering shareholders that will allow it to purchase such greater number of Shares. If (a) the Company (i) increases or decreases the price to be paid for Shares, (ii) increases the number of Shares being sought and any such increase exceeds 2% of the outstanding Shares or (iii) decreases the number of Shares being sought, and (b) the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from and including the date that notice of such increase or decrease is first published, sent or given in the manner specified in Section 15, the Offer will be extended until the expiration of such ten business day period. For the purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or Federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, New York City time.

All Shares not purchased pursuant to the Offer, including Shares tendered at prices greater than the Purchase Price and Shares not purchased because of proration, will be returned to the tendering shareholders at the Company's expense as promptly as practicable (which, in the event of proration, is expected to be approximately 12 NYSE trading days) following the Expiration Date.

If the number of Shares properly tendered at prices not greater than \$125.00 nor less than \$105.00 per Share and not withdrawn before the Expiration Date is less than or equal to 1,000,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will purchase at the Purchase Price all Shares so tendered and not withdrawn.

If the number of Shares properly tendered at prices not greater than \$125.00 nor less than \$105.00 per Share and not withdrawn before the Expiration Date is greater than 1,000,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority:

- (a) first, all Shares properly tendered at or below the Purchase Price and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on October 27, 1997, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares (each an "Odd Lot Holder") who:
  - (1) tenders all Shares beneficially owned by such Odd Lot Holder (PARTIAL TENDERS WILL NOT QUALIFY FOR THIS PREFERENCE); and
  - (2) completes the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery; and
- (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered at or below the Purchase Price and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

In the event that proration of tendered Shares is required, the Company will determine the final proration factor as promptly as practicable after the Expiration Date. Proration for each shareholder tendering Shares other than Odd Lot Holders shall be based on the ratio of the number of Shares tendered by such shareholder to the total number of Shares tendered by all shareholders other than Odd Lot Holders at or below the Purchase Price. Although the Company does not expect that it will be able to announce the final proration factor until approximately five NYSE trading days after the Expiration Date, it will announce preliminary results of proration by press release as promptly as practicable after the Expiration Date. Shareholders may obtain such preliminary information from the Information Agent and may be able to obtain such information from their brokers or financial advisors.

On November 11, 1987, the Board declared a dividend distribution of one Right (each, a "Right") for each Share outstanding on November 25, 1987. In addition, each Share issued subsequent to November 25, 1987, automatically receives a Right. The Rights expire on November 25, 1997, unless redeemed earlier by the Company. Each Right entitles its registered holder to purchase from the Company one one-thousandth of a share of Series A Participating Cumulative Preferred Stock, par value \$1.00 per share (the "Participating Stock"), at a price of \$105, subject to adjustment to prevent dilution. The Rights currently are not exercisable and trade together with the Shares associated therewith, and will not

become exercisable or separately tradeable as a result of the Offer. Absent the occurrence of circumstances causing the Rights to expire or to become exercisable or separately tradeable before the Expiration Date, the tender of any Shares pursuant to the Offer will include the tender of the Rights associated therewith. No separate consideration will be paid for such Rights. Upon the purchase of Shares by the Company pursuant to the Offer, shareholders selling those Shares will no longer own the Rights, if any, associated with such purchased Shares. See Section 9.

Since 1995 the Company has paid regular cash dividends to holders of Shares. The Board may, in its sole discretion, reconsider its dividend policy from time to time. There can be no assurance as to when or whether the Board will declare additional dividends on Shares. On October 8, 1997, the Board declared a quarterly dividend of \$.20 per Share, payable December 17, 1997, to shareholders of record as of December 8, 1997. Shareholders tendering their Shares pursuant to the Offer will not be entitled to receive the dividend payable December 17, 1997 unless the Offer is extended and closes subsequent to the dividend record date of December 8, 1997.

## 2. TENDERS BY HOLDERS OF FEWER THAN 100 SHARES

The Company, upon the terms and subject to the conditions of the Offer, will accept for purchase, without proration, all Shares properly tendered at or above the Purchase Price and not withdrawn before the Expiration Date by or on behalf of Odd Lot Holders. See Section 1. To avoid proration, however, an Odd Lot Holder must properly tender all Shares that such Odd Lot Holder beneficially owns. Partial tenders will not qualify for this preference. This preference is not available to owners of 100 or more Shares even if such owners have separate stock certificates for fewer than 100 Shares. Any Odd Lot Holder wishing to tender all Shares beneficially owned by such Odd Lot Holder pursuant to the Offer and qualify for this preference must complete the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery and must properly indicate in the section entitled "Price (In Dollars) Per Share At Which Shares Are Being Tendered" in the Letter of Transmittal the price at which such Shares are being tendered, except that an Odd Lot Holder may check the box in the section entitled "Odd Lots" indicating that the shareholder is tendering all of such shareholder's Shares at the Purchase Price. See Section 3.

## 3. PROCEDURE FOR TENDERING SHARES

PROPER TENDER OF SHARES. For Shares to be properly tendered pursuant to the Offer:

- (a) the certificates for such Shares (or confirmation of receipt of such Shares pursuant to the procedure for book-entry transfer set forth below), together with a properly completed and duly executed Letter of Transmittal (or a facsimile copy thereof) with any required signature guarantees, and any other documents required by the Letter of Transmittal, must be received before the Expiration Date by the Depository at one of its addresses set forth on the back cover of this Offer to Purchase; or
- (b) the tendering shareholder must comply with the guaranteed delivery procedure set forth below.

As specified in Instruction 5 of the Letter of Transmittal, each shareholder desiring to tender Shares pursuant to the Offer must properly indicate in the section captioned "Price (In Dollars) Per Share of Common Stock At Which Shares of Common Stock Are Being Tendered" on the Letter of Transmittal the price (in multiples of \$1.00) at which such shareholder's Shares are being tendered; provided, however, that an Old Lot Holder may check the box in the section entitled "Odd Lots" indicating that he or she is tendering all of his or her Shares at the Purchase Price. SHAREHOLDERS DESIRING TO TENDER SHARES AT MORE THAN ONE PRICE MUST COMPLETE SEPARATE LETTERS OF TRANSMITTAL FOR EACH PRICE AT WHICH SHARES ARE BEING TENDERED. THE SAME SHARES CANNOT BE TENDERED (UNLESS PROPERLY WITHDRAWN PREVIOUSLY IN ACCORDANCE WITH THE TERMS OF THE OFFER) AT MORE THAN ONE PRICE. IN ORDER TO PROPERLY TENDER SHARES, ONE AND ONLY ONE PRICE BOX MUST BE CHECKED IN THE APPROPRIATE SECTION ON EACH LETTER OF TRANSMITTAL. SHAREHOLDERS WISHING TO MAXIMIZE THE POSSIBILITY THAT THEIR SHARES WILL BE PURCHASED AT THE PURCHASE PRICE MAY CHECK THE BOX ON THE LETTER OF TRANSMITTAL MARKED "SHARES TENDERED AT PRICE

DETERMINED BY DUTCH AUCTION." CHECKING THIS BOX MAY RESULT IN A PURCHASE OF THE SHARES SO TENDERED AT THE MINIMUM PRICE OF 105.00 PER SHARE.

It is a violation of Section 14(e) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (collectively, the "Exchange Act"), and Rule 14e-4 promulgated thereunder, for a person to tender Shares for such person's own account unless the person so tendering:

- (a) owns such Shares; or
- (b) owns an option, warrant or right to purchase such Shares and intends to acquire Shares for tender by exercise of such option, warrant or right.

Section 14(e) and Rule 14e-4 provide a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

A tender of Shares made pursuant to any method of delivery set forth herein will constitute a binding agreement between the tendering shareholder and the Company upon the terms and subject to the conditions of the Offer, including the tendering shareholder's representation that (i) such shareholder owns the Shares being tendered within the meaning of Rule 14e-4 promulgated under the Exchange Act and (ii) the tender of such Shares complies with Rule 14e-4.

**SIGNATURE GUARANTEES AND METHODS OF DELIVERY.** No signature guarantee is required on the Letter of Transmittal if the Letter of Transmittal is signed by the registered owner of the Shares (which term, for purposes of this Section, includes any participant in The Depository Trust Company or the Philadelphia Depository Trust Company (collectively, the "Book-Entry Transfer Facilities") whose name appears on a security position listing as the owner of the Shares) tendered therewith, and payment and delivery are to be made directly to such registered owner at such owner's address shown on the records of the Company, or if Shares are tendered for the account of a financial institution (including most banks, savings and loan associations, and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program (each such entity being hereinafter referred to as an "Eligible Institution"). In all other cases, all signatures on the Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 1 of the Letter of Transmittal. If a certificate representing Shares is registered in the name of a person other than the person signing a Letter of Transmittal, or if payment is to be made, or certificates for Shares not purchased or tendered are to be issued, to a person other than the registered owner, the certificate must be endorsed or accompanied by an appropriate stock power, in either case signed exactly as the name of the registered owner appears on the certificate, with the signature on the certificate or stock power guaranteed by an Eligible Institution. In all cases, payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Depository of certificates for such Shares (or a timely confirmation of a book-entry transfer of such Shares into the Depository's account at one of the Book-Entry Transfer Facilities), a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal.

**THE METHOD OF DELIVERY OF ALL DOCUMENTS, INCLUDING STOCK CERTIFICATES, THE LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS, IS AT THE ELECTION AND RISK OF THE TENDERING SHAREHOLDER. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED.**

**FEDERAL BACKUP WITHHOLDING.** Unless an exemption applies under the applicable law concerning "backup withholding" of Federal income tax, the Depository will be required to withhold, and will withhold, 31% of the gross proceeds otherwise payable to a shareholder (or other payee) pursuant to the Offer unless the shareholder (or other payee) provides such person's tax identification number (social security number or employer identification number) and certifies that such number is correct. Each tendering shareholder, other than a noncorporate foreign shareholder, should complete and sign the main signature form and the Substitute Form W-9 included as part of the Letter of Transmittal so as to provide the information and certification necessary to avoid backup withholding, unless an applicable

exemption exists and is proved in a manner satisfactory to the Company and the Depositary. Noncorporate foreign shareholders generally should complete and sign a Form W-8, Certificate of Foreign Status, a copy of which may be obtained from the Depositary, in order to avoid backup withholding.

For a discussion of certain other Federal income tax consequences of the Offer, see Section 11.

**BOOK-ENTRY DELIVERY.** The Depositary will establish an account with respect to the Shares at each of the Book-Entry Transfer Facilities for purposes of the Offer within two business days after the date of this Offer to Purchase. Any financial institution that is a participant in a Book-Entry Transfer Facility's system may make book-entry delivery of the Shares by causing such facility to transfer such Shares into the Depositary's account in accordance with such facility's procedure for such transfer. Even though delivery of Shares may be effected through book-entry transfer into the Depositary's account at one of the Book-Entry Transfer Facilities, a properly completed and duly executed Letter of Transmittal (or a facsimile thereof), with any required signature guarantees and other required documents, must, in any case, be transmitted to and received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase before the Expiration Date, or the guaranteed delivery procedure set forth below must be followed. **DELIVERY OF THE LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS TO ONE OF THE BOOK-ENTRY TRANSFER FACILITIES DOES NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.**

**GUARANTEED DELIVERY.** If a shareholder desires to tender Shares pursuant to the Offer and such shareholder's stock certificates are not immediately available (or the procedure for book-entry transfer cannot be followed on a timely basis) or time will not permit the Letter of Transmittal and all other required documents to reach the Depositary before the Expiration Date, such Shares may nevertheless be tendered provided that all the following conditions are satisfied:

- (a) such tender is made by or through an Eligible Institution;
- (b) the Depositary receives (by hand, mail or facsimile transmission) before the Expiration Date, a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form the Company has provided with this Offer to Purchase; and
- (c) the certificates for all tendered Shares in proper form for transfer (or confirmation of book-entry transfer of such Shares into the Depositary's account at one of the Book-Entry Transfer Facilities), together with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal, are received by the Depositary within three NYSE trading days after the date of execution of such Notice of Guaranteed Delivery.

**DETERMINATION OF VALIDITY; REJECTION OF SHARES; WAIVER OF DEFECTS; NO OBLIGATION TO GIVE NOTICE OF DEFECTS.** All questions as to the number of Shares to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. The Company reserves the right to reject any or all tenders determined by it not to be in proper form or the acceptance for payment of which may, in the opinion of the Company's counsel, be unlawful. The Company also reserves the right to waive any of the conditions of the Offer (except as otherwise provided in Section 6) and any defect or irregularity in the tender of any particular Shares. No tender of Shares will be deemed properly made until all defects or irregularities have been cured or waived. None of the Company, the Dealer Manager, the Depositary, the Information Agent or any other person is or will be obligated to give notice of any defects or irregularities in tenders, and none of them will incur any liability for failure to give any such notice.

**ALLIANZ ASSET ACCUMULATION PLAN.** Participants in the Allianz Plan who wish to have the trustee of the Allianz Plan tender Shares allocated to their accounts should so indicate by completing, executing and returning to the trustee the instruction form included in the notice sent to such participants. Participants in the Allianz Plan may not use the Letter of Transmittal to direct the trustee to tender Shares allocated to such shareholders but must

use the separate instruction form sent to them. Under the Employee Retirement Income Security Act of 1974 ("ERISA"), the trustee may be obligated to take action and make an independent decision irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the Trustee. PARTICIPANTS IN THE ALLIANZ PLAN ARE URGED TO READ THE SEPARATE INSTRUCTION FORMS AND RELATED MATERIALS SENT TO THEM CAREFULLY. SEE SECTION 14.

SOURCE ONE MORTGAGE SERVICES CORPORATION EMPLOYEE STOCK OWNERSHIP AND 401(K) SAVINGS PLAN. Participants in the Source One Plan who wish to have the trustee of the Source One Plan tender Shares allocated to their accounts should so indicate by completing, executing and returning to the trustee the instruction form included in the notice sent to such participants. Participants in the Source One Plan may not use the Letter of Transmittal to direct the trustee to tender Shares allocated to such shareholders but must use the separate instruction form sent to them. Under ERISA, the trustee may be obligated to take action and make an independent decision irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the Trustee. PARTICIPANTS IN THE SOURCE ONE PLAN ARE URGED TO READ THE SEPARATE INSTRUCTION FORMS AND RELATED MATERIALS SENT TO THEM CAREFULLY. SEE SECTION 14.

VALLEY GROUP EMPLOYEES' 401(K) SAVINGS PLAN. Participants in the Valley Group Plan who wish to have the trustee of the Valley Group Plan tender Shares allocated to their accounts should so indicate by completing, executing and returning to the trustee the instruction form included in the notice sent to such participants. Participants in the Valley Group Plan may not use the Letter of Transmittal to direct the trustee to tender Shares allocated to such shareholders but must use the separate instruction form sent to them. Under ERISA, the trustee may be obligated to take action and make an independent decision irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the Trustee. PARTICIPANTS IN THE VALLEY GROUP PLAN ARE URGED TO READ THE SEPARATE INSTRUCTION FORMS AND RELATED MATERIALS SENT TO THEM CAREFULLY. SEE SECTION 14.

#### 4. WITHDRAWAL RIGHTS

Except as otherwise provided in this Section 4, a tender of Shares pursuant to the Offer is irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time before the Expiration Date and, unless theretofore accepted for payment by the Company, after 12:00 midnight, New York City time, on Tuesday, December 30, 1997.

For a withdrawal to be effective, the Depository must timely receive (at one of its addresses set forth on the back cover of this Offer to Purchase) a written or facsimile transmission notice of withdrawal. Any notice of withdrawal must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and, if different from the name of the person who tendered the Shares, the name of the registered owner of such Shares. If the certificates have been delivered or otherwise identified to the Depository, then, prior to the release of such certificates, the tendering shareholder must also submit the serial numbers shown on the particular certificates evidencing such Shares and the signature on the notice of withdrawal must be guaranteed by an Eligible Institution (except in the case of Shares tendered by an Eligible Institution). If Shares have been delivered pursuant to the procedure for book-entry transfer set forth in Section 3, the notice of withdrawal must specify the name and the number of the account at the applicable Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with the procedures of such facility.



All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. None of the Company, the Dealer Manager, the Depositary, the Information Agent or any other person is or will be obligated to give any notice of any defects or irregularities in any notice of withdrawal, and none of them will incur any liability for failure to give any such notice. A withdrawal of a tender may not be rescinded and Shares properly withdrawn shall thereafter be deemed not to be validly tendered for purposes of the Offer. Withdrawn Shares, however, may be retendered before the Expiration Date by again following one of the procedures described in Section 3.

#### 5. ACCEPTANCE FOR PAYMENT OF SHARES AND PAYMENT OF PURCHASE PRICE

Upon the terms and subject to the conditions of the Offer, as soon as practicable after the Expiration Date, the Company will purchase and pay the Purchase Price for 1,000,000 Shares (subject to increase or decrease as provided in Sections 1 and 15) or such lesser number of Shares as are properly tendered at prices not greater than \$125.00 nor less than \$105.00 per Share and not withdrawn as permitted in Section 4. For purposes of the Offer, the Company will be deemed to have accepted for payment (and thereby purchased), subject to proration, Shares which are tendered at or below the Purchase Price and not withdrawn when, as and if the Company gives oral or written notice to the Depositary of the Company's acceptance of such Shares for payment pursuant to the Offer.

In the event that proration of tendered Shares is required, the Company will determine the final proration factor as promptly as practicable after the Expiration Date. Although the Company does not expect that it will be able to announce the final proration factor until approximately five NYSE trading days after the Expiration Date, it will announce the preliminary results of proration by press release as promptly as practicable after the Expiration Date. Shareholders may obtain such preliminary information from the Information Agent and may be able to obtain such information from their brokers or financial advisors. Certificates for all Shares not purchased pursuant to the Offer, including Shares tendered at prices greater than the Purchase Price and Shares not purchased because of proration, will be returned to the tendering shareholders (or, in the case of Shares delivered by book-entry transfer, such Shares will be credited to the account maintained with one of the Book-Entry Transfer Facilities by the participant therein who so delivered such Shares) at the Company's expense as promptly as practicable (which, in the event of proration, is expected to be approximately 12 NYSE trading days following the Expiration Date).

Payment for Shares purchased pursuant to the Offer will be made by the Company by depositing the aggregate Purchase Price therefor with the Depositary, which will act as agent for tendering shareholders for the purpose of receiving payment from the Company and transmitting payment to the tendering shareholders. Notwithstanding any other provision hereof, payment for Shares accepted for payment pursuant to the Offer will in all cases be made only after timely receipt by the Depositary of certificates for such Shares (or a timely confirmation by a Book-Entry Transfer Facility of book-entry transfer of such Shares to the Depositary), a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) with any required signature guarantees and any other required documents. UNDER NO CIRCUMSTANCES WILL INTEREST BE PAID ON THE PURCHASE PRICE OF THE SHARES TO BE PAID BY THE COMPANY, REGARDLESS OF ANY DELAY IN MAKING SUCH PAYMENT.

The Company will pay any stock transfer taxes with respect to the transfer and sale of Shares to it or to its order pursuant to the Offer. If, however, payment is to be made to, or certificates for Shares not purchased or tendered are to be registered in the name of, any person other than the registered holder, or if tendered certificates are registered in the name of any person other than the person(s) signing the Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder or such other person) payable on account of the transfer to such person will be deducted from the Purchase Price unless evidence satisfactory to the Company of the payment of such taxes or an exemption therefrom is submitted. See Instruction 7 of the Letter of Transmittal.

ANY TENDERING SHAREHOLDER OR OTHER PAYEE WHO FAILS TO COMPLETE FULLY AND SIGN THE SUBSTITUTE FORM W-9 INCLUDED IN THE LETTER OF TRANSMITTAL (OR, IN THE CASE OF A NONCORPORATE FOREIGN SHAREHOLDER, A FORM W-8, WHICH IS OBTAINABLE FROM THE DEPOSITARY) MAY BE SUBJECT

TO A FEDERAL BACKUP WITHHOLDING TAX OF 31% OF THE GROSS PROCEEDS TO BE PAID TO SUCH SHAREHOLDER OR OTHER PAYEE PURSUANT TO THE OFFER. SEE SECTIONS 3 AND 11.

#### 6. CERTAIN CONDITIONS OF THE OFFER

Notwithstanding any other provision of the Offer, and in addition to (and not in limitation of) the Company's right to extend, amend or terminate the Offer as set forth in Section 15, the Company shall not be required to accept for payment or pay for any Shares tendered, and may terminate or amend the Offer if, before acceptance for payment of or payment for any such Shares, any of the following shall have occurred (or shall have been determined by the Company to have occurred):

- (a) there shall have been threatened, instituted or pending any action or proceeding by any government or governmental, regulatory or administrative agency or authority or tribunal or any other person, domestic or foreign, before any court or governmental, regulatory or administrative authority, agency or tribunal, domestic or foreign, which (i) challenges the making of the Offer or the acquisition of Shares pursuant to the Offer, or otherwise, directly or indirectly, relates in any manner to the Offer; or (ii) in the reasonable good faith judgment of the Company, could materially affect the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of the Company or any of its subsidiaries or materially impair the Offer's contemplated benefits to the Company;
- (b) there shall have been any action threatened, pending or taken, or approval withheld, or any statute, rule, regulation, judgment, order or injunction threatened, proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the Offer or the Company or any of its subsidiaries, by any court or any government or governmental, regulatory or administrative authority, agency or tribunal, domestic or foreign, which, in the Company's reasonable good faith judgment, would or might directly or indirectly (i) make the acceptance for payment of, or payment for, some or all the Shares illegal or otherwise restrict or prohibit consummation of the Offer; (ii) delay or restrict the ability of the Company, or render the Company unable, to accept for payment, or pay for, some or all the Shares; (iii) materially impair the contemplated benefits of the Offer to the Company; or (iv) materially affect the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of the Company or any of its subsidiaries;
- (c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on any United States national securities exchange or in the over-the-counter market (excluding any coordinated trading halt triggered solely as a result of a specified decrease in a market index); (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States; (iii) the commencement of a war, armed hostilities or other international or national crisis directly or indirectly involving the United States; (iv) any limitation (whether or not mandatory) by any governmental, regulatory or administrative agency or authority on, or any event which, in the reasonable good faith judgment of the Company, might affect, the extension of credit by banks or other lending institutions in the United States; (v) any significant decrease in the market price of the Shares; (vi) any change in the general political, market, economic or financial conditions in the United States or abroad that could, in the reasonable good faith judgment of the Company, have a material adverse effect on the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or the trading in the Shares; (vii) in the case of any of the foregoing existing at the time of the commencement of the Offer, in the reasonable good faith judgment of the Company, a material escalation, acceleration or worsening thereof; or (viii) any decline in either the Dow Jones Industrial Average (7,442.08 at the close of business on October 31, 1997) or the Standard and Poor's Index of 500 Industrial Companies

(914.62 at the close of business on October 31, 1997) by an amount in excess of 10% measured from the close of business on October 31, 1997;

- (d) after October 31, 1997, any tender or exchange offer with respect to the Shares (other than the Offer), or any merger, acquisition, business combination or other similar transaction with or involving the Company or any subsidiary, shall have been proposed, announced or made by any person or entity;
- (e) after October 31, 1997, any change shall occur or be threatened in the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, which, in the reasonable judgment of the Company, is or may be material to the Company or affects the anticipated benefits to the Company of acquiring Shares pursuant to the Offer;
- (f) (i) any person, entity or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) shall have acquired, or proposed to acquire, beneficial ownership of more than 5% of the outstanding Shares (other than a person, entity or group which had publicly disclosed such ownership in a Schedule 13D or 13G (or an amendment thereto) on file with the Securities and Exchange Commission (the "SEC") prior to October 31, 1997), (ii) any new group shall have been formed which beneficially owns more than 5% of the outstanding Shares; or (iii) any person, entity or group shall have filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or made a public announcement reflecting an intent to acquire the Company or any of its subsidiaries or any of their respective assets or securities; or
- (g) there shall be a reasonable likelihood that the purchase of Shares pursuant to the Offer will cause either (i) the Shares to be held of record by less than 300 persons; or (ii) the Shares neither to be listed on any "national securities exchange" (as used in the Exchange Act) nor to be "authorized to be quoted on an inter-dealer quotation system of any registered national securities association" (as used in Rule 13e-3(a)(3)(ii)(B) under the Exchange Act);

which, in the reasonable judgment of the Company, in any such case and regardless of the circumstances (including any action or inaction by the Company) giving rise to such condition, makes it inadvisable to proceed with the Offer or with such acceptance for payment or payment.

The foregoing conditions are for the sole benefit of the Company and may be asserted by the Company regardless of the circumstances (including any action or inaction by the Company) giving rise to any such condition and, except as set forth in the next sentence, any such condition may be waived by the Company, in whole or in part, at any time and from time to time in its sole discretion. The Company will not under any circumstances waive the condition set forth in paragraph (g) above. In certain cases, waiver of a condition to the Offer would require an extension of the Offer. See Section 15.

The Company's failure at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right; the waiver of any such right with respect to particular facts and circumstances shall not be deemed a waiver with respect to any other facts or circumstances; and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time. Any determination by the Company concerning the events described above and any related judgment by the Company regarding the inadvisability of proceeding with the acceptance for payment or payment for any tendered Shares will be final and binding on all parties.

7. PRICE RANGE OF SHARES; DIVIDENDS

The Shares (symbol FFC) are listed and traded on the NYSE. The table that follows sets forth, for the calendar quarters indicated, the reported high and low closing sales prices of the Shares on the NYSE Composite Tape:

	High	Low
1995:		
First Quarter	76	71 3/8
Second Quarter	72 3/4	68 1/8
Third Quarter	76	68 1/4
Fourth Quarter	75 1/2	66
1996:		
First Quarter	79 7/8	72 1/8
Second Quarter	80 1/4	76
Third Quarter	93 1/2	80 1/4
Fourth Quarter	95 3/4	86 3/4
1997:		
First Quarter	109 3/4	94
Second Quarter	110 1/2	98
Third Quarter	108	99 1/2
Fourth Quarter (through October 30)	112	105 1/4

On October 30, 1997, the last full trading day before the announcement of the Offer, the reported closing sales price of the Shares on the NYSE Composite Tape was \$108 1/8 per Share, and on October 31, 1997, the last full trading day before the commencement of the Offer, the reported closing sales price was \$119 1/2 per Share. SHAREHOLDERS ARE URGED TO OBTAIN A CURRENT MARKET QUOTATION FOR THE SHARES.

Since 1995 the Company has paid regular cash dividends to holders of Shares. The Board may, in its sole discretion, reconsider its dividend policy from time to time. There can be no assurance as to when or whether the Board will declare additional dividends on Shares. On October 8, 1997, the Board declared a quarterly dividend of \$.20 per Share, payable December 17, 1997, to shareholders of record as of December 8, 1997. SHAREHOLDERS TENDERING THEIR SHARES PURSUANT TO THE OFFER WILL NOT BE ENTITLED TO RECEIVE THE DIVIDEND PAYABLE DECEMBER 17, 1997 UNLESS THE OFFER IS EXTENDED AND CLOSES SUBSEQUENT TO THE DIVIDEND RECORD DATE OF DECEMBER 8, 1997.

8. PURPOSE OF THE OFFER; CERTAIN EFFECTS OF THE OFFER

The tender is primarily being offered to provide shareholders with added liquidity. The Company recognizes that its Common Stock is not widely held, not regularly followed by analysts and is thinly traded. The Company believes that in light of its current business plan, it should have adequate capital after funding the maximum amount contemplated by the Offer. Accordingly, the Board believes that it is in the interest of the Company's shareholders to provide an opportunity for shareholders to sell up to 1,000,000 Shares at a premium to recent market prices and without the usual transaction costs associated with a market sale. The Offer will further allow qualifying Odd Lot Holders whose Shares are purchased pursuant to the Offer to avoid the payment of brokerage commissions and any applicable odd-lot discount payable on a sale of Shares in a transaction effected on a securities exchange. To the extent the purchase of Shares in the Offer results in a reduction in the number of shareholders of record, the costs to the Company for services to shareholders will be reduced.

Shareholders whose Shares are not purchased in the Offer will obtain an increase in their ownership interest in the Company and thus in the Company's future earnings and assets.

NEITHER THE COMPANY NOR THE BOARD MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OF OR ALL SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER AND THE PRICE OR PRICES AT WHICH SHARES SHOULD BE TENDERED.

The Company has been informed by its directors and executive officers that they do not intend to tender Shares owned by them pursuant to the Offer, except that John J. Byrne, the Company's non-executive Chairman, has informed the Company that he and/or his affiliates currently intend to tender 100,000 Shares pursuant to the Offer with a specified price of \$116 per Share.

Since the sale of Fireman's Fund in 1991, the Company's primary strategic goal has been to reinvest proceeds from the sale of its passive investment portfolio into operating businesses in which management has knowledge or experience or, if no better opportunities exist, to return those funds to Shareholders. Although the Company has made several significant acquisitions during the past four years, it has also returned a significant amount of capital to Shareholders. Although the Company may in the future purchase additional Shares on the open market, in private transactions, through tender offers or otherwise, giving effect to the Offer, the Company's assets will consist almost entirely of operating businesses and the Company does not expect to repurchase Shares in the future.

Rule 13e-4 under the Exchange Act generally prohibits the Company and its affiliates from purchasing any Shares, other than pursuant to the Offer, for at least ten business days after the Expiration Date.

Shares acquired by the Company pursuant to the Offer will be retired. Certain pro forma financial effects of the purchase of 1,000,000 Shares pursuant to the Offer are described in Section 9.

The purchase of 1,000,000 Shares pursuant to the Offer will not cause the Shares to be delisted by the NYSE or deregistered under the Exchange Act. See clause (g) of Section 6.

The Shares are currently "margin securities" under the rules of the Federal Reserve Board. This has the effect, among other things, of allowing brokers to extend credit on the collateral of the Shares. Following the repurchase of Shares pursuant to the Offer, the Shares not purchased will continue to be "margin securities" for purposes of the Federal Reserve Board's margin regulations.

#### 9. CERTAIN INFORMATION CONCERNING THE COMPANY

The Company was organized in 1980. Fund American's principal businesses are conducted through White Mountains Holdings, Inc. and its operating subsidiaries ("White Mountains"). White Mountains is a financial services holding company that houses the Company's insurance and mortgage banking operations. White Mountains' insurance operations are conducted through its subsidiaries and affiliates in the businesses of property and casualty insurance, reinsurance and financial guaranty insurance. White Mountains' mortgage banking operations are conducted through Source One Mortgage Services Corporation and its subsidiaries ("Source One"). Source One is one of the nation's largest mortgage banking companies. Fund American also owns a passive investment portfolio. A large portion of the Company's passive investment portfolio consists of large blocks of securities of a small number of issuers. This concentration may make the value of the Company's investment portfolio more volatile than the value of a more diversified portfolio.

The Company's principal office is located at 80 South Main Street, Hanover, New Hampshire, 03755-2053, and its telephone number is (603) 643-1567.

#### INSURANCE OPERATIONS.

White Mountains was formed to be the holding company for all of Fund American's consolidated and unconsolidated insurance operating interests and during 1997 became the holding company of Source One. White Mountains' principal insurance holdings include investments in: Financial Security Assurance Holdings Ltd. ("FSA"), a leading Aaa/AAA

writer of financial guaranty insurance; Folksamerica Holding Company, Inc. ("Folksamerica"), a leading multi-line broker-market reinsurer, Main Street America Holdings, Inc. ("MSA"), an affiliate of National Grange Mutual Insurance Company ("NGM") which is a New Hampshire-based property and casualty insurer; and the consolidated wholly-owned subsidiaries described below.

**CONSOLIDATED INSURANCE OPERATIONS.** On December 1, 1995, White Mountains acquired Valley Group, Inc. of Albany, Oregon, and its subsidiaries (collectively, "Valley") and Charter Group, Inc. of Dallas, Texas, and its subsidiaries (collectively, "Charter") for \$41.7 million in cash less \$3.0 million of purchase price adjustments.

**VALLEY:** Valley's wholly-owned subsidiary, Valley Insurance Company, is an "A" rated, Northwest-based property and casualty company which writes personal and commercial lines. Valley Insurance Company focuses on establishing strong long-term relationships with its agents and insured customers by focusing on providing quality insurance products to the family unit and the independently owned business. In 1996 Valley Insurance Company wrote \$81.9 million of gross premiums primarily in three Northwest states, through approximately 245 independent agents and for the nine month period ended September 30, 1997 Valley wrote \$66.0 million of gross premiums.

**CHARTER:** Charter, through its wholly-owned subsidiary Charter Indemnity Company and its controlled affiliate, Northern County Mutual Insurance Company, markets and underwrites nonstandard automobile insurance to individuals in the State of Texas. For the year ended December 31, 1996, Charter's gross written premiums totaled \$70.0 million. Written premiums (and related expenses and losses) for Charter's policies written prior to January 1, 1996, were entirely ceded to Charter's former parent. Therefore, Charter's financial results for years prior to 1996 are not meaningful for comparison purposes. Charter writes all its business through independent agents located in Texas. At December 31, 1996, Charter had approximately 750 agents located throughout the State. During the nine month period ended September 30, 1997 Charter wrote \$47.4 million of direct premiums.

**WHITE MOUNTAINS INSURANCE COMPANY ("WMIC"):** WMIC is a New Hampshire-based commercial property and casualty company which commenced its operations in September 1995 and wrote \$2.4 million in gross premiums during 1996. During the nine month period ended September 30, 1997 WMIC wrote \$3.7 million of gross premiums. WMIC is currently licensed to write insurance in Maine, New Hampshire, Vermont and Massachusetts and is expected to expand its operations to other states as additional regulatory approvals are obtained. WMIC is a wholly-owned subsidiary of Valley Insurance Company.

**VALLEY NATIONAL INSURANCE COMPANY ("VALLEY NATIONAL"):** On January 19, 1996, Valley purchased an inactive insurance company for \$13.2 million, net of cash balances acquired. The newly acquired insurance company, which was renamed Valley National, is licensed to write property and casualty insurance in 48 states. Assets acquired pursuant to the Valley National acquisition included an investment portfolio, consisting principally of fixed maturity investments, totaling \$6.7 million. Valley National wrote its first policies in December 1996 and has expanded its operations in 1997. Valley National is a wholly-owned subsidiary of Valley Insurance Company.

All of White Mountains' consolidated insurance subsidiaries (the "Insurance Companies") market their products principally through independent agents.

#### INVESTMENTS IN UNCONSOLIDATED INSURANCE AFFILIATES.

**FSA:** In May 1994 the Company purchased 2,000,000 shares of the common stock of FSA ("FSA Common Stock") from U S WEST Capital Corp., a wholly-owned subsidiary of U S WEST, Inc. The purchase was part of an initial public offering of 8,082,385 shares of FSA Common Stock at the initial offering price of \$20.00 per share. In 1995 and 1996, respectively, the Company purchased an additional 460,200 shares of FSA Common Stock on the open market for \$8.8 million and an additional 1,000,000 shares of FSA Common Stock in a private transaction for \$26.5 million.

FSA conducts operations principally through Financial Security Assurance Inc., a wholly-owned monoline financial guarantee insurance subsidiary with Aaa/AAA claims-paying

ratings. FSA is principally engaged in guaranteeing municipal bonds, and residential mortgage and other asset-backed securities.

In September 1994 the Company acquired various fixed price options and shares of convertible preferred stock ("FSA Options and Preferred Stock") which, in total, give Fund American the right to acquire up to 4,560,607 additional shares of FSA Common Stock for aggregate consideration of \$125.7 million. All shares of and rights to FSA Common Stock owned or acquired by the Company as described above are subject to certain restrictions on transfer, voting provisions and other limitations and requirements set forth in a Shareholders' Agreement, a Registration Rights Agreement and a Voting Trust Agreement. As of December 31, 1996, Fund American's economic interest in FSA was approximately 25.1% and Fund American's voting interest in FSA was approximately 23.0%. In December 1995 and January 1996 the Company transferred all of its interests in FSA existing at the time to White Mountains and during 1997 White Mountains transferred all of its interests in FSA to Source One.

MSA: In December 1994 the Company acquired 90,606 shares of the common stock of MSA ("MSA Common Stock") for \$25.0 million in cash. In 1995 the Company paid NGM an additional \$1.2 million in purchase price adjustments for the MSA Common Stock. In December 1995 the Company transferred all of its interest in MSA to White Mountains. White Mountains' investment in MSA represented approximately 33.2% of the outstanding common stock of MSA as of December 31, 1996.

MSA participates in 40% of NGM's business through a reinsurance pooling agreement. NGM writes personal and commercial property and casualty insurance in the Eastern United States.

FOLKSAMERICA: On June 19, 1996, White Mountains completed its purchase, for \$79.9 million including related expenses, of a 50.0% interest in Folksamerica. Folksamerica owns a multi-line broker-market reinsurance company.

White Mountains' investment in Folksamerica includes (i) 6,920,000 shares of ten-year 6.5% voting preferred stock having a liquidation preference of \$79.4 million ("Folksamerica Preferred Stock") and (ii) ten-year warrants ("Folksamerica Warrants") to purchase up to 6,920,000 shares of the Common Stock of Folksamerica ("Folksamerica Common Stock") for \$11.47 per share, subject to certain adjustments.

MORTGAGE OPERATIONS. Source One is one of the largest mortgage banking companies in the United States based on the size of its mortgage loan servicing portfolio. Source One services and subservices mortgage loans on behalf of numerous institutional investors and other security holders. As of September 30, 1997, Source One owned a mortgage loan servicing portfolio totalling \$10.4 billion and subserved \$18.2 billion of loans for others. Source One currently operates with approximately 130 retail branch offices in 26 states and originated \$2.7 billion in new mortgage loans for the nine month period ended September 30, 1997.

Source One engages primarily in the business of producing, selling and servicing residential mortgage loans and subservicing residential mortgage loans for third parties. Its sources of revenue are net mortgage servicing revenue, net interest revenue, net gain on sales of mortgages, net gain on sales of servicing and other revenue (including underwriting and appraisal fees). Through subsidiaries, Source One also markets credit-related insurance products (such as life, disability, health, accidental death and property and casualty insurance).

Source One produces residential mortgage loans through a system of retail branch offices, a specialized marketing program, mortgage brokers and a correspondent network of banks, thrift institutions and other mortgage lenders. Loans produced, whether through origination or purchase, include conventional residential mortgage loans as well as mortgage loans which are either insured by the Federal Housing Administration ("FHA") or partially guaranteed by the Veterans Administration ("VA"). It is a policy of Source One to primarily produce fixed rate mortgage loans. Mortgage loans originated by Source One are subject to a defined underwriting process in order to assess each prospective borrower's ability to repay the loan requested and the adequacy of each property as collateral. In addition,

Source One is subject to the underwriting guidelines of FHA, VA, the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA"), as well as specific contractual requirements of institutional investors who have agreed to acquire mortgage loans originated by Source One.

Source One sells loans either through mortgage-backed securities issued pursuant to programs of the Government National Mortgage Association ("GNMA"), FNMA and FHLMC, or to institutional investors. Most loans are aggregated in pools of \$1.0 million or more, which are purchased by institutional investors after having been guaranteed by GNMA, FNMA or FHLMC. Source One, primarily through investment bankers, also arranges to sell mortgage-backed securities to investors. Substantially all GNMA securities are sold without recourse to Source One for loss of principal in the event of a subsequent default by the mortgage borrower due to the underlying FHA and VA insurance.

Source One currently retains the rights to service the majority of all the mortgage loans it produces. In addition, Source One may acquire the rights to service or subservice a mortgage loan portfolio without originating or acquiring the underlying mortgage loans. Source One customarily makes such purchases of servicing rights from banks, thrift institutions and other mortgage lenders. The fees paid to acquire such servicing rights are negotiated on a case-by-case basis. Source One also sells servicing rights when management deems it economically advantageous. During 1996 and 1995, Source One purchased the rights to service \$2.8 billion of mortgage loans from third parties. Source One has not made any significant purchases of mortgage loan servicing rights during 1997 to-date.

Source One also sells servicing rights when management deems it economically advantageous. On February 28, 1997 Source One sold its rights to service \$17.0 billion of mortgage loans to a third party for gross proceeds of \$271.5 million and will continue to subservice such loans for a period of no less than 12 months. During 1996 Source One sold the rights to service \$3.3 billion of mortgage loans.

Mortgage loan servicing consists primarily of collecting monthly loan payments and remitting amounts due to investors, collecting property tax and insurance escrow deposits and making tax and insurance premium payments when due. Source One collects a servicing fee from each monthly loan payment equal to a fixed percentage of the outstanding principal balance of each loan, plus any late charges.

#### RECENT DEVELOPMENTS.

On October 9, 1997 Fund American reported that John J. Byrne announced his retirement as President and Chief Executive Officer of the Company and announced that its Board of Directors had named K. Thomas Kemp as his successor. Mr. Kemp was formerly Executive Vice President of the Company and is Chairman, President and Chief Executive Officer of White Mountains.

On October 15, 1997, the Company filed a Current Report on Form 8-K announcing that Allan L. Waters had resigned as the Company's Chief Financial Officer citing a desire to spend more time with his family. Mr. Waters had been Chief Financial Officer since 1993.

On October 24, 1997, Travelers Property Casualty Corp. ("TAP") filed a Form S-3 Registration Statement with the Securities and Exchange Commission that would permit Fund American to sell up to 1,352,400 shares of TAP common stock within the next several weeks. Fund American's investment in TAP is carried in "other investments" on its balance sheet due to various restrictions on sales of its investment in TAP common stock.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION. The summary financial information for the years ended December 31, 1996 and 1995, set forth below, has been derived from and should be read in conjunction with the audited consolidated financial statements (including the related notes thereto) included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "Form 10-K"), the Company's Quarterly Report on Form 10-Q for the three and six month periods ended June 30, 1997 (the "Form 10-Q") and the Company's third quarter 1997 earnings release dated October 27, 1997 (the "3Q97 Earnings Release") filed as an exhibit to the Company's Issuer Tender Offer



Statement on Schedule 13E-4 relating hereto. Such summary financial information is qualified in its entirety by reference to such reports and all financial statements and related notes contained therein. The Form 10-K and the Form 10-Q are available for examination, and copies are obtainable, in the manner set forth below under "Additional Information". The 3Q97 Earnings Release is available through the Company upon request and without charge. Written or telephone requests should be directed to the Corporate Secretary, Fund American Enterprises Holdings, Inc., 80 South Main Street, Hanover, NH 03755, telephone number (603) 643-1567.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

(UNAUDITED)

	Nine Months Ended September 30,		Year Ended December 31,	
	1997	1996	1996	1995
(Dollars in millions, except per share amounts)				
<b>Ending Balance Sheet Data:</b>				
Total assets	\$ 2,023.2		\$ 1,980.6	\$ 1,871.9
Short-term debt	490.5		407.9	445.4
Long-term debt	304.1		424.2	407.3
Minority interest - preferred stock of subsidiary	44.0		44.0	44.0
Shareholders' equity	719.0		687.0	699.7
Book value per common and equivalent share	102.14		90.81	83.28
<b>Income Statement Data:</b>				
Total revenues	\$ 231.4	\$ 259.7	\$ 332.5	\$ 222.3
Total expenses	(243.4)	(227.1)	(347.2)	(225.9)
Net realized investment gains	47.6	28.1	38.5	38.8
Income tax provision	(14.7)	(24.7)	(18.9)	(16.7)
After tax earnings	20.9	36.0	4.9	18.5
Tax benefit from sale of discontinued operations	--	--	--	66.0
Loss on early extinguishment of debt, after tax	(6.0)	--	--	(.4)
Net income	\$ 14.9	\$ 36.0	\$ 4.9	\$ 84.1
<b>Primary earnings per share:</b>				
After tax earnings	\$ 2.84	\$ 4.38	\$ .60	\$ 1.71
Tax benefit from sale of discontinued operations	--	--	--	7.69
Loss on early extinguishment of debt, after tax	(.81)	--	--	(.04)
Net income	\$ 2.03	\$ 4.38	\$ .60	\$ 9.36
<b>Fully diluted earnings per share:</b>				
After tax earnings	\$ 2.84	\$ 4.38	\$ .60	\$ 2.02
Tax benefit from sale of discontinued operations	--	--	--	7.18
Loss on early extinguishment of debt, after tax	(.81)	--	--	(.04)
Net income	\$ 2.03	\$ 4.38	\$ .60	\$ 9.16
Ratio of earnings to combined fixed charges and preferred stock dividends	1.69	2.43	1.30	1.35

NOTES TO SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

(A) The ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing pretax earnings as adjusted by total fixed charges and preferred stock dividends:

(Dollars in millions)	Nine Months Ended September 30,		Year Ended December 31,	
	1997	1996	1996	1995
Pretax earnings	\$ 35.6	\$ 60.7	\$ 23.8	\$ 35.2
Earnings from unconsolidated affiliates	(14.8)	(6.0)	(12.0)	(9.4)
Earnings received from unconsolidated affiliates	4.9	2.2	3.8	.8
Interest expense	35.7	38.5	50.0	45.8
Portion of rent representative of interest expense	1.3	1.3	1.8	2.4
Pretax earnings as adjusted	\$ 62.7	\$ 96.7	\$ 67.4	\$ 74.8
Preferred stock dividend requirements	\$ --	\$ --	\$ --	\$ 7.3
Interest expense	35.7	38.5	50.0	45.8
Portion of rent representative of interest expense	1.3	1.3	1.8	2.4
Total fixed charges and preferred stock dividends	\$ 37.0	\$ 39.8	\$ 51.8	\$ 55.5

(B) Primary earnings per share amounts for the nine month periods ended September 30, 1997 and 1996 are based on the weighted average number of common and dilutive common equivalent shares outstanding of 7,344,466 and 8,220,149, respectively. Fully diluted earnings per share amounts for the nine month periods ended September 30, 1997 and 1996 are based on the weighted average number of common shares outstanding, assuming full dilution, of 7,344,479 and 8,220,229, respectively. Primary earnings per share amounts for the years ended December 31, 1996 and 1995 are based on the weighted average number of common and dilutive common equivalent shares outstanding of 8,110,143 and 8,581,456, respectively. Fully diluted earnings per share amounts for the years ended December 31, 1996 and 1995 are based on the weighted average number of common shares outstanding, assuming full dilution, of 8,110,229 and 9,189,054, respectively.

PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED). The following unaudited pro forma financial information sets forth the pro forma effects on the historical financial results of the Company of the Offer assuming 1,000,000 Shares are purchased in the Offer for \$125.00 per Share (the maximum amount contemplated in the Offer), net to the seller in cash, or an aggregate cost to the Company of approximately \$125.4 million including estimated related fees and expenses of \$.4 million.

The consolidated pro forma balance sheet information as of September 30, 1997 and December 31, 1996 assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of September 30, 1997 and December 31, 1996, respectively. The consolidated pro forma income statement information for the periods ended September 30, 1997 and December 31, 1996 assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of January 1, 1997 and January 1, 1996, respectively. See "Notes to Pro Forma Financial Information" in this Section 9 below.

The estimated financial effects of the repurchase of Shares by the Company pursuant to the Offer presented in the pro forma financial information are not necessarily indicative of either the Company's financial position or the results of its operations which would have been obtained had the transactions described above actually occurred on the dates described above, nor are they necessarily indicative of the results of future operations. The pro forma financial information should be read in conjunction with the Form 10-K, the Form 10-Q and the 3Q97 Earnings Release.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
PRO FORMA CONSOLIDATED BALANCE SHEET INFORMATION  
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	September 30, 1997			December 31, 1996		
	Actual	Adjust- ments	Pro Forma	Actual	Adjust- ments	Pro Forma
Short-term investments, at amortized cost	\$ 88.9	\$ (65.4)	\$ 23.5	\$ 67.5	\$ (65.4)	\$ 2.1
Common equity securities and other investments	351.0	(60.0)	291.0	337.3	(60.0)	277.3
Total assets	2,023.2	(125.4)	1,897.8	1,980.6	(125.4)	1,855.2
Total liabilities	1,260.2	--	1,260.2	1,249.6	--	1,249.6
Minority interest - preferred stock of subsidiary	44.0	--	44.0	44.0	--	44.0
Common stock and paid-in surplus	391.9	(12.5)	379.4	398.4	(12.5)	385.9
Retained earnings	1,031.2	(112.9)	918.3	1,067.1	(112.9)	954.2
Total shareholders' equity	718.9	(125.4)	593.5	687.0	(125.4)	561.6
Total liabilities, minority interest and shareholders' equity	2,023.2	(125.4)	1,897.8	1,980.6	(125.4)	1,855.2
Book value per common and equivalent share	\$ 102.14	\$ (3.65)	\$ 98.49	\$ 90.81	\$ (5.00)	\$ 85.81

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
PRO FORMA CONSOLIDATED INCOME STATEMENT INFORMATION  
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Nine Months Ended September 30, 1997			Year Ended December 31, 1996		
	Actual	Adjust- ments	Pro Forma	Actual	Adjust- ments	Pro Forma
Net investment income	\$ 46.3	\$ (2.6)	\$ 43.7	\$ 57.3	\$ (3.5)	\$ 53.8
Total revenues	231.4	(2.6)	228.8	332.5	(3.5)	329.0
Total expenses	243.4	--	243.4	347.2	--	347.2
Pretax operating loss	(12.0)	(2.6)	(14.6)	(14.7)	(3.5)	(18.2)
Net realized investment gains	47.6	--	47.6	38.5	--	38.5
Pretax earnings	35.6	(2.6)	33.0	23.8	(3.5)	20.3
Income tax provision	14.7	(.9)	13.8	18.9	(1.2)	17.7
After tax earnings	20.9	(1.7)	19.2	4.9	(2.3)	2.6
Net Income	14.9	(1.7)	13.2	4.9	(2.3)	2.6
Per share data:						
After tax earnings per share	\$ 2.84	\$ .18	\$ 3.02	\$ .60	\$ (.23)	\$ .37
Net income per share	2.03	.05	2.08	.60	(.23)	.37
Earnings per share denominator (in thousands)						
Primary	7,344	(1,000)	6,344	8,110	(1,000)	7,110
Fully diluted	7,344	(1,000)	6,344	8,110	(1,000)	7,110
Ratio of earnings to combined fixed charges and preferred stock dividends	1.69	(.07)	1.62	1.30	(.07)	1.23

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The consolidated pro forma balance sheet information as of September 30, 1997 and December 31, 1996 assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of September 30, 1997 and December 31, 1996, respectively. The consolidated pro forma income statement information for the periods ended September 30, 1997 and December 31, 1996, assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of January 1, 1997 and January 1, 1996, respectively, and includes only those adjustments that are expected to have a continuing impact on the

Company. The adjustments presented in the pro forma financial information reflect the following assumptions:

- a) The consolidated pro forma balance sheet information assumes that (i) the \$125.4 million of funds used by the Company to repurchase 1,000,000 Shares pursuant to the Offer and pay related fees and expenses are derived from sales and maturities of short-term investments and sales of a portion of its passive investments (approximately \$60.0 million), and (ii) Shares repurchased by the Company pursuant to the Offer are retired.
- b) The consolidated pro forma income information assumes that the annualized yield on short-term investments used to fund the repurchase of Shares was 5.40% and 5.30% for the periods ended September 30, 1997 and December 31, 1996, respectively. This assumed yield approximates the average yield actually experienced with respect to the Company's short-term investments during the period indicated.
- c) The consolidated pro forma income statement information excludes the effects on the Company's net investment income and realized investments gains in connection with the pro forma sale of \$60.0 million of common stocks and other long-term investments as such amounts are not determinable.

The consolidated pro forma income statement information also assumes that the effective tax rate related to the reduction in net investment income is 35%, the maximum Federal statutory rate for corporations.

SHAREHOLDER RIGHTS PLAN. The Board adopted in 1987, and in 1988 and 1993 amended, a Shareholders' Rights Plan under which Rights to purchase preferred stock were distributed to shareholders at the rate of one Right for each Share. Each Right entitles the holder to purchase one one-thousandth of a share of Participating Stock.

The Rights enable the holders to acquire additional equity in either the Company or the acquiring company, and are exercisable if an unrelated person or group (other than American Express Company or a wholly owned subsidiary thereof, any subsidiary of the Company, any employee benefit plan of the Company or its subsidiaries or certain affiliates of the Company and certain persons who inadvertently and temporarily cross the 25% threshold) acquires beneficial ownership of 25% or more of the outstanding Shares (such a 25% or more beneficial owner is deemed an "Acquiring Person"). Thereafter, the Rights would trade separately from the Shares and separate certificates representing the Rights would be issued. The terms of the Participating Stock are such that each one one-thousandth of a share would be entitled to participate in dividends and to vote on an equivalent basis with one whole Share, along with other preferential dividend rights and preferential distribution rights in liquidation.

Upon the existence of an Acquiring Person, the Rights will entitle each holder of a Right to purchase, at the exercise price, that number of one one-thousandth of a share of Participating Stock equivalent to the number of Shares which, at the time of the transaction, would have a market value of twice the exercise price. If certain acquisitions of the Company occur, a similar right to purchase securities of the Company or the entity acquiring the Company at a discount would arise.

Any Rights that are beneficially owned by an Acquiring Person (or any affiliate or associate of an Acquiring Person) are null and void and any holder of any such Right (including any subsequent holder) will be unable to exercise or transfer any such Right.

At any time after a person becomes an Acquiring Person, the Board may mandatorily exchange all or some of the Rights for consideration per Right equal to one-half of the securities issuable upon the exercise of one Right pursuant to the terms of the Rights Agreement (or the common share equivalent) and without payment of the exercise price.

The Rights, which do not have the right to vote or receive dividends, expire November 25, 1997, and may be redeemed by the Company at a price of \$.01 per Right at any time prior

to the earlier of: (i) such time as a person becomes an Acquiring Person; or (ii) the expiration date. Under certain circumstances, the Board may redeem the Rights only if a majority of the disinterested directors (as defined in the Shareholders' Rights Plan) agrees that the redemption is in the best interests of the Company and its shareholders. It is expected that the Rights will expire in accordance with their terms on November 25, 1997.

The foregoing description of the Rights is qualified in its entirety by reference to the Shareholders Rights Plan.

The Rights currently are not exercisable and trade together with the Shares associated therewith, and will not become exercisable or separately tradeable as a result of the Offer. Absent the occurrence of circumstances causing the Rights to become exercisable or separately tradeable before the Expiration Date, the tender of any Shares pursuant to the Offer will include the tender of the Rights associated therewith. No separate consideration will be paid for such Rights. Upon the purchase of Shares by the Company pursuant to the Offer, the shareholders selling those Shares will no longer own the Rights associated with such purchased Shares.

ADDITIONAL INFORMATION. The Company is subject to the informational reporting requirements of the Exchange Act and in accordance therewith the Company files reports, proxy statements and other information with the SEC. Additional information concerning the Company is set forth in such proxy statements, the Company's Annual Report on Form 10-K for the year ended December 31, 1996, the Company's Quarterly Report on Form 10-Q for the three and six-month periods ended June 30, 1997 and the Company's third quarter 1997 earnings release dated October 27, 1997. The Company has filed the Schedule 13E-4 with the SEC which includes certain additional information relating to the Offer. The reports, proxy statements and other information filed by the Company with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC at Seven World Trade Center, 13th Floor, New York, New York 10048 and Citicorp Center, 500 West Madison Street (Suite 1400), Chicago, Illinois 60661. Copies of such material also can be obtained at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, the Commission maintains a Website (<http://www.sec.gov>) that also contains such reports, proxy statements and other information filed by the Company. Material filed by the Company can also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005. The Company's Schedule 13E-4 will not be available at the SEC's regional offices.

#### 10. SOURCE AND AMOUNT OF FUNDS

If 1,000,000 Shares are purchased by the Company pursuant to the Offer at \$125.00 per Share (the maximum amount contemplated in the Offer), net to the seller in cash, the aggregate cost to the Company, including all related fees and expenses of the Offer, will be approximately \$125.4 million. The Company anticipates that it will fund the purchase of Shares pursuant to the Offer through sales and maturities of short-term investments and the sale of a portion of its passive investment portfolio.

#### 11. CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

Set forth below is a brief summary of the principal Federal income tax consequences of a sale of Shares pursuant to the Offer under the Internal Revenue Code of 1986, as amended to date (the "Code").

GAIN OR LOSS RECOGNITION. A tendering shareholder generally will recognize taxable gain (or loss) upon the sale of Shares pursuant to the Offer equal to the difference between the amount of cash received by such shareholder pursuant to the Offer and such shareholder's tax basis in the Shares sold pursuant to the Offer. Such gain (or loss) will be capital gain (or loss), assuming that such Shares are held as a capital asset. Capital gains of individuals, estates and trusts generally are subject to a maximum Federal income tax rate of (i) 39.6% if, at the time the Company accepts the Shares for payment, the shareholder held the Shares for not more than one year, (ii) 28% if the shareholder held such Shares for more than one year but not more than 18 months at such time and (iii) 20% if the shareholder held such

Shares for more than 18 months at such time. Capital gains of corporations generally are taxed at the Federal income tax rates applicable to corporate ordinary income.

Notwithstanding the foregoing, the amount received by a tendering shareholder will be treated as a dividend taxable as ordinary income if the Offer does not result in (i) a complete termination of such shareholder's stock interest in the Company, (ii) a more than 20% decrease in such shareholder's ownership of Shares and other voting stock of the Company or (iii) a "meaningful reduction" in such shareholder's proportionate interest in the Company. There are no precise rules on what constitutes a "meaningful reduction" in a shareholder's proportionate interest, but the Internal Revenue Service has ruled that even a small reduction (3.3%) is meaningful where the stock owned by the shareholder prior to reduction represents a "minimal" interest in the corporation (only .0001118% in the ruling) and the shareholder does not otherwise exercise any control over the affairs of the corporation. The extent to which a shareholder's proportionate interest is reduced will depend upon the extent to which other shareholders tender Shares in the Offer. In determining the extent to which a shareholder's ownership or proportionate interest is terminated or reduced, the shareholder must take into account any Shares owned by related persons that such shareholder is deemed to own under the constructive ownership rules of Sections 302(c) and 318 of the Code. Shareholders should be aware that their ability to satisfy any of the foregoing tests also may be affected by proration pursuant to the Offer. Therefore, a shareholder (other than an Odd Lot Holder who tenders all of his or her Shares at or below the Purchase Price) can be given no assurance, even if he or she tenders all the shareholder's Shares, that the Company will purchase a sufficient number of such Shares to permit the shareholder to satisfy any of the foregoing tests.

In the case of a corporate shareholder, if the amount received is treated as a dividend, the dividend income may be eligible for the 70% dividends-received deduction under Section 243 of the Code. The dividends-received deduction is subject to certain limitations, and may not be available if the corporate shareholder does not satisfy certain recently amended holding period requirements with respect to the Shares or if the Shares are treated as "debt financed portfolio stock". Generally, if a dividends-received deduction is available, the dividend will probably be treated as an "extraordinary dividend" under Section 1059(a) of the Code, in which case such corporate shareholder's tax basis in Shares retained by such shareholder (which would include the tax basis of the Shares sold in the Offer) would be reduced, but not below zero, by the amount of the portion of the dividend which is untaxed due to the dividends-received deduction. In general, any amount of the nontaxed portion of the dividend in excess of the shareholder's basis for the retained Shares would be currently taxable as gain from the sale of Shares.

**BACKUP WITHHOLDING.** Each tendering shareholder must provide certain information through the Letter of Transmittal to avoid the 31% Federal "backup withholding" tax on the gross proceeds payable pursuant to the Offer. See Section 3.

**FOREIGN SHAREHOLDER WITHHOLDING.** Foreign shareholders should note that the 30% U.S. withholding tax generally applicable to corporate distributions should not apply to the proceeds payable pursuant to the Offer, unless such proceeds are treated as a dividend under the rules described in "Gain or Loss Recognition" above. (However, as indicated in the preceding paragraph, Federal backup withholding tax may be applicable.) For this purpose, a "foreign shareholder" is a beneficial owner of Shares that is not a "U.S. Holder". A U.S. Holder is a beneficial owner that is (i) a citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate or trust the income of which is subject to United States Federal income taxation regardless of the source of such income or (iv) a person or entity whose worldwide income and gain are otherwise subject to United States Federal income taxation on a net income basis.

**STATE, LOCAL AND FOREIGN TAXES.** The foregoing discussion relates only to Federal income tax consequences of the Offer. Shareholders should consult their own tax advisors regarding the possible state, local and foreign tax consequences of the Offer.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION PURPOSES ONLY. SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE FEDERAL, STATE, LOCAL AND



FOREIGN TAX CONSEQUENCES OF SALES MADE BY THEM PURSUANT TO THE OFFER IN VIEW OF THEIR OWN PARTICULAR CIRCUMSTANCES.

#### 12. TRANSACTIONS AND ARRANGEMENTS CONCERNING THE SHARES

Based upon the Company's records and upon information provided to the Company by its directors and executive officers, neither the Company nor any of its subsidiaries nor, to the best of the Company's knowledge, any of the directors or officers of the Company, nor any associates of any of the foregoing, has effected any transactions in the Shares during the 40 business days prior to the date hereof, except for the purchase by the Company of: (a) 790 Shares for \$105 per Share on September 11, 1997, (b) 156 Shares for \$106 7/16 per Share on September 19, 1997, (c) 52 Shares for \$105 5/8 per Share on September 26, 1997, (d) 1,504 Shares for \$108 per Share on October 1, 1997, (e) 543 Shares for \$110 9/16 per Share on October 15, 1997 and (f) 1,356 Shares for \$108 1/4 per Share on October 20, 1997.

These purchases of Shares were made pursuant to a prearranged program with the Allianz Plan. The Company has agreed to purchase Shares offered to it from time to time by the Allianz Plan trustee at a purchase price equal to the closing price of Shares, as reported on the NYSE Composite Tape, on the day the transaction is executed.

Except as set forth in this Offer to Purchase, neither the Company nor, to the best of the Company's knowledge, any of its directors or officers, is a party to any contract, arrangement, understanding or relationship with any other person relating, directly or indirectly, to the Offer with respect to any securities of the Company (including, but not limited to, any contract, arrangement, understanding or relationship concerning the transfer or the voting of any such securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or the giving or withholding of proxies, consents or authorizations).

The Company has been informed by its directors and executive officers that they do not intend to tender Shares owned by them pursuant to the Offer, except that John J. Byrne, the Company's current Chairman and former President and Chief Executive Officer, has informed the Company that he and/or his affiliates currently intend to tender 100,000 Shares pursuant to the Offer.

#### 13. CERTAIN LEGAL MATTERS; REGULATORY AND FOREIGN APPROVALS

The Company is not aware of any license or regulatory permit that appears to be material to its business that might be adversely affected by its acquisition of Shares as contemplated in the Offer or of any approval or other action by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, that would be required for the Company's acquisition or ownership of Shares pursuant to the Offer. Should any such approval or other action be required, the Company currently contemplates that it will seek such approval or other action. The Company cannot predict whether it may determine that it is required to delay the acceptance for payment of Shares tendered pursuant to the Offer pending the outcome of any such matter. There can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that the failure to obtain any such approval or other action might not result in adverse consequences to the Company's business. The Company intends to make all required filings under the Exchange Act. The Company's obligation under the Offer to accept Shares for payment is subject to certain conditions. See Section 6.

#### 14. CERTAIN PLANS

ALLIANZ ASSET ACCUMULATION PLAN. Allianz Plan participants should receive an Allianz Plan Tender Offer Instruction Form in the materials sent to them on behalf of the trustee. Allianz Plan participants who wish to have the trustee tender any of or all Shares allocated to their respective accounts ("Allianz Plan Shares") should so indicate by completing, executing and returning an Allianz Plan Tender Offer Instruction Form to the trustee. Allianz Plan participants may not use the Letter of Transmittal to direct the trustee to tender their respective Allianz Plan Shares but must use the Allianz Plan Tender Offer Instruction Form. Under ERISA, the trustee may be obligated to take action and make an independent decision

irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the trustee. Allianz Plan participants should note that proceeds of Shares tendered by Allianz Plan participants will be paid directly to the Allianz Plan trustee for crediting to Allianz Plan participant accounts. ALLIANZ PLAN PARTICIPANTS ARE URGED TO READ THE ALLIANZ PLAN TENDER OFFER INSTRUCTION FORM AND RELATED MATERIALS CAREFULLY.

NEITHER THE COMPANY NOR THE BOARD MAKES ANY RECOMMENDATION AS TO WHETHER ANY PARTICIPANT IN THE ALLIANZ PLAN SHOULD TENDER ANY OF OR ALL THEIR RESPECTIVE ALLIANZ PLAN SHARES PURSUANT TO THE OFFER. EACH PARTICIPANT IN THE ALLIANZ PLAN MUST MAKE SUCH PARTICIPANT'S OWN DECISION WHETHER TO TENDER ALLIANZ PLAN SHARES, AND, IF SO, HOW MANY SUCH SHARES.

SOURCE ONE MORTGAGE SERVICES CORPORATION EMPLOYEE STOCK OWNERSHIP AND 401(K) SAVINGS PLAN. Source One Plan participants should receive a Source One Plan Tender Offer Instruction Form in the materials sent to them on behalf of the trustee. Source One Plan participants who wish to have the trustee tender any of or all Shares allocated to their respective accounts ("Source One Plan Shares") should so indicate by completing, executing and returning a Source One Plan Tender Offer Instruction Form to the trustee. Source One Plan participants may not use the Letter of Transmittal to direct the trustee to tender their respective Source One Plan Shares but must use the Source One Plan Tender Offer Instruction Form. Under ERISA, the trustee may be obligated to take action and make an independent decision irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the trustee. Source One Plan participants should note that proceeds of Shares tendered by Source One Plan participants will be paid directly to the Source One Plan trustee for crediting to Source One Plan participant accounts. SOURCE ONE PLAN PARTICIPANTS ARE URGED TO READ THE SOURCE ONE PLAN TENDER OFFER INSTRUCTION FORM AND RELATED MATERIALS CAREFULLY.

NEITHER THE COMPANY NOR THE BOARD MAKES ANY RECOMMENDATION AS TO WHETHER ANY PARTICIPANT IN THE SOURCE ONE PLAN SHOULD TENDER ANY OF OR ALL THEIR RESPECTIVE SOURCE ONE PLAN SHARES PURSUANT TO THE OFFER. EACH PARTICIPANT IN THE SOURCE ONE PLAN MUST MAKE SUCH PARTICIPANT'S OWN DECISION WHETHER TO TENDER SOURCE ONE PLAN SHARES, AND, IF SO, HOW MANY SUCH SHARES.

VALLEY GROUP EMPLOYEES' 401(K) SAVINGS PLAN. Valley Group Plan participants should receive a Valley Group Plan Tender Offer Instruction Form in the materials sent to them on behalf of the trustee. Valley Group Plan participants who wish to have the trustee tender any of or all Shares allocated to their respective accounts ("Valley Group Plan Shares") should so indicate by completing, executing and returning a Valley Group Plan Tender Offer Instruction Form to the trustee. Valley Group Plan participants may not use the Letter of Transmittal to direct the trustee to tender their respective Valley Group Plan Shares but must use the Valley Group Plan Tender Offer Instruction Form. Under ERISA, the trustee may be obligated to take action and make an independent decision irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the trustee. Valley Group Plan participants should note that proceeds of Shares tendered by Valley Group Plan participants will be paid directly to the Valley Group Plan trustee for crediting to Valley Group Plan participant accounts. VALLEY GROUP PLAN PARTICIPANTS ARE URGED TO READ THE VALLEY GROUP PLAN TENDER OFFER INSTRUCTION FORM AND RELATED MATERIALS CAREFULLY.

NEITHER THE COMPANY NOR THE BOARD MAKES ANY RECOMMENDATION AS TO WHETHER ANY PARTICIPANT IN THE VALLEY GROUP PLAN SHOULD TENDER ANY OF OR ALL THEIR RESPECTIVE VALLEY

GROUP PLAN SHARES PURSUANT TO THE OFFER. EACH PARTICIPANT IN THE VALLEY GROUP PLAN MUST MAKE SUCH PARTICIPANT'S OWN DECISION WHETHER TO TENDER VALLEY GROUP PLAN SHARES, AND, IF SO, HOW MANY SUCH SHARES.

#### 15. EXTENSION OF TENDER PERIOD; TERMINATION; AMENDMENTS

The Company expressly reserves the right, in its sole discretion, at any time or from time to time and regardless of whether or not any of the events set forth in Section 6 shall have occurred or shall be deemed by the Company to have occurred, to extend the period of time during which the Offer is open and thereby delay acceptance for payment of any Shares by giving oral or written notice of such extension to the Depository and making a public announcement thereof. During any such extension, all Shares previously tendered and not purchased or withdrawn will remain subject to the Offer, except to the extent that such Shares may be withdrawn as set forth in Section 4. The Company also expressly reserves the right, in its sole discretion, to withdraw or terminate the Offer and not accept for payment or pay for any Shares not theretofore accepted for payment or paid for or, subject to applicable law, to postpone payment for Shares under circumstances including but not limited to the occurrence of any of the conditions specified in Section 6 by giving oral or written notice of such termination or postponement to the Depository and making a public announcement thereof. The Company's reservation of the right to delay payment for Shares which it has accepted for payment is limited by Rule 13e-4(f)(5) promulgated under the Exchange Act, which requires that the Company must pay the consideration offered or return the Shares tendered promptly after termination or withdrawal of a tender offer. Subject to compliance with applicable law, the Company further reserves the right, in its sole discretion, and regardless of whether or not any of the events set forth in Section 6 shall have occurred or shall be deemed by the Company to have occurred, to amend the Offer in any respect (including, without limitation, by decreasing or increasing the consideration offered in the Offer to owners of Shares or by increasing or decreasing the number of Shares being sought in the Offer). Amendments to the Offer may be made at any time or from time to time effected by public announcement thereof, such announcement, in the case of an extension, to be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Any disclosure of a material change in the information published, sent or given to shareholders will be disseminated promptly to shareholders in a manner reasonably calculated to inform shareholders of such change to the extent required by Rules 13e-4(d)(2) and 13e-4(e)(2) promulgated under the Exchange Act. Without limiting the manner in which the Company may choose to make a public announcement pursuant to or concerning the Offer, except as required by applicable law, the Company shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to the Dow Jones News Service.

If the Company makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, the Company will extend the Offer to the extent required by applicable rules or regulations promulgated under the Exchange Act. The minimum period during which an offer must remain open following material changes in the terms of the offer or information concerning the offer (other than a change in price or a change in percentage of securities sought) will depend on the facts and circumstances then existing, including the relative materiality of the changed terms or information. If (a) the Company (i) increases or decreases the price at which Shares may be properly tendered, (ii) increases the number of Shares being sought and such increase exceeds 2% of the outstanding Shares or (iii) decreases the number of Shares being sought, and (b) the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from and including the date that notice of such increase or decrease is first published, sent or given, the Offer will be extended until the expiration of such ten business day period.

#### 16. FEES AND EXPENSES

Lehman Brothers Inc. ("Lehman Brothers") has been retained by the Company to act as Dealer Manager in connection with the Offer. Lehman Brothers will receive a fee of up to \$200,000 for its services as Dealer Manager. The Company has also agreed to reimburse Lehman Brothers for certain reasonable out-of-pocket expenses incurred in connection with the Offer, including fees and disbursements of counsel, and to indemnify Lehman Brothers against certain liabilities, including certain liabilities under the Federal securities laws.

Lehman Brothers has rendered various investment banking and other advisory services to the Company in the past, for which it has received customary compensation, and may continue to render similar services to the Company in the future.

First Chicago Trust Company of New York ("First Chicago") has been retained by the Company as Depositary and Information Agent in connection with the Offer. The Information Agent and the Dealer Manager will assist shareholders who request assistance in connection with the Offer. The Information Agent and the Dealer Manager may contact holders of Shares by mail, telephone, telex, telegraph, fax and personal interviews and may request brokers, dealers and other nominee shareholders to forward material relating to the Offer to beneficial owners for which they act as nominees. First Chicago will receive reasonable and customary compensation for its services in connection with the Offer and will be reimbursed for reasonable expenses, including the reasonable fees and expenses of counsel. The Company has agreed to indemnify First Chicago against certain liabilities which could occur in connection with the Offer, including certain liabilities under the Federal securities laws. First Chicago has not been retained to, or authorized to, make solicitations or recommendations in connection with the Offer in its role as Depositary or Information Agent.

The Company will not pay any fees or commissions to any broker, dealer, commercial bank, trust company or other person (other than Lehman Brothers) for soliciting Shares pursuant to the Offer. The Company will, however, on request, reimburse such persons for customary handling and mailing expenses incurred in forwarding materials in respect of the Offer to the beneficial owners for which they act as nominees. No broker, dealer, commercial bank or trust company has been authorized to act as an agent for the Company for the purpose of the Offer. The Company will not pay (or cause to be paid) any stock transfer taxes on its purchase of Shares pursuant to the Offer, except as otherwise provided in Instruction 7 of the Letter of Transmittal.

#### 17. MISCELLANEOUS

The Offer is not being made to, nor will the Company accept tenders from or on behalf of, owners of Shares in any jurisdiction in which the making of the Offer or its acceptance would not be in compliance with the laws of such jurisdiction. The Company is not aware of any jurisdiction where the making of the Offer or the tender of Shares would not be in compliance with applicable law. If the Company becomes aware of any jurisdiction where the making of the Offer or the tender of Shares is not in compliance with any applicable law, the Company will make a good faith effort to comply with such law. If, after such good faith effort, the Company cannot comply with such law, the Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of Shares residing in such jurisdiction.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

November 3, 1997

Facsimile copies of the Letter of Transmittal, properly completed and duly executed, will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each shareholder of the Company or such shareholder's broker, dealer, commercial bank, trust company or other nominee to the Depository at one of its addresses set forth below.

THE DEPOSITARY AND THE INFORMATION AGENT FOR THE OFFER IS:

FIRST CHICAGO TRUST COMPANY OF NEW YORK

FACSIMILE TRANSMISSION:  
(FOR ELIGIBLE INSTITUTIONS ONLY)

201-222-4720  
or  
201-222-4721

BY MAIL:

Tenders & Exchanges  
Suite 4660 - FAE  
P.O. Box 2569  
Jersey City, NJ  
07303-2569

BY HAND:

Tenders & Exchanges  
c/o The Depository Trust Company  
55 Water Street  
DTC TAD  
Vietnam Veterans Memorial Plaza  
New York, NY 10041

BY OVERNIGHT COURIER:

Tenders & Exchanges  
Suite 4680 - FAE  
14 Wall Street - 8th Floor  
New York, NY 10005

FOR INFORMATION:  
1-800-409-7443

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Any questions or requests for assistance or for additional copies of this Offer to Purchase, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent or the Dealer Manager. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.  
-----

THE DEALER MANAGER FOR THE OFFER IS:

LEHMAN BROTHERS

Three World Financial Center  
200 Vesey Street  
New York, NY 10285  
(212) 526-7850

LETTER OF TRANSMITTAL  
TO TENDER SHARES OF COMMON STOCK  
OF  
FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
PURSUANT TO THE OFFER TO PURCHASE  
DATED NOVEMBER 3, 1997

-----  
THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,  
NEW YORK CITY TIME, ON MONDAY, DECEMBER 1, 1997, UNLESS THE OFFER IS EXTENDED.  
-----

TO: FIRST CHICAGO TRUST COMPANY OF NEW YORK, DEPOSITARY

BY HAND:  
TENDERS & EXCHANGES  
C/O THE DEPOSITARY TRUST COMPANY  
55 WATER STREET

BY MAIL:  
TENDERS & EXCHANGES  
SUITE 4660 - FAE  
P.O. BOX 2569  
JERSEY CITY, NJ  
07303-2569

VIETNAM VETERANS MEMORIAL PLAZA  
DTC TAD  
NEW YORK, NY 10041

BY OVERNIGHT COURIER:  
TENDERS & EXCHANGES  
SUITE 4680 - FAE  
14 WALL STREET -  
8TH FLOOR  
NEW YORK, NY 10005

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN THOSE SHOWN ABOVE DOES  
NOT CONSTITUTE A VALID DELIVERY.

This Letter of Transmittal is to be used only if (a) certificates for  
Shares (as defined below) are to be delivered with it or (b) Shares are being  
delivered by book-entry transfer to the account maintained by the Depository at  
The Depository Trust Company ("DTC") or the Philadelphia Depository Trust  
Company ("PDTC") (collectively, the "Book-Entry Transfer Facilities") as set  
forth in Section 3 of the Offer to Purchase (as defined below).

Shareholders whose stock certificates are not immediately available (or who  
cannot follow the procedure for book-entry transfer on a timely basis) or who  
cannot transmit this Letter of Transmittal and all other required documents to  
the Depository before the Expiration Date (as defined in Section 1 of the Offer  
to Purchase) may nevertheless tender their Shares according to the guaranteed  
delivery procedure set forth in Section 3 of the Offer to Purchase. See  
Instruction 2.

A shareholder owning beneficially as of the close of business on October  
27, 1997 and who continues to own beneficially until the Expiration Date an  
aggregate of fewer than 100 Shares, and who satisfies the other requirements set  
forth in Instruction 8, may have all such Shares purchased before proration, if  
any, of the purchase of other Shares pursuant to the Offer.

DELIVERY OF THE LETTER OF TRANSMITTAL AND THE OTHER REQUIRED DOCUMENTS TO  
ONE OF THE BOOK-ENTRY TRANSFER FACILITIES DOES NOT CONSTITUTE DELIVERY TO THE  
DEPOSITARY.

-----  
DESCRIPTION OF SHARES TENDERED  
(SEE INSTRUCTIONS 3 AND 4)  
-----

NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S)                      Shares Tendered  
(PLEASE FILL IN EXACTLY AS NAME(S) APPEAR(S))                      (Attach additional list if necessary)  
-----

Certificate Number(s)*	Number of Shares Represented by Certificate(s)*	Number of Shares Tendered**
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
TOTAL SHARES		

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\* Need not be completed if Shares are delivered by book-entry transfer.  
\*\* Unless otherwise indicated, it will be assumed that all Shares represented by any  
certificates delivered to the Depositary are being tendered. See Instruction 4.  
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// CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO AN ACCOUNT MAINTAINED BY THE DEPOSITARY AT ONE OF THE BOOK-ENTRY TRANSFER FACILITIES AND COMPLETE THE FOLLOWING:

Name of Tendering Institution: \_\_\_\_\_

Check Box of Applicable Book-Entry Transfer Facility:

// DTC                      // PDTC

Account Number: \_\_\_\_\_

Transaction Code Number: \_\_\_\_\_

// CHECK HERE IF CERTIFICATES FOR TENDERED SHARES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING:

Name(s) of the Tendering Shareholder(s): \_\_\_\_\_

Date of Execution of Notice of Guaranteed Delivery: \_\_\_\_\_

Name of Institution Which Guaranteed Delivery: \_\_\_\_\_

Check Box of Applicable Book-Entry Transfer Facility and Give Account Number if Delivered By Book-Entry Transfer:

// DTC                      // PDTC

Account Number: \_\_\_\_\_

Transaction Code Number: \_\_\_\_\_

NOTE: SIGNATURES MUST BE PROVIDED BELOW  
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

LADIES AND GENTLEMEN:

The undersigned hereby tenders to Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), the above-described shares of Common Stock, par value \$1.00 per share, of the Company ("Shares"), at the price per Share indicated in this letter, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated November 3, 1997 (the "Offer to Purchase"), receipt of which is hereby acknowledged, and in this Letter of Transmittal (which together constitute the "Offer").

Subject to and effective upon acceptance for payment of the Shares tendered herewith in accordance with the terms of the Offer (including, if the Offer is extended or amended, the terms or conditions of any such extension or amendment), the undersigned hereby sells, assigns and transfers to or upon the order of the Company all right, title and interest in and to all the Shares tendered hereby, or orders the registration of such Shares delivered by book-entry transfer, that are purchased pursuant to the Offer and hereby irrevocably constitutes and appoints the depositary for the Offer (the "Depositary") the true and lawful agent and attorney-in-fact of the undersigned with respect to such Shares, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to:

- (a) deliver certificates for such Shares, or transfer ownership of such Shares on the account books maintained by any of the Book-Entry Transfer Facilities, together, in any such case, with all accompanying evidence of transfer and authenticity, to or upon the order of the Company, upon receipt by the Depositary, as the undersigned's agent, of the Purchase Price (as defined below) with respect to such Shares;
- (b) present certificates for such Shares for cancellation and transfer of such Shares on the Company's books; and



- (c) receive all benefits and otherwise exercise all rights of beneficial ownership of such Shares, all in accordance with the terms of the Offer.

The undersigned hereby represents and warrants that:

- (a) the undersigned "owns" the Shares tendered hereby within the meaning of Rule 14e-4 promulgated under the Securities Exchange Act of 1934, as amended, and has full power and authority to validly tender, sell, assign and transfer the Shares tendered hereby;
- (b) the tender of Shares by the undersigned complies with Rule 14e-4;
- (c) when and to the extent the Company accepts the Shares for purchase, the Company will acquire good, marketable and unencumbered title thereto, free and clear of all security interests, liens, charges, encumbrances, conditional sales agreements or other obligations relating to their sale or transfer, and not subject to any adverse claim;
- (d) on request, the undersigned will execute and deliver any additional documents the Depositary or the Company deems necessary or desirable to complete the assignment, transfer and purchase of the Shares tendered hereby; and
- (e) the undersigned has read and agrees to all the terms of the Offer.

The undersigned understands that the Company will determine a single per Share price (not greater than \$125.00 nor less than \$105.00 per Share), net to the Seller in cash (the "Purchase Price"), that it will pay for Shares validly tendered and not withdrawn pursuant to the Offer, taking into account the number of Shares so tendered and the prices specified by tendering shareholders. The undersigned understands that the Company will select the lowest Purchase Price that will allow it to purchase 1,000,000 Shares (or such lesser number of Shares as are validly tendered at prices not greater than \$125.00 nor less than \$105.00 per Share) validly tendered and not withdrawn pursuant to the Offer. The undersigned understands that all Shares properly tendered at prices at or below the Purchase Price and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions thereof and that the Company will return all other Shares, including Shares not purchased because of proration.

The undersigned understands that tenders of Shares pursuant to any one of the procedures described in Section 3 of the Offer to Purchase and in the instructions hereto will constitute a binding agreement between the undersigned and the Company upon the terms and subject to the conditions of the Offer.

The undersigned recognizes that, under certain circumstances set forth in the Offer to Purchase, the Company may terminate or amend the Offer or may not be required to accept for payment any of the Shares tendered herewith or may accept for payment, pro rata with Shares tendered by other shareholders, fewer than all the Shares tendered herewith.

All authority conferred or agreed to be conferred in this Letter of Transmittal shall survive the death or incapacity of the undersigned, and any obligation of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as stated in the Offer, this tender is irrevocable.

Unless otherwise indicated under "Special Payment Instructions", please issue the check for the aggregate Purchase Price and/or return or issue the certificate(s) evidencing any Shares not tendered or not accepted for payment in the name(s) of the registered holder(s) appearing under "Description of Shares Tendered". Similarly, unless otherwise indicated under "Special Delivery Instructions", please mail the check for the aggregate Purchase Price and/or the certificate(s) evidencing any Shares not tendered or not accepted for

payment (and accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing under "Description of Shares Tendered". In the event that both the "Special Delivery Instructions" and the "Special Payment Instructions" are completed, please issue the check for the aggregate Purchase Price and/or issue or return the certificate(s) evidencing any Shares not tendered or accepted for payment in the name(s) of, and deliver said check and/or certificate(s) to, the person or persons so indicated. In the case of book-entry delivery of Shares, please credit the account maintained at the Book-Entry Transfer Facility indicated above with any Shares not accepted for payment. The undersigned recognizes that the Company has no obligation pursuant to the "Special Payment Instructions" to transfer any Shares from the name(s) of the registered holder(s) thereof if the Company does not accept for payment any of the Shares so tendered.

-----  
 PRICE (IN DOLLARS) PER SHARE AT WHICH  
 SHARES ARE BEING TENDERED

-----  
 IF SHARES ARE BEING TENDERED AT MORE THAN ONE PRICE,  
 A SEPARATE LETTER OF TRANSMITTAL FOR EACH PRICE SPECIFIED  
 MUST BE USED. (SEE INSTRUCTION 5)

-----  
 CHECK ONLY ONE BOX.  
 IF MORE THAN ONE BOX IS CHECKED, OR IF NO BOX IS CHECKED,  
 THERE IS NO VALID TENDER OF SHARES.

-----  
 SHARES TENDERED AT PRICE DETERMINED  
 BY DUTCH AUCTION

// The undersigned wants to maximize the chance of having the Company purchase all the Shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking this one box INSTEAD OF ONE OF THE PRICE BOXES BELOW, the undersigned hereby tenders Shares at, and is willing to accept, the Purchase Price resulting from the Dutch auction tender process. This action could result in receiving a price per share as low as \$105.00 or as high as \$125.00.

\*\*CHECK EITHER THE BOX ABOVE OR CHECK ONE BOX BELOW\*\*

SHARES TENDERED AT PRICE  
 DETERMINED BY SHAREHOLDER

// \$105	// \$112	// \$119
// \$106	// \$113	// \$120
// \$107	// \$114	// \$121
// \$108	// \$115	// \$122
// \$109	// \$116	// \$123
// \$110	// \$117	// \$124
// \$111	// \$118	// \$125

-----

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

-----  
ODD LOTS

(SEE INSTRUCTION 8)

To be completed ONLY if Shares are being tendered by or on behalf of a person who beneficially owned as of the close of business on October 27, 1997, and who will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares.

The undersigned either (check one box):

- / / was the beneficial owner as of the close of business on October 27, 1997, and will continue to be the beneficial owner until the Expiration Date of an aggregate of fewer than 100 Shares, and is tendering all such Shares, or
- / / is an "Eligible Institution" (as defined in Instruction 1) that (i) is tendering, for the beneficial owners thereof, Shares with respect to which it is the record owner and (ii) believes, based upon representations made to it by each such beneficial owner, that each such beneficial owner beneficially owned as of the close of business on October 27, 1997, and will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and is tendering all such Shares.

If you do not wish to specify a Purchase Price, check the following box, in which case you will be deemed to have tendered at the Purchase Price determined by the Company in accordance with the terms of the Offer (persons checking this box need not indicate the price per Share in the box entitled "Price (In Dollars) Per Share At Which Shares Are Being Tendered" in this Letter of Transmittal. / /

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SPECIAL DELIVERY INSTRUCTIONS  
(SEE INSTRUCTIONS 4 AND 10)

To be completed ONLY if the check for the aggregate Purchase Price of Shares purchased and/or certificates for Shares not tendered or not purchased are to be mailed to someone other than the undersigned or to the undersigned at an address other than that shown below the undersigned's signature.

Mail check and/or certificates to:

Name \_\_\_\_\_

(Please Print)

Address \_\_\_\_\_

(Zip Code)

SPECIAL PAYMENT INSTRUCTIONS  
(SEE INSTRUCTIONS 1, 4, 6, 7, 9 AND 10)

To be completed ONLY if the check for the aggregate Purchase Price of Shares purchased and/or certificates for Shares not tendered or not purchased are to be issued in the name of someone other than the undersigned.

Issue any check and/or certificates to:

Name \_\_\_\_\_

(Please Print)

Address \_\_\_\_\_

(Taxpayer Identification Number)

SIGN HERE

(SEE INSTRUCTIONS 1 AND 6)  
(PLEASE COMPLETE SUBSTITUTE FORM W-9 BELOW)

Signature(s) of Owner(s)

Name(s) \_\_\_\_\_

(Please Print)

Capacity (full title) \_\_\_\_\_

Address \_\_\_\_\_

(Include Zip Code)

Area Code and Telephone Number \_\_\_\_\_

Taxpayer Identification Number \_\_\_\_\_

(See Instruction 12)

Dated: \_\_\_\_\_

(Must be signed by registered holder(s) exactly as name(s) appear(s) on stock certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificates and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other person acting in a fiduciary or representative capacity, please set forth full title. See Instruction 6.)

GUARANTEE OF SIGNATURE(S)  
(See Instructions 1 and 6)

Authorized Signature \_\_\_\_\_

-----  
 Name \_\_\_\_\_  
 (Please Print)

Title \_\_\_\_\_

Name of Firm \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_  
 (Include Zip Code)

Area Code and Telephone Number \_\_\_\_\_

Dated: \_\_\_\_\_

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#### IMPORTANT TAX INFORMATION

Under U.S. Federal income tax law, a shareholder whose tendered Shares are accepted for payment is required by law to provide the Depository with such shareholder's correct taxpayer identification number ("TIN") on the Substitute Form W-9 below. If the Depository is not provided with the correct TIN, the Internal Revenue Service may subject the shareholder or other payee to a \$50 penalty. In addition, payments that are made to such shareholder or other payee with respect to Shares purchased pursuant to the Offer may be subject to 31% backup withholding.

Certain shareholders (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements and should indicate their status by writing "exempt" across the face of the Substitute Form W-9. In order for a foreign individual to qualify as an exempt recipient, the shareholder must submit a Form W-8, signed under penalties of perjury, attesting to that individual's exempt status. A Form W-8 can be obtained from the Depository. See the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for more instructions.

If backup withholding applies, the Depository is required to withhold 31% of any such payments to be made to the shareholder or other payee. Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

The box in Part 2 of the Substitute Form W-9 may be checked if the tendering shareholder has not been issued a TIN and has applied for a TIN or intends to apply for a TIN in the near future. If the box in Part 2 is checked, the shareholder or other payee must also complete the Certificate of Awaiting Taxpayer Identification Number below in order to avoid backup withholding. Notwithstanding that the box in Part 2 is checked and the Certificate of Awaiting Taxpayer Identification Number is completed, the Depository will withhold 31% on all payments made prior to the time a properly certified TIN is provided to the Depository.

#### WHAT NUMBER TO GIVE THE DEPOSITARY

The shareholder is required to give the Depository the TIN (e.g., social security number or employer identification number) of the record owner of the Shares or of the last transferee appearing on the transfers attached to, or endorsed on, the certificates evidencing the Shares. If the Shares are registered in more than one name or are not registered in the name of the actual owner, consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for additional guidance on which number to report.

PAYER'S NAME: FIRST CHICAGO TRUST COMPANY OF NEW YORK

SUBSTITUTE  
FORM W-9

Part 1 - PLEASE PROVIDE YOUR TIN IN  
THE BOX AT RIGHT AND CERTIFY BY  
SIGNING AND DATING BELOW

Social security number(s)

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

OR  
Employer identification  
number(s)

\_\_\_\_\_/\_\_\_\_\_

PAYER'S REQUEST FOR  
TAXPAYER IDENTIFICATION  
NUMBER (TIN)

-----  
Part 2 -  
Awaiting TIN / /

CERTIFICATION - UNDER THE PENALTIES OF PERJURY, I CERTIFY THAT  
THE INFORMATION PROVIDED ON THIS FORM IS TRUE, CORRECT AND  
COMPLETE.

Name \_\_\_\_\_  
(Please print)

Address \_\_\_\_\_  
(Including zip code)

SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_

-----  
YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU  
CHECKED THE BOX IN PART 2 OF SUBSTITUTE FORM W-9

-----  
CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I CERTIFY UNDER PENALTIES OF PERJURY THAT A TAXPAYER IDENTIFICATION NUMBER  
HAS NOT BEEN ISSUED TO ME, AND EITHER (A) I HAVE MAILED OR DELIVERED AN  
APPLICATION TO RECEIVE A TAXPAYER IDENTIFICATION NUMBER TO THE APPROPRIATE  
INTERNAL REVENUE SERVICE CENTER OR SOCIAL SECURITY ADMINISTRATION OFFICE OR (B)  
I INTEND TO MAIL OR DELIVER AN APPLICATION IN THE NEAR FUTURE. I UNDERSTAND  
THAT, NOTWITHSTANDING THAT I HAVE CHECKED THE BOX IN PART 2 (AND COMPLETED THIS  
CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER), ALL REPORTABLE PAYMENTS  
MADE TO ME BEFORE THE TIME I PROVIDE THE DEPOSITARY WITH A PROPERLY CERTIFIED  
TAXPAYER IDENTIFICATION NUMBER WILL BE SUBJECT TO A 31% BACKUP WITHHOLDING TAX.

-----  
SIGNATURE

-----  
DATE

-----  
NOTE: FAILURE TO COMPLETE AND RETURN THIS SUBSTITUTE FORM W-9 MAY RESULT IN  
BACKUP WITHHOLDING OF 31% OF ANY PAYMENT MADE TO YOU PURSUANT TO THE OFFER.  
PLEASE REVIEW THE ENCLOSED "GUIDELINES FOR CERTIFICATION OF TAXPAYER  
IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9" FOR ADDITIONAL DETAILS.

## INSTRUCTIONS

## FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. GUARANTEE OF SIGNATURES. Except as otherwise provided below, all signatures on this Letter of Transmittal must be guaranteed by a financial institution (including most banks, savings and loan associations, and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program (each such entity being hereinafter referred to as an "Eligible Institution"). Signatures on this Letter of Transmittal need not be guaranteed if (a) this Letter of Transmittal is signed by the registered owner of the Shares (which term, for purposes of this document, shall include any participant in one of the Book-Entry Transfer Facilities whose name appears on a security position listing as the owner of Shares) tendered herewith and such owner has not completed either of the boxes entitled "Special Payment Instructions" or "Special Delivery Instructions" on this Letter of Transmittal or (b) such Shares are tendered for the account of an Eligible Institution. See Instruction 6.

2. DELIVERY OF LETTER OF TRANSMITTAL AND SHARES; GUARANTEED DELIVERY PROCEDURES. This Letter of Transmittal is to be used only if (a) certificates are to be forwarded with it to the Depository or (b) delivery of Shares is to be made by book-entry transfer pursuant to the procedure set forth in Section 3 of the Offer to Purchase. Certificates for all physically delivered Shares, or a confirmation of a book-entry transfer of all Shares delivered electronically into the Depository's account at one of the Book-Entry Transfer Facilities, together in each case with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof), with any required signature guarantees, and any other documents required by this Letter of Transmittal, must be received by the Depository at one of its addresses set forth on the front page of this Letter of Transmittal before the Expiration Date (as defined in the Offer to Purchase). Delivery of documents to one of the Book-Entry Transfer Facilities does not constitute delivery to the Depository.

Shareholders whose certificates are not immediately available (or who cannot follow the procedures for book-entry transfer on a timely basis) or who cannot transmit this Letter of Transmittal and all other required documents to reach the Depository before the Expiration Date, may nevertheless tender their Shares pursuant to the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase. Pursuant to such procedure: (a) such tender must be made by or through an Eligible Institution, (b) the Depository must receive (by hand, mail or facsimile transmission), before the Expiration Date, a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form the Company has provided with the Offer to Purchase and (c) the certificates for all tendered Shares in proper form for transfer (or confirmation of a book-entry transfer of all such Shares into the Depository's account at one of the Book-Entry Transfer Facilities), together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof) and any other documents required by this Letter of Transmittal, must be received by the Depository within three New York Stock Exchange trading days after the date of execution of such Notice of Guaranteed Delivery, all as provided in Section 3 of the Offer to Purchase.

THE METHOD OF DELIVERY OF ALL DOCUMENTS, INCLUDING STOCK CERTIFICATES, THIS LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS, IS AT THE ELECTION AND RISK OF THE TENDERING SHAREHOLDER. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED.

No alternative, conditional or contingent tenders will be accepted, and no fractional Shares will be purchased. By executing this Letter of Transmittal (or a facsimile thereof), each tendering shareholder waives any right to receive any notice of the acceptance of such shareholder's tender.

3. INADEQUATE SPACE. If the space provided in the box entitled "Description of Shares Tendered" is inadequate, the certificate numbers and/or the number of Shares should be listed on a separate signed schedule and attached to this Letter of Transmittal.

4. PARTIAL TENDERS AND UNPURCHASED SHARES. (Not applicable to shareholders who deliver Shares by book-entry transfer). If fewer than all the Shares evidenced by any certificate delivered to the Depository are to be tendered, fill in the number of Shares that are to be tendered in the box entitled "Number of Shares Tendered". If such Shares are purchased, a new certificate for the remainder of the Shares evidenced by the old certificate(s) will be sent to and in the name of the registered holder(s) (unless otherwise specified by such holder(s) having completed either of the boxes entitled "Special Delivery Instructions" or "Special Payment Instructions" on this Letter of Transmittal) as soon as practicable following the expiration or termination of the Offer. All Shares represented by the certificate(s) listed and delivered to the Depository will be deemed to have been tendered unless otherwise indicated.

5. INDICATION OF PRICE AT WHICH SHARES ARE BEING TENDERED. For Shares to be validly tendered, the shareholder must check the box indicating the price per Share at which such shareholder is tendering Shares under "Price (In Dollars) Per Share At Which Shares Are Being Tendered" in this Letter of Transmittal. ONLY ONE BOX MAY BE CHECKED. IF MORE THAN ONE BOX IS CHECKED OR IF NO BOX IS CHECKED, THERE IS NO VALID TENDER OF SHARES. A shareholder wishing to tender portions of such shareholder's Share holdings at different prices must complete a separate Letter of Transmittal for each price at which such shareholder wishes to tender each such portion of such shareholder's Shares. The same Shares cannot be tendered (unless previously validly withdrawn as provided in Section 4 of the Offer to Purchase) at more than one price. Shareholders wishing to maximize the possibility that their Shares will be purchased at the relevant Purchase Price may check the box on the Letter of Transmittal marked "Shares Tendered at Purchase Price Determined by Dutch Auction." Checking this box may result in a Purchase Price of the Shares so tendered at the minimum price of \$105.00.

6. SIGNATURES ON LETTER OF TRANSMITTAL; STOCK POWERS; AND ENDORSEMENTS.

(a) If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered herewith, the signature(s) must correspond exactly with the name(s) as written on the face of the certificates without any change whatsoever.

(b) If any of the Shares tendered herewith are registered in the names of two or more joint owners, each such owner must sign this Letter of Transmittal.

(c) If any of the Shares tendered herewith are registered in different names on different certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of certificates.

(d) If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered herewith, no endorsements of certificates or separate stock powers are required unless payment is to be made and/or certificates for Shares not tendered or not purchased are to be issued to a person other than the registered holder(s). If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Shares



tendered herewith, however, the certificates must be endorsed or accompanied by appropriate stock powers, in either case, signed exactly as the name(s) of the registered holder(s) appear on the certificates for such Shares. Signatures on any such certificates or stock powers must be guaranteed by an Eligible Institution. See Instruction 1.

(e) If this Letter of Transmittal or any certificates or stock powers are signed by a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing and proper evidence satisfactory to the Company of the authority of such person so to act must be submitted.

7. STOCK TRANSFER TAXES. The Company will pay any stock transfer taxes with respect to the transfer and sale of Shares to it or its order pursuant to the Offer. If, however, payment of the aggregate Purchase Price is to be made to, or certificates for Shares not tendered or accepted for purchase are to be registered in the name of, any person other than the registered holder, or if tendered certificates are registered in the name of any person other than the person(s) signing this Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder or such person) payable on account of the transfer to such person will be deducted from the aggregate purchase price unless satisfactory evidence of payment of such taxes or exemption therefrom is submitted.

8. ODD LOTS. As described in Sections 1 and 2 of the Offer to Purchase, if the number of Shares properly tendered at or above the Purchase Price and not withdrawn before the Expiration Date is greater than 1,000,000 (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase first from all Shares properly tendered at or below the Purchase Price and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on October 27, 1997, and who continued to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, who tendered all Shares beneficially owned by such person (partial tenders of Shares will not qualify for this preference) and who completes the box captioned "Odd Lots" in this Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery. This preference will not be available unless the box above entitled "Odd Lots" is completed.

9. IRREGULARITIES. All questions as to the number of Shares to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. The Company reserves the absolute right to reject any or all tenders determined by it not to be in proper form or the acceptance for payment of which may, in the opinion of the Company's counsel, be unlawful. The Company also reserves the absolute right to waive any of the conditions of the Offer (except as provided in Section 6 of the Offer to Purchase) and any defect or irregularity in the tender of any particular Shares. The Company's interpretation of the terms and conditions of the Offer (including these instructions) shall be final and binding on all parties. No tender of Shares will be deemed properly made until all defects or irregularities have been cured or waived. None of the Company, the Depositary, the Information Agent or any other person is or will be obligated to give notice of any defects or irregularities in tenders, and none of them will incur any liability for failure to give any such notice.

10. SPECIAL PAYMENT AND DELIVERY INSTRUCTIONS. If the check for the aggregate Purchase Price of any Shares purchased is to be issued to, or any Shares not tendered or not purchased are to be returned in the name of, a person other than the person(s) signing this Letter of Transmittal or if the check or any certificates for Shares not tendered or not purchased are to be mailed to someone other than the person(s) signing this Letter of Transmittal or to the person(s) signing this Letter of Transmittal at an address other than that shown in the box entitled "Descriptions of Shares Tendered", the boxes entitled "Special Payment Instructions" and/or "Special Delivery Instructions" on this Letter of Transmittal should be completed.

11. REQUEST FOR ASSISTANCE OR ADDITIONAL COPIES. Requests for assistance or additional copies of the Offer to Purchase, this Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Dealer Manager or the Information Agent at their respective addresses or telephone numbers set forth below.

12. SUBSTITUTE FORM W-9. Except as provided above under "Important Tax Information", each tendering shareholder is required to provide the Depository with a correct TIN on Substitute Form W-9 which is provided under "Important Tax Information" above. Failure to provide the information on the form may subject the tendering shareholder to a \$50 penalty and a 31% Federal back-up withholding tax may be imposed on the payments made to the shareholder or other payee with respect to Shares purchased pursuant to the Offer.

13. FOREIGN SHAREHOLDER WITHHOLDING. Foreign shareholders (as defined in Section 11 of the Offer to Purchase) should note that the 30% U.S. withholding tax generally applicable to corporate distributions should not apply to the proceeds payable pursuant to the Offer, unless such proceeds are treated as a dividend under the rules described in "Gain or Loss Recognition" in Section 11 of the Offer to Purchase. (However, as indicated above under "Important Tax Information", Federal backup withholding tax may be applicable).

14. CERTAIN PLANS. Participants in the Allianz Asset Accumulation Plan (the "Allianz Plan"), the Source One Mortgage Services Corporation Employee Stock Ownership and 401(k) Savings Plan (the "Source One Plan") or the Valley Group Employees' 401(k) Savings Plan (the "Valley Group Plan") who wish to have the trustee of the Allianz Plan, the Source One Plan or the Valley Group Plan, as the case may be, tender Shares allocated to their accounts should so indicate by completing, executing and returning to the applicable trustee the instruction form for Allianz Plan, Source One Plan or Valley Group Plan, as the case may be, participants included in the notices sent on behalf of the respective trustees of such Plans. Participants in the Allianz Plan, the Source One Plan or the Valley Group Plan may not use the Letter of Transmittal to direct the trustee of the Allianz Plan, the Source One Plan or the Valley Group Plan, as the case may be, to tender Shares allocated to such shareholders under the Allianz Plan, the Source One Plan or the Valley Group Plan, as the case may be, but must use the separate instruction form sent to them. See Sections 3 and 14 of the Offer to Purchase.

Facsimile copies of this Letter of Transmittal, properly completed and duly executed, will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each shareholder of the Company or such shareholder's broker, dealer, commercial bank, trust company or other nominee to the Depository at one of its addresses set forth below.

THE DEPOSITARY AND THE INFORMATION AGENT FOR THE OFFER IS:

FIRST CHICAGO TRUST COMPANY OF NEW YORK

BY HAND:  
TENDERS & EXCHANGES  
C/O THE DEPOSITORY TRUST COMPANY  
55 WATER STREET

BY MAIL:  
TENDERS & EXCHANGES  
SUITE 4660 - FAE  
P.O. BOX 2569  
JERSEY CITY, NJ  
07303-2569

VIETNAM VETERANS MEMORIAL PLAZA  
DTC TAD  
NEW YORK, NY 10041

BY OVERNIGHT COURIER:  
TENDERS & EXCHANGES  
SUITE 4680 - FAE  
14 WALL STREET -  
8TH FLOOR  
NEW YORK, NY 10005

FOR INFORMATION:  
1-800-409-7443

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Any questions or requests for assistance or for additional copies of the Offer to Purchase, this Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent or the Dealer Manager. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.  
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THE DEALER MANAGER FOR THE OFFER IS:

LEHMAN BROTHERS  
Three World Financial Center  
200 Vesey Street  
New York, NY 10285  
(212) 526-7850

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION  
NUMBER ON SUBSTITUTE FORM W-9

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER.--Social Security numbers have nine digits separated by two hyphens: i.e. 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e. 00-0000000. The table below will help determine the number to give the payer.

FOR THIS TYPE OF ACCOUNT	GIVE THE SOCIAL SECURITY NUMBER OF--
1. An individual's account	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals(1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee(1)
b. So-called trust account that is not a legal or valid trust under State law	The actual owner(1)
8. Sole proprietorship account	The owner(4)

FOR THIS TYPE OF ACCOUNT	GIVE THE EMPLOYER IDENTIFICATION NUMBER OF--
9. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)(5)
10. Corporate account	The corporation
11. Religious, charitable, or educational organization account	The organization
12. Partnership account held in the name of the business	The partnership
13. Association, club or other tax-exempt organization	The organization
13. A broker or registered nominee	The broker or nominee
14. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

- (1) List first and circle the name of the person whose number you furnish.
- (2) Circle the minor's name and furnish the minor's social security number.
- (3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.
- (4) Show the name of the owner.
- (5) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION  
NUMBER ON SUBSTITUTE FORM W-9  
PAGE 2

OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for A Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following.

- - A corporation.
- - A financial institution.
- - An organization exempt from tax under section 501(a), an individual retirement plan or a custodial account under section 403(b)(7).
- - The United States or any agency or instrumentality thereof.  
the United States, or any subdivision or instrumentality thereof.
- - A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- - An international organization or any agency or instrumentality thereof.
- - A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- - A real estate investment trust.
- - A common trust fund operated by a bank under section 584(a).
- - An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- - An entity registered at all times during the tax year under the Investment Company Act of 1940.
- - A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the

- - Payments to nonresident aliens subject to withholding under section 1441.
- - Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident alien partner.
- - Payments of patronage dividends where the amount renewed is not paid in money.
- - Payments made by certain foreign organizations.
- - Payments made to a nominee.

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payers trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest (including exempt-interest dividends under section 852).
- Payments described in Section 6049(b)(5) to non-resident aliens.
  - Payments on tax-free covenant bonds under section 1451.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE EXEMPT ON THE FACE OF THE FORM AND RETURN IT TO THE PAYER. IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments, other than interest, dividends and patronage dividends, that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6045, 6050A and 6050N, and the regulations under those sections.

PRIVACY ACT NOTICE.--Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.--If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure is due to reasonable cause and not to willful neglect.

(2) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING.--If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(3) CRIMINAL PENALTY FOR FALSIFYING INFORMATION.--Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE.

Unless otherwise noted herein, all references to section numbers or regulations are references to the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
NOTICE OF GUARANTEED DELIVERY  
OF SHARES OF COMMON STOCK

This form or a facsimile hereof must be used to accept the Offer (as defined below) if:

- (a) certificates for shares of Common Stock, par value \$1.00 per share ("Shares"), of Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), are not immediately available; or
- (b) the procedure for book-entry transfer (set forth in Section 3 of the Company's Offer to Purchase dated November 3, 1997 (the "Offer to Purchase")) cannot be followed on a timely basis; or
- (c) time will not permit the Letter of Transmittal and all other required documents to be delivered to the depository for the Offer (the "Depository") before the Expiration Date (as defined in Section 1 of the Offer to Purchase).

This form, properly completed and duly executed, may be delivered by hand, mail or facsimile transmission to the Depository. See Section 3 of the Offer to Purchase.

TO: FIRST CHICAGO TRUST COMPANY OF NEW YORK, DEPOSITARY

BY HAND:

TENDERS & EXCHANGES  
C/O THE DEPOSITORY TRUST COMPANY  
55 WATER STREET

VIETNAM VETERANS MEMORIAL PLAZA  
DTC TAD  
NEW YORK, NY 10041

BY OVERNIGHT COURIER:  
TENDERS & EXCHANGES  
SUITE 4680 - FAE  
14 WALL STREET -  
8TH FLOOR  
NEW YORK, NY 10005

BY MAIL:

TENDERS & EXCHANGES  
SUITE 4660 - FAE  
P.O. BOX 2569  
JERSEY CITY, NJ  
07303-2569

FACSIMILE TRANSMISSION:  
(FOR ELIGIBLE INSTITUTIONS ONLY)

Tenders & Exchanges  
(201) 222-4720  
or  
(201) 222-4721

TO CONFIRM RECEIPT OF  
NOTICE OF GUARANTEED DELIVERY:

(201) 222-4707

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS TO A FACSIMILE NUMBER OTHER THAN THE ONES LISTED ABOVE WILL NOT CONSTITUTE A VALID DELIVERY.

This form is not to be used to guarantee signatures. If a signature on a Letter of Transmittal is required to be guaranteed by an "Eligible Institution" (as defined in the Offer to Purchase) under the instructions thereto, such signature guarantee must appear in the applicable space provided in the signature box on the Letter of Transmittal.

Ladies and Gentlemen:

The undersigned hereby tenders to the Company, upon the terms and subject to the conditions set forth in the Offer to Purchase and the related Letter of Transmittal (which together constitute the "Offer"), receipt of which is hereby acknowledged, Shares pursuant to the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase.

-----  
 PRICE (IN DOLLARS) PER SHARE AT WHICH  
 SHARES ARE BEING TENDERED

-----  
 IF SHARES ARE BEING TENDERED AT MORE THAN ONE PRICE,  
 A SEPARATE NOTICE OF GUARANTEED DELIVERY FOR EACH  
 PRICE SPECIFIED MUST BE USED.

-----  
 CHECK ONLY ONE BOX.  
 IF MORE THAN ONE BOX IS CHECKED, OR IF NO BOX IS CHECKED,  
 THERE IS NO VALID TENDER OF SHARES.

-----  
 SHARES TENDERED AT PRICE DETERMINED  
 BY DUTCH AUCTION

// The undersigned wants to maximize the chance of having the Company purchase all the Shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking this one box INSTEAD OF ONE OF THE PRICE BOXES BELOW, the undersigned hereby tenders Shares at, and is willing to accept, the Purchase Price resulting from the Dutch auction tender process. This action could result in receiving a price per share as low as \$105.00 or as high as \$125.00.

\*\*CHECK EITHER THE BOX ABOVE OR CHECK ON BOX BELOW\*\*

-----  
 SHARES TENDERED AT PRICE  
 DETERMINED BY SHAREHOLDER

// \$105	// \$112	// \$119
// \$106	// \$113	// \$120
// \$107	// \$114	// \$121
// \$108	// \$115	// \$122
// \$109	// \$116	// \$123
// \$110	// \$117	// \$124
// \$111	// \$118	// \$125

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-----  
ODD LOTS

(SEE INSTRUCTION 8 OF THE LETTER OF TRANSMITTAL)

TO BE COMPLETED ONLY IF SHARES ARE BEING TENDERED BY OR ON BEHALF OF A PERSON WHO BENEFICIALLY OWNED AS OF THE CLOSE OF BUSINESS ON OCTOBER 27, 1997, AND WHO WILL CONTINUE TO OWN BENEFICIALLY UNTIL THE EXPIRATION DATE AN AGGREGATE OF FEWER THAN 100 SHARES.

THE UNDERSIGNED EITHER (CHECK ONE BOX):

/ / WAS THE BENEFICIAL OWNER AS OF THE CLOSE OF BUSINESS ON OCTOBER 27, 1997, AND WILL CONTINUE TO BE THE BENEFICIAL OWNER UNTIL THE EXPIRATION DATE OF AN AGGREGATE OF FEWER THAN 100 SHARES, AND IS TENDERING ALL SUCH SHARES, OR

/ / IS AN "ELIGIBLE INSTITUTION" THAT (I) IS TENDERING, FOR THE BENEFICIAL OWNERS THEREOF, SHARES WITH RESPECT TO WHICH IT IS THE RECORD OWNER, AND (II) BELIEVES, BASED UPON REPRESENTATIONS MADE TO IT BY EACH SUCH BENEFICIAL OWNER, THAT EACH SUCH BENEFICIAL OWNER BENEFICIALLY OWNED AS OF THE CLOSE OF BUSINESS ON OCTOBER 27, 1997, AND WILL CONTINUE TO OWN BENEFICIALLY UNTIL THE EXPIRATION DATE AN AGGREGATE OF FEWER THAN 100 SHARES, AND IS TENDERING ALL SUCH SHARES.

IF YOU DO NOT WISH TO SPECIFY A PURCHASE PRICE, CHECK THE FOLLOWING BOX, IN WHICH CASE YOU WILL BE DEEMED TO HAVE TENDERED AT THE PURCHASE PRICE DETERMINED BY THE COMPANY IN ACCORDANCE WITH THE TERMS OF THE OFFER (PERSONS CHECKING THIS BOX NEED NOT INDICATE THE PRICE PER SHARE IN THE BOX ENTITLED "PRICE (IN DOLLARS) PER SHARE AT WHICH SHARES ARE BEING TENDERED" ABOVE). / /

No. of Shares tendered

SIGN HERE

-----  
(Signature(s))

Certificate Nos. (if available):

-----  
(Signature(s))

If Shares will be delivered by book-entry transfer:

-----  
(Name(s)) (Please Print)

Name of Tendering Institution:

-----  
(Address)

Account No.

-----  
(Zip Code)

at:

/ / The Depository Trust Company

-----  
(Area Code and Telephone No.)

/ / Philadelphia Depository Trust Company



## GUARANTEE

(Not to be used for signature guarantee)

THE UNDERSIGNED, AN "ELIGIBLE INSTITUTION", GUARANTEES THAT (A) THE ABOVE NAMED PERSON(S) "OWN(S)" THE SHARES TENDERED HEREBY WITHIN THE MEANING OF RULE 14E-4 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, (B) SUCH TENDER OF SHARES COMPLIES WITH RULE 14E-4 AND (C) THE DEPOSITARY WILL RECEIVE EITHER THE STOCK CERTIFICATES REPRESENTING THE SHARES TENDERED HEREBY, IN PROPER FORM FOR TRANSFER, OR CONFIRMATION OF THE BOOK-ENTRY TRANSFER OF SUCH SHARES INTO THE DEPOSITARY'S ACCOUNT AT THE DEPOSITARY TRUST COMPANY OR THE PHILADELPHIA DEPOSITARY TRUST COMPANY, IN ANY SUCH CASE TOGETHER WITH A PROPERLY COMPLETED AND DULY EXECUTED LETTER OF TRANSMITTAL (OR A FACSIMILE THEREOF) AND ANY OTHER REQUIRED DOCUMENTS, ALL WITHIN THREE NEW YORK STOCK EXCHANGE TRADING DAYS AFTER THE DATE OF EXECUTION OF THIS NOTICE.

-----  
 Name of Firm: \_\_\_\_\_ Address: \_\_\_\_\_

\_\_\_\_\_  
 Authorized Signature

\_\_\_\_\_  
 Zip Code

Name: \_\_\_\_\_ Area Code and  
 Telephone No: \_\_\_\_\_  
 Please Print

Title: \_\_\_\_\_ Dated: \_\_\_\_\_

-----  
 DO NOT SEND STOCK CERTIFICATES WITH THIS FORM. YOUR STOCK CERTIFICATES MUST BE SENT WITH THE LETTER OF TRANSMITTAL

- - - - -  
FUND  
AMERICAN  
- - - - -

JOHN J. BYRNE  
CHAIRMAN

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
80 SOUTH MAIN STREET  
HANOVER, NEW HAMPSHIRE 03755

November 3, 1997

Dear Fellow Shareholder:

I am announcing my final tender offer as Chairman of your Company.

Fund American is offering to purchase up to 1,000,000 shares of its Common Stock from shareholders at a cash price of no less than \$105 per share and no more than \$125 per share.

The style of this tender is a modified Dutch auction where you pick the price within a presented range. Further procedural details are contained in the documents enclosed. The Byrne family and its associated trusts will tender 100,000 of its shares at \$116 per share. I am participating in this tender because I recognize that the stock is thinly traded and can be somewhat illiquid at times. Through this tender offer, all shareholders are being provided with an opportunity to freely sell their shares without affecting the market price of the stock and without incurring customary transaction costs.

Many of you will note that I recently retired as Fund American's President and CEO. Tom Kemp, my colleague for many years, has already moved me out of my former corner office in Hanover. I now have to stand in the hallway - so I expect I will only serve briefly as non-executive Chairman until a successor is named for that role. My new role, as a fellow owner, will be to cheer wildly from the bleachers (not the hallway) for Tom and his team.

We must deserve the capital that we manage. Since the sale of Fireman's Fund in 1991, our primary strategic goal has been to reinvest proceeds into operating businesses in which management has knowledge and experience or, if no better opportunities exist, return those funds to our owners. Although we have acquired a fine collection of new insurance operations over the last four years, we have also returned a significant amount of capital to shareholders. Giving effect to the offer, our assets will consist almost entirely of operating businesses and we do not expect to repurchase shares in the future.

Now for the legal stuff. The offer is explained in detail in the enclosed Offer to Purchase and Letter of Transmittal. If you want to tender your shares, the instructions for tendering shares are also explained in detail in the enclosed materials. I encourage you to read these materials carefully before making any decision with respect to the offer.

NEITHER I NOR THE COMPANY NOR ITS BOARD OF DIRECTORS MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OR ALL OF SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER AND THE PRICE OR PRICES AT WHICH SHARES SHOULD BE TENDERED.

Respectfully submitted,

JOHN J. BYRNE

LEHMAN BROTHERS  
FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
OFFER TO PURCHASE FOR CASH  
UP TO 1,000,000 SHARES OF ITS COMMON STOCK  
AT A PURCHASE PRICE NOT GREATER THAN  
\$125.00 NOR LESS THAN \$105.00 NET PER SHARE

November 3, 1997

To Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees:

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), has appointed us to act as Dealer Manager in connection with its offer pursuant to which the Company is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), at prices not greater than \$125.00 nor less than \$105.00, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated November 3, 1997 (the "Offer to Purchase"), and in the related Letter of Transmittal (which together constitute the "Offer"). We enclose herewith the materials listed below relating to the Offer.

The Company will determine a single price (not greater than \$125.00 nor less than \$105.00 per Share), net to the seller in cash, that it will pay for Shares validly tendered and not withdrawn pursuant to the Offer (the "Purchase Price"), taking into account the number of Shares so tendered and the prices specified by tendering shareholders. The Company will select the lowest Purchase Price that will allow it to purchase 1,000,000 Shares (or such lesser number of Shares as is validly tendered at prices not greater than \$125.00 nor less than \$105.00 per Share) and not withdrawn pursuant to the Offer.

All Shares properly tendered at or above the Purchase Price and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions described therein. The Company reserves the right, in its sole discretion but subject to applicable legal requirements, to purchase more than 1,000,000 Shares pursuant to the Offer.

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING VALIDLY TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 6 OF THE OFFER TO PURCHASE.

For your information and for forwarding to your clients for whom you hold Shares registered in your name or in the name of your nominee, we are enclosing the following documents:

- (1) Offer to Purchase dated November 3, 1997;
- (2) Letter of Transmittal for your use and for the information of your clients (together with "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9");
- (3) Notice of Guaranteed Delivery to be used to accept the Offer if certificates for Shares are not immediately available (or the procedure for book-entry transfer cannot be followed on a timely basis) or time will not permit the Letter of Transmittal and all other required documents to reach the depository for the Offer (the "Depository") before the Expiration Date (as defined in the Offer to Purchase);
- (4) Letter to Clients which may be sent to your clients for whose accounts you hold Shares registered in your name (or in the name of your nominee), with space provided for obtaining such clients' instructions with regard to the Offer;
- (5) Letter from John J. Byrne, non-executive Chairman of the Company, dated November 3, 1997, to shareholders of the Company; and
- (6) Return envelope addressed to First Chicago Trust Company of New York, the Depository.

PLEASE BRING THE OFFER TO THE ATTENTION OF YOUR CLIENTS AS PROMPTLY AS POSSIBLE. THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, DECEMBER 1, 1997, UNLESS THE OFFER IS EXTENDED.

No fees or commissions will be payable to brokers, dealers or other persons (other than the Dealer Manager) for soliciting tenders of Shares pursuant to the Offer. The Company will, however, upon request, reimburse you for customary mailing and handling expenses incurred by you in forwarding any of the enclosed materials to your clients. The Company will pay any stock transfer taxes with respect to the transfer and sale of Shares to it or its order pursuant to the Offer, except as otherwise provided in Instruction 7 of the Letter of Transmittal.

In order to take advantage of the Offer, a duly executed and properly completed Letter of Transmittal and any other required documents should be sent to the Depository with either certificate(s) representing the tendered Shares or confirmation of their book-entry transfer, all in accordance with the instructions set forth in the Letter of Transmittal and the Offer to Purchase.

As described in Section 3 of the Offer to Purchase, tenders may be made even though stock certificates are not immediately available (or the procedure for book-entry transfer cannot be followed on a timely basis) or time will not permit the Letter of Transmittal and all other required documents to reach the Depository before the Expiration Date, if such tenders are made by or through an "Eligible Institution" (as defined in the Offer to Purchase). Certificates for Shares so tendered in proper form for transfer (or a confirmation of a book-entry transfer of such Shares into the Depository's account at one of the "Book-Entry Transfer Facilities" described in the Offer to Purchase), together with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal, must be received by the Depository within three New York Stock Exchange trading days after the date of execution of a properly completed and duly executed Notice of Guaranteed Delivery.

Any questions you have or requests for additional copies of the enclosed material may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers set forth on the back cover of the enclosed Offer to Purchase.

Very truly yours,

LEHMAN BROTHERS

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON THE AGENT OF THE COMPANY, THE DEALER MANAGER, THE DEPOSITARY OR THE INFORMATION AGENT OR AUTHORIZE YOU OR ANY OTHER PERSON TO MAKE ANY STATEMENTS OR USE ANY MATERIAL ON BEHALF OF ANY OF THEM WITH RESPECT TO THE OFFER, OTHER THAN THE MATERIAL ENCLOSED HERewith AND THE STATEMENTS SPECIFICALLY CONTAINED IN SUCH MATERIAL.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
OFFER TO PURCHASE FOR CASH  
UP TO 1,000,000 SHARES OF ITS COMMON STOCK  
AT A PURCHASE PRICE NOT GREATER THAN \$125.00  
NOR LESS THAN \$105.00 NET PER SHARE

To Our Clients:

November 3, 1997

Enclosed for your consideration are the Offer to Purchase dated November 3, 1997, and the related Letter of Transmittal (which together constitute the "Offer") in connection with the Offer by Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), pursuant to which the Company is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), at prices not greater than \$125.00 nor less than \$105.00 per Share, net to the seller in cash, upon the terms and subject to the conditions of the Offer.

The Company will determine a single per Share price (not greater than \$125.00 nor less than \$105.00 per Share) (the "Purchase Price") that it will pay for the Shares validly tendered pursuant to the Offer and not withdrawn, taking into account the number of Shares so tendered and the prices specified by tendering shareholders. The Company will select the lowest Purchase Price that will allow it to purchase 1,000,000 Shares (or such lesser number of Shares as are validly tendered at prices not greater than \$125.00 nor less than \$105.00 per Share) and not withdrawn pursuant to the Offer.

All Shares properly tendered at or above the Purchase Price and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions thereof. All Shares not purchased pursuant to the Offer, including Shares tendered at prices greater than the Purchase Price and Shares not purchased because of proration, will be returned to the tendering shareholders at the Company's expense as promptly as practicable following the Expiration Date (as defined in Section 1 of the Offer to Purchase). The Company reserves the right, in its sole discretion but subject to any applicable legal requirements, to purchase more than 1,000,000 Shares pursuant to the Offer. See Section 1 of the Offer to Purchase.

We are the holder of record of Shares held for your account. As such, we are the only ones who can tender your Shares, and then only pursuant to your instructions. THE LETTER OF TRANSMITTAL IS FOR YOUR INFORMATION ONLY AND CANNOT BE USED BY YOU TO TENDER SHARES WE HOLD FOR YOUR ACCOUNT.

Please instruct us as to whether you wish us to tender any of or all the Shares we hold for your account upon the terms and subject to the conditions of the Offer.

We call your attention to the following:

1. You may tender any portion of or all your Shares at prices (in multiples of \$1.00), which cannot be greater than \$125.00 nor less than \$105.00 per Share as indicated in the attached instruction form, net to you in cash.
2. The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See Section 6 of the Offer to Purchase.
3. The Offer, proration period and withdrawal rights will expire at 12:00 midnight, New York City time, on Monday, December 1, 1997, unless the Offer is extended.
4. The Offer is for 1,000,000 Shares, representing approximately 15.7% of the Shares outstanding as of November 3, 1997, and approximately 13.6% of the sum of the Shares then outstanding and all Shares which may be issued upon the exercise of outstanding employee stock options and warrants as of such date.
5. Tendering shareholders will not be obligated to pay any brokerage commissions, solicitation fees, or, subject to Instruction 7 of the Letter of Transmittal, any stock transfer taxes with respect to the transfer and sale of Shares to the Company pursuant to the Offer.
6. If you owned beneficially as of the close of business on October 27, 1997, and will continue to own beneficially until the Expiration Date (as defined in the Offer to Purchase), an aggregate of fewer than 100 Shares and you are tendering all such Shares and do not withdraw such Shares before the Expiration Date and complete the box captioned "Odd Lots" in the attached instruction form, the Company, upon the terms and subject to the conditions of the Offer, will accept all such

Shares for purchase before proration, if any, of the purchase of other Shares tendered at or below the Purchase Price.

If you wish to have us tender any of or all your Shares, please so instruct us by completing, executing and returning to us the attached instruction form. An envelope to return your instruction form to us is enclosed. If you authorize us to tender your Shares, we will tender all such Shares unless you specify otherwise on the instruction form.

YOUR INSTRUCTIONS SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF BEFORE THE EXPIRATION DATE. THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, DECEMBER 1, 1997, UNLESS THE OFFER IS EXTENDED.

As described in Section 1 of the Offer to Purchase and subject to matters described therein, if the number of Shares properly tendered and not withdrawn before the Expiration Date at prices not greater than \$125.00 nor less than \$105.00 per Share is greater than 1,000,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority:

- (a) first, all Shares properly tendered at or below the Purchase Price and not withdrawn before the Expiration Date by any shareholder who owned beneficially as of the close of business on October 27, 1997, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares and who tenders all Shares beneficially owned by such shareholder (PARTIAL TENDERS WILL NOT QUALIFY FOR THIS PREFERENCE); and
- (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered at or below the Purchase Price and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

THE OFFER IS NOT BEING MADE TO, NOR WILL THE COMPANY ACCEPT TENDERS FROM OR ON BEHALF OF, OWNERS OF SHARES RESIDING IN ANY JURISDICTION IN WHICH THE MAKING OF THE OFFER OR ITS ACCEPTANCE WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF SUCH JURISDICTION.

INSTRUCTIONS  
WITH RESPECT TO THE  
OFFER TO PURCHASE FOR CASH  
UP TO 1,000,000 SHARES OF COMMON STOCK  
OF

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase dated November 3, 1997, and the related Letter of Transmittal (which together constitute the "Offer"), in connection with the Offer by Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), to purchase for cash up to 1,000,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), at prices not greater than \$125.00 nor less than \$105.00 per Share, net to the seller in cash, upon the terms and subject to the conditions of the Offer.

The undersigned hereby instruct(s) you to tender to the Company the number of Shares indicated below or, if no number is indicated, all Shares you hold for the account of the undersigned, upon the terms and subject to the conditions of the Offer.

AGGREGATE NUMBER OF SHARES TO BE TENDERED BY YOU FOR THE ACCOUNT OF THE  
UNDERSIGNED:\*

\_\_\_\_\_ SHARES

\*Unless otherwise indicated, all the Shares held for the account of the undersigned will be tendered.

PRICE (IN DOLLARS) PER SHARE AT WHICH  
SHARES ARE BEING TENDERED

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IF SHARES ARE BEING TENDERED AT MORE THAN ONE PRICE,  
A SEPARATE FORM FOR EACH PRICE SPECIFIED  
MUST BE USED.

-----

CHECK ONLY ONE BOX.  
IF MORE THAN ONE BOX IS CHECKED, OR IF NO BOX IS CHECKED  
THERE IS NO VALID TENDER OF SHARES

-----

SHARES TENDERED AT PRICE DETERMINED  
BY DUTCH AUCTION

// The undersigned wants to maximize the chance of having the Company purchase all the Shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking this one box INSTEAD OF ONE OF THE PRICE BOXES BELOW, the undersigned hereby tenders Shares at, and is willing to accept, the Purchase Price resulting from the Dutch auction tender process. This action could result in receiving a price per Share as low as \$105.00 or as high as \$125.00.

\*\*\*CHECK EITHER THE BOX ABOVE OR CHECK ONE BOX BELOW\*\*\*

SHARES TENDERED AT PRICE  
DETERMINED BY SHAREHOLDER

// \$105	// \$112	// \$119
// \$106	// \$113	// \$120
// \$107	// \$114	// \$121
// \$108	// \$115	// \$122
// \$109	// \$116	// \$123
// \$110	// \$117	// \$124
// \$111	// \$118	// \$125



-----  
ODD LOTS

// By checking this box, the undersigned represents that the undersigned  
beneficially owned as of the close of business on October 27, 1997, and will  
continue to own beneficially until the Expiration Date an aggregate of fewer  
than 100 Shares, and is tendering all such Shares.  
-----

-----  
SIGNATURE BOX

Signature(s) \_\_\_\_\_

Dated \_\_\_\_\_

Name(s) and Address(es) \_\_\_\_\_  
(Please Print)

\_\_\_\_\_  
\_\_\_\_\_

Area Code and Telephone Number \_\_\_\_\_

Taxpayer Identification or  
Social Security Number \_\_\_\_\_  
-----

THIS ANNOUNCEMENT IS NEITHER AN OFFER TO PURCHASE NOR A SOLICITATION OF AN OFFER TO SELL SHARES. THE OFFER IS MADE SOLELY BY THE OFFER TO PURCHASE DATED NOVEMBER 3, 1997, AND THE RELATED LETTER OF TRANSMITTAL, AND IS NOT BEING MADE TO (NOR WILL TENDERS BE ACCEPTED FROM OR ON BEHALF OF) HOLDERS OF SHARES RESIDING IN ANY JURISDICTION IN WHICH THE MAKING OF THE OFFER OR THE ACCEPTANCE THEREOF WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF SUCH JURISDICTION.

NOTICE OF OFFER TO PURCHASE FOR CASH  
BY  
FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
UP TO 1,000,000 SHARES OF ITS COMMON STOCK AT  
A PURCHASE PRICE NOT GREATER THAN \$125.00  
NOR LESS THAN \$105.00 NET PER SHARE

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), to the Company, at prices not greater than \$125.00 nor less than \$105.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated November 3, 1997 (the "Offer to Purchase"), and in the related Letter of Transmittal (which together constitute the "Offer"). For purposes of the Offer, the Company shall be deemed to have accepted for payment (and thereby purchased), subject to proration, Shares which are tendered at or above the Purchase Price (as defined below) and not withdrawn when, as and if the Company gives oral or written notice to the Depository of the Company's acceptance of such Shares for payment pursuant to the Offer. The Company reserves the right, in its sole discretion, to purchase more than 1,000,000 Shares pursuant to the Offer.

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 6 OF THE OFFER TO PURCHASE.

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THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS  
WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME,  
ON MONDAY, DECEMBER 1, 1997, UNLESS THE OFFER IS  
EXTENDED.  
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NEITHER THE COMPANY NOR ITS BOARD OF DIRECTORS MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OR ALL OF SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER.

The Company reserves the right, in its sole discretion, at any time or from time to time, to extend the period of time during which the Offer is open by giving oral or written notice of such extension to the Depository and making a public announcement thereof. See Sections 1 and 15 of the Offer to Purchase.

As promptly as practicable following the Expiration Date, the Company will purchase up to 1,000,000 Shares or such lesser number of Shares as are properly tendered (and not withdrawn in accordance with Section 4 of the Offer to Purchase) prior to the Expiration Date at prices not greater than \$125.00 nor less than \$105.00 per Share in cash. The term "Expiration Date" means 12:00 midnight, New York City time, on Monday, December 1, 1997, unless and until the Company, in its sole discretion, shall have extended the period of time during which the Offer will remain open, and thereby delay acceptance for payment of, and payment for, any Shares by giving oral or written notice of such extension to the Depository and making a public announcement thereof.

The Company will, upon the terms and subject to the conditions of the Offer, determine a single per Share price (not greater than \$125.00 nor less than \$105.00 per Share) net to the seller in cash (the "Purchase Price") that it will pay for Shares validly tendered and not withdrawn pursuant to the Offer, taking into account the number of Shares so tendered and the prices specified by the tendering shareholders. The Company will select the lowest Purchase Price that will allow it to buy 1,000,000 Shares (or such lesser number as are validly tendered at prices not greater than \$125.00 nor less than \$105.00 per Share). All Shares validly tendered at prices at or below the Purchase Price and not withdrawn will be purchased at the Purchase Price, subject to the terms and the conditions of the Offer, including the proration terms thereof.

If the number of Shares properly tendered and not withdrawn before the Expiration Date is greater than 1,000,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority: (a) first, all Shares properly tendered at or above the Purchase Price and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on October 27, 1997, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares and who: (1) tenders all Shares beneficially owned by such shareholder (partial tenders will not qualify for this preference), and (2) completes the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery; and (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered at or above the Purchase Price and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

Except as otherwise provided in Section 4 of the Offer to Purchase, a tender of Shares pursuant to the Offer is irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time before the Expiration Date and, unless theretofore accepted for payment by the Company, after 12:00 midnight, New York City time, on Tuesday, December 30, 1997. See Section 4 of the Offer to Purchase.

For a withdrawal to be effective, the Depositary must timely receive (at one of its addresses set forth on the back cover of the Offer to Purchase) a written or facsimile transmission notice of withdrawal. Any notice of withdrawal must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and, if different from the name of the person who tendered the Shares, the name of the registered owner of such Shares. If the certificates have been delivered or otherwise identified to the Depositary, then, prior to the release of such certificates, the tendering shareholder must also submit the serial numbers shown on the particular certificates evidencing such Shares and the signature on the notice of withdrawal must be guaranteed by an Eligible Institution (as defined in Section 3 of the Offer to Purchase) (except in the case of Shares tendered by an Eligible Institution). If Shares have been delivered pursuant to the procedure for book-entry transfer set forth in Section 3 of the Offer to Purchase, the notice of withdrawal must specify the name and number of the account at the applicable Book-Entry Transfer Facility (as defined in Section 3 of the Offer to Purchase) to be credited with the withdrawn Shares and otherwise comply with the procedures of such facility. A withdrawal of a tender of Shares may not be rescinded and Shares properly withdrawn shall thereafter be deemed to be not validly tendered for purposes of the Offer. Withdrawn Shares, however, may be retendered before the Expiration Date by again following any of the procedures described in Section 3 of the Offer to Purchase.

THE OFFER TO PURCHASE AND THE LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION THAT SHOULD BE READ BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER. These documents are being mailed to record holders of Shares and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the Company's shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

The information required to be disclosed by Rule 13e-4(d)(1) of the General Rules and Regulations under the Securities Exchange Act of 1934 is contained in the Offer to Purchase and is incorporated herein by reference.

Any questions or requests for assistance may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers set forth below. Requests for copies of the Offer to Purchase, Letter of Transmittal, Notice of Guaranteed Delivery or other tender offer materials may be directed to the Information Agent or the Dealer Manager and such copies will be furnished promptly at the Company's expense. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

THE DEALER MANAGER FOR THE OFFER IS:  
LEHMAN BROTHERS  
Three World Financial Center  
200 Vesey Street  
New York, New York 10285  
(212) 526-7850

THE DEPOSITARY AND THE INFORMATION AGENT FOR THE OFFER IS:

FIRST CHICAGO TRUST COMPANY OF NEW YORK  
P.O. Box 2569, STE 4660 - FAE  
Jersey City, New Jersey 07303-2569  
1-800-409-7443

Requests for materials may be telecopied to  
201-222-4720  
or  
201-222-4721

November 3, 1997  
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FUND  
AMERICAN  
-----

PRESS  
RELEASE

CONTACT: Terry Baxter  
603-640-2229

FUND AMERICAN ANNOUNCES DUTCH AUCTION CASH  
TENDER OFFER FOR UP TO 1,000,000 SHARES

HANOVER, New Hampshire, October 30, 1997 - The Board of Directors of Fund American Enterprises Holdings, Inc. today approved a "Dutch auction" cash tender offer to purchase up to 1,000,000 shares of its common stock at prices not greater than \$125.00 nor less than \$105.00 net per share. The tender offer is expected to commence on Monday, November 3, 1997.

The Company's common stock closed today on the New York Stock Exchange at \$108 1/8 per share.

The Offer will not be conditioned upon any minimum number of shares being tendered. The Offer will be, however, subject to certain customary conditions. If the Offer commences on November 3, 1997, the proration period and withdrawal rights are expected to expire at 12:00 midnight, New York City time, Monday, December 1, 1997 unless the Offer is extended.

Neither the Company nor its Board of Directors makes any recommendations as to whether any shareholder should participate in the Offer.

Fund American is traded on the New York Stock Exchange under the symbol FFC.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
80 South Main Street  
Hanover, New Hampshire 03755  
603-643-1567

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FUND  
AMERICAN  
- - - - -

PRESS  
RELEASE

CONTACT: Terry Baxter  
603-640-2229

FUND AMERICAN COMMENCES DUTCH AUCTION CASH TENDER OFFER  
FOR UP TO 1,000,000 SHARES

HANOVER, New Hampshire, November 3, 1997 - Fund American Enterprises Holdings, Inc. today commenced its previously announced cash tender offer to purchase up to 1,000,000 shares of its common stock at prices not greater than \$125.00 nor less than \$105.00 per share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated November 3, 1997, and the related Letter of Transmittal (which together constitute the "Offer").

The Offer is not conditioned upon any minimum number of shares being tendered. The Offer is, however, subject to certain customary conditions. The Offer, proration period and withdrawal rights are scheduled to expire at 12:00 midnight, New York City time, on Monday, December 1, 1997 unless the Offer is extended.

First Chicago Trust Company of New York is the Information Agent for the Offer and can be reached at 1-800-438-0057. Lehman Brothers Inc. is the Dealer Manager for the Offer.

None of the Company, its Board of Directors, the Dealer Manager or the Information Agent makes any recommendation as to whether any shareholder should participate in the Offer.

## FUND AMERICAN REPORTS THIRD QUARTER RESULTS

HANOVER, New Hampshire, October 27, 1997-- Fund American Enterprises Holdings, Inc. ended the 1997 third quarter with a book value per share of \$102.14, an increase of \$11.33 from the December 31, 1996 book value per share of \$90.81. Fund American President and CEO Tom Kemp said, "1997 is developing just fine thus far. I am pleased with operating results at all of our insurance operations, however, these operating results have been muted by one-time charges at our mortgage operations. Investment results have been quite satisfactory."

Fund American reported net income of \$14.9 million, or \$2.03 per share, for the nine month period ended September 30, 1997, compared to net income of \$36.0 million, or \$4.38 per share, for the nine month period ended September 30, 1996. For the 1997 third quarter Fund American reported net income of \$15.4 million, or \$2.18 per share, versus net income of \$3.7 million, or \$.46 per share, in 1996. The 1997 nine month results include a \$6.0 million after tax extraordinary loss on early extinguishment of debt recorded in the second quarter by the Company's mortgage banking subsidiary, Source One Mortgage Services Corporation. The 1996 nine month results include a \$27.5 million pretax, \$17.9 million after tax, recovery of Source One's valuation allowance associated with its capitalized mortgage loan servicing asset due to an increase in market interest rates.

## INSURANCE OPERATIONS

Valley Insurance Companies (Valley), a Northwest region property-casualty company which writes personal and commercial lines, posted a combined ratio of 100.4% for the 1997 year-to-date period versus a 101.0% for the comparable 1996 period. Valley had \$59.0 million of earned premium in the 1997 year-to-date period, an increase of \$7.1 million from the comparable 1996 amount. The operations of Charter Insurance Companies (Charter), which writes non-standard automobile insurance in Texas, posted a combined ratio of 92.7% for the 1997 year-to-date period versus 97.9% for the comparable 1996 period. Charter had \$46.8 million of earned premium in the 1997 year-to-date period, an increase of \$23.7 million from the comparable 1996 amount. Premiums for Charter's automobile policies written prior to 1996 were fully ceded to a former affiliate of Charter. White Mountains Insurance Company, a newly formed New England region property-casualty company which writes commercial lines, had \$2.2 million of earned premium in the 1997 year-to-date period.

The Company's unconsolidated insurance affiliates consist of a 25% economic interest in Financial Security Assurance Holdings Ltd. (FSA), a 50% interest in Folksamerica Holding Company, Inc. (Folksamerica) and a 33% interest in Main Street America Holdings, Inc. (MSA). Fund American's earnings from these affiliates increased to \$14.8 million for the first nine months of 1997, from \$6.0 million for the comparable 1996 period. The increase is primarily due to strong operating results at FSA and MSA and the inclusion in 1997 of earnings from Folksamerica (which was acquired in June 1996). The strong operating results at FSA in 1997 were the result of a steady domestic transaction flow as well as several large, high premium European transactions. FSA's adjusted book value at September 30, 1997 was \$37.88, up \$3.35 from \$34.53 at December 31, 1996.

(more)

Folksamerica's operations performed well despite a continuing highly-competitive reinsurance market. Folksamerica's September 30, 1997 book value per share increased to \$14.54, an increase of \$2.42 from its 1996 year-end value of \$12.12 per share. MSA's underwriting results for the first nine months of 1997 produced a combined ratio of 102.9% vs. a 108.9% combined ratio for the 1996 comparable period.

#### MORTGAGE BANKING OPERATIONS

For the 1997 year-to-date period, Source One had a net loss applicable to common stock of \$13.8 million versus net income of \$24.7 million for the comparable 1996 period. Source One's 1997 results include the following one-time charges: (i) a \$6.0 million after tax extraordinary loss on early extinguishment of debt and (ii) restructuring and compensation charges of \$3.1 million pretax, \$2.0 million after tax, associated with Source One's plan to reduce its operating costs and improve its financial performance. Source One's 1996 results include a \$27.5 million pretax, \$17.9 million after tax, recovery of Source One's valuation allowance associated with its capitalized mortgage loan servicing asset due to an increase in market interest rates. For the 1997 third quarter, Source One had net income applicable to common stock of \$.1 million versus net income of \$7.3 million for the comparable 1997 period. Source One's 1997 year-to-date and third quarter results include \$6.2 million and \$3.1 million of pretax earnings, respectively, associated with the Company's investment in FSA which was contributed to Source One during 1997 to provide additional credit support to Source One's mortgage banking operations.

Source One's gross mortgage servicing revenue decreased to \$20.7 million and \$69.4 million for the three and nine month periods ended September 30, 1997, respectively, from \$33.0 million and \$101.1 million for the comparable 1996 periods. The decrease in gross mortgage servicing revenue during the 1997 periods is primarily the result of Source One's February 28, 1997 sale of servicing rights with respect to \$17.0 billion of mortgage loans. Source One's net mortgage servicing revenue decreased to \$7.5 million and \$30.1 million for the three and nine month periods ended September 30, 1997, respectively, from \$16.7 million and \$69.9 million for the comparable 1996 periods. During 1997 Source One had pretax impairment to its capitalized mortgage loan servicing asset of \$8.2 million (due to decreases in market interest rates during 1997 as compared to 1996) versus \$27.5 million of pretax recoveries for the 1996 comparable period.

Net mortgage servicing revenue for the nine month period ended September 30, 1997 has been enhanced by \$4.3 million of pretax net gains on financial instruments which represents an increase in the market value of Source One's investments in interest rate floor contracts and principal only swap agreements. Net mortgage servicing revenue for the comparable 1996 period has been reduced by \$5.1 million of pretax net losses on financial instruments which represents a decrease in these financial instruments during the 1996 period.

Net gain on sales of mortgages decreased to \$15.7 million for the nine month period ended September 30, 1997 from \$32.2 million for the comparable 1996 period. The 1997 amount includes a \$3.0 million pretax charge, recorded during the 1997 second quarter, related to mortgage loans held for investment which have been identified for sale and marked down from amortized cost to current market value. The balance of the 1997 decline is primarily due to decreased production and the related decrease in mortgage loan sales volume during 1997 as compared to 1996.

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In connection with the February 1997 servicing sale, Source One recorded a \$4.3 million pretax loss (\$2.8 million after tax) during the 1997 year-to-date period. Source One will continue to subservice the mortgage loans pursuant to a subservicing agreement at least until March 1998, June 1998 and August 1998 for Federal Home Loan Mortgage (FHLMC) loans, Government National Mortgage Association (GNMA) loans and Federal National Mortgage Association (FNMA) loans, respectively. The subservicing period can be extended for two years beyond these dates at the option of the purchaser.

#### OTHER OPERATIONS

Fund American's investment income is comprised primarily of interest income earned on mortgage loans originated by Source One and the fixed maturity investments of its consolidated insurance operations. Net investment income was \$46.3 million and \$44.7 million, respectively, for the 1997 and 1996 nine month periods.

Realized investment gains of \$47.6 million for the first nine months of 1997 resulted principally from the sales of 834,895 shares of the common stock of Veritas DGC Inc. for net proceeds of \$20.9 million, 628,581 shares of the common stock of Travelers Property Casualty Corp. for net proceeds of \$22.9 million and 388,140 shares of the common stock of Mid Ocean Limited for net proceeds of \$22.6 million. Realized gains of \$28.2 million for the comparable 1996 period resulted principally from sales of 2,042,572 shares of the common stock of Zurich Reinsurance Centre Holdings, Inc. for net proceeds of \$61.8 million and 2,928,100 shares of the common stock of The Louisiana Land and Exploration Company for net proceeds of \$125.1 million.

Fund American shares of common stock are traded on the New York Stock Exchange under the symbol FFC.

(more)



FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
Consolidated Financial Summary  
For the nine month periods ended September 30, 1997 and 1996  
(in thousands, except per share amounts)

	Nine months ended September 30,	
	1997	1996
Revenues:		
Gross mortgage servicing revenue	\$ 69,380	\$ 101,105
Amortization and impairment of capitalized mortgage servicing	(43,524)	(26,076)
Net gain (loss) on financial instruments	4,286	(5,127)
	-----	-----
Net mortgage servicing revenue	30,142	69,902
Net gain on sales of mortgages	15,740	32,217
Gain (loss) on sale of mortgage servicing rights	(4,296)	10,080
Other mortgage operations revenue	13,771	13,578
Earned property and casualty insurance premiums	108,005	75,727
Earnings from unconsolidated insurance affiliates	14,834	6,043
Other insurance operations revenue	6,855	7,417
Net investment income	46,293	44,739
	-----	-----
Total revenues	231,344	259,703
	-----	-----
Interest expense	35,724	38,541
Compensation and benefits	72,603	73,214
General expenses	62,164	63,195
Insurance losses and loss adjustment expenses	72,865	52,184
	-----	-----
Total expenses	243,356	227,134
	-----	-----
Pretax operating earnings (loss)	(12,012)	32,569
Net realized investment gains	47,634	28,154
	-----	-----
Pretax earnings	35,622	60,723
Income tax provision	14,735	24,757
	-----	-----
After tax earnings	20,887	35,966
Loss on early extinguishment of debt, after tax	(5,975)	--
	-----	-----
Net income	\$ 14,912	\$ 35,966
	=====	=====
Earnings per share:		
After tax earnings	\$ 2.84	\$ 4.38
Net income	2.03	4.38
Average common shares outstanding	6,669	7,538

(more)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
Consolidated Financial Summary  
For the three month periods ended September 30, 1997 and 1996  
(in thousands, except per share amounts)

	Three months ended September 30,	
	1997	1996
Revenues:		
Gross mortgage servicing revenue	\$ 20,741	\$ 33,009
Amortization and impairment of capitalized mortgage servicing	(19,301)	(16,046)
Net gain (loss) on financial instruments	6,026	(225)
	-----	-----
Net mortgage servicing revenue	7,466	16,738
Net gain on sales of mortgages	6,480	7,748
Loss on sale of mortgage servicing rights	--	10,080
Other mortgage operations revenue	4,774	4,042
	-----	-----
Earned property and casualty insurance premiums	36,751	30,392
Earnings from unconsolidated insurance affiliates	5,018	2,990
Other insurance operations revenue	2,271	2,127
	-----	-----
Net investment income	16,620	15,731
	-----	-----
Total revenues	79,380	89,848
	-----	-----
Interest expense	12,394	11,517
Compensation and benefits	22,262	25,302
General expenses	19,558	22,700
Insurance losses and loss adjustment expenses	24,523	21,677
	-----	-----
Total expenses	78,737	81,196
	-----	-----
Pretax operating earnings	643	8,652
Net realized investment gains (losses)	21,824	(1,548)
	-----	-----
Pretax earnings	22,467	7,104
Income tax provision	7,099	3,438
	-----	-----
Net income	\$ 15,368	\$ 3,666
	=====	=====
Net income per share	\$ 2.18	\$ .46
Average common shares outstanding	6,387	7,298

	September 30, 1997	December 31, 1996
Total investments	\$ 592,353	\$ 560,158
Total shareholders' equity	\$ 718,944	\$ 687,005
Common shares outstanding	6,381	6,905
Common and common equivalent shares outstanding	7,383	7,908
Book value per common and common equivalent share	\$ 102.14	\$ 90.81

(more)

Financial Highlight  
(dollars in millions)

CONSOLIDATED INSURANCE OPERATIONS

Three months ended Sept. 30,			Nine months ended Sept. 30,	
1997	1996		1997	1996
\$ 39.1	\$ 34.8	Net written premium	\$ 112.9	\$ 114.0
		Ending statutory surplus	\$ 91.8	\$ 80.3
Combined ratios:				
Valley Insurance Companies (1)				
66.7%	67.7%	Loss and loss adjustment expense	64.8%	64.5%
34.7%	39.1%	Underwriting expense	35.6%	36.5%
-----	-----		-----	-----
101.4%	106.8%	Combined	100.4%	101.0%
=====	=====		=====	=====
Charter Insurance Companies				
62.8%	76.3%	Loss and loss adjustment expense	68.9%	78.1%
24.2%	22.7%	Underwriting expense	23.8%	19.8%
-----	-----		-----	-----
87.0%	99.0%	Combined	92.7%	97.9%
=====	=====		=====	=====
White Mountains Insurance Company				
127.9%	91.0%	Loss and loss adjustment expense	109.6%	91.7%
45.8%	62.0%	Underwriting expense	53.6%	53.0%
-----	-----		-----	-----
173.7%	153.0%	Combined	163.2%	144.7%
=====	=====		=====	=====

(1) Valley Insurance Companies excluding its wholly-owned subsidiary White Mountains Insurance Company

MORTGAGE BANKING OPERATIONS

Three months ended Sept. 30,			Nine months ended Sept. 30,	
1997	1996		1997	1996
\$ 420	\$ 371	Loan Origination By Source		
829	420	Retail	\$ 1,013	\$ 1,471
-----	-----	Wholesale	1,704	1,632
\$ 1,249	\$ 791	Total	\$ 2,717	\$ 3,103
=====	=====		=====	=====
Servicing Portfolio (a)				
\$ 28,583	\$ 31,329	Beginning balance	\$ 29,201	\$ 31,831
1,249	791	Mortgage loan production	2,717	3,103
(831)	(634)	Regular payoffs	(2,127)	(2,417)
(357)	(3,839)	Sales of servicing and other	(1,147)	(4,870)
-----	-----		-----	-----
\$ 28,644	\$ 27,647	Ending balance	\$ 28,644	\$ 27,647
=====	=====		=====	=====

Owned Loans (b)		Total Loans (a)	
Sept. 30, 1997	Dec. 31, 1996	Sept. 30, 1997	Dec. 31, 1996
Ending Servicing Portfolio			
\$ 10,428	\$ 26,410	\$ 28,644	\$ 29,201
173,187	451,802	462,234	478,779
.424%	.422%	n/a	n/a
8.69%	8.59%	8.41%	8.48%
8.20%	7.44%	6.78%	7.17%
		Percent delinquent (c)	

- (a) Includes loans subserviced for others. Loans subserviced for others had a principal balance of \$18,216 million, \$2,791 million and \$3,796 million as of Sept. 30, 1997, Dec. 31, 1996 and Sept. 30, 1996, respectively.
- (b) Excludes loans subserviced for others.
- (c) Includes loans in the process of foreclosure.

(end)