UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from to

Commission file number **1-8993**

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda	**94-2708455**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
80 South Main Street **Hanover, New Hampshire** (Address of principal executive offices)	**03755-2053** (Zip Code)

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

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

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

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

None

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

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

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

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2006, was $3,025,848,367.

As of February 28, 2007, 10,833,788 common shares, par value of $1.00 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to the Registrant's Annual General Meeting of Members scheduled to be held May 24, 2007 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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PART I

Item 1. Business

GENERAL

White Mountains Insurance Group, Ltd. (the “Company” or the “Registrant”) is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. Within this report, the term “White Mountains” is used to refer to one or more entities within the consolidated organization, as the context requires. The Company’s headquarters are located at Bank of Butterfield Building, 42 Reid Street, Hamilton, Bermuda HM 12, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains’ reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (“OneBeacon Ltd.”), a Bermuda-based company that owns a family of U.S.-based property and casualty insurance companies (collectively “OneBeacon”), substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the “OneBeacon Acquisition”). During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd.’s common shares in an initial public offering (the “OneBeacon Offering”). In connection with the OneBeacon Offering, White Mountains undertook an internal reorganization (the “Reorganization”) and formed OneBeacon Ltd. for the purpose of holding certain of its property and casualty insurance businesses. As a result of the Reorganization, certain of White Mountains’ businesses that have been historically reported as part of its Other Operations segment are now owned by OneBeacon Ltd., and accordingly have been included in the OneBeacon segment for all periods presented in this report. In addition, certain other businesses of White Mountains that had been historically reported as part of its OneBeacon segment and which were not held by OneBeacon Ltd. following the OneBeacon Offering are included in the Other Operations segment for all periods presented in this report.

The White Mountains Re segment consists of White Mountains Re Group, Ltd., a Bermuda-based company, and its subsidiaries (collectively “White Mountains Re”). White Mountains Re offers reinsurance capacity for property, liability, accident & health, aviation and certain marine exposures on a

worldwide basis through its subsidiaries, Folksamerica Reinsurance Company ("Folksamerica Re", together with its immediate parent, Folksamerica Holding Company ("FHC"), "Folksamerica"), which has been a wholly-owned subsidiary of White Mountains since 1998, and Sirius International Insurance Corporation ("Sirius International"). On April 16, 2004, White Mountains acquired Sirius Insurance Holdings Sweden AB and its subsidiaries ("Sirius") (the "Sirius Acquisition"). The principal companies acquired were Sirius International, Sirius America Insurance Company ("Sirius America"), which provides primary insurance programs in the United States, and Scandinavian Reinsurance Company Ltd. ("Scandinavian Re"), a reinsurance company that has been in run-off since 2002. White Mountains Re also provides reinsurance advisory services, specializing primarily in property and other short-tailed lines of reinsurance, through White Mountains Re Underwriting Services Ltd. ("WMRUS"). On August 3, 2006, White Mountains Re sold Sirius America to an investor group. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity, Lightyear Delos Acquisition Corp. ("Delos"), and accounts for Delos on the equity method within its Other Operations segment.

The Esurance segment consists of Esurance Holdings Ltd., a Bermuda-based company, and certain of its subsidiaries (collectively, "Esurance"). Esurance, which has been a unit of White Mountains since October 2000, sells personal auto insurance directly to customers online and through select online agents.

White Mountains' Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC ("WM Advisors"), its weather risk management business ("Galileo"), its variable annuity reinsurance business ("WM Life Re"), as well as the International American Group, Inc. (the "International American Group") and various other entities not included in the other segments. The International American Group, which was acquired by White Mountains in 1999, consists of American Centennial Insurance Company ("American Centennial") and British Insurance Company of Cayman ("British Insurance Company"), both of which are in run-off. The Other Operations segment also includes White Mountains' investments in warrants to purchase common shares of Montpelier Re Holdings, Ltd. ("Montpelier Re"),

warrants to purchase common shares of Symetra Financial Corporation ("Symetra") and common and preferred shares of Delos.

White Mountains' Operating Principles

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

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

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

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

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

ONEBEACON

OneBeacon, whose United States headquarters is in Canton, Massachusetts, is a property and casualty insurance writer that provides a range of specialty insurance products as well as a variety of segmented commercial and personal insurance products. With roots dating back to 1831, OneBeacon has been operating for more than 175 years and has many long-standing relationships with independent agencies, which is its primary distribution channel. At December31, 2006 and 2005, OneBeacon had $9.9 billion and $9.8 billion of total assets, respectively, and shareholder's equity of $1.8 billion and $1.3 billion, respectively. As a result of the OneBeacon Offering, White Mountains recorded $491 million of minority interest related to its ownership in OneBeacon as of December 31, 2006. OneBeacon wrote approximately $2.0 billion and $2.1 billion in net written premiums in 2006 and 2005, respectively. OneBeacon's principal operating insurance subsidiaries are rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best and "A" (Strong, the sixth highest of twenty-one ratings) by Standard & Poor's, rating agencies that specialize in the insurance and reinsurance industry.

Property and Casualty Insurance Overview

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

Insurance companies derive substantially all of their revenues from earned premiums, investment income and net gains and losses from sales of investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, investment income is generated, consisting primarily of

interest earned on fixed maturity investments and dividends earned on equity securities. Net realized investment gains and losses result from sales of securities from the insurance companies' investment portfolios.

Insurance companies incur a significant amount of their total expenses from policyholder losses, which are commonly referred to as "claims". In settling policyholder losses, various loss adjustment expenses ("LAE") are incurred, such as insurance adjusters' fees and litigation expenses. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including compensation and benefits for professional and clerical staff.

The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company's combined ratio under accounting principles generally accepted in the United States ("GAAP") is calculated by adding the ratio of incurred loss and LAE to earned premiums (the "loss ratio") and the ratio of policy acquisition and other underwriting expenses to earned premiums (the "expense ratio"). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

Lines of Business

OneBeacon's business is managed through three major underwriting units: specialty lines, commercial lines and personal lines. OneBeacon's specialty lines businesses are national in scope, while its commercial and personal lines businesses have been concentrated primarily in the Northeastern United States.

Beginning in the fourth quarter of 2006, OneBeacon includes OneBeacon Specialty Property ("OBSP") within its commercial lines underwriting unit and AutoOne Insurance ("AutoOne") within its personal lines underwriting unit. Both OBSP and AutoOne were formerly reported in its specialty lines underwriting unit. The reporting change was undertaken to better align the reported results of OneBeacon's underwriting units with the product and management structure of its underwriting units. Prior periods have been reclassified to conform to current year presentation.

For the twelve months ended December 31, 2006, 2005 and 2004, OneBeacon's net written premiums by line of business were as follows:

Net written premiums by line of business	**Year Ended December 31,**		
Millions	**2006**	**2005**	**2004**
Specialty	**$ 437.6**	$ 548.8	$ 565.7
Personal	**800.6**	910.2	1,063.3
Commercial	**718.3**	654.4	826.8
Other(1)	**1.1**	7.7	3.3
Total	**$ 1,957.6**	$ 2,121.1	$ 2,459.1

(1) Includes business in run-off.

Specialty lines

OneBeacon's specialty lines underwriting unit is a collection of niche businesses that focus on solving the unique needs of particular customer groups on a national scale. Each of these businesses maintains stand-alone operations and distribution channels targeting their specific customer groups. OneBeacon provides distinct products and offers tailored coverages and services, managed by teams of market specialists.

OneBeacon's specialty businesses currently include:

- *OneBeacon Professional Partners ("OBPP")*: Formed in 2002, OBPP is a provider of specialty liability products primarily focused on the health-care industry. Additional products include media liability and lawyers' professional liability insurance. OBPP's health-care products include hospital professional liability, or HPL, HMO reinsurance, providers excess insurance and managed care errors and omissions, or MCE&O. These products protect against claims arising from direct patient treatment, such as diagnoses, rendering opinions or referrals, and coverage for professional committee activities. In 2005, OBPP broadened its capabilities through two acquisitions and the formation of a new business. First Media Insurance Specialists, Inc. was acquired to distribute OBPP's new product line of primary and excess media liability coverages targeting small-to-midsized media companies (that include publishers, broadcasters and authors). OBPP also acquired the renewal rights to the HPL and MCE&O business of Chubb Specialty Insurance. Additional net written premiums from both transactions totaled $38 million

in 2006. In November 2005, OBPP began offering lawyers' professional liability coverage targeting law firms employing fewer than 150 attorneys.

- *International Marine Underwriters ("IMU"):* A leading provider of marine insurance, this business traces its roots back to the early 1900s. The IMU acquisition from Crum & Forster in the early 1990s doubled the company's book of marine business. IMU coverages include physical damage or loss, and general liability for cargo and commercial hull, both at primary and excess levels, marinas, including a "package" product (comprehensive property and liability coverage), and yachts (the offerings for which were strengthened by IMU's October 2006 acquisition of yacht-specialist National Marine Underwriters, Inc., a yacht insurance managing general agency). IMU does not offer offshore energy products. Target customers include ferry operators and charter boats (hull), marina operators and boat dealers (package product) and private-pleasure yachts with hull values of less than $1 million.

- *A.W.G. Dewar ("Dewar"):* A provider of tuition reimbursement insurance since 1930, Dewar's product protects both schools and parents from the financial consequences of a student's withdrawal or dismissal from school. The tuition refund plan reimburses parents up to 100 percent of tuition, room and board fees when a student is obliged to leave school due to covered reasons, such as medical or expulsion. Dewar provides customized policies to independent schools and colleges in North America.

- *Community Banking Professional Liability ("CBPL"):* Formed in November 2005, this group provides professional liability coverages for community banks with assets of $3 billion or less. Its full array of management and professional liability coverages includes employment practices liability, fiduciary liability, lender's liability, bankers professional liability, trust errors and omissions, and directors and officers liability. This group also offers community banking customers access to commercial package products, thereby providing comprehensive insurance solutions to this customer group. CBPL is augmented by strategically positioned underwriting specialists in other markets (such as the Northeast and the Midwest).

- *Specialty Accident and Health ("A&H")*: Formed in November 2006, this group provides accident insurance coverages to large employers (generally Fortune 1000) on a group basis. The full array of anticipated product coverages include corporate accident, travel accident and occupational accident coverage primarily targeted to the trucking industry. This group conducts business through independent agents and brokers and will selectively market directly to customers.

OneBeacon offered additional rural and farm related products through National Farmers Union Property and Casualty Company ("NFU") until its sale on September 30, 2005 and commercial farm and ranch and commercial agricultural products through its Agri division until the sale of the renewal rights of its policies on September 29, 2006.

For the twelve months ended December 31, 2006, 2005 and 2004, OneBeacon's specialty lines net written premiums were as follows:

Specialty lines net written premiums	**Year Ended December 31,**		
Millions	**2006**	**2005**	**2004**
OBPP	**$ 179.3**	$ 149.5	$ 119.5
IMU	**139.9**	133.6	136.5
Dewar, CBPL and A&H	**53.7**	49.2	47.6
Total on-going specialty lines	**372.9**	332.3	303.6
NFU(1)	**—**	132.5	178.5
Agri(1)	**64.7**	84.0	83.6
Total specialty lines	**$ 437.6**	$ 548.8	$ 565.7

(1) OneBeacon sold NFU on September 30, 2005 and sold the renewal rights to its Agri division policies on September 29, 2006.

Commercial lines

OneBeacon provides insurance solutions for middle market and small businesses through products that target particular industry groups with customized coverages and services. In late 2004, OneBeacon's commercial lines underwriting unit was separated into middle-market and small business divisions to enable a specialized focus in each market and to recognize the difference in product needs, customers and service requirements.

OneBeacon's middle market accounts typically produce annualized gross premiums ranging from $25,000 to $1,000,000 and principally purchase "package" policies (combination policies offering property and liability coverage). OneBeacon targets 13 distinct customer groups including technology, financial institutions, professional services, wholesalers, metalworkers and commercial real estate, among others. OneBeacon also provides some standard commercial business that is not targeted to a specific industry group. By partnering with its specialty lines businesses, OneBeacon's middle market commercial lines business can deliver a seamless, comprehensive insurance solution. OneBeacon has also formed strategic partnerships with specialized insurance agencies to offer OneBeacon coverage to targeted customer groups such as technology companies and community banks.

Included in the middle market division of OneBeacon is OBSP. Formed in 2004, OBSP provides excess property coverage against certain damages over and above those covered by primary policies or a large self-insured retention. Target classes include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale and public entity and educational institutions. Its excess property solutions are provided primarily through surplus lines wholesalers in all 50 states and the District of Columbia.

OneBeacon also markets package, auto, workers compensation and umbrella coverage to small businesses, which typically generate annualized premiums ranging from $500 to $25,000. OneBeacon targets 14 industry groups as well as some association and group businesses that provide a highly competitive solution for select agents. OneBeacon's small-business growth strategy is to target insurance networks of typically suburban and rural agents that represent a strong customer base in those areas. OneBeacon's proprietary web platform has expedited underwriting at the point of sale, which has enabled growth in new territories while limiting the need for much incremental infrastructure. In the first quarter of 2006, OneBeacon introduced a small business service center to handle customer administration for enrolled agents.

OneBeacon's commercial lines products include:

- *Multi-peril*: consists of a package policy sold to small to mid-sized insureds or to members of trade associations or other groups that includes general liability insurance and commercial property insurance.

- *Automobile*: consists of physical damage and liability coverage. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft or other causes. Automobile liability insurance covers bodily injury of others, damage to their property and costs of legal defense resulting from a collision caused by the insured.

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

· *General liability*: covers businesses for any liability resulting from bodily injury and property damage arising from its general business operations, accidents on its premises and the products it manufactures or sells. Umbrella: supplements existing insurance policies by covering losses from a broad range of insurance risks in excess of coverage provided by the primary insurance policy up to a specified limit.

· *Property*: covers losses to a business' premises, inventory and equipment as a result of weather, fire, theft and other causes.

· *Excess and surplus property*: provides excess property coverage against certain damages over and above those covered by primary policies or a large self-insured retention.

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

· *Package*: consists of combination policies offering property and liability coverage.

For the years ended December 31, 2006, 2005 and 2004, commercial lines net written premiums were as follows:

Commercial lines net written premiums	**Year Ended December 31,**		
Millions	**2006**	**2005**	**2004**
Middle market excluding OBSP	**$ 564.8**	$ 531.6	$ 699.3
OBSP	**51.2**	43.6	19.7
Total middle market	**616.0**	575.2	719.0
Small business	**102.3**	79.2	107.8
Total commercial lines	**$ 718.3**	$ 654.4	$ 826.8

Personal lines

OneBeacon's personal lines underwriting unit provides homeowners insurance, segmented private passenger automobile and package policies (package products are combination policies offering home and automobile coverage with optional umbrella, boatowners and other coverages) sold through select independent agents.

In 2004, OneBeacon created a highly segmented product suite, called OneChoice, under which it is able to offer the appropriate risk-adjusted product and pricing to its customers. OneChoice is a multi-tiered product suite that enables OneBeacon to offer a broader range of coverages to a full spectrum of customers through more sophisticated pricing models that have a greater statistical correlation between historical loss experience and price than traditional pricing models. This product suite offers both automobile and homeowners coverages as well as package policies. OneChoice products rely on multiple, objective pricing tiers and rules-based underwriting that enable agents to offer OneBeacon solutions to a broad array of its customers and increase OneBeacon's penetration in existing and new markets. OneBeacon regularly refines its product features and rating plans to optimize target market production. OneBeacon offers an integrated web-based platform available either through its dedicated agent portal or through real-time comparative rating engines.

Within OneBeacon's personal lines underwriting unit, OneBeacon also provides management services for a fee to three reciprocal insurance exchanges ("reciprocals") that OneBeacon has created and capitalized by lending the reciprocals money in exchange for surplus notes. Reciprocals are not-for-profit, policyholder-owned insurance carriers organized as unincorporated associations. As required by GAAP, White Mountains' consolidated financial statements reflect the consolidation of these reciprocals (See **Note 15 - "Variable Interest Entities").**

In 2002, OneBeacon formed New Jersey Skylands Management LLC to provide management services for a fee to New Jersey Skylands Insurance Association, a reciprocal, and its wholly owned subsidiary New Jersey Skylands Insurance Company, (collectively, "New Jersey Skylands Insurance"). New Jersey Skylands Insurance began writing personal automobile coverage for new customers in August 2002. During 2004, OneBeacon formed Houston General Insurance Management Company to provide management services for a fee to another reciprocal, Houston General Insurance Exchange. Houston General Insurance Exchange commenced writing business in Arizona, South Carolina and Texas in November 2005, June 2006 and October 2006, respectively, using the full suite of OneChoice products (auto, home and package). In 2006, Adirondack AIF, LLC, a wholly owned subsidiary of OneBeacon, entered into an agreement to provide management services for a fee to Adirondack Insurance Exchange, which was approved to write business in New York. OneBeacon has no ownership interest in New Jersey Skylands Insurance, Houston General Insurance Exchange or Adirondack Insurance Exchange.

OneBeacon's personal lines products include:

· *Automobile:* consists of physical damage and liability coverage. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft or other causes. Automobile liability insurance covers bodily injury of others, damage to their property and costs of legal defense resulting from a collision caused by the insured.

· *Homeowners:* covers losses to an insured's home, including its contents, as a result of weather, fire, theft and other causes and losses resulting from liability for acts of negligence by the insured or the insured's immediate family. OneBeacon also offers identity theft resolution assistance and identity theft expense reimbursement coverage as part of its homeowners policies.

· *Package:* consists of customized combination policies offering home and automobile coverage with optional umbrella and boatowners coverage.

OneBeacon's personal lines underwriting unit also includes AutoOne. Formed in 2001, AutoOne is a market leader in "assigned risk" business in New York. Assigned risk plans provide automobile insurance for individuals unable to secure coverage in the voluntary market. Insurance carriers are obliged to accept future assignments from state assigned risk pools as a condition of maintaining a license to write automobile business in the state. However, carriers may satisfy their assigned risk obligation by transferring their assignments to another insurer or by utilizing various "credits" (i.e. take-out, territorial and youthful driver credits). AutoOne offers services known as Limited Assigned Distribution, or LAD, and Commercial Limited Assigned Distribution, or CLAD, and credit programs to insurance carriers. While AutoOne was able to expand its product offerings to an additional 12 states in the first quarter of 2006, its overall volume of business is shrinking due to an expanding voluntary market in New York and New Jersey, where the majority of AutoOne's assigned risk business is generated. AutoOne now provides 28 LAD and CLAD programs in 22 states where assigned risk obligations may be assumed by a servicing carrier under a negotiated fee arrangement.

AutoOne also writes "voluntary take-out business" (policies "taken out" of the assigned risk pool and written in the voluntary market) by selecting policies from the assigned risk business it manages for its clients and from select insurance brokers that replace their clients assigned risk policy with an AutoOne policy. AutoOne receives credits for all policies taken out of the assigned risk plan which it can use either to reduce its future assigned risk obligations, or to sell to other carriers that can use the credits to reduce their own quota obligations. In 2006, AutoOne wrote more take-out business than all other carriers in New York combined and all of its take-out credits were sold to other carriers or used internally to reduce OneBeacon's own assigned risk quota obligation.

For the years ended December 31, 2006, 2005 and 2004, personal lines net written premiums were as follows:

Personal lines net written premiums	**Year Ended December 31,**		
Millions	**2006**	**2005**	**2004**
Traditional excluding reciprocals	**$ 492.7**	$ 618.8	$ 724.7
Reciprocals	**93.2**	43.5	75.5
Traditional personal lines	**585.9**	662.3	800.2
AutoOne	**222.6**	248.8	275.3
Other(1)	**(7.9)**	(.9)	(12.2)
Total personal lines	**$ 800.6**	$ 910.2	$ 1,063.3

(1) Represents elimination between traditional personal lines and AutoOne.

Geographic Concentration

OneBeacon's net written premiums are derived solely from business produced in the United States. Business from specialty, personal and commercial lines was produced in the following states:

Specialty, personal and commercial net written premiums by state	**Year Ended December 31,**		
	2006	**2005**	**2004**
New York	**27%**	27%	30%
Massachusetts	**17**	17	17
California	**9**	7	8
New Jersey	**8**	9	9
Maine	**6**	6	6
Connecticut	**5**	5	5
Other(1)	**28**	29	25
Total	**100%**	100%	100%

(1) No individual state is greater than 3% of specialty, personal and commercial net written premiums for the years ended December 31, 2006, 2005 and 2004.

Marketing

OneBeacon offers its products through a network comprised of independent insurance agents, regional and national brokers and wholesalers. OneBeacon's distribution relationships consist of approximately 2,800 select agencies and brokers. No agency or broker produced more than 3% of OneBeacon's direct written premiums during 2006.

OneBeacon's specialty lines businesses are managed from locations logistically appropriate to their target markets. OBPP is based in Avon, Connecticut and distributes its products through select national and regional brokers and agents. IMU is headquartered in New York City and operates through nine branch locations throughout the United States. Its products are distributed through a network of select agents that specialize in marine business. Dewar's affiliate, A.W.G. Dewar Agency, is headquartered in Quincy, Massachusetts and distributes tuition refund products to independent schools and colleges throughout North America.

OneBeacon distributes its commercial and personal lines products through select independent insurance agents, except for products sold by OBSP and AutoOne. OBSP's excess property solutions are provided primarily through surplus lines wholesalers. In New York, AutoOne generates take-out credits by writing policies through select insurance brokers that were previously in the New York Automobile Insurance Plan, or NYAIP, and sells these credits to insurance companies subject to NYAIP assignments. AutoOne markets its LAD and CLAD services and New York take-out credits directly to insurance carriers seeking assigned risk solutions.

OneBeacon protects the integrity of its franchise value by selectively appointing agents in those areas where it conducts business. OneBeacon believes that independent insurance agents provide more complete assessments of clients' needs, which results in more appropriate coverages and prudent risk management. OneBeacon also believes that independent agents will continue to be a significant force in overall industry premium production as well as facilitate the cross-selling of specialty, commercial and personal business products.

OneBeacon's top performing agencies have been designated as Lighthouse Partners, a program designed to strengthen these priority relationships and build those books of business. This program was introduced in the second quarter of 2006 and provides enhanced benefits such as priority handling of accounts, access to OneBeacon's entire franchise of products, preferred profit-sharing opportunities, and priority access to OneBeacon's producer development school and co-op advertising. There were 98 agencies with this designation in 2006. These agencies represent fewer than five percent of OneBeacon's overall agency plant but write approximately 22 percent of OneBeacon's business and over 25 percent of OneBeacon's new business. OneBeacon believes that its Lighthouse Partners are the core of its distribution and marketing system and that this deeper mutual commitment will benefit both these agencies and OneBeacon.

Underwriting and Pricing

OneBeacon believes there must be a realistic expectation of attaining an underwriting profit on all the business it writes, as well as a demonstrated fulfillment of that expectation overtime. Adequate pricing is a critical component for achieving an underwriting profit. OneBeacon will underwrite its book with a disciplined approach towards pricing its insurance products and is willing to forgo a business opportunity if it believes that the opportunity is not priced appropriately to the exposure.

Specialization — or a heightened focus on certain customer groups and/or geographies through products, pricing and expertise — is a key driver of OneBeacon's strategy in specialty lines and is being extended into OneBeacon's commercial and personal businesses. The proprietary knowledge OneBeacon develops regarding the industry, class and risk characteristics provides it with a competitive edge for its terms and conditions on individual accounts. OneBeacon believes that specialization will result in superior returns as compared to a more "generalist" underwriting approach.

OneBeacon has used tiered rating plans since 2003 in both its commercial and personal lines. Doing so permits it to offer more tailored price quotes to its customers based on underwriting criteria applicable to each tier. As a result, OneBeacon now has the flexibility to renew expiring policies into the appropriate tier rather than being forced to choose to either renew the policy at the same base rate or cancel the policy. The enhanced accuracy and precision of OneBeacon's rate plans enable it to more confidently price its products to the exposure, and thereby permits its agency partners to deliver solutions to a broader range of customers.

OneBeacon also monitors pricing activity on a weekly basis and regularly measures usage of tiers, credits, debits and limits. In addition, OneBeacon regularly updates base rates to achieve targeted returns on surplus and attempts to shift writings away from lines and classes where pricing is inadequate. To the extent changes in premium rates, policy forms or other matters are subject to regulatory approval, OneBeacon proactively monitors its pending regulatory filings to facilitate, to the extent possible, their prompt processing and approval. Lastly, OneBeacon expends considerable effort to measure and verify exposures and insured values.

Competition

Property and casualty insurance is highly competitive. In specialty lines, OneBeacon competes with numerous regional and national insurance companies, most notably The Chubb Corporation, American International Group, The St. Paul Travelers Companies and CNA Financial Corporation. In commercial and personal lines, OneBeacon competes with numerous regional and national insurance companies, most notably The St. Paul Travelers Companies, Inc., Zurich Financial Services Group, CNA Financial Corporation, Hartford Financial Services Group, Inc., The Hanover Insurance Group, Inc., W.R. Berkley Corporation, The Chubb Corporation, The Progressive Corporation, Allstate Insurance Company and Liberty Mutual Insurance Company ("Liberty Mutual"). The more significant competitive factors for most insurance products OneBeacon offers are price, product terms and claims service. OneBeacon's underwriting principles and dedication to independent agency distribution are unlikely to make it the low-cost provider in most markets. However, while it is often difficult for insurance companies to differentiate their products to consumers, OneBeacon believes that its dedication to providing superior product offerings, expertise and local talent, claims service and disciplined underwriting provide a competitive advantage over typical low-cost providers.

Claims Management

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

Claims are separately organized by specialty, commercial, personal and run-off operations. This approach allows OneBeacon to better identify and manage claims handling costs. In addition, a shared service unit manages costs related to both staff and vendors. OneBeacon takes a total claims cost management approach that gives equal importance to controlling claims handling expenses, legal expenses and claims payments, enabling it to lower the sum of the three. This approach requires the utilization of approximately fifty metrics to monitor the effectiveness of various programs implemented to lower total loss cost. The metrics are designed to guard against the implementation of an expense containment program that will cost OneBeacon more than it expects to save. As an example, an internal legal bill audit team has contributed to savings by reducing legal invoices submitted by outside counsel.

OneBeacon's claims department utilizes a claims workstation that records reserves, payments and adjuster activity and assists each claim handler in evaluating bodily injury claims, determining liability and identifying fraud. OneBeacon's commitment and performance in fighting insurance fraud has reduced claim costs and aided law enforcement investigations. Under its staff counsel program, OneBeacon's in-house attorneys defend the majority of new lawsuits, which has resulted in savings when compared to the cost of using outside counsel. In addition, OneBeacon's internal legal bill audit team has contributed to savings by reducing the amounts paid to outside counsel.

Most of OneBeacon's claims for run-off operations are handled by in-house adjusters. Calendar year reported claims in OneBeacon's run-off operations have decreased to 1,700 in 2006 compared to 3,400 in 2005 and 5,900 in 2004, in part due to the lapse of time and the nature of run-off operations. These levels of reported claims are down from 202,000 in 2002 and 64,800 in 2003. Total open claims for run-off operations were 7,300 at December 31, 2006 compared to 10,200 at December 31, 2005, a 28% reduction, which reflects the success of OneBeacon's focus on settling claims from its run-off operations. Total open claims for run-off operations were 14,600 in 2004 and 33,000 in 2003. These numbers included all of the claims that were previously handled by Liberty Mutual as a Third Party Administrator ("TPA").

In connection with the purchase of OneBeacon by White Mountains in 2001, to help protect against potential asbestos and environmental claims relating to the pre-acquisition period, OneBeacon purchased a reinsurance contract (the "NICO Cover") from the National Indemnity Company ("NICO"). See the discussion in the **"Reinsurance Protection"** section below. NICO has retained a TPA, Resolute New England ("Resolute", formerly Cavell USA), to manage the claims processing for asbestos and environmental claims reinsured under the NICO Cover. OneBeacon's claims department personnel are consulted by NICO and Resolute on major claims. As with all TPAs, claims department personnel perform claim audits on Resolute to ensure their controls, processes and settlements are appropriate. For more information regarding OneBeacon's A&E exposures, see the "Asbestos and Environmental Reserves" discussion included in **"CRITICAL ACCOUNTING ESTIMATES"** in **"Management's Discussion and Analysis of Financial Condition and Results of Operations"**.

Terrorism

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

On December 22, 2005, the United States government extended the Terrorism Act, which was set to expire on December 31, 2005, for two more years. The Terrorism Act, originally enacted on November 26, 2002, established a Federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. The law limits the industry's aggregate liability by requiring the Federal government to share 85% of certified losses in 2007 once a company meets a specific retention or deductible as determined by its prior year's direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at $100.0 billion. In exchange for this "back-stop," primary insurers are required to make coverage available to commercial insureds for losses from acts of non-domestic terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage.

OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $162 million in 2007. The aggregate industry retention level is $27.5 billion in 2007. The Federal government will pay 85% of covered terrorism losses that exceed OneBeacon's or the industry's retention levels in 2007 up to a total of $100 billion.

The catastrophe reinsurance protection that OneBeacon currently has obtained provides coverage for "non-certified" events as defined under the Terrorism Act, provided such losses are not the result of a nuclear, biological or chemical attack. See the discussion in the **"Reinsurance Protection"** section below for a further description of OneBeacon's catastrophe program.

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

Reinsurance Protection

In the ordinary course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third party reinsurers in order to minimize loss from large risks or catastrophic events.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon's operating results and financial position. Examples of catastrophes include losses caused by hurricanes, earthquakes, wildfires and other types of storms and terrorist acts. The extent of losses caused by catastrophes is both a function of the amount and type of insured exposure in an area affected by the event and the severity of the event. OneBeacon uses models (primarily AIR V.8) to estimate losses its exposures would generate under various scenarios as well as the probability of those losses occurring. OneBeacon uses this model output in conjunction with other data to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas, such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures. OneBeacon believes that its largest single event natural catastrophe exposures are Northeastern United States windstorms and California earthquakes.

OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective July 1, 2006, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2007. Under that cover, the first $200 million of losses resulting from any single catastrophe are retained by OneBeacon and losses from a single event in excess of the first $200 million and up to $850 million are reinsured for 100% of the loss. OneBeacon anticipates this $850 million limit is sufficient to cover Northeast windstorm losses with a 0.4%-0.5% probability of occurrence (1-in-250-year event to 1-in-200-year event). In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is automatically reinstated for the remainder of the original contract term for a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

OneBeacon's property catastrophe reinsurance program does not cover personal or commercial property losses resulting from nuclear, biological or chemical terrorist attacks. The program covers personal property losses resulting from "certified" events as defined under the Terrorism Act, such as foreign terrorism, provided such losses were not caused by nuclear biological or chemical means. The program also covers personal and commercial property losses

resulting from “non-certified” events as defined under the Terrorism Act, such as domestic terrorist attacks, provided such losses were not caused by nuclear, biological or chemical means.

OneBeacon also purchases individual property reinsurance coverage for certain risks to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of $5 million up to $75 million. Individual risk facultative reinsurance may be purchased above $75 million where OneBeacon deems it appropriate. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of $10 million up to $75 million on an individual risk basis for terrorism losses. However, nuclear, biological and chemical events are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual risk or catastrophe losses involving workers compensation, general liability, automobile liability or umbrella liability in excess of $6 million up to $81 million. This program provides coverage for either “certified” or “non-certified” terrorism losses but does not provide coverage for losses resulting from nuclear, biological or chemical attacks.

In 2001, OneBeacon purchased reinsurance contracts with two reinsurance companies rated “AAA” (“Extremely Strong”, the highest of twenty-one ratings) by Standard & Poor’s and “A++” (“Superior”, the highest of fifteen ratings) by A.M. Best. One contract is a reinsurance cover with NICO which entitles OneBeacon to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to A&E claims arising from business written by OneBeacon’s predecessor prior to 1992 for asbestos claims and 1987 for environmental claims. As of December 31, 2006, OneBeacon has ceded estimated incurred losses of approximately $2.1 billion to the NICO Cover. The other contract is a reinsurance cover with General Reinsurance Corporation, or GRC, for up to $570 million of additional losses on all claims arising from accident years 2000 and prior. As of December 31, 2006, OneBeacon has ceded estimated incurred losses of $550 million to the GRC Cover. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting the recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its investments. This cost, if any, is expected to be small.

Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectibility of balances due from reinsurers is critical to its financial strength. See **Note 4 - “Third Party Reinsurance”** in the accompanying Consolidated Financial Statements for a discussion of the largest balances due from OneBeacon’s reinsurers.

Loss and Loss Adjustment Expense Reserves

OneBeacon establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See **“CRITICAL ACCOUNTING ESTIMATES”** in **“Management’s Discussion and Analysis of Financial Condition and Results of Operations”** for a full discussion regarding OneBeacon’s loss reserving process.

The following information presents (1) OneBeacon’s reserve development over the preceding ten years and (2) a reconciliation of reserves in accordance with accounting principles and practices prescribed or permitted by insurance authorities (“Statutory” basis) to such reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

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

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2006. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2006. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2006.

OneBeacon Loss and LAE(1), (3), (4)
Years Ended December 31,

($ in millions)	1996	1997	1998(2)(5)	1999	2000	2001	2002	2003	2004	2005	2006
I. Liability for unpaid losses and LAE: Gross balance	$ 5,804.4	$ 5,655.9	$ 6,869.5	$ 6,276.0	$ 6,875.4	$ 8,320.2	$ 7,507.0	$ 6,109.0	$ 5,328.2	$ 5,713.4	$ 5,108.2
Less: reins. recoverables on unpaid losses and LAE	(1,260.4)	(1,159.2)	(1,641.0)	(1,262.7)	(1,252.1)	(3,591.5)	(3,534.4)	(2,954.8)	(2,670.9)	(3,382.0)	(3,079.7)
Net balance	$ 4,544.0	$ 4,496.7	$ 5,228.5	$ 5,013.3	$ 5,623.3	$ 4,728.7	$ 3,972.6	$ 3,154.2	$ 2,657.3	$ 2,331.4	$ 2,028.5
II. Cumulative net amount of liability paid through											
1 year later	1,594.8	1,684.3	1,784.3	1,938.1	1,965.3	1,851.6	1,610.2	1,421.1	1,146.7	1,004.6	—
2 years later	2,621.3	2,732.5	2,908.5	3,065.1	3,153.0	3,039.5	2,764.2	2,274.5	1,833.5		
3 years later	3,331.1	3,515.0	3,643.7	3,824.9	3,984.7	3,963.6	3,489.6	2,809.9			
4 years later	3,872.2	4,028.8	4,061.7	4,330.3	4,596.8	4,529.5	3,941.0				
5 years later	4,225.0	4,282.8	4,353.7	4,666.9	4,957.3	4,876.0					

6 years later	4,398.1	4,464.4	4,555.9	4,887.2	5,194.4						
7 years later	4,516.6	4,584.6	4,701.7	5,044.7							
8 years later	4,609.4	4,694.6	4,801.6								
9 years later	4,691.3	4,767.3									
10 years later	4,743.9										
III. Net liability re-estimated as of:											
1 year later	4,627.8	5,370.1	5,237.1	5,829.0	4,730.8	4,781.3	4,110.3	3,253.4	2,763.2	2,354.3	—
2 years later	5,476.0	5,424.7	5,916.1	4,942.0	4,824.2	5,059.4	4,227.0	3,380.4	2,765.5		
3 years later	5,549.0	5,965.0	4,929.6	4,927.0	5,294.3	5,143.8	4,344.8	3,396.2			
4 years later	5,924.8	4,980.5	4,857.5	5,221.8	5,336.0	5,222.8	4,365.1				
5 years later	4,948.0	4,911.8	5,042.9	5,165.8	5,383.6	5,244.3					
6 years later	4,900.4	5,069.3	4,929.1	5,197.2	5,385.8						
7 years later	5,028.9	4,902.3	4,936.5	5,169.2							
8 years later	4,867.4	4,910.2	4,902.9								
9 years later	4,868.0	4,881.2									
10 years later	4,836.4										
IV. Cumulative net (deficiency)/ redundancy	$ (292.4)	$ (384.5)	$ 325.6	$ (155.9)	$ 237.5	$ (515.6)	$ (392.5)	$ (242.0)	$ (108.2)	$ (22.9)	—
Percent (deficient)/redundant	(6.4)%	(8.6)%	6.2%	(3.1)%	4.2%	(10.9)%	(9.9)%	(7.7)%	(4.1)%	(1.0)%	—
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see I. above):											
Gross re-estimated liability	8,926.8	8,891.2	9,385.1	9,376.8	9,560.0	9,852.4	8,918.1	7,266.3	6,269.1	5,756.8	—
Less: gross re-estimated reinsurance recoverable	(4,090.4)	(4,010.0)	(4,482.2)	(4,207.6)	(4,174.2)	(4,608.1)	(4,553.0)	(3,870.1)	(3,503.6)	(3,402.5)	—
Net re-estimated liability	$ 4,836.4	$ 4,881.2	$ 4,902.9	$ 5,169.2	$ 5,385.8	$ 5,244.3	$ 4,365.1	$ 3,396.2	$ 2,765.5	$ 2,354.3	—
VI. Cumulative gross (deficiency)/redundancy	$ (3,122.4)	$ (3,235.3)	$ (2,515.6)	$ (3,100.8)	$ (2,684.6)	$ (1,532.2)	$ (1,411.1)	$ (1,157.3)	$ (940.9)	$ (43.4)	—
Percent (deficient)/redundant	(53.8)%	(57.2)%	(36.6)%	(49.4)%	(39.0)%	(18.4)%	(18.8)%	(18.9)%	(17.7)%	(.8)%	—

(1) In 1998, Commercial General Union ("CGU"), the predecessor company to OneBeacon, was formed as a result of a pooling of interests between Commercial Union Corporation and General Accident Corporation of America. All historical balances have been restated as though the companies had been merged throughout the periods presented.
(2) CGU acquired Houston General Insurance Company ("HGIC") in 1998. In 2005, OneBeacon contributed HGIC to Houston General Insurance Exchange. Even though no longer owned by OneBeacon, all liabilities related to this entity continue to be shown from 1998 forward in this table because GAAP continues to require it to be consolidated by OneBeacon.
(3) This table reflects the effects of the NICO Cover and the GRC Cover as if they had been in effect for all periods presented.
(4) OneBeacon became a wholly-owned subsidiary of White Mountains during 2001. Reserve development for the years ended 1995 through 2000 reflects development on reserves established before White Mountains consolidated OneBeacon's results.
(5) OneBeacon acquired NFU in 1998 and sold it during 2005. All liabilities related to this entity are shown from 1998 through 2004.

The cumulative net (deficiency)/redundancy in the table above reflects reinsurance recoverables recorded in connection with the OneBeacon Acquisition under the NICO Cover and the GRC Cover. See **Note 4- "Third Party Reinsurance"** in the accompanying Consolidated Financial Statements for a description of the NICO Cover and the GRC Cover. These covers apply to losses incurred in 2000 and prior years. As a result, they have the effect of significantly increasing OneBeacon's reinsurance recoverables in 2001 and 2002 and reducing its reserve deficiency for each of the years presented prior to the OneBeacon Acquisition by the amount of the reserves ceded at the time these covers were purchased. See **"Asbestos and Environmental Reserves"** under **"CRITICAL ACCOUNTING ESTIMATES"** in **"Management's Discussion and Analysis of Financial Condition and Results of Operations"** for a discussion of the impact of the NICO Cover on OneBeacon's net loss and LAE reserve position.

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

	December 31,		
Millions	**2006**	**2005**	**2004**
Statutory reserves	**$ 3,863.9**	$ 4,253.4	$ 4,413.4
Reinsurance recoverable on unpaid losses and LAE(1)	**1,280.5**	1,455.2	1,046.8
Reserves allocated from other segments, net	**—**	41.6	44.5
Purchase accounting	**(270.5)**	(317.5)	(361.5)
Other(2)	**(36.2)**	(36.8)	(29.2)
GAAP reserves	**$ 4,837.7**	$5,395.9	$5,114.0

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under Statutory accounting.
(2) Primarily represents long-term workers compensation loss and LAE reserve discount recorded of $36.2 million, $36.8 million and $36.1 million in 2006, 2005 and 2004 in excess of statutorily defined discount.

OneBeacon's Intermediate Holding Companies

OneBeacon's intermediate holding companies include Fund American Enterprises Holdings, Inc. ("FAEH") and Fund American Companies, Inc. ("Fund American"), both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda.

In May 2003, Fund American issued $700 million face value of senior unsecured debt through a public offering, at an issue price of 99.7% (the "Senior Notes"). The Senior Notes bear an annual interest rate of 5.9% until maturity in May 2013. Pursuant to the offering of the Senior Notes, White Mountains fully and unconditionally guaranteed the payment of principal and interest on the Senior Notes. Following the OneBeacon Offering, White Mountains continues to guarantee the payment of principal and interest on the Senior Notes. OneBeacon Ltd. pays White Mountains a guarantee fee equal to 25 basis points per annum on the outstanding principal amount of the Senior Notes. If White Mountains' voting interest in OneBeacon Ltd.'s common shares ceases to represent more than 50% of all their voting securities, OneBeacon Ltd. will seek to redeem, exchange or otherwise modify the senior notes in order to fully and permanently eliminate White Mountains' obligations under its guarantee. In the event that White Mountains' guarantee is not eliminated, the guarantee fee will increase over time up to a maximum of 450 basis points.

As part of the financing for the OneBeacon Acquisition, Berkshire Hathaway Inc. ("Berkshire") invested a total of $300 million in cash, of which (1) $225 million was for the purchase of cumulative non-voting preferred stock of Fund American (the "Berkshire Preferred Stock"), which has a $300 million redemption value; and (2) $75 million was for the purchase of warrants to acquire 1,724,200 common shares of the Company. The Berkshire Preferred Stock is entitled to a dividend of no less than 2.35% per quarter and is mandatorily redeemable on May 31, 2008. During 2004, Berkshire exercised its warrants for $294 million in cash.

Also as part of the financing of the OneBeacon Acquisition, Zenith Insurance Company ("Zenith") purchased $20 million in cumulative non-voting preferred stock of FAEH (the "Zenith Preferred Stock"). The Zenith Preferred Stock is entitled to a dividend of no less than a 2.5% per quarter through June 30, 2007 and a dividend of no less than 3.5% per quarter thereafter. The Zenith Preferred Stock is mandatorily redeemable on May 31, 2011. At White Mountains' option, which it expects to exercise, the Zenith Preferred Stock may be redeemed on June 30, 2007.

In connection with the OneBeacon Offering, Fund American and FAEH each established an irrevocable grantor trust to economically defease the Berkshire Preferred Stock and the Zenith Preferred Stock. The assets of each trust are solely dedicated to the satisfaction of the payment of dividends and redemption amounts on the $300 million

liquidation preference of the Berkshire Preferred Stock and the $20 million liquidation preference of the Zenith Preferred Stock. Concurrently with the closing of the OneBeacon Offering, Fund American and FAEH funded their respective trust with cash that was used to purchase a portfolio of fixed maturity securities issued by the U.S. government or government-sponsored enterprises. The scheduled interest and principal payments of the portfolio of fixed maturity securities in each trust is sufficient to pay when due all amounts required under the terms of the Berkshire Preferred Stock and the Zenith Preferred Stock, including the mandatory redemption of the Berkshire Preferred Stock in May 2008 and the optional redemption of the Zenith Preferred Stock in June 2007.

In connection with the OneBeacon Offering, Fund American established a $75 million revolving credit facility that matures in November 2011 (the "FAC Bank Facility"). As of December 31, 2006, the FAC Bank Facility was undrawn.

WHITE MOUNTAINS RE

White Mountains Re is a global multi-line reinsurance organization that provides reinsurance for property, liability, accident & health, aviation and certain marine exposures on a worldwide basis through its subsidiaries, Folksamerica Re and Sirius International. Folksamerica Re is a multi-line property and casualty reinsurer that provides reinsurance primarily in the United States, Canada, Continental Europe, Latin America, the Caribbean and Japan. Sirius International, which is the largest reinsurance company domiciled in Scandinavia based on gross written premiums, is a multi-line property and casualty reinsurer that provides reinsurance primarily in Europe, North America and Asia.

WMRUS provides reinsurance underwriting advice and reinsurance portfolio analysis services to Sirius, Folksamerica, Olympus Reinsurance Company Ltd. ("Olympus") and Helicon Reinsurance Company, Ltd. ("Helicon"). As White Mountains Re's "center of excellence" for property catastrophe risk evaluation, its goal is to promote increased efficiencies, consistency in pricing and underwriting methodology, centralized management of catastrophe exposures and advanced catastrophe modeling, as well as value-added services for intermediaries and clients. In exchange for these services, WMRUS receives fee income on the business it refers.

White Mountains Re has offices in Belgium, Bermuda, Chicago, Connecticut, Dublin, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich.

At December 31, 2006 and 2005, White Mountains Re had $7.3 billion and $8.5 billion of total assets and $2.1 billion and $1.9 billion of shareholder's equity, respectively. Folksamerica Re is rated "A-" (Excellent, the fourth highest of fifteen ratings) by A.M. Best and "A-" (Strong, the seventh highest of twenty-one ratings) by Standard & Poor's. Sirius International is rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best and "A-" (Strong, the seventh highest of twenty-one ratings) by Standard & Poor's.

White Mountains Re has completed several significant transactions involving interests in other insurance and reinsurance organizations. In most cases the transactions were acquisitions of entities that were owned by organizations that no longer considered them core businesses. Since 2000, White Mountains Re has completed the following significant transactions in addition to the Sirius Acquisition:

- On December 22, 2006, White Mountains Re acquired Mutual Service Casualty Insurance Company ("Mutual Service"), a Minnesota-domiciled, runoff insurer for $34 million in cash. Mutual Service has been renamed Stockbridge Insurance Company ("Stockbridge") as part of a sponsored demutualization and conversion to a stock company and was formerly affiliated with Illinois-based Country Insurance & Financial Services ("Country"). As part of the transaction, Country has provided Stockbridge with approximately $25 million of reinsurance protection in excess of Stockbridge's carried reserves as of September 30, 2006. White Mountains Re did not acquire any infrastructure or employees and is managing Stockbridge's run-off administration through the use of a TPA under White Mountains Re's direction.

- On August 2, 2006, White Mountains Re sold Sirius America to an investor group led by Lightyear Capital for $139 million in cash. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity and accounts for its remaining interest in Sirius America on the equity method within its Other Operations segment.

- On November 11, 2004, Sirius International acquired Denmark-based Tryg-Baltica Forsikring, internationalt forsikringsselskab A/S ("Tryg-Baltica"). Following the closing, White Mountains Re placed Tryg-Baltica into run-off, with select business renewed by Sirius International. White Mountains Re did not acquire any infrastructure or employees and is managing the company's run-off administration.

- On March 31, 2004, Folksamerica acquired the Sierra Insurance Group companies (the "Sierra Group"). Subsequent to the acquisition, the Sierra Group companies, which previously wrote mainly workers compensation business, were placed into run-off and all of the acquired companies' run-off claims administration was transferred to TPAs working under White Mountains Re's direction.

- Effective October 1, 2003, White Mountains Re acquired renewal rights to the property and casualty treaty reinsurance business of CNA Reinsurance ("CNA Re"), a division of CNA Financial Corporation (the "CNA Re Agreement"). Under the terms of the CNA Re Agreement, White Mountains Re paid CNA Re a renewal commission on the premiums renewed over the two contract renewal periods subsequent to October 1, 2003.

- In 2002, Folksamerica acquired Imperial Casualty and Indemnity Insurance Company, a company in run-off.

- In 2001, White Mountains Re acquired substantially all of the international reinsurance operations of Folksam International Insurance Company and Folksamerica acquired C-F Insurance Company, a company in run-off.

- In 2000, Folksamerica acquired substantially all the reinsurance operations of Risk Capital Reinsurance Company ("Risk Capital") and PCA Property & Casualty Insurance Company ("PCA"), a company in run-off.

Reinsurance Overview

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

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

A significant period of time normally elapses between the receipt of reinsurance premiums and the payment of reinsurance claims. While premiums are generally paid to the reinsurer upon inception of coverage, the claims process is delayed and generally begins upon the occurrence of an event causing an insured loss followed by: (1) the reporting of the loss by the insured to the ceding company; (2) the reporting of the loss by the ceding company to the reinsurer; (3) the ceding company's adjustment and payment of the loss; and (4) the payment to the ceding company by the reinsurer. During this time, reinsurers generate investment income on premium receipts, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities. The period of time between the receipt of premiums and the payment of claims is typically longer for a reinsurer than for a primary insurer. This delay is less significant for companies that write large volumes of short-tailed coverage, such as property.

Classes of Business

White Mountains Re writes three main classes of reinsurance: property, liability and specialty. White Mountains Re's net written premiums by class of business for the years ended December 31, 2006, 2005 and 2004 were as follows:

Business class Millions	Year Ended December 31, 2006	 2005	 2004
Property	**$ 572.6**	$ 567.4	$ 432.1
Liability	**293.1**	403.4	524.5
Specialty(1)	**424.2**	333.3	289.7
Total	**$ 1,289.9**	$ 1,304.1	$ 1,246.3

(1) Includes primarily accident & health, marine and aviation business.

The majority of White Mountains Re's premiums are derived from reinsurance contracts both on a quota share and an excess of loss basis, which in 2006 amounted to 47% and 38%, respectively, of its total net written premiums, while primary business represented 15% of total net written premium.

During the years ended December31, 2006, 2005 and 2004, White Mountains Re received no more than 10% of its gross reinsurance premiums from any individual ceding company. During the years ended December 31, 2006, 2005 and 2004, White Mountains Re received approximately 52%, 40% and 51%, respectively, of its gross reinsurance written premiums from three major, third-party reinsurance intermediaries as follows: (1) AON Re — 24%, 18% and 22%, respectively; (2) Benfield — 16%, 14% and 16%, respectively; and (3) Guy Carpenter — 12%, 8% and 13%, respectively.

Geographic Concentration

White Mountains Re's net written premiums by geographic region for the years ended December 31, 2006, 2005 and 2004 were as follows:

Geographic region Millions	Year Ended December 31, 2006	 2005	 2004
United States	**$ 864.7**	$ 878.9	$ 846.7
Europe	**314.4**	315.6	303.5
Canada, the Caribbean and Latin America	**37.8**	47.2	42.4
Asia and Other	**73.0**	62.4	53.7

Total	**$ 1,289.9**	$ 1,304.1	$ 1,246.3

Marketing

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

White Mountains Re pays ceding companies a ceding commission under most quota share reinsurance treaties and some excess of loss reinsurance treaties. The ceding commission is generally based on the ceding company's cost of acquiring and administering the business being reinsured (e.g., commissions, premium taxes and certain miscellaneous expenses). Additionally, White Mountains Re pays reinsurance intermediaries commissions based on negotiated percentages of the premium they produce. The reinsurance intermediaries' commissions constitute a significant portion of White Mountains Re's total acquisition costs.

Underwriting and Pricing

White Mountains Re has a long history of maintaining a disciplined underwriting strategy which, while considering overall exposure, focuses on writing more business when market terms and conditions are favorable and reducing business volume during soft markets when terms and conditions become less favorable. White Mountains Re also employs a multi-line approach, offering clients a wide range of reinsurance products to satisfy their risk management needs.

White Mountains Re derives its business from a broad spectrum of ceding companies, including national, regional, specialty and excess and surplus lines writers, both in the United States and internationally. White Mountains Re's underwriters and pricing actuaries perform reviews of the underwriting, pricing, and general underwriting controls of potential ceding companies before quoting contract terms for its reinsurance products. White Mountains Re prices its products by assessing the desired return on the expected capital needed to write a given contract and on the expected underwriting results of the contract. White Mountains Re's pricing indications are based on a number of underwriting factors including historical results, analysis of exposure and estimates of future loss costs, a review of other programs displaying similar exposure characteristics and the ceding company's underwriting and claims experience. White Mountains Re's underwriters, actuaries and claims personnel perform audits to monitor certain ceding companies' risk selection, pricing and claim handling discipline. Additionally, White Mountains Re's finance staff reviews the financial stability and creditworthiness of certain ceding companies. Such reviews provide important input to support underwriting decisions.

White Mountains Re and other reinsurance companies have sought to mitigate the risks associated with future terrorist attacks in a similar manner as primary insurers. Reinsurers do not have the stringent regulations with respect to contract terms and policy exclusions that are generally imposed on primary insurers. For example, the Terrorism Act is not applicable to reinsurers. As a result, terrorism exclusions on reinsurance contracts are dictated by the marketplace. White Mountains Re evaluates terrorism exposure from its ceding companies and applies exclusions as it deems appropriate. Reinsurance on commercial risks written by White Mountains Re subsequent to the Attacks generally contains clauses that exclude acts of terrorism certified under the Terrorism Act. Reinsurance on personal risks written by White Mountains Re subsequent to the Attacks generally contains exclusions related to nuclear, biological and chemical attacks.

Following the 2004 and 2005 catastrophe activity, White Mountains Re enhanced its catastrophe underwriting process by significantly raising its provision for demand surge (i.e., the rise in costs from shortages of material and labor in regions affected by a catastrophe) and by employing a more conservative methodology to evaluate exposure than those that result from standard actuarial and modeling techniques. Additionally, Folksamerica Re non-renewed its excess off-shore energy and marine business in the Gulf of Mexico effective January 1, 2006.

Claims Management

White Mountains Re maintains a staff of experienced reinsurance claim specialists that work closely with reinsurance intermediaries to obtain specific claims information from its customers. White Mountains Re's claims staff also regularly perform on-site claim reviews to assess certain reinsured's claim handling ability and reserving techniques. In addition, White Mountains Re's claims specialists review loss information provided by the reinsured for adequacy. The results of these claim reviews are shared with the underwriters and actuaries to assist them in pricing products and establishing loss reserves.

White Mountains Re also uses TPAs for certain other claims, including run-off claims related to certain acquisitions. White Mountains Re's claims staff performs on-site claim audits of certain TPAs to ensure the propriety of the controls and processes over claims serviced by the TPA.

Competition

The worldwide reinsurance market is highly competitive. Competition in the types of reinsurance that White Mountains Re underwrites is influenced by a variety of factors, including price and other terms and conditions offered, financial strength ratings, prior history and relationships, as well as expertise and the speed at which the company has historically paid claims.

White Mountains Re competes for reinsurance business in the United States, Bermuda, Europe, and other international reinsurance markets with numerous global competitors. White Mountains Re's competitors include reinsurance companies, and underwriting syndicates at Lloyd's. Some of the companies that White Mountains Re competes directly with include ACE Limited, Arch Capital Group Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., Hannover Ruckversicherung AG, Lloyd's of London, Munich Re Group, Partner Re Ltd., Platinum Underwriters Holdings Ltd., Renaissance Re Holdings Ltd., Swiss Re Group, Transatlantic Holdings, Inc. and XL Capital Ltd.

Catastrophe Risk Management

White Mountains Re has exposure to losses caused by hurricanes, earthquakes, winter storms, windstorms, terrorist acts and other catastrophic events. In the normal course of business, White Mountains Re regularly manages its concentration of exposures to catastrophic events, primarily by limiting concentrations of exposure to what it deems acceptable levels and, if necessary, purchasing reinsurance. In addition, White Mountains Re seeks terrorism exclusions in its reinsurance contracts, where applicable. White Mountains Re also uses third party global catastrophe models that calculate its expected probable maximum loss ("PML") from several possible catastrophes. White Mountains Re believes that its largest natural catastrophe exposures, net of reinsurance and based on a 250-year PML single event scenario, are European winter storm, California earthquake, United States Atlantic Coast windstorm (i.e., Delaware to Florida) and United States Gulf Coast windstorm (i.e., Florida to Texas).

White Mountains Re's catastrophe pricing models are based on third party software models and internally developed models. White Mountains Re models and assesses each property contract it writes for catastrophe exposure.

Catastrophe exposure modeling is inherently uncertain due to process risk (the probability and magnitude of the underlying event, e.g. earthquake) and parameter risk (the probability of making inaccurate modeling assumptions). In particular, geographic and policy coverage data on the primary policies reinsured by White Mountains Re is essential. Accordingly, White Mountains Re's ability to accurately predict its catastrophe exposure is dependent on the quality and accuracy of data obtained from its clients.

Additionally, catastrophe modeling is dependent upon several broad economic and scientific assumptions, such as storm surge (i.e., the water that is pushed toward the shore by the force of a windstorm), demand surge and zone density (i.e., the percentage of insured perils that would be affected in a region by a catastrophe).

While catastrophe models can be effective tools in assisting with the pricing and managing of property catastrophe exposures, White Mountains Re does not believe that they can be strictly relied upon to measure its exposure to catastrophic risk. For example, losses arising from Hurricane Katrina for both the industry and White Mountains Re were substantially in excess of losses previously predicted by third party models from such an event, due to issues such as inadequate storm surge and demand surge assumptions in the models as well as flood due to the levees breaking, which was not fully contemplated in these models. Correspondingly, White Mountains Re assesses catastrophe risk by monitoring total limits exposed to a catastrophe event in key zones. White Mountains Re has enhanced its operations in Bermuda to advise the group in the underwriting, pricing and managing of catastrophe risks assumed.

Reinsurance Protection

White Mountains Re's reinsurance protection is provided through Folksamerica Re's quota share retrocessional arrangements with Olympus and Helicon and through excess of loss protection purchased by Sirius to cover Sirius' property catastrophe and aviation exposures. These reinsurance protections are designed to increase White Mountains Re's underwriting capacity, where appropriate, and to reduce its potential loss exposure to any large or series of smaller catastrophe events.

Under White Mountains Re's 2006 arrangements with Olympus and Helicon, Folksamerica Re ceded 35% of its 2006 underwriting year short-tailed excess of loss business, mainly property and marine. Olympus and Helicon shared approximately 56% and 44%, respectively, in the 2006 underwriting year cession. Under White Mountains Re's 2005 arrangements with Olympus, Folksamerica Re ceded up to 75% of substantially all of its 2005 underwriting year short-tailed excess of loss business, mainly property and marine, and 50% of its 2005 underwriting year proportional property business and Sirius International ceded 25% of its 2005 underwriting year short-tailed proportional and excess of loss business. White Mountains Re received fee income based on premiums ceded to Olympus and Helicon. During 2007, Folksamerica Re will continue to cede 35% of its 2007 underwriting year short-tailed excess of loss business, mainly property and marine, with Olympus and Helicon sharing approximately 55% and 45%, respectively, in 2007.

White Mountains Re is also entitled to receive a profit commission with respect to the profitability of the business placed with Olympus and Helicon. However, this profit commission arrangement is subject to a deficit carryforward whereby net underwriting losses from one year carryover to future years. As a result of hurricanes Katrina, Rita and Wilma and several other significant loss events during 2005, Olympus recorded substantial net underwriting losses. Accordingly, White Mountains Re did not record a profit commission from Olympus or Helicon during 2006 or 2005 and does not expect to record profit commissions from Olympus or Helicon for the foreseeable future.

Reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies. Therefore, collectibility of balances due from its retrocessional reinsurers is critical to White Mountains Re's financial strength. See **Note 4 - "Third Party Reinsurance"** to the accompanying Consolidated Financial Statements for a discussion of White Mountains Re's top reinsurers.

Loss and Loss Adjustment Expense Reserves

White Mountains Re establishes reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. See **"CRITICAL ACCOUNTING ESTIMATES"** in **"Management's Discussion and Analysis of Financial Condition and Results of Operations"** for a full discussion regarding White Mountains Re's loss reserving process.

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

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

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2006. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2006. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2006.

The following table includes the complete loss development history for all periods presented for all companies acquired by White Mountains Re as if the companies had been combined from their inception.

This table includes development on reserves reported by acquired companies before those companies were acquired by White Mountains Re

White Mountains Re Loss and LAE (1), (2), (3), (4), (5)
Years Ended December 31,

($ in millions)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
I. Liability for unpaid losses and LAE:											
Gross balance	$ 2,364.1	$ 2,303.5	$ 2,439.7	$ 2,278.0	$ 3,151.2	$ 3,865.2	$ 3,819.4	$ 3,716.3	$ 3,864.3	$ 4,308.8	$ 3,708.8
Less: reins. recoverables on unpaid losses and LAE	(466.5)	(457.2)	(535.8)	(634.2)	(1,137.9)	(1,317.0)	(1,209.8)	(1,095.2)	(1,149.8)	(1,633.6)	(1,142.4)
Net balance	$ 1,897.6	$ 1,846.3	$ 1,903.9	$ 1,643.8	$ 2,013.3	$ 2,548.2	$ 2,609.6	$ 2,621.1	$ 2,714.5	$ 2,675.2	$ 2,566.4
II. Cumulative net amount of liability paid through:											
1 year later	496.5	491.6	520.0	427.8	686.1	725.7	977.3	702.7	941.0	949.4	—
2 years later	760.2	809.6	727.0	865.8	1,164.0	1,421.4	1,370.9	1,271.8	1,369.4		
3 years later	986.7	963.7	993.3	1,148.0	1,725.3	1,710.9	1,840.2	1,547.5			
4 years later	1,135.8	1,117.3	1,166.7	1,519.6	1,930.6	2,108.9	2,037.2				
5 years later	1,246.2	1,230.5	1,365.8	1,662.0	2,236.6	2,300.8					
6 years later	1,338.8	1,303.0	1,470.2	1,875.6	2,385.5						
7 years later	1,391.5	1,369.6	1,563.4	1,996.7							
8 years later	1,443.5	1,430.0	1,627.8								
9 years later	1,488.1	1,478.5									
10 years later	1,522.0										
III. Net liability re-estimated as of:											
1 year later	1,911.1	1,828.4	1,974.4	1,904.1	2,479.5	2,601.2	2,803.4	2,642.6	2,771.9	2,893.2	—
2 years later	1,844.3	1,864.0	2,011.3	2,166.1	2,488.5	2,827.8	2,836.8	2,704.5	2,802.9		
3 years later	1,885.5	1,840.2	1,988.8	2,172.1	2,732.1	2,891.1	2,911.7	2,742.8			
4 years later	1,882.7	1,813.7	1,989.3	2,367.1	2,782.6	2,969.3	2,969.6				
5 years later	1,850.3	1,797.0	2,042.7	2,386.7	2,898.6	3,033.8					
6 years later	1,822.8	1,816.3	2,057.1	2,446.9	2,958.7						
7 years later	1,834.7	1,822.6	2,120.6	2,479.2							
8 years later	1,838.7	1,884.5	2,136.1								
9 years later	1,895.9	1,886.6									
10 years later	1,883.5										
IV. Cumulative net (deficiency)/ redundancy	$ 14.1	$ (40.3)	$ (232.2)	$ (835.4)	$ (945.4)	$ (485.6)	$ (360.0)	$ (121.7)	$ (88.4)	$ (218.0)	—
Percent (deficient)/ redundant	0.7%	(2.2)%	(12.2)%	(50.8)%	(47.0)%	(19.1)%	(13.8)%	(4.6)%	(3.3)%	(8.1)%	—
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III. above):											
Gross re-estimated liability	2,433.5	2,453.8	2,813.7	3,211.0	4,387.0	4,604.2	4,353.2	3,982.6	4,094.3	4,665.5	—
Less: gross re-estimated reinsurance recoverable	(550.0)	(567.2)	(677.6)	(731.8)	(1,428.3)	(1,570.4)	(1,383.6)	(1,239.8)	(1,291.4)	(1,772.3)	—
Net re-estimated liability	$ 1,883.5	$ 1,886.6	$ 2,136.1	$ 2,479.2	$ 2,958.7	$ 3,033.8	$ 2,969.6	$ 2,742.8	$ 2,802.9	$ 2,893.2	—
VI. Cumulative gross (deficiency)/redundancy	$ (69.4)	$ (150.3)	$ (374.0)	$ (933.0)	$ (1,235.8)	$ (739.0)	$ (533.8)	$ (266.3)	$ (230.0)	$ (356.7)	—
Percent (deficient)/redundant	(2.9)%	(6.5)%	(15.3)%	(41.0)%	(39.2)%	(19.1)%	(14.0)%	(7.2)%	(6.0)%	(8.3)%	—

(1) The table includes the complete loss development history for all periods presented for all companies acquired by Folksamerica through an instrument of transfer and assumption approved by the appropriate insurance regulators. Under the instrument, insurance regulators require that Folksamerica report reserve development as if the companies had been combined from their inception.

(2) Folksamerica became a wholly-owned subsidiary of White Mountains during 1998. Reserve development for the years ended 1996 through 1997 reflects development on reserves established before White Mountains consolidated Folksamerica's results.

(3) Sirius, including Scandinavian Re, became a wholly-owned subsidiary of White Mountains Re during 2004. The table includes the complete loss development history for all periods presented. Reserve development for the years ended 1996 through 2003 reflects development on reserves established before White Mountains Re consolidated Sirius' results. See table, below.

(4) White Mountains Re acquired $136.8 million in net loss and LAE reserves when it acquired Tryg-Baltica during 2004. For periods prior to December 31, 2004, loss and LAE reserves for Tryg-Baltica are not included due to lack of availability of loss development history on a comparable basis.

(5) White Mountains Re acquired $38.3 million in net loss and LAE reserves when it acquired Stockbridge during 2006. For periods prior to December 31, 2006, loss and LAE reserves for Stockbridge are not included due to lack of availability of loss development history.

The cumulative net (deficiency)/redundancy in the table above reflects adverse development recorded by Scandinavian Re, which was acquired by White Mountains Re as part of the Sirius Acquisition in 2004, and has been in run off since 2002. Scandinavian Re was a writer of non-traditional reinsurance products from 1988 to 2001. The cumulative net (deficiency)/redundancy in the table above also includes adverse development from A&E claims. White Mountains Re's exposure to A&E claims results mainly from asbestos claims arising from treaty and facultative contracts written prior to 1985 at two companies acquired by Folksamerica - MONY Reinsurance in 1991 and Christiania General in 1996. As a result, the table above reflects reserve development on Scandinavian Re prior to White Mountains Re's ownership and on A&E business that was not underwritten by White Mountains Re. The table presented below represents White Mountains Re's cumulative net (deficiency)/redundancy excluding Scandinavian Re and A&E claims:

	Years Ended December 31,										
($ in millions)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Cumulative net (deficiency) redundancy, excluding Scandinavian Re and A&E	$ 175.3	$ 101.7	$ (26.7)	$ (233.9)	$ (90.5)	$ (56.5)	$ (61.2)	$ (26.1)	$ (17.9)	$ (230.8)	—
Percent (deficient) / redundant	7.7%	4.6%	(1.2)%	(12.0)%	(3.7)%	(2.1)%	(2.2)%	(0.9)%	(0.6)%	(6.0)%	—

In general, many of Scandinavian Re's contracts were large and contained high limits. During the soft market period of 1999 to 2001, when pricing, terms and conditions were not very favorable, many of the contracts Scandinavian Re entered into were underpriced, resulting in much higher incurred losses than expected. These factors caused a significant amount of adverse development to be reported by Scandinavian Re, nearly all of which was recorded prior to White Mountains Re's ownership. As a result, including Scandinavian Re's results in the ten year table presents a distorted picture of the historic loss reserve adequacy of White Mountains Re's ongoing businesses.

White Mountains Re's net incurred losses from A&E claims have totaled $145 million over the past ten years. Although losses arising from A&E claims were on contracts that were not underwritten by White Mountains Re, White Mountains Re is liable for any additional losses arising from such contracts. Accordingly, White Mountains Re cannot guarantee that it will not incur additional A&E losses in the future. Refer to "**CRITICAL ACCOUNTING ESTIMATES**" in "**Management's Discussion and Analysis of Financial Condition and Results of Operations**" for further details of White Mountains Re's A&E reserves.

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

	December 31,		
Millions	**2006**	**2005**	**2004**
Regulatory reserves	**$ 2,866.3**	$ 3,109.7	$ 3,092.0
Reinsurance recoverable on unpaid losses and LAE (1)	**875.6**	1,513.1	948.2
Discount on loss reserves	**141.6**	184.5	245.2
Reserves allocated to other segments	**(123.6)**	(105.6)	(91.2)
Purchase accounting and other	**(51.1)**	(21.4)	(23.9)
GAAP reserves	**$ 3,708.8**	$ 4,680.3	$ 4,170.3

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

ESURANCE

The Esurance group of companies, which has its United States headquarters in San Francisco, has been part of White Mountains since October 2000. Esurance markets personal auto insurance directly to customers and through select online agents. Most customer interaction with the company takes place through Esurance's website, www.esurance.com. Through the website, customers can get real-time quotes, compare quotes from other companies, purchase their policies, report claims and manage their accounts. At December 31, 2006, Esurance's in-force policy count had grown to over 370,000 policies, as compared to 43,000 policies at the end of 2002.

Esurance's underwriting companies, Esurance Insurance Company and Esurance Property and Casualty Insurance Company are rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best. Over the past several years, Esurance has ceded a large percentage of its business to certain other subsidiaries of White Mountains, primarily for capital management purposes. The Esurance segment includes insurance ceded by Esurance to subsidiaries of White Mountains. At December 31, 2006 and 2005, Esurance had $723.6 million and $414.2 million of total assets and $308.5 million and $176.7 million of shareholder's equity, respectively.

Geographic Concentration

As of December 31, 2006, Esurance writes business in twenty-four states. These states represent approximately 79% of the premium volume for the entire U.S. personal auto insurance market. For the years ended December 31, 2006, 2005 and 2004, Esurance had net written premiums of $596 million, $349 million and $199 million, respectively, which were produced in the following states:

	Year Ended December 31,		
Net written premiums by state	**2006**	**2005**	**2004**
California	**19%**	20%	25%
Florida	**17**	20	24

New York	**9**	8	5
Texas	**6**	9	11
Michigan	**6**	7	7
New Jersey	**5**	3	—
Pennsylvania	**5**	4	5
Washington	**4**	3	1
Other	**29**	26	22
Total	**100%**	100%	100%

Marketing

Esurance targets technology-savvy consumers who rely on the internet to manage their financial services needs. Prior to 2004, Esurance had advertised its products and services primarily online. Beginning in 2004, Esurance began to advertise on local television networks with the "Erin Esurance" brand campaign, featuring an animated female secret-agent character. The campaign is designed to communicate Esurance's unique, technology-focused approach to auto insurance. During 2006, Esurance shifted its television advertising focus to national cable television networks, which has proven to be more effective and cost efficient than local television advertising.

Erin Esurance now appears in nearly all of the company's offline and online advertising. Esurance advertises offline on television, radio, and through direct mail. Esurance also has sponsor relationships with professional and college sports teams, as well as various environmental and community organizations. Esurance advertises online through paid search (e.g., Google and Yahoo! Search), and on a variety of insurance, finance, and automotive web sites.

The launch of offline advertising and the "Erin Esurance" campaign have resulted not only in continued significant business growth, but also in substantial increases in brand awareness for the company, particularly among its target customer base of web-savvy individuals. Esurance is the third largest issuer of auto insurance quotes on the Internet, behind only Progressive and GEICO.

Esurance uses a rigorous, analytical marginal cost methodology to allocate its marketing budget across the various media channels it uses. This methodology enables the company to focus its marketing resources on attracting and retaining customers that have the best expected lifetime premium and/or combined ratio.

Underwriting and Pricing

Esurance collects and verifies detailed underwriting information in real-time while customers transact with the company online. Real-time access to customer information allows Esurance to continually develop and refine its highly segmented, tiered pricing models. Esurance believes that its tiered pricing models have a greater statistical correlation with historical loss experience than traditional pricing models have shown. As a result, Esurance is able to quote rates to customers that closely correspond to the individual risk characteristics of the customer, enabling Esurance to focus on keeping insurance rates competitive without compromising the company's loss ratio targets.

Competition

Esurance competes with national and regional personal auto insurance companies, though Esurance's main competition comes from other direct writers like Progressive, GEICO, and 21st Century.

By leveraging web-enabled technology, Esurance can capture data real-time and respond to changing loss trends. Esurance is continually able to refine pricing, enhance its auto product and optimize dollars spent on marketing with the array of customer information that is at its disposal. Web technology also allows Esurance to provide high quality, 24/7 customer service and claims handling for a competitive price.

Esurance's paperless business process allows the company to significantly reduce operating costs typically associated with policy processing, verification and endorsement activities. As a result, the company is able to achieve efficient, low-cost acquisition and operating expense structures.

Claims Management

Esurance takes initial notice of claims at the company's loss reporting unit in South Dakota, which is available for customers 24 hours a day, 365 days a year. The loss reporting unit then transfers claims to regional claim offices in Arizona, California, Florida, Georgia, New Jersey, New York, and Texas where claims are handled and adjusted.

Esurance's claims organization leverages technology to reduce cycle times and achieve strict claims performance metrics. Rapid response to and resolution of claims creates a stronger relationship with customers, while also decreasing ancillary claims costs, such as rental car fees. Additionally, Esurance maintains a special investigative unit designed to detect insurance fraud, and actively supports efforts by regulatory bodies and trade associations to curtail the cost of insurance fraud.

Catastrophe Risk Management

Esurance's sole line of business is personal auto insurance that covers liabilities and physical damage arising from the operation of automobiles. The majority of Esurance's customers elect coverage for physical damage (81%), resulting in exposure to catastrophe losses at Esurance for hurricanes, hailstorms, earthquakes and other acts of nature. Generally, catastrophe costs are low for personal auto in relation to other lines of business, such as homeowners and commercial property. Additionally, Esurance's broad geographic distribution limits its concentration of risk and the potential for losses to accumulate from a single event.

Loss and Loss Adjustment Expense Information

Esurance establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Uncertainties in projecting estimates of ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled (i.e. the claim-tail). Esurance writes primarily short-tail personal auto insurance policies, which reduces the uncertainty inherent in its loss and LAE reserves when compared to insurance companies that write long-tail policies, such as workers compensation.

Management believes that Esurance's loss and LAE reserves as of December 31, 2006 are adequate; however, ultimate loss and LAE may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Adverse development, if any, would impact the Company's future results of operations.

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

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

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2006. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2006. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2006.

	Esurance Loss and LAE (1) (2) Years Ended December 31,					
($ in millions)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
I. Liability for unpaid loss and LAE:						
Gross balance	$ 4.0	$ 15.5	$ 39.1	$ 63.0	$ 94.1	$ 167.4
Less: reinsurance recoverables on unpaid loss and LAE	—	—	—	(.1)	(.1)	(.5)
Net balance	$ 4.0	$ 15.5	$ 39.1	$ 62.9	$ 94.0	$ 166.9
II. Cumulative net amount of net liability paid through:						
1 year later	2.5	9.3	18.9	35.8	62.4	—
2 years later	3.3	12.2	24.5	47.4		
3 years later	3.9	13.7	28.2			
4 years later	4.1	14.6				
5 years later	4.1					
III. Net liability re-estimated as of:						
1 year later	4.0	16.0	34.0	54.9	97.2	—
2 years later	4.4	15.3	29.4	55.5		
3 years later	4.3	14.4	29.5			
4 years later	4.2	14.6				
5 years later	4.1					
IV. Cumulative net (deficiency)/ redundancy	$ (.1)	$ .9	$ 9.6	$ 7.4	$ (3.2)	—
Percent (deficient)/redundant	(3.7)%	6.0%	24.5%	11.9%	(3.4)%	—
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III. above):						
Gross unpaid loss and LAE latest re-estimate	$ 4.1	$ 14.6	$ 29.8	$ 56.3	$ 97.8	—
Reinsurance recoverable latest re-estimate	—	—	(.3)	(.8)	(.6)	—
Net unpaid loss and LAE latest re-estimate	$ 4.1	$ 14.6	$ 29.5	$ 55.5	$ 97.2	—
VI. Cumulative Gross redundancy (deficiency)	$ (.1)	$ .9	$ 9.3	$ 6.7	$ (3.7)	—
Percent deficient	(2.5)%	5.8%	23.8%	10.6%	(3.9)%	—

(1) The table consists of reserve information for Esurance Insurance Company, Esurance Property & Casualty Insurance Company, and business ceded by Esurance to Folksamerica, OneBeacon and Sirius.

(2) Esurance became a subsidiary of White Mountains during 2000.

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

	December 31,		
Millions	**2006**	**2005**	**2004**
Statutory reserves	**$ 43.3**	$ 30.1	$ 16.2
Reserves allocated from other segments	**123.6**	64.0	46.7
Reinsurance recoverable on unpaid losses and LAE (1)	**.5**	—	.1

GAAP reserves	**$167.4**	$ 94.1	$ 63.0

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

OTHER OPERATIONS

WM Advisors

WM Advisors is a registered investment adviser that manages White Mountains' investments in fixed income and equity securities, including hedge funds, limited partnerships and private equities. WM Advisors also has investment management agreements with third parties, most notably with Symetra and Montpelier Re. At December 31, 2006, WM Advisors had approximately $32 billion in assets under management, $10 billion of which related to consolidated subsidiaries of White Mountains.

WM Advisors has a sub-advisory agreement with Prospector Partners LLC ("Prospector"), a registered investment adviser, under which Prospector manages most of White Mountains' publicly-traded common equity and convertible securities. Prospector also provides consulting and advisory services to White Mountains through a separate agreement with WM Advisors on matters such as capital management, asset allocation, private equity investments and mergers and acquisitions.

Galileo

During 2006, White Mountains entered into the weather risk management business through its newly formed subsidiary, Galileo. Galileo sells its weather risk management products as derivatives that are designed to assist corporate and governmental customers, primarily energy companies, utilities and construction companies, in managing their economic exposure to variations in weather conditions. Galileo then manages its weather derivative portfolio through the employment of a variety of risk management strategies to preserve its expected margins. These strategies include geographical diversification of risk exposures and economic hedging through the use of derivatives traded in both the over-the-counter and exchange-traded derivative markets. Additionally, Galileo economically hedges its risk exposure by buying and selling similar weather risk contracts with different counterparties. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then purchase an option from another counterparty that pays Galileo if it becomes too cold in that same location. Galileo also diversifies its risk exposure by entering into contracts that protect different clients with opposite exposures to the same quantifiable weather element. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then sell another option that protects a different customer if it becomes too warm in that same location. Risk management is undertaken on a portfolio-wide basis in order to maintain a portfolio that Galileo believes is well diversified and that remains within the aggregate risk tolerance established by senior management.

Weather derivatives, which usually take the form of swaps or options, are contracts with financial settlements based on the performance of an index linked to a quantifiable weather element, such as temperature, precipitation, snowfall or windspeed. Typical contracts span several months such as a summer or winter season. A weather swap is a contract that requires one of the contractual parties to make a payment to the other contractual party when a weather index rises above or falls below a specified level, or "strike". Therefore, upon settlement of a weather swap, Galileo may make or receive a payment. A weather call option is a contract that entitles the purchaser to receive a payment when the weather index exceeds a specified strike, and a weather put option is a contract that entitles the purchaser to receive a payment when the weather index is less than a specified strike. Every weather derivative is defined by a series of terms, including strike, location, notional payout rate (per unit or event), maximum payout, time period and reference index, which is calculated from weather data collected from a specified weather station.

WM Life Re

During 2006, White Mountains entered into the variable annuity reinsurance business through its newly formed subsidiary, WM Life Re. WM Life Re reinsures death and living benefit guarantees associated with certain variable annuities issued in Japan, commencing September 1, 2006. WM Life Re has assumed the risk related to a shortfall between the account value and the guaranteed value that must be paid by the ceding company to an annuitant or to an annuitant's beneficiary in accordance with the underlying annuity contracts. Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese Yen, as well as with increases in market volatilities. The liability is also affected by annuitant-related actuarial assumptions, including surrender and mortality rates.

WM Life Re purchases derivative instruments, which currently include put option and futures contracts on major equity indices, currency pairs and futures contracts on bonds, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. WM Life Re measures its net exposure to changes in relevant interest rates, foreign exchange rates and equity markets on a daily basis and adjusts its economic hedge positions within risk guidelines established by senior management. WM Life Re also monitors the effects of annuitant-related experience against actuarial assumptions (including surrender and mortality rates) on a weekly basis and adjusts relevant assumptions and economic hedge positions if required.

Tuckerman Capital, LP and Tuckerman Capital II, LP

White Mountains owns approximately 96% of Tuckerman Capital, LP and approximately 50% of Tuckerman Capital II, LP (collectively, the "Tuckerman Funds"). The Tuckerman Funds are managed by Tuckerman Capital, a private investment firm that focuses on acquisitions of small manufacturing companies,

and are consolidated within White Mountains' financial statements. Tuckerman Capital focuses its acquisition efforts on companies with enterprise values ranging from $5 million to $25 million and with established track records of success. The companies owned by the Tuckerman Funds are manufacturers of highly engineered, non-commodity products across a broad range of industries.

At December 31, 2006 and 2005, the Tuckerman Funds had $101 million and $64 million of total assets and accounted for $38 million and $34 million of White Mountains' net assets, respectively.

Prospector Offshore Fund, Ltd.

White Mountains owns approximately 42% of the Prospector Offshore Fund, Ltd. ("Prospector Fund"). The Prospector Fund is managed by Prospector, a registered investment advisor, and is consolidated within White Mountains' financial statements. The Prospector Fund is an open-ended mutual fund that pursues investment opportunities in a variety of equity and equity-related instruments, with a principal focus on the financial services sector and a special emphasis on the insurance industry.

At December 31, 2006 and 2005, the Prospector Fund had $211 million and $177 million of total assets and accounted for $59 million and $55 million of White Mountains' net assets, respectively.

International American Group

In October 1999, White Mountains acquired the International American Group, which included American Centennial, British Insurance Company and Peninsula Insurance Company ("Peninsula").

Delaware-domiciled American Centennial and Cayman Island-domiciled British Insurance Company are property and casualty insurance and reinsurance companies in run-off. At December 31, 2006 and 2005, American Centennial had $80 million and $77 million of total assets and $13 million and $17 million of shareholder's equity, respectively. At December 31, 2006 and 2005, British Insurance Company had $37 million and $38 million of total assets and $8 million and $6 million of shareholder's equity, respectively.

In January 2004, White Mountains sold Peninsula, a Maryland-domiciled property and casualty insurer, for $23 million. For the year ended December 31, 2003, Peninsula had $34 million of net written premiums.

WTM Bank Facility

The Company and White Mountains Re Group, Ltd. are both permitted borrowers under a $500 million revolving credit facility (the "WTM Bank Facility"), which matures in November 2011. As of December 31, 2006, White Mountains had $320 million of debt outstanding under the WTM Bank Facility.

INVESTMENTS

White Mountains' investment philosophy is to maximize its after-tax total risk-adjusted return over the long term. Under this approach, each dollar of after-tax investment income and realized and unrealized gains and losses is valued equally. White Mountains' investment portfolio mix as of December 31, 2006 consisted in large part of high-quality, fixed maturity investments and short-term investments, as well as equity investments and other investments, such as hedge funds, limited partnerships and private equities. White Mountains' management believes that prudent levels of investments in common equity securities and other investments within its investment portfolio are likely to enhance long-term after-tax total returns without significantly increasing the risk profile of the portfolio.

White Mountains' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to credit risks. White Mountains also actively manages the average duration of the portfolio, about 2 years at December 31, 2006, including short-term investments, to seek the highest after-tax, risk-adjusted total returns.

Prospector's equity investment strategy is to maximize absolute risk-adjusted total return through investments in a variety of equity and equity-related instruments, using bottom-up, value discipline. Preservation of capital is of the utmost importance. Using a value orientation, White Mountains invests in relatively concentrated positions in the United States and other developed markets.

Trust account investments

In connection with the OneBeacon Offering, Fund American and FAEH each established an irrevocable grantor trust. The assets of each trust is solely dedicated to the satisfaction of the payment of dividends and redemption amounts on, respectively, $300 million liquidation preference of Fund American's Berkshire Preferred Stock, and $20 million liquidation preference of FAEH's Zenith Preferred Stock. Fund American and FAEH funded their respective trusts with cash and purchased a portfolio of fixed maturity securities issued by the U.S. government and government sponsored enterprises, the scheduled interest and principal payments of which are sufficient to pay when due all amounts required under the terms of the Berkshire Preferred Stock and the Zenith Preferred Stock, respectively (including the mandatory redemption of the Berkshire Preferred Stock in May 2008 and the optional redemption of the Zenith Preferred Stock in June 2007, which White Mountains will exercise). See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

Montpelier Re

In December 2001, White Mountains, the Benfield Group plc and several other private investors established Montpelier Re and its wholly-owned subsidiary Montpelier Reinsurance Ltd. On October 15, 2002, Montpelier Re successfully completed an initial public offering and its common shares are listed on the New York Stock Exchange. White Mountains initially invested $180 million in Montpelier Re in exchange for 10.8 million common shares and warrants to acquire 4.8 million additional common shares of Montpelier Re.

During the first quarter of 2004, White Mountains purchased additional warrants to acquire 2.4 million common shares of Montpelier Re from an existing warrant holder for $54 million in cash, thereby raising the total number of Montpelier Re warrants owned by White Mountains to 7.2 million.

Also during the first quarter of 2004, White Mountains sold 4.5 million common shares of Montpelier Re to third parties. As a result of this sale, as well as changes to the composition of the Board of Directors of both Montpelier Re and White Mountains, White Mountains changed the method of accounting for its remaining common share investment in Montpelier Re as of March 31, 2004 from an equity method investment in an unconsolidated affiliate to a common equity security classified as available for sale and carried at fair value.

During the third quarter of 2006, White Mountains sold an additional 5.4 million shares of its common share investment in Montpelier Re to third parties, thereby reducing the total number of Montpelier Re common shares owned by White Mountains to 0.9 million.

At December 31, 2006 and 2005, White Mountains' investment in Montpelier Re warrants and common shares totaled $67 million and $167 million, respectively.

Investments in Unconsolidated Affiliates

Symetra

On August 2, 2004, White Mountains, Berkshire and several other private investors capitalized Symetra in order to purchase the life and investment operations of Safeco Corporation for $1.35 billion. The acquired companies, which are now operating under the Symetra brand, focus mainly on group insurance, individual life insurance, structured settlements and retirement services. Symetra had an initial capitalization of approximately $1.4 billion, consisting of $1,065 million of common equityand $315 million of debt. White Mountains invested $195 million in Symetra in exchange for 2.0 million common shares of Symetra. In addition, White Mountains and Berkshire each received warrants to acquire an additional 1.1 million common shares of Symetra at $100 per share. White Mountains owns approximately 19% of the outstanding common shares of Symetra and approximately 24% of Symetra on a fully-converted basis including the warrants. Three White Mountains designees serve on Symetra's eight member board of directors.

Symetra's total revenues and net income for the years ended December 31, 2006 and 2005 were $1,564 million and $159 million, respectively, and $1,628 million and $146 million, respectively and for the five months ended December 31, 2004 were $702 million and $58 million, respectively. Symetra's total assets and shareholders' equity as of December 31, 2006 and 2005 were $20.1 billion and $1.3 billion, respectively, and $21.0 billion and $1.4 billion, respectively. Symetra's principal insurance operating subsidiaries are rated "A" (Excellent, the third highest of fifteen ratings) by A.M. Best and "A-" (Strong, the seventh highest of twenty-one ratings) by Standard & Poor's.

As of December 31, 2006 and 2005, White Mountains' total investment in Symetra was $307 million and $288 million, respectively, excluding ($4) million and $24 million, respectively, of equity in unrealized (losses) and gains from Symetra's fixed maturity investments. During 2006, White Mountains received cash dividends from Symetra of $16 million on its common share investment and $9 million on its warrant investment.

Delos

On August 3, 2006, White Mountains Re sold Sirius America to Delos. As part of the transaction, White Mountains invested $32 million, representing an equity interest of approximately 18% of Delos, which is accounted for as an equity method investment in an unconsolidated affiliate. As of December 31, 2006, White Mountains' total investment in Delos was $32 million.

Main Street America Holdings, Inc. ("MSA")

MSA is a subsidiary of Main Street America Group Mutual Holdings, Inc. ("Main Street Group"), a Florida-domiciled mutual property and casualty insurance holding company, which insures risks located primarily in New York, Massachusetts, Connecticut, Pennsylvania, New Hampshire, Virginia and Florida. White Mountains owned 50% of the outstanding common stock of MSA from March 1998 until October 2006, when White Mountains received a $70 million cash dividend from MSA, following which White Mountains sold its 50% common stock investment in MSA to Main Street America Group, Inc. ("MSA Group") for (i) $70.0 million in 9.0% non-voting cumulative perpetual preferred stock of MSA Group, and (ii) 4.9% of the common stock of MSA Group. As a result of this transaction, White Mountains no longer accounts for its investment in MSA under the equity method as an investment in an unconsolidated affiliate.

REGULATION

United States

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

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

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

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

The insurance laws of many states generally provide that property and casualty insurers doing business in those states belong to a statutory property and casualty guaranty association. The purpose of these guaranty associations is to protect policyholders by requiring that solvent property and casualty insurers pay certain insurance claims of insolvent insurers. These guaranty associations generally pay these claims by assessing solvent insurers

proportionately based on the insurer's share of voluntary written premiums in the state. While most guaranty associations provide for recovery of assessments through rate increases, surcharges or premium tax credits, there is no assurance that insurers will ultimately recover these assessments. At December 31, 2006, the reserve for such assessments at OneBeacon totaled $17 million.

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

Nearly all states have insurance laws requiring personal property and casualty insurers to file price schedules, policy or coverage forms, and other information with the state's regulatory authority. In most cases, such price schedules and/or policy forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that prices are adequate, not excessive and not discriminatory. For example, Massachusetts, a state where OneBeacon has a sizable presence, sets virtually all aspects of automobile insurance rates, including agent commissions. Such regulations often challenge an insurers ability to adequately price its product, which often leads to unsatisfactory underwriting results.

White Mountains' U.S. insurance and reinsurance operating subsidiaries are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. White Mountains' investment portfolio at December 31, 2006 complied with such laws and regulations in all material respects.

One of the primary sources of cash inflows for the Company and certain of its intermediary holding companies is dividends received from its insurance and reinsurance operating subsidiaries. Under the insurance laws of the states under which White Mountains' U.S.-based insurance and reinsurance subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities. See **"Dividend Capacity"** in the **"LIQUIDITY AND CAPITAL RESOURCES"** section of Item 7 for further discussion.

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

While the federal government does not directly regulate the insurance business, federal legislation and administrative policies affect the insurance industry. In addition, legislation has been introduced from time to time in recent years that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry. A federal law enacted in 2002 and extended in 2005, the Terrorism Act, provides a "back-stop" to property and casualty insurers in the event of future terrorist acts perpetrated by foreign agents or interests. In exchange for this "back-stop", primary insurers are required to make coverage available to commercial insureds for losses from acts of non-domestic terrorism as specified in the Terrorism Act. OneBeacon is actively complying with the requirements of the Terrorism Act in order to ensure its ability to be reimbursed by the federal government for any losses it may incur as a result of future terrorist acts. (See **"Terrorism"** in the **"ONEBEACON"** section of this Item for a further discussion of the Terrorism Act). A number of additional enacted and pending legislative measures could lead to increased consolidation and increased competition for business and for capital in the financial services industry. White Mountains cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect such measures may have on its insurance and reinsurance operations.

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

Sweden

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

In accordance with provisions of Swedish law, Sirius International is permitted to transfer up to the full amount of its pre-tax income, subject to certain limitations, into an untaxed reserve referred to as a safety reserve, which equaled $1.3 billion at December 31, 2006. Under GAAP, an amount equal to the safety reserve, net of the related deferred tax liability established at the Swedish tax rate of 28%, is classified as shareholders' equity. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain predetermined levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International's safety reserve ($351 million at December 31, 2006) is included in solvency capital.

RATINGS

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

Rating agencies also evaluate the general creditworthiness of debt securities issued by companies. Their ratings are then used by existing or potential investors to assess the likelihood of repayment on a particular debt issue. White Mountains believes that strong debt ratings are important factors that provide better financial flexibility when issuing new debt or restructuring existing debt.

The following table presents the financial strength ratings assigned to White Mountains' principal insurance and reinsurance operating subsidiaries and the debt ratings for Fund American's Senior Notes as of February 28, 2007:

	OneBeacon	Folksamerica Re	Sirius International	Esurance	Fund American Senior Notes (5)
A.M. Best					
Rating (1)	"A" (Excellent)	"A-" (Excellent)	"A" (Excellent)	"A" (Excellent)	"bbb" (Very Good)
Outlook	Stable	Stable	Stable	Stable	Stable
Standard & Poor's					
Rating (2)	"A" (Strong)	"A-" (Strong)	"A-" (Strong)	No Rating	"BBB" (Adequate)
Outlook	Stable	Stable	Stable	N/A	Stable
Moody's					
Rating (3)	"A2" (Good)	"A3" (Good)	"A3" (Good)	"A2" (Good)	"Baa2" (Medium Grade)
Outlook	Stable	Stable	Stable	Stable	Stable
Fitch					
Rating (4)	"A" (Strong)	"A-" (Strong)	"A-" (Strong)	"A" (Strong)	"BBB" (Good)
Outlook	Stable	Stable	Stable	Stable	Stable

(1) "A" is the third highest of fifteen financial strength ratings, "A-" is the fourth highest of fifteen financial strength ratings and "bbb" is the ninth highest of twenty-two creditworthiness ratings assigned by A.M. Best.

(2) "A" is the sixth and "A-" is the seventh highest of twenty-one financial strength ratings and "BBB" is the ninth highest of twenty-two creditworthiness ratings assigned by Standard & Poor's.

(3) "A2" is the sixth and "A3" is the seventh highest of twenty-one financial strength ratings and "Baa2" is the ninth highest of twenty-one creditworthiness ratings assigned by Moody's.

(4) "A" is the sixth and "A-" is the seventh highest of twenty-four financial strength ratings and "BBB" is the ninth highest of twenty-three creditworthiness ratings assigned by Fitch.

(5) The Senior Notes issued by Fund American are fully and unconditionally guaranteed as to the payment of principal and interest by the Company.

EMPLOYEES

As of December 31, 2006, White Mountains employed 5,292 persons (consisting of 36 persons at the Company and its intermediate holding companies, 3,243 persons at OneBeacon, 546 persons at White Mountains Re, 1,415 persons at Esurance, 29 persons at WM Advisors, 5 persons at WM Life Re, 5 persons at Galileo and 13 persons at the International American Group companies). Management believes that White Mountains has satisfactory relations with its employees.

AVAILABLE INFORMATION

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

The Company will provide to any shareholder, upon request and without charge, copies of these documents (excluding any applicable exhibits unless specifically requested). Written or telephone requests should be directed to the Corporate Secretary, White Mountains Insurance Group, Ltd., 80 South Main Street, Hanover, New Hampshire 03755, telephone number (603) 640-2200. Additionally, all such documents are physically available at the Company's registered office at Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda.

Item 1A. Risk Factors

The information contained in this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21 E of the Securities Exchange Act of 1934. *See* **"FORWARD-LOOKING STATEMENTS"** *(page 88) for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.* The Company's actual future results and trends may differ materially depending on a variety of factors including, but not limited to, the risks and uncertainties discussed below.

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

We write insurance and reinsurance policies that cover catastrophic events. Our policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires and explosions. In recent years, the frequency of major weather-related catastrophes has increased. Our exposure to catastrophic windstorm damage in the Northeastern United States is the largest single natural risk to our business. We also have significant exposure to a major California earthquake and windstorm damage in Northern Europe, the United States Atlantic Coast (i.e., Delaware to Florida) and the United States Gulf Coast region (i.e., Florida to Texas). In addition, we are exposed to losses from terrorist attacks, such as the attacks on the United States on September 11, 2001.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Increases in the value of insured property, the effects of inflation and changes in cyclical weather patterns may increase the severity of claims from catastrophic events in the future. Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year and adversely affect our financial condition. Our ability to write new insurance and reinsurance policies could also be impacted as a result of corresponding reductions in our surplus levels.

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

We may not be able to successfully alleviate risk through reinsurance and retrocessional arrangements. Additionally, we may be unable to collect all amounts due from our reinsurers under our existing reinsurance and retrocessional arrangements.

We attempt to limit our risk of loss through reinsurance and retrocessional arrangements. Retrocessional arrangements refer to reinsurance purchased by a reinsurer to cover its own risks assumed from primary ceding companies. The availability and cost of reinsurance and retrocessional protection is subject to market conditions, which are outside of our control. As a result, we may not be able to successfully alleviate risk through these arrangements, which could have a material adverse effect on our financial condition and results of operations.

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

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

We are required to maintain adequate reserves to cover our estimated ultimate liabilities for loss and loss adjustment expenses. Loss and LAE reserves are typically comprised of (1) case reserves for claims reported and (2) IBNR reserves for losses that have occurred but for which claims have not yet been reported, or IBNR, which include a provision for expected future development on case reserves. These reserves are estimates based on actuarial and statistical projections of what we believe the settlement and administration of claims will cost based on facts and circumstances then known to us. Because of the uncertainties that surround estimating loss and LAE reserves, we cannot be certain that our reserves are adequate and actual claims and claim expenses paid might exceed our reserves due to the uncertainties that surround estimating loss and LAE reserves. If we determine in the future that our reserves are insufficient to cover our actual loss and LAE, we would have to strengthen our reserves, which could have a material adverse effect on our financial condition and results of operations.

For further discussion of our loss and LAE, including our asbestos and environmental reserves, see **"Loss and Loss Adjustment Expenses"** in **"CRITICAL ACCOUNTING ESTIMATES"** in Item 7.

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

Third party rating agencies assess and rate the financial strength, including claims-paying ability, of insurers and reinsurers. These ratings are based upon criteria established by the rating agencies and are subject to revision at any time at the sole discretion of the agencies. Some of the criteria relate to general economic conditions and other circumstances outside the rated company's control. These financial strength ratings are used by policyholders, agents and brokers as an important means of assessing the suitability of insurers as business counterparties and have become an increasingly important factor in establishing the competitive position of insurance companies. These financial strength ratings do not refer to our ability to meet non-insurance obligations and are not a recommendation to purchase or discontinue any policy or contract issued by us or to buy, hold or sell our securities.

Rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. See **"RATINGS"** in Item 1 for a summary of financial strength ratings on our significant subsidiaries and creditworthiness ratings on our Senior Notes. A downgrade or withdrawal of our financial strength ratings could severely limit or prevent our insurance subsidiaries from writing new insurance or reinsurance policies or renewing existing insurance policies, which could have a material adverse effect on our financial condition and results of operations. A downgrade or withdrawal of our creditworthiness ratings could severely limit our ability to raise new debt or could make new debt more costly and/or have more restrictive conditions.

Additionally, the majority of White Mountains Re's assumed reinsurance contracts contain optional cancellation, commutation and/or funding provisions that would be triggered if A.M. Best and/or S&P were to downgrade the financial strength ratings of either Folksamerica Re or Sirius International below "A-". A client may choose to exercise these rights depending on, among other things, the reasons for such a downgrade, the extent of the downgrade, the prevailing market conditions, the degree of unexpired coverage, and the pricing and availability of replacement reinsurance coverage. We cannot predict in advance how many of our clients would actually exercise such rights or what effect such cancellations would have on our financial condition, results of operations and/or liquidity, but such an effect could be materially adverse.

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

As of December 31, 2006, we had approximately $1,108 million face value of indebtedness and $320 million face value of mandatorily redeemable preferred stock outstanding. In connection with the OneBeacon Offering, we established and funded trusts that are solely dedicated to the payment of dividends and redemption amounts of our outstanding mandatorily redeemable preferred stock with a deposit of U.S. government securities.

Our ability to meet our debt and related service obligations will depend on our future performance, which will be affected by financial, business, economic and other factors. We will not be able to control many of these factors, such as economic conditions and governmental regulation. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt and meet our other obligations. If we do not have enough cash, we may be required to refinance all or part of our existing debt, sell assets, borrow more cash or sell equity. We cannot assure you that we will be able to accomplish any of these alternatives on terms acceptable to us, if at all.

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

Our investment portfolio may suffer reduced returns or losses which could adversely affect our results of operations and financial condition. Any increase in interest rates or volatility in the equity and debt markets could result in significant losses in the fair value of our investment portfolio.

Our investment portfolio consists of fixed maturity securities, short-term investments, common equity securities and other investments such as hedge funds, limited partnerships and private equities. Our investment selections are designed to maximize after-tax, total risk-adjusted return over the long term; however, investing entails substantial risks. We cannot assure you that we will achieve our investment objectives, and our investment performance may vary substantially over time.

Investment returns are an important part of our growth in book value, and fluctuations in the fixed income or equity markets could impair our results of operations or financial condition. A significant period of time normally elapses between the receipt of insurance premiums and the disbursement of insurance claims. During this time, we generate investment income, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities, by investing our capital as well as insurance premiums allocated to support unpaid loss and LAE reserves. We also recognize unrealized investment gains and losses on the securities we hold in our investment portfolio and we generate investment gains and losses from sales of securities from our investment portfolio.

The investment income and fair market value of our investment portfolio are affected by general economic and market conditions, including fluctuations in interest rates and volatility in the stock market. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we attempt to manage the risks of investing in a changing

interest rate environment, we may not be able to effectively mitigate interest rate sensitivity. In particular, a significant increase in interest rates could result in significant losses, realized or unrealized, in the fair value of our investment portfolio and, consequently, could have an adverse affect on our results of operations. In addition, we are exposed to changes in the level or volatility of equity prices that affect the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. These conditions are outside of our control and could adversely affect the value of our investments and our results of operations and financial condition.

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

The property and casualty insurance and reinsurance industries are highly competitive and have, from time to time, experienced severe price competition. OneBeacon competes with numerous regional and national insurance companies, including The St. Paul Travelers Companies, Inc., Zurich Financial Services Group, CNA Financial Corporation, Hartford Financial Services Group, Inc., The Hanover Insurance Group, Inc., W.R. Berkley Corporation, The Chubb Corporation, The Progressive Corporation, Allstate Insurance Company, Liberty Mutual, American International Group, Inc. and the regional Farm Bureaus. White Mountains Re competes with numerous reinsurance companies throughout the world, including ACE Limited, Arch Capital Group Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., Hannover Ruckversicherung AG, Lloyd's of London, Munich Re Group, Partner Re Ltd., Platinum Underwriters Holdings Ltd., Renaissance Re Holdings Ltd., Swiss Re Group, Transatlantic Holdings, Inc., XL Capital Ltd and General Reinsurance Corporation. Esurance competes with national and regional personal automobile insurance companies, though Esurance's main competition comes from other direct writers like Progressive, GEICO, and 21st Century. Many of these competitors have greater financial, marketing and management resources than we do and have established long-term and continuing business relationships throughout the insurance industry, which can be a significant competitive advantage for them.

The agents upon whom OneBeacon relies compete with direct writers of insurance, who are often able to offer substantial discounts in pricing as compared to OneBeacon's insurance products. If OneBeacon's agents experience increased competition from direct writers of insurance, we in turn could be adversely affected if OneBeacon's agents are unable to maintain a competitive position in their respective markets. In addition, substantial new capital and competitors have entered the reinsurance market in recent months, and we expect to face further competition in the future. If we are unable to maintain our competitive position, our insurance and reinsurance businesses may be adversely affected and we may not be able to compete effectively in the future.

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

In the ordinary course of business, we are subject to litigation and other legal proceedings as part of the claims process, the outcomes of which are uncertain. We maintain reserves for these legal proceedings as part of our loss and LAE reserves. We also maintain separate reserves for legal proceedings that are not related to the claims process. In the event of an unfavorable outcome in one or more legal matters, our ultimate liability may be in excess of amounts we have currently reserved for and such additional amounts may be material to our results of operations and financial condition. For a description of our material legal proceedings, see **"Item 3. Legal Proceedings."**

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

Regulation may restrict our ability to operate.

The insurance and reinsurance industries are subject to extensive regulation under U.S., state and foreign laws. Governmental agencies have broad administrative power to regulate many aspects of the insurance business, which include premium rates, marketing practices, advertising, policy forms and capital adequacy. These governmental agencies are concerned primarily with the protection of policyholders rather than shareholders. Insurance laws and regulations impose restrictions on the amount and type of investments, prescribe solvency standards that must be met and maintained and require the maintenance of reserves. In our insurance underwriting, we rely heavily upon information gathered from third parties such as credit report agencies and other data aggregators. The use of this information is also highly regulated and any changes to the current regulatory structure could materially affect how we underwrite and price premiums.

Changes in laws and regulations may restrict our ability to operate and/or have an adverse effect upon the profitability of our business within a given jurisdiction. For example, legislation has been recently passed in Florida that significantly changes the reinsurance protection provided by the Florida Hurricane Catastrophe Fund to companies that write business in Florida. The new legislation also contains a provision that will disallow insurers that write homeowners insurance elsewhere in the United States to write automobile insurance in Florida unless they also write homeowners insurance in Florida. The impact of the new legislation, which could be adverse, upon White Mountains' insurance and reinsurance business in Florida cannot be determined until regulations interpreting the legislation are promulgated. In addition, state and Federal legislation has been proposed to establish catastrophe funds and underwriting in coastal areas which could impact our business.

Government authorities are continuing to investigate the insurance and reinsurance industries, which may adversely affect our business.

Recently, the insurance industry has been heavily scrutinized by various regulatory bodies, including State Attorneys General and state insurance departments, for alleged illegal conduct surrounding a number of topics, including producer compensation arrangements and the sale and use of finite reinsurance.

During 2005 and 2004, OneBeacon received subpoenas from the Attorneys General of Massachusetts, New York and Connecticut requesting documents and seeking information relating to the conduct of business between insurance brokers and OneBeacon. Some of our other subsidiaries have also received information requests from various state insurance departments regarding producer compensation arrangements. We have cooperated with all of these subpoenas and information requests. We believe these requests to be part of the industry-wide investigation regarding industry sales practices. These investigations of the insurance and reinsurance industries, whether involving our companies specifically or not, together with any legal or regulatory proceedings related settlement, or industry reforms, may materially adversely affect our business and future prospects.

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

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

We may become subject to taxes in Bermuda after 2016.

We may become subject to taxes in Bermuda after 2016. We have received a standard assurance from the Bermuda Minister of Finance, under Bermuda's Exempted Undertakings Tax Protection Act 1966, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or to any of our operations or our shares, debentures or other obligations until March 28, 2016. Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016. In the event that we become subject to any Bermuda tax after such date, it would have a material adverse effect on our financial condition and results of operations.

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

The taxable income of our U.S. subsidiaries is subject to U.S. Federal, state and local income tax and other taxes. The income of the non-U.S. companies in our group is generally not subject to tax in the United States other than withholding taxes on interest and dividends. Certain of our non-U.S. companies are eligible for the benefits of tax treaties between the United States and other countries. We believe our non-U.S. companies will continue to be eligible for treaty benefits. However, it is possible that factual changes or changes to U.S. tax laws or changes to tax treaties that presently apply to our non-U.S. companies could impact income subject to tax in the United States. Similarly, changes to the applicable tax laws, treaties or regulations of other countries could subject the income of members of our group to higher rates of tax outside the United States.

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

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

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

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

Our performance substantially depends on the efforts and abilities of our management team and other executive officers and key employees. Furthermore, much of our competitive advantage is based on the expertise, experience and know-how of our key management personnel. We do not have fixed term employment agreements with any of our key employees nor key man life insurance and the loss of one or more of these key employees could adversely affect on our business, results of operations and financial condition. Our success also depends on the ability to hire and retain additional personnel. Difficulty in hiring or retaining personnel could adversely affect our results of operations and financial condition.

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

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

Our corporate affairs are governed by the Companies Act 1981 of Bermuda, or the Companies Act. The Companies Act differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including the provisions relating to interested directors, amalgamations, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of directors. Generally, the duties of directors and officers of a Bermuda company are owed to the company only. Shareholders of Bermuda companies generally do not have rights to take action against directors or officers of the company and may only do so in limited circumstances. Class actions and derivative actions are generally not available to shareholders under Bermuda law. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

The Company maintains two professional offices in Hamilton, Bermuda which serve as its headquarters and its registered office. The Company's principal executive office is in Hanover, New Hampshire. In addition, the Company maintains a professional office in Guilford, Connecticut, which houses its investment and corporate finance functions.

The United States headquarters of OneBeacon is located in Canton, Massachusetts, while its principal executive office is located in Minnetonka, Minnesota. OneBeacon also maintains branch offices in various cities throughout the United States.

White Mountains Re's headquarters is in Hamilton, Bermuda and its principal executive office is located in Guilford, Connecticut. Folksamerica is headquartered in New York, New York with branch offices in various cities throughout the United States and in Toronto, Canada. Sirius International is headquartered in Stockholm, Sweden with various branch offices in Europe and Asia. WMRUS maintains offices in Dublin, Ireland and Hamilton, Bermuda. Esurance is headquartered in San Francisco, California with various offices throughout the United States.

The Company's headquarters, registered office, principal executive office and investment and corporate finance offices are leased. Sirius International's home office in Sweden and substantially all of its branch offices, as well as WMRUS's offices in Ireland and Bermuda, are leased. Folksamerica's home office and its branch offices are leased as well. OneBeacon owns its home office. Most of OneBeacon's branch offices are leased with the exception of branch offices located in New York. Esurance's home office and its branch offices are leased. Management considers its office facilities suitable and adequate for its current level of operations.

Item 3. Legal Proceedings

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

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group ("Liberty Mutual") pursuant to a renewal rights agreement (the "Liberty Agreement"), which expired on October 31, 2003. OneBeacon is in a dispute with Liberty Mutual over certain costs Liberty Mutual claims it incurred in connection with the Liberty Agreement. Liberty Mutual asserts that these costs are part of unallocated loss adjustment expenses ("ULAE") due Liberty Mutual under the Liberty Agreement. Liberty Mutual further asserts that ULAE on charges previously billed to and settled by OneBeacon since the inception of the Liberty Agreement should be retroactively recast in addition to changing the calculation of ULAE charges for the period not yet settled. OneBeacon believes that the recast charges, which are significantly higher than prior ULAE calculations, and the calculation of ULAE charges for the period not yet settled are inconsistent with the terms of the Liberty Agreement and with standard industry definitions of ULAE. The amount of additional ULAE Liberty Mutual claims that it incurred under the Liberty Agreement totals approximately $68 million. Liberty Mutual has netted amounts billed under the ULAE dispute against amounts otherwise payable to OneBeacon. As of December 31, 2006, OneBeacon has recorded in its loss and LAE reserves an estimate of ULAE expenses due Liberty Mutual on a basis that it believes is consistent with the terms of the Liberty Agreement and with standard industry definitions of ULAE. In January 2006, Liberty Mutual initiated an arbitration proceeding against OneBeacon with respect to this dispute, the ULAE Arbitration. The initial organizational meeting on the ULAE arbitration was held in February 2007 and the final hearing is scheduled for April 2008.

In September 2006, OneBeacon initiated an arbitration against Liberty Mutual (and Peerless Insurance Company) seeking payment of approximately $57 million relating to reinsurance premiums, ceding commissions, recoveries and commutations due to OneBeacon from Liberty Mutual pursuant to the terms and conditions of the rewritten indemnity reinsurance agreement. To date, Liberty Mutual has refused to pay, asserting that it is entitled to an offset against the ULAE amounts disputed by OneBeacon and subject to the ULAE arbitration. The parties are in the process of selecting an arbitration panel and the dates for the arbitration hearing have not yet been scheduled. In January 2007, this arbitration was consolidated into the ULAE arbitration.

OneBeacon Insurance Group LLC and OBIC also have asserted claims against Liberty Mutual (and Peerless Insurance Company) in the Court of Common Pleas for Philadelphia County, Pennsylvania, or the Court, in which they assert that Liberty Mutual (and Peerless Insurance Company) breached the Pre-Closing Administrative Services Agreement, handled claims files negligently, breached fiduciary duties and were unjustly enriched. The Court has stayed those claims pending the resolution of the arbitration between OBIC and Liberty Mutual for breach of contract. The arbitration hearing commenced in November 2006 and will continue in May 2007.

OneBeacon believes that its loss and LAE reserves are sufficient to cover reasonably anticipated outcomes of all related disputes with Liberty Mutual.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the Company's shareholders during the fourth quarter of 2006.

Executive Officers of the Registrant and its Subsidiaries (As of February 28 2007)

Name	Position	Age	Executive officer since
Raymond Barrette	Chairman and CEO	56	2007
Charles B. Chokel	Managing Director and Chief Financial Officer of White Mountains Re	53	2002
David T. Foy	Executive Vice President and Chief Financial Officer	40	2003
G. Thompson Hutton	President and CEO of White Mountains Re	51	2006
Robert R. Lusardi	Executive Vice President and Managing Director of White Mountains Capital, Inc.	50	2005
T. Michael Miller	President and CEO of OneBeacon	48	2005
J. Brian Palmer	Chief Accounting Officer	34	2001
Robert L. Seelig	Vice President and General Counsel	38	2002
Gary C. Tolman	President and CEO of Esurance	55	2005

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

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

Mr. Chokel has served as Managing Director and Chief Financial Officer of White Mountains Re since August 2006. Prior to that he served as Managing Director of White Mountains Capital, Inc. since September 2003, as Managing Director and Chief Administrative Officer of OneBeacon since January 2003 and as Managing Director of OneBeacon since March 2002. Prior to joining OneBeacon, Mr. Chokel served as Executive Vice President and Chief Financial Officer of Conseco, Inc. from March 2001 to March 2002 and as Co-CEO of The Progressive Corporation from January 1999 to January 2001. Mr. Chokel joined Progressive in 1978.

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

Mr. Hutton was appointed President and CEO of White Mountains Re in February 2006. Prior to joining White Mountains, since 2000 Mr. Hutton served as a board member and consultant to private equity investors and their portfolio companies, first as a Venture Partner with Trident Capital and then as Managing Partner of Thompson Hutton, LLC. From 1990-2000, Mr. Hutton served as President and CEO of Risk Management Solutions, Inc. and was formerly a management consultant at McKinsey and Company, Inc.

Mr. Lusardi was appointed Executive Vice President and Managing Director of White Mountains Capital, Inc. in February 2005. Prior to joining White Mountains, Mr. Lusardi was an Executive Vice President of XL Capital Ltd, most recently as Chief Executive of Financial Products and Services. Prior to joining XL Capital Ltd, Mr. Lusardi was a Managing Director at Lehman Brothers, where he was employed from 1980 to 1998. Mr. Lusardi also serves as a director of OneBeacon Ltd., Symetra and Primus Guaranty, Ltd.

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

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

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

Mr. Tolman has served as President and CEO of Esurance since 2000. Prior to joining Esurance, Mr. Tolman was with Talegen Holdings for 6 years, serving most recently as its President. Prior to joining Talegen, Mr. Tolman was with Fireman's Fund Corporation for more than 15 years.

PART II

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

As of February 28, 2007, there were 368 registered holders of White Mountains' common shares, par value $1.00 per share.

During 2006 and 2005, the Company declared and paid cash dividends on common shares of $8.00 and $8.00 per common share, respectively.

Common shares are listed on the New York Stock Exchange (symbol WTM) and the Bermuda Stock Exchange (symbol WTM-BH). The quarterly range of the high and low sales price for common shares during 2006 and 2005 is presented below:

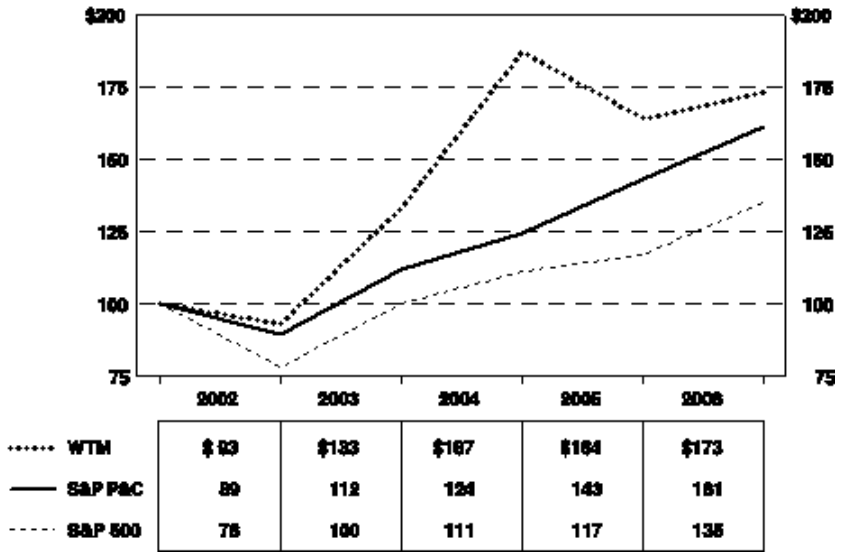
	2006		2005	
	High	Low	High	Low
Quarter ended:				
December 31	**$ 603.00**	**$ 496.00**	$ 638.99	$ 555.00
September 30	**537.00**	**447.00**	711.99	583.60
June30	**591.00**	**465.01**	677.50	564.50
March 31	**594.50**	**517.00**	695.00	582.00

No repurchases of common shares were made by or on behalf of the Company during the fourth quarter of 2006.

For information on securities authorized for issuance under the Company's equity compensation plans, see "Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

The following graph shows the five-year cumulative total return for a shareholder who invested $100 in common shares (NYSE symbol "WTM") as of January 1, 2002, assuming re-investment of dividends. Cumulative returns for the five-year period ended December 31, 2006 are also shown for the Standard & Poor's 500 Stocks (Property & Casualty) Capitalization Weighted Index ("S&P P&C") and the Standard & Poor's 500 Stocks Capitalization Weighted Index ("S&P 500") for comparison.

Five-Year Cumulative Total Return
(value of $100 invested January 1, 2002)



Item 6. Selected Financial Data

Selected consolidated income statement data and ending balance sheet data for each of the five years ended December31, 2006, follows:

	Year Ended December 31,				
$ in millions, except share and per share amounts	2006	2005	2004	2003	2002
Income Statement Data:					
Revenues	**$ 4,794**	$ 4,632	$ 4,555	$ 3,794	$ 4,208
Expenses	**4,064**	4,327	4,297	3,420	4,089
Pre-tax earnings (loss)	**730**(h)	305	258	374	119
Income tax (provision) benefit	**(99)**	(37)	(47)	(127)	(11)
Minority interest	**(16)**	(12)	(11)	(2)	—
Equity in earnings of unconsolidated affiliates	**37**	34	38	57	14
Accretion and dividends on preferred stock of subsidiaries	—	—	—	(21)(b)	(41)
Net income from continuing operations	**652**	290	238	281	81
Cumulative effect of changes in accounting principles	—	—	—	—	660(a)
Extraordinary gains	**21**	**—**	181(c)	—	7
Net income	**$ 673**	$ 290	$ 419	$ 281	$ 748
Net income from continuing operations per share:					
Basic	**$ 62.51**	$ 26.96	$ 24.05	$ 26.48	$ 7.47
Diluted	**$ 62.32**	$ 26.56	$ 22.67	$ 23.63	$ 6.80
Balance Sheet Data:					
Total assets	**$ 19,444**	$ 19,418	$ 19,015	$ 15,882	$ 17,267
Short-term debt	**—**	—	—	—	33

Long-term debt	**1,107**	779	783	743	760
Convertible preference shares	—	—	—	—	219
Mandatorily redeemable preferred stock of subsidiaries	**262**	234	212	195(b)	181
Minority interest	**603**(h)	96	59	5	—
Common shareholders' equity	**4,455**	3,833	3,884	2,979	2,408
Book value per share (d)	**$ 408.62**	$ 347.00	$ 349.60	$ 293.15	$ 254.52
Fully converted tangible book value per share (e)	**$ 406.00**	$ 342.51	$ 342.52	$ 291.27	$ 258.82
Share Data:					
Cash dividends paid per common share	**$ 8.00**	$ 8.00	$ 1.00	$ 1.00	$ 1.00
Ending common shares (000's) (f)	**10,783**	10,779	10,773	9,007	8,351
Ending equivalent common shares (000's) (g)	**29**	34	46	1,775	2,455
Ending common and equivalent common shares (000's)	**10,812**	10,813	10,819	10,782	10,806

(a) In accordance with its adoption of Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations",the Company recognized all of its outstanding deferred credits on January 1,2002.

(b) In accordance with its adoption of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), on July 1,2003, the Company reclassified its outstanding mandatorily redeemable preferred stock from mezzanine equity to liabilities on its balance sheet and, beginning in the third quarter of 2003, White Mountains began presenting all accretion and dividends on its mandatorily redeemable preferred stock as interest expense. See Note 1.

(c) Extraordinary gains in 2004 resulted from the excess of the fair value over the cost of net assets acquired in the Sirius, Symetra, Tryg-Baltica and Sierra transactions.

(d) Includes the dilutive effects of outstanding incentive options to acquire common shares ("Options") and, for years prior to 2004, warrants to acquire common shares.

(e) Book value per share plus unamortized deferred credits less goodwill and the equity in net unrealized gains from Symetra's fixed income portfolio per common and equivalent common share. The 2002 fully converted tangible book value per share assumes outstanding convertible preference shares to be equivalent common shares.

(f) During 2003, 677,966 common shares were issued in satisfaction of Convertible Preference Shares. During 2004, 1,724,200 common shares were issued in satisfaction of warrants exercised.

(g) Includes outstanding Convertible Preference Shares, Options and warrants to acquire common shares, when applicable.

(h) In connection with the OneBeacon Offering, White Mountains recognized a $171 million gain in other revenues and recorded a $491 million minority interest liability.

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

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

The following discussion also includes three non-GAAP financial measures, adjusted comprehensive net income (loss), fully converted tangible book value per common and equivalent share and tangible capital, that have been reconciled to their most comparable GAAP financial measures (see page 59). White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains' financial performance and condition.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

Overview

White Mountains ended 2006 with a fully converted tangible book value per common share of $406, which represented an increase of 21% (including dividends) over the fully converted tangible book value per common share of $343 as of December 31, 2005. This increase reflects favorable weather conditions and strong investment results when compared to 2005. Additionally, during the fourth quarter of 2006, White Mountains recognized an after-tax gain of $171 million, or $16 per common share, on the sale of 27.6% of its interest in OneBeacon through an initial public offering.

White Mountains ended 2005 with a fully converted tangible book value per common share of $343, which represented an increase of 2% (including dividends) from $343 as of December 31, 2004. During 2005, White Mountains experienced significant losses from hurricanes Katrina, Rita and Wilma, and from the Company's investment in Montpelier Re that adversely impacted fully converted tangible book value per common share.

Fully Converted Tangible Book Value Per Share

The following table presents the Company's tangible book value per share for the years ended December 31, 2006, 2005, and 2004 and reconciles this non-GAAP measure to the most comparable GAAP measure:

	December 31,		
	2006	2005	2004
Book value per share numerators (in millions):			
Common shareholders' equity	**$ 4,455.3**	$ 3,833.2	$ 3,883.9
Benefits to be received from share obligations under employee benefit plans	**4.7**	5.1	6.7
Remaining accretion of subsidiary preferred stock to face value	**(41.8)(1)**	(86.0)	(108.1)
Book value per share numerator	**4,418.2**	3,752.3	3,782.5
Equity in net unrealized (gains) losses from Symetra's fixed maturity portfolio	**4.1**	(24.2)	(56.6)
Goodwill	**(32.5)**	(24.4)	(20.0)
Fully converted tangible book value per common and equivalent share numerator	**$ 4,389.8**	$ 3,703.7	$ 3,705.9
Book value per share denominators (in thousands of shares):			
Common shares outstanding	**10,782.8**	10,779.2	10,772.8
Share obligations under employee benefit plans	**29.5**	34.3	46.5
Fully converted tangible book value per common and equivalent share	**10,812.3**	10,813.5	10,819.3
Book value per share	**$ 408.62**	$ 347.00	$ 349.60
Fully converted tangible book value per common and equivalent share	**406.00**	342.51	342.52

(1) 72.4% of remaining adjustment of subsidiary preferred stock to face value, which is representative of White Mountains' ownership interest in OneBeacon.

Review of Consolidated Results

A summary of White Mountains' consolidated financial results for the years ended December 31, 2006, 2005 and 2004 follows:

	Year Ended December 31,		
Millions	2006	2005	2004
Gross written premiums	**$ 4,312.4**	$ 4,601.6	$ 4,792.1
Net written premiums	**$ 3,843.5**	$ 3,776.1	$ 3,904.8
Revenues			
Earned insurance and reinsurance premiums	**$ 3,712.7**	$ 3,798.6	$ 3,820.5
Net investment income	**435.5**	491.5	360.9
Net realized investment gains	**272.7**	112.6	181.1
Gain on sale of OneBeacon shares	**171.3**	—	—
Other revenue	**202.0**	229.2	192.8
Total revenues	**4,794.2**	4,631.9	4,555.3
Expenses			
Losses and LAE	**2,452.7**	2,858.2	2,591.1
Insurance and reinsurance acquisition expenses	**754.8**	761.2	744.4
Other underwriting expenses	**505.4**	424.7	520.4
General and administrative expenses	**218.3**	148.8	301.0
Accretion of fair value adjustment to loss and LAE reserves	**24.5**	36.9	43.3
Interest expense - debt	**50.1**	44.5	49.1
Interest expense - dividends and accretion on preferred stock	**58.6**	52.4	47.6
Total expenses	**4,064.4**	4,326.7	4,296.9
Pre-tax income	**$ 729.8**	$ 305.2	$ 258.4
Income tax provision	**(98.9)**	(36.5)	(47.0)
Equity in earnings of unconsolidated affiliates	**36.9**	33.6	37.4
Minority interest	**(16.0)**	(12.2)	(10.6)
Net income before extraordinary items	**$ 651.8**	$ 290.1	$ 238.2
Excess of fair value of acquired net assets over cost	**21.4**	—	180.5
Net income	**$ 673.2**	$ 290.1	$ 418.7
Other comprehensive income (loss)	**32.9**	(254.1)	176.5
Comprehensive net income	**$ 706.1**	$ 36.0	$ 595.2
Change in net unrealized (gains) losses from Symetra's fixed maturity portfolio	**28.3**	32.4	(56.6)
Adjusted comprehensive net income	**$ 734.4**	$ 68.4	$ 538.6

Consolidated Results - Year Ended December 31, 2006 versus Year Ended December 31, 2005

White Mountains reported adjusted comprehensive net income of $734 million for 2006, compared to $68 million in 2005. Net income was $673 million in 2006, compared to $290 million in 2005. The increase in 2006 adjusted comprehensive net income resulted primarily from the gain on the sale of OneBeacon shares, favorable weather conditions, strong investment returns and a $21 million after-tax gain on the purchase of Mutual Service. In addition, the 2005 results included $288 million in after-tax losses from hurricanes Katrina, Rita and Wilma, while 2006 included $70 million in after-tax losses from adverse development on those storms and a $95 million after-tax loss from the Olympus reimbursement (see description on page 52). 2005 also included $104 million of after-tax comprehensive net loss from the Montpelier Re investment, compared to $10 million in after-tax comprehensive net income in 2006. Adjusted comprehensive net income for 2006 also benefitted from $59 million of after-tax unrealized foreign currency gains, compared to $70 million of after-tax unrealized foreign currency losses in 2005, primarily from currency fluctuations of the U.S. dollar against the Swedish Krona and the Euro.

White Mountains' total revenues increased by 4% to $4,794 million in 2006 compared to $4,632 million in 2005, mainly due to the $171 million gain on the sale of OneBeacon shares and a $160 million increase in net realized investment gains, primarily due to $165 million of pre-tax losses in the value of the

Company's investment in Montpelier Re realized during 2005, compared to a $5 million pre-tax gain realized in 2006. These increases were

partially offset by a $56 million decrease in net investment income, primarily due to the receipt in 2005 of $74 million special dividend from Montpelier Re, and a 2% decrease in earned premiums, primarily due to a decreases at OneBeacon and White Mountains Re, which were partially offset by an increase at Esurance.

White Mountains' total expenses decreased by 6% to $4,604 million for 2006, primarily due to a $406 million decrease in losses and LAE, partially offset by a $70 million increase in general and administrative expenses. The decrease in losses and LAE was due mainly to lower catastrophe losses in 2006 compared to 2005. In 2005, White Mountains reported $422 million in pre-tax loss and LAE on hurricanes Katrina, Rita and Wilma, compared to $106 million in loss and LAE from adverse development on those storms, as well as a $137 million loss and $9 million in forgone override commissions from the Olympus reimbursement in 2006. The increase in general and administrative expenses in 2006 when compared to 2005 was primarily due to increased incentive compensation expenses.

Consolidated Results - Year Ended December 31, 2005 versus Year Ended December 31, 2004

White Mountains reported adjusted comprehensive net income of $68 million for 2005, compared to $539 million in 2004. Net income was $290 million in 2005, compared to $419 million in 2004. The reduction in 2005 adjusted comprehensive net income resulted primarily from the aforementioned hurricane losses and Montpelier Re investment decline, as well as the impact of $181 million in transaction gains reported in 2004, primarily from the Sirius Acquisition.

White Mountains' total revenues increased by 2% in 2005 compared to 2004, mainly from a $131 million increase in net investment income, primarily due to a $74 million special dividend from Montpelier Re in 2005. Earned premiums decreased by 1% in 2005, primarily due to a decrease at OneBeacon, which was partially offset by increases at White Mountains Re and Esurance. Net realized investment gains decreased by $69 million in 2005, primarily due to losses in the value of the Company's investment in Montpelier Re during 2005.

White Mountains' total expenses also increased by 1% for 2005 as a $267 million increase in loss and LAE, primarily due to hurricanes Katrina, Rita and Wilma, was partially offset by a $152 million decrease in general and administrative expenses, primarily due to decreased incentive compensation expense resulting from a 14% decline in White Mountains' share price during the year.

Income Taxes

The Company is domiciled in Bermuda and has subsidiaries domiciled in several countries. The majority of the Company's worldwide operations are taxed in the United States. Income earned or losses incurred by non-U.S. companies will generally be subject to an overall effective tax rate lower than that imposed by the United States.

The income tax provision related to pretax earnings for 2006, 2005 and 2004 represents an effective tax rate of 13.6%, 12.0% and 18.2%, respectively. White Mountains' effective tax rates for 2006, 2005 and 2004 were lower than the U.S. statutory rate of 35% due primarily to income generated in jurisdictions other than the United States. In addition, White Mountains' effective tax rate for 2006 benefitted from tax benefits recognized in the second quarter of 2006 related to settlements of U.S. Federal income tax audits for years 2001 and 2002 of Fund American Financial Services, Inc. and White Mountains' effective tax rate for 2004 benefitted from the recognition of foreign tax credits, partially offset by taxes incurred from an internal reorganization of the company.

During 2005, White Mountains was advised that the Joint Committee on Taxation approved the United States Internal Revenue Service audit of White Mountains' 1997-2000 tax years, which contained no significant adjustments to the tax returns filed by White Mountains. This audit included the redomestication of White Mountains to Bermuda in 1999.

I. Summary of Operations By Segment

White Mountains conducts its operations through four segments: (1) OneBeacon, (2) White Mountains Re, (3) Esurance and (4) Other Operations. White Mountains manages all of its investments through its wholly-owned subsidiary, WM Advisors, therefore, a discussion of White Mountains' consolidated investment operations is included after the discussion of operations by segment. White Mountains' segment information is presented in **Note 13 - "Segment Information"** to the Consolidated Financial Statements.

OneBeacon

Financial results for OneBeacon for the years ended December 31, 2006, 2005 and 2004 follow:

($ in millions)	Year Ended December 31, 2006	2005	2004
Gross written premiums	**$ 2,088.4**	$ 2,266.5	$ 2,657.5
Net written premiums	**$ 1,957.6**	$ 2,121.1	$ 2,459.1
Earned insurance and reinsurance premiums	**$ 1,944.0**	$ 2,118.4	$ 2,378.5

Net investment income	**187.6**	242.4	219.9
Net realized investment gains	**156.4**	122.8	129.4
Other revenue	**38.8**	50.3	59.5
Total revenues	**2,326.8**	2,533.9	2,787.3
Losses and LAE	**1,180.3**	1,401.5	1,545.2
Insurance and reinsurance acquisition expenses	**332.3**	390.7	442.3
Other underwriting expenses	**360.1**	278.9	369.2
General and administrative expenses	**15.3**	8.4	81.9
Accretion of fair value adjustment to loss and LAE reserves	**23.0**	26.0	33.2
Interest expense on debt	**45.6**	44.1	45.0
Interest expense - dividends and accretion on preferred stock	**58.6**	52.4	47.6
Total expenses	**2,015.2**	2,202.0	2,564.4
Pre-tax earnings	**$ 311.6**	$ 331.9	$ 222.9

The following tables provide GAAP ratios, net written premiums and earned insurance premiums for OneBeacon's ongoing businesses and in total for the years ended December 31, 2006, 2005, and 2004:

($ in millions)	**Year Ended December 31, 2006**			
GAAP Ratios:	**Specialty**	**Personal**	**Commercial**	**Total(1)**
Loss and LAE	**55%**	**64%**	**56%**	**61%**
Expense	**34%**	**32%**	**39%**	**35%**
Total Combined	**89%**	**96%**	**95%**	**96%**
Net written premiums	**$ 437.6**	**$ 800.6**	**$ 718.3**	**$ 1,957.6**
Earned insurance premiums	**$ 432.3**	**$ 822.3**	**$ 689.3**	**$ 1,944.0**

($ in millions)	**Year Ended December 31, 2005**			
GAAP Ratios:	**Specialty**	**Personal**	**Commercial**	**Total (1)**
Loss and LAE	54%	62%	59%	66%
Expense	31%	29%	38%	32%
Total Combined	85%	91%	97%	98%
Net written premiums	$ 548.8	$ 910.2	$ 654.4	$ 2,121.1
Earned insurance premiums	$ 521.9	$ 933.7	$ 654.7	$ 2,118.4

($ in millions)	**Year Ended December 31, 2004**			
GAAP Ratios:	**Specialty**	**Personal**	**Commercial**	**Total (1)**
Loss and LAE	57%	63%	56%	65%
Expense	33%	28%	42%	34%
Total Combined	90%	91%	98%	99%
Net written premiums	$ 565.7	$ 1,063.3	$ 826.8	$ 2,459.1
Earned insurance premiums	$ 539.0	$ 1,070.9	$ 710.3	$ 2,378.5

(1) Includes results from run-off operations.

Beginning in the fourth quarter of 2006, OneBeacon includes OBSP within commercial lines and AutoOne within personal lines. Both OBSP and AutoOne were formerly reported in specialty lines. The reporting change was undertaken to better align the reported results of OneBeacon's underwriting units with their product and management structure. Prior periods have been reclassified to conform to the current presentation. Additionally, during 2005, OneBeacon reallocated $34 million of IBNR reserves from ongoing lines of business to run-off. This reallocation had the effect of lowering the combined ratios for specialty, commercial and personal lines, but had no net impact on OneBeacon's overall results.

OneBeacon Results - Year Ended December 31, 2006 versus Year Ended December 31, 2005

Overview

OneBeacon's pre-tax income for 2006 was $312 million compared to $332 million for 2005, and its GAAP combined ratio was 96% for 2006 compared to 98% for 2005. OneBeacon's 2005 results included the results of NFU prior to its sale on September 30, 2005. The inclusion of NFU in the results for the first nine months of 2005 reduced the 2005 combined ratio by one point.

Lower adverse development on prior accident year losses caused OneBeacon's 2006 combined ratio to decrease four points from 2005. OneBeacon's 2006 results included $23 million of adverse development on prior accident years compared to $95 million in 2005, which primarily related to 2002 and prior accident years. Lower current accident year catastrophe losses also caused OneBeacon's 2006 combined ratio to decrease two points from 2005. OneBeacon's 2006 results included $29 million in current accident year catastrophe losses compared to $81 million in 2005, which included $69 million in from hurricanes Katrina, Rita and Wilma. Offsetting these decreases was a one point increase from higher incentive compensation expenses in 2006 and a one point increase from $20 million of expenses associated with actions taken to reduce long-term occupancy costs, including OneBeacon's move to its new U.S. headquarters in Canton, Massachusetts. In addition, OneBeacon's 2005 results included a $54 million gain from the settlement of its retiree medical plan, which reduced the 2005 combined ratio by three points. The retiree medical plan, which had been frozen in 2002, was terminated and an independent trust was established and funded to provide benefits to covered participants. These actions relieved OneBeacon of its future retiree medical obligations and triggered recognition of the gain. The majority of the gain was recorded as a reduction of other underwriting expenses with a portion of the gain reflected as a reduction in loss and LAE because a portion of the expense of the retiree medical program was allocated to the claims department.

OneBeacon's total revenues decreased 8% in 2006 to $2,327 million compared to $2,534 million in 2005. The decrease was due principally to a 6% decrease in earned premiums in 2006, primarily due to the aforementioned sale of NFU, which had $130 million of earned premium in 2005. Net investment income decreased to $188 million in 2006 compared to $242 million in 2005, primarily due to the receipt of a $35 million special dividend on Montpelier Re common shares in the first quarter of 2005. Net realized investment gains increased to $156 million in 2006 compared to $123 million in 2005. The 2005 period included a realized loss of $55 million due to an other-than-temporary impairment on OneBeacon's investment in Montpelier Re common shares. Other revenues in 2006 included a pre-tax gain of $30 million from OneBeacon's sale of the renewal rights to its Agri business and a pre-tax loss on the exchange of its investment in MSA of $13 million (after tax, the MSA exchange resulted in an $8 million net realized gain). Other revenues in 2005 included $34 million in gains recorded from the sales of two subsidiaries, NFU and Traders and Pacific Insurance Company.

Specialty Lines. The specialty lines combined ratio for 2006 was 89% compared to 85% for 2005. The increase was primarily due a higher expense ratio, which rose to 34% in 2006 from 31% in 2005. The increased expense ratio was primarily due to a one point increase in incentive compensation expense in 2006 and the favorable impact in 2005 of the settlement of the retiree medical plan, which lowered that year's expense ratio by two points. The loss and LAE ratio for 2006 was essentially flat when compared to 2005. Excluding the impact of the aforementioned reallocation of reserves to run-off, which reduced the 2005 loss ratio by three points, the loss and LAE ratio improved in 2006.

Net written premiums for specialty lines decreased by 20% to $438 million in 2006, compared to $549 million in 2005, mainly due to the aforementioned sales of NFU and Agri. Excluding NFU and Agri, specialty lines net written premiums increased $41 million, or 12%, from 2005. The increase was mainly due to a $30 million increase in net written premiums at OBPP to $179 million in 2006 from $149 million in 2005, principally driven by long-term care and lawyers professional liability products. Net written premiums for all other specialty lines businesses increased modestly or were essentially flat when compared with the prior year.

Personal Lines. The personal lines combined ratio for 2006 was 96%, compared to 91% for 2005. The loss and LAE ratio increased to 64% in 2006, compared to 62% in 2005, primarily due to favorable items in 2005. The personal lines 2005 loss and LAE ratio included the benefit of the settlement of the retiree medical plan and the favorable impact of the reallocation of IBNR reserves to run-off, which each reduced the loss and LAE ratio by approximately one point. The expense ratio increased to 32% in 2006, compared to 29% in the prior year, mainly due to increased incentive compensation expenses of approximately one point in 2006 and the benefit of the settlement of the retiree medical plan in 2005, which decreased the 2005 expense ratio by approximately two points. In addition, the 2006 expense ratio was higher than the 2005 expense ratio by approximately one point as expense reductions were not proportional to reductions in earned premiums.

Net written premiums for personal lines decreased by 12% to $801 million in 2006 compared to $910 million in 2005. The decrease was primarily attributable to reduced writings at AutoOne due to the size of New York's assigned risk pool significantly decreasing and reduced writings in traditional personal lines due to an increasingly competitive auto market and state-mandated rate decreases in Massachusetts. With respect to the New York assigned risk pool, market trends indicate that assigned risk volumes are expected to decline to approximately $200 million in 2007, down from $240 million in 2006, $383 million in 2005 and $629 million in 2004. Assigned risk volumes in New Jersey are also expected to decline. Market trends indicate that the assigned risk pool in New Jersey is expected to decline to approximately $140 million in 2007, down from $175 million in 2006, $275 million in 2005 and $375 million in 2004. OneBeacon expects a continued reduction in AutoOne's premium volume in 2007 reflective of these trends.

Commercial Lines. The commercial lines combined ratio for 2006 was 95% compared to 97% for 2005. Lower catastrophe losses caused the commercial lines 2006 combined ratio to decrease six points from 2005. Commercial lines 2006 results included $31 million in current and prior accident year catastrophe losses, which included $21 million in losses incurred from hurricanes Katrina, Rita and Wilma, compared to $64 million in 2005, which included $56 million in losses incurred from hurricanes Katrina, Rita and Wilma. Partially offsetting this decrease was the favorable impact of one point related to the benefit of the settlement of the retiree medical plan in 2005 and two points related to the reallocation in 2005 of IBNR reserves to run-off.

Net written premiums for commercial lines increased by 10% to $718 million in 2006 compared to $654 million in 2005, as net written premiums increased for both the middle market division and the small business division. The increase in net written premiums in the middle market division was experienced in property and inland marine products as well as at OBSP. The increase in small business was experienced in small business package products.

Other Lines. For 2006, other lines generated an underwriting loss of $44 million compared to an underwriting loss of $133 million in 2005. The 2005 results included $107 million in adverse development, mainly from 2002 and prior accident years, which was primarily due to higher than anticipated defense costs and higher damages from liability assessments in general liability and multiple peril lines. As described above, 2005 also included a reallocation of $34 million of IBNR reserves from ongoing lines of business to run-off.

OneBeacon Results - Year Ended December 31, 2005 versus Year Ended December 31, 2004

Overview

OneBeacon's pre-tax income for 2005 was $332 million, compared to pre-tax income of $223 million for 2004, and its combined ratio was 98% for 2005, compared to 99% for 2004.

Higher catastrophe losses caused OneBeacon's 2005 combined ratio to increase approximately three points from 2004. OneBeacon's 2005 results included $82 million in catastrophe losses, which included $69 million in catastrophe losses related to hurricanes Katrina, Rita and Wilma, compared to $31 million of catastrophe losses in 2004. In addition, OneBeacon's 2005 results included a $54 million gain from the settlement of its retiree medical plan, which reduced the 2005 combined ratio by three points, and a release of approximately $20 million of the New York assigned risk liability due to the shrinking of the New York assigned risk pool, which reduced the 2005 combined ratio by one point. OneBeacon's 2005 and 2004 results also include $95 million and $100 million, respectively, in adverse development, primarily relating to 2002 and prior accident years, which impacted the combined ratio by approximately four points in each year.

OneBeacon's total revenues decreased 9% in 2005 to $2,534 million, compared to $2,787 million in 2004, due principally to an 11% decline in earned premiums in 2005. The decrease in earned premiums was partially due to lower commercial lines premiums resulting from the sale of the renewal rights on most of OneBeacon's non-Atlantic Mutual New York commercial lines business to Tower Insurance Group late in 2004. As a result of this transaction,

approximately $110 million of premiums written in 2004 were subject to this renewal rights agreement and were not written by OneBeacon during 2005. OneBeacon's commercial lines also had a one-time premium increase of approximately $135 million in 2004 from the assumption of unearned premium from the Atlantic Specialty transaction.

In addition, personal lines premium decreased in 2005 due to lower volumes in Massachusetts and New York. New Jersey Skylands Insurance also had lower premiums in 2005 as compared to 2004.

Net realized investment gains for 2005 included a realized loss of $55 million due to an other-than-temporary impairment with respect to OneBeacon's investment in Montpelier Re common shares. During 2005, the market value of Montpelier Re common shares decreased from $38.45 per share to $18.90 per share. OneBeacon's original cost of this investment in 2001 was $105 million, which was subsequently increased by $65 million in equity in earnings recorded from 2001 to March 2004, the period in which OneBeacon accounted for the investment under the equity method of accounting. The impairment charge represented the difference between OneBeacon's GAAP cost of $170 million and the investment's fair value of $116 million at December 31, 2005.

Other revenue for 2005 included $34 million in gains recorded from the sales of two subsidiaries, NFU and Traders and Pacific Insurance Company. During 2004, OneBeacon sold two of its subsidiaries, Potomac Insurance Company of Illinois ("Potomac") and Western States Insurance Company ("Western States"), as well as its boiler inspection service business, for a total gain of $22 million that was recognized in other revenue.

As a result of an actuarial review completed in the fourth quarter of 2005, OneBeacon reallocated some of its IBNR reserves from some of the ongoing lines of business to run-off operations. This shifted $34 million of IBNR reserves from specialty lines ($10 million), commercial lines ($12 million) and personal lines ($12 million) to run-off operations. This adjustment had no impact on OneBeacon's total combined ratio.

Specialty Lines. The specialty lines combined ratio for 2005 was 85%, compared to 90% for 2004. The decrease in the combined ratio was mainly due to the reallocation of IBNR reserves to run-off operations and the settlement of the retiree medical plan, which reduced the combined ratio by a total of five points. Specialty lines results in 2005 included $13 million of losses ($9 million at IMU and $4 million atAgri) related to hurricanes Katrina, Rita and Wilma, which unfavorably impacted the combined ratio by three points. In 2004, the combined ratio for specialty lines was adversely impacted by two points ($11 million) from the four hurricanes in the southeastern United States.

Net written premiums for 2005 decreased by 3% to $549 million, compared to $566 million in 2004, as increases at OBPP, which included $28 million of net written premium from a renewal rights agreement with Chubb Specialty Insurance that took effect during the third quarter of 2005 were offset by the sale of NFU in the third quarter of 2005.

Personal Lines. The personal lines combined ratio for 2005 was 91%, compared to 91% for 2004. The loss and LAE ratio decreased in 2005 primarily due to strong homeowners results, aided by favorable catastrophe experience resulting from a relatively mild winter and lack of northeast wind events, as well as lower frequencies in OneBeacon's legacy auto business. The settlement of the retiree medical plan favorably impacted the 2005 combined ratio by three points. In addition, the personal lines combined ratio was favorably impacted by one point from the reallocation of IBNR reserves to run-off operations.

Commercial Lines. The commercial lines combined ratio for 2005 was 97%, compared to 98% for 2004. The reallocation of IBNR reserves to run-off operations and the settlement of the retiree medical plan reduced the combined ratio in 2005 by a total of five points. Commercial lines results in 2005 included $56 million of losses related to hurricanes Katrina, Rita and Wilma, which impacted the combined ratio by nine points, while 2004 included storm losses of $13 million, which impacted the combined ratio by two points. The commercial lines 2004 combined ratio was also adversely impacted by transition and integration costs related to the Atlantic Specialty transaction and adverse results from its non-Atlantic Mutual New York commercial lines book.

Other Lines. Other lines for 2005 included approximately $107 million in adverse development, mainly from 2002 and prior accident years, which was primarily due to higher than anticipated defense costs and higher damages from liability assessments in general liability and multiple peril lines. In addition, during 2005, OneBeacon reallocated $34 million of IBNR reserves from some of its ongoing lines of business to run-off lines.

White Mountains Re

Financial results and GAAP combined ratios for White Mountains Re for the years ended December 31, 2006, 2005 and 2004 follows:

Millions	Year Ended December 31, 2006	2005	2004
Gross written premiums	**$ 1,624.5**	$ 1,981.3	$ 1,933.3
Net written premiums	**$ 1,290.0**	$ 1,304.1	$ 1,246.3
Earned insurance and reinsurance premiums	**$ 1,241.2**	$ 1,371.6	$ 1,265.5
Net investment income	**182.7**	148.9	98.5
Net realized investment gains	**59.0**	76.8	29.6
Other revenue	**47.8**	33.5	36.1
Total revenues	**1,530.7**	1,630.8	1,429.7
Losses and LAE	**884.6**	1,237.9	918.9
Insurance and reinsurance acquisition expenses	**287.2**	279.6	271.8
Other underwriting expenses	**94.7**	107.0	122.9

General and administrative expenses	**24.2**	12.4	15.1
Accretion of fair value adjustment to loss and LAE reserves	**1.5**	10.9	10.1
Interest expense on debt	**1.5**	.4	3.8
Total expenses	**1,293.7**	1,648.2	1,342.6
Pre-tax earnings (loss)	**$ 237.0**	$ (17.4)	$ 87.1

	Years Ended December 31,		
	2006	**2005**	**2004**
GAAP ratios:			
Loss and LAE	**71%**	90%	73%
Expense	**31%**	28%	31%
Total Combined	**102%**	118%	104%

White Mountains Re Results - Year Ended December 31, 2006 versus Year Ended December 31, 2005

White Mountains Re's pre-tax income for 2006 was $237 million compared to a pre-tax loss of $17 million for 2005, and its GAAP combined ratio was 102% for 2006 compared to 118% for 2005. The improved combined ratio and the increase in pre-tax income resulted primarily from significantly lower catastrophe losses. During 2006, White Mountains Re recorded $86 million of unfavorable development, net of reinstatement premiums and reinsurance, related to hurricanes Katrina, Rita and Wilma and $137 million in losses and $9 million of forgone override commissions related to the Olympus reimbursement. During 2005, White Mountains Re recognized $351 million in pre-tax losses, net of reinstatement premiums and reinsurance from hurricanes Katrina, Rita and Wilma. 2005 also included $57 million of other significant property catastrophe losses, primarily from European storm Erwin and floods in Europe.

Excluding the unfavorable development from Katrina, Rita and Wilma and the Olympus reimbursement, White Mountains Re's underwriting units performed well in 2006, reflecting generally more favorable weather conditions and continued favorable prices, terms and conditions within the reinsurance marketplace. Excluding the additional losses from hurricanes Katrina, Rita and Wilma and the Olympus reimbursement, favorable development on prior year reserves of $11 million resulted primarily from continued favorable run off of recent underwriting years at Sirius International of $46 million and favorable development of $19 million arising from Folksamerica's agriculture line of business, offset by unfavorable development of $55 million from casualty losses associated with the Risk Capital acquisition.

White Mountains Re's 2006 gross written premiums decreased by 18% to $1,625 million and net written premiums decreased by 1% to $1,290 million from $1,304 million in 2005. White Mountains Re reduced its overall property exposure and Folksamerica non-renewed its excess offshore energy and marine business in the Gulf of Mexico starting on January 1, 2006, which caused gross written premiums to decline substantially in 2006 versus

2005. All of the non-renewed excess offshore energy and marine business was subject to Folksamerica's reinsurance treaty with Olympus, under which Folksamerica ceded up to 75% of this business in 2005. As a result, the impact on the change in White Mountains Re's net written premiums from 2005 to 2006 was significantly less than the impact on the change in its gross written premiums over the same period. Gross and net written premiums were also lower during 2006 due to lower reinstatement premiums on property catastrophe reinsurance, which had primarily resulted from reinstated coverage after hurricanes Katrina and Rita in 2005, and lower premiums from Sirius America, which was sold in August 2006. Sirius America contributed $71 million and $39 million of gross and net written premiums, respectively, in 2006, compared to $248 million and $87 million, respectively, in 2005. Additionally, gross and net written premiums on casualty lines were lower in 2006, due mainly to pricing, terms and conditions that did not meet White Mountains Re's pricing guidelines and due to higher ceding company retentions. These decreases were partially offset by increases in certain non-catastrophe exposed classes, particularly in specialty lines.

White Mountains Re's net investment income increased by $34 million in 2006 as a result of higher overall yields and a larger investment asset base, principally due to contributions from White Mountains. Other underwriting expenses decreased in 2006 by $12 million, or 11%, from 2005, primarily due to a reduction in unallocated loss adjustment expense reserves of approximately $7 million during the first quarter of 2006 resulting from an evaluation of the remaining run-off contracts at Scandinavian Re, as well as a reduction in incentive compensation accruals. General and administrative expenses increased to $24 million in 2006 from $12 million in 2005. The increase is primarily due to accruals related to the relocation of the underwriting advisory operations from Ireland to Bermuda and costs associated with expanding the Bermuda advisory operations.

Accretion of fair value adjustment to loss and LAE reserves decreased in 2006 by $9 million, or 86%, from $11 million in 2005 as a result of a change in the rate of accretion of the fair value adjustment to loss and LAE reserves that was established in the purchase accounting for the Sirius Acquisition. The change in accretion resulted from the aforementioned evaluation of the remaining run-off contracts at Scandinavian Re and will be made prospectively over the remaining amortization period.

White Mountains Re recognized fee income of $12 million from Olympus and Helicon in 2006, $9 million of which was recorded as other revenues, compared to $61 million of fee income from Olympus in 2005, $28 million of which was recorded as other revenues. The decrease in fee income was primarily the result of a reduction in amounts ceded to Olympus and Helicon in 2006 compared to 2005 and due to FHC waiving $9 million of override commission due from Olympus in accordance with the Olympus reimbursement. Other revenues in 2006 also included a $14 million gain from the sale of Sirius America and $21 million of realized foreign exchange gains. In 2005, other revenue also included a $5 million gain from the sale of California Indemnity Insurance Company, a wholly-owned subsidiary of White Mountains Re acquired in 2004 as part of the Sierra acquisition.

Olympus reimbursement. In June 2006, following the receipt of new claims information reported from several ceding companies and subsequent reassessment of the ultimate loss exposures, White Mountains Re increased its gross loss estimates for hurricanes Katrina, Rita and Wilma by $201 million. This was mostly on Folksamerica Re's off-shore energy and marine exposures attributable to retrocessional arrangements and business interruption coverage. As a result, Folksamerica Re set its gross loss and LAE reserves as of June 30, 2006 on offshore energy and marine exposures for hurricanes Katrina and Rita at full contract limits. Starting January 1, 2006, Folksamerica Re non-renewed its excess offshore energy and marine business in the Gulf of Mexico.

Under the terms of Folksamerica Re's 2005 quota share reinsurance treaty with Olympus, $139 million of the loss, net of reinstatement premiums, from hurricanes Katrina, Rita and Wilma recorded in the second quarter of 2006 was ceded to Olympus. However, FHC entered into an indemnity agreement with Olympus on June 16, 2006, under which it agreed to reimburse Olympus for up to $137 million of these losses, which were recorded as loss and LAE during the second quarter of 2006. FHC also waived override commissions on premiums earned by Olympus after March 31, 2006 for reinsurance contracts recommended by White Mountains Re with an effective date of December 31, 2005 and prior. White Mountains Re expects that the commission waivers will total approximately $10 million. Folksamerica Re will continue to cede 35% of its 2007 underwriting year short-tailed excess of loss business, mainly property and marine, with Olympus and Helicon sharing approximately 55% and 45%, respectively, in 2007. Olympus will continue to be responsible to pay losses on exposures that have been ceded to it and will continue to receive cessions from Folksamerica Re.

White Mountains Re Results - Year Ended December 31, 2005 versus Year Ended December 31, 2004

White Mountains Re's pre-tax loss for 2005 was $17 million, compared to pre-tax income of $87 million for 2004, and its GAAP combined ratio was 118% for 2005, compared to 104% for 2004. White Mountains Re's 2005 results included pre-tax losses, net of reinstatements and reinsurance, of $351 million from hurricanes Katrina, Rita and Wilma and $57 million of other significant property catastrophe losses, primarily from European storm Erwin and floods in Europe, which added a total of 30 points to the combined ratio. In addition, White Mountains Re recorded $51 million of net unfavorable loss reserve development in 2005 (discussed below), which contributed 4 points to the loss ratio. During 2005, earnings from business segments not impacted by the property catastrophe events and increased net investment income partially offset these losses. Additionally, White Mountains Re's expense ratio decreased to 28% in 2005, from 31% in 2004, due mainly to a decrease in incentive compensation accruals. White Mountains Re's 2004 results included $135 million of pre-tax losses, net of reinstatements and reinsurance, from the four hurricanes that affected the southeastern United States and the tsunami that impacted South Asia, which added a total of 11 points to the combined ratio.

White Mountains Re's 2005 gross written premiums increased by 3% to $1,981 million and net written premiums increased by 5% to $1,304 million from 2004. The increase was due primarily to Sirius International, which was acquired in the second quarter of 2004 and contributed nine months of premiums in 2004 versus twelve months in 2005, partially offset by decreased premium volume at both Sirius International and Folksamerica as a result of the general softness in the reinsurance market prior to hurricanes Katrina, Rita and Wilma.

White Mountains Re's net investment income increased in 2005 compared to 2004 primarily as a result of the inclusion of Sirius International's investment portfolio, which was acquired during the second quarter of 2004, for the entire year of 2005. Other underwriting expenses decreased in 2005 by $16 million, or 13%, from 2004.

White Mountains Re recorded $51 million of net unfavorable loss reserve development in 2005, the majority of which resulted from a detailed, ground-up asbestos study completed by White Mountains Re in 2005. The study analyzed all insureds that have reported over $250,000 of asbestos claims to Folksamerica and a significant sample of all other insureds with reported asbestos claims of less than $250,000. Comparing estimates generated by the study to Folksamerica exposed limits by underwriting year led to an increase of approximately $50 million in IBNR during the third quarter of 2005. This unfavorable development was partially offset by favorable development in the Sirius International reserve portfolio of approximately $12 million, mainly from the three most recent underwriting years. Included in the net unfavorable loss development in 2005 was $23 million from workers compensation reserves acquired in 2004 as part of the Sierra acquisition. However, this amount was offset dollar-for-dollar by a decrease in the balance due under the adjustable note issued in conjunction with this acquisition.

White Mountains Re receives fee income on reinsurance placements referred to Olympus and is entitled to a profit commission based on net underwriting profits on referred business. During 2005 and 2004, White Mountains Re earned $61 million and $69 million, respectively, of fee income from Olympus. The decrease in fee income from the prior period is primarily due to the significant loss events in 2005, including hurricanes Katrina, Rita and Wilma, which resulted in White Mountains Re not earning any profit commission in 2005 compared to earning $12 million of profit commission in 2004. The profit commission arrangement with Olympus is subject to a deficit carryforward whereby net underwriting losses from one underwriting year carryover to future underwriting years. As a result of the significant loss events in 2005, Olympus recorded a substantial net underwriting loss for the year. Accordingly, White Mountains Re does not expect to record profit commissions from Olympus for the foreseeable future.

Effective January 1, 2006, Folksamerica renewed its quota-share reinsurance arrangements with Olympus on modified terms and Sirius International terminated its agreement with Olympus. The 2005 and prior underwriting year business will continue to run-off with Olympus. For a further discussion, see **"Reinsurance Protection",** under **"WHITE MOUNTAINS RE"** in Item 1.

Esurance

Esurance's financial results and GAAP combined ratios for the years ended December 31, 2006, 2005 and 2004 follows:

Millions	Year Ended December 31, 2006	2005	2004
Gross written premiums	**$ 599.5**	$ 351.9	$ 201.3
Net written premiums	**$ 595.9**	$ 349.1	$ 199.4
Earned insurance and reinsurance premiums	**$ 527.5**	$ 306.8	$ 176.5
Net investment income	**18.4**	9.8	3.5
Net realized investment gains	**6.9**	2.1	1.1
Other revenue	**7.4**	3.0	2.2
Total revenues	**560.2**	321.7	183.3

Losses and LAE	**383.9**	206.2	122.4
Insurance and reinsurance acquisition expenses	**135.3**	90.8	30.3
Other underwriting expenses	**48.8**	37.2	26.8
General and administrative expenses	**0.2**	—	—
Total expenses	**568.2**	334.2	179.5
Pre-tax earnings (loss)	**$ (8.0)**	$ (12.5)	$ 3.8

	Years Ended December 31,		
	2006	**2005**	**2004**
GAAP ratios:			
Loss and LAE	**73%**	67%	69%
Expense	**35%**	42%	33%
Total Combined	**108%**	109%	102%

Esurance Results - Year Ended December 31, 2006 versus Year Ended December 31, 2005

Esurance's pre-tax loss for 2006 was $8 million compared to a pre-tax loss of $13 million for 2005. Esurance's GAAP combined ratio was 108% for 2006 compared to 109% for 2005. Esurance's loss ratio increased to 73% in 2006 from 67% in the prior period, due to rate reductions and one point of unfavorable development on loss reserves in 2006 compared to three points of favorable development on loss reserves in the prior year. The expense ratio decreased to 35% in 2006 from the prior period expense ratio of 42% due to lower acquisition costs and additional operating efficiencies.

Net written premium increased to $596 million, a 71% increase from 2005. As of December 31, 2006, Esurance's in-force policy count totaled 372,688, a 76% increase over 2005. During 2006, Esurance continued to expand through national and local television advertising, online marketing, direct mail, and online agency channels. More site traffic and improved conversion rates lowered the costs of acquiring new customers during 2006.

Esurance writes business in 24 states. During 2006, Esurance's largest states were California (with 19% of direct premium written), Florida (17%), New York (9%), Texas (6%) and Michigan (6%).

Esurance Results - Year Ended December 31, 2005 versus Year Ended December 31, 2004

Esurance's pre-tax loss for 2005 was $13 million, compared to pretax income of $4 million for 2004. Esurance's GAAP combined ratio was 109% for 2005, compared to 102% for 2004. Esurance's loss ratio decreased to 67% in 2005, from 69% in the prior year, despite $2 million in losses sustained from hurricane Wilma during 2005. The decrease in the loss ratio resulted primarily from improved claims performance and increased pricing sophistication. The expense ratio increased to 42% in 2005, from 33% in the prior year, mainly due to higher acquisition expenses from Esurance's marketing programs, driven by increased competition for new customers. The combined ratio was also adversely impacted by approximately 3 points from the adoption of a new long-term incentive compensation plan in 2005.

Net written premiums increased to $349 million in 2005, a 75% increase from 2004. As of December 31, 2005, Esurance's in-force policy count totaled 211,851, a 79% increase over 2004, and it wrote business in twenty-two states. For the year ended December 31, 2005, Esurance's largest states were Florida (with 20% of direct premium written), California (20%), Texas (9%), New York (8%) and Michigan (7%).

Other Operations

Other Operations consists of the operations of the Company, the Company's intermediate subsidiary holding companies, White Mountains' weather risk management and variable annuity reinsurance businesses, the consolidated results of the Tuckerman Funds, the International American Group and White Mountains' investments Symetra and Montpelier Re. A summary of White Mountains' financial results from its Other Operations segment for the years ended December 31, 2006, 2005 and 2004 follows:

	Year Ended December 31,		
Millions	**2006**	**2005**	**2004**
Gross written premiums	**$ —**	$ 1.9	$
Net written premiums	**$ —**	$ 1.8	$ —
Earned insurance and reinsurance premiums	$ —	$ 1.8	$ —
Net investment income	**46.8**	90.4	39.0
Net realized investment gains (loss)	**50.4**	(89.1)	21.0
Gain on sale of shares of OneBeacon	**171.3**	**—**	**—**
Other revenue	**108.0**	142.4	95.0
Total revenues	**376.5**	145.5	155.0
Losses and LAE	**3.9**	12.6	4.6
Insurance and reinsurance acquisition expenses	**—**	.1	—
Other underwriting expenses	**1.8**	1.6	1.5
General and administrative expenses	**178.6**	128.0	204.0
Interest expense on debt	**3.0**	—	.3
Total expenses	**187.3**	142.3	210.4
Pre-tax income (loss)	**$ 189.2**	$ 3.2	$ (55.4)

Other Operations Results - Year Ended December 31, 2006 versus Year Ended December 31, 2005

White Mountains' Other Operations segment reported pre-tax income of $189 million for 2006, compared to $3 million for 2005. The increase was primarily attributable to the $171 million gain on the sale of OneBeacon shares. In addition, the Montpelier Re investment accounted for $13 million in pre-tax income during 2006, compared to $63 million of pre-tax losses during 2005, which included $39 million of net investment income from the special dividend. These increased gains were partially offset by a $58 million increase in incentive compensation expense in 2006 compared to 2005. In addition, White Mountains' weather risk management and variable annuity reinsurance businesses contributed $(3) million and $2 million, respectively, to pre-tax income for the Other Operations segment in their first year of operation.

Other Operations Results - Year Ended December 31, 2005 versus Year Ended December 31, 2004

White Mountains' Other Operations segment reported pre-tax income of $3 million for 2005, compared to a pre-tax loss of $55 million for 2004. The following items contributed to the improved results in 2005: (1) an $84 million decrease in incentive compensation expense in 2005; (2) the special dividend from Montpelier Re in the 2005 first quarter, $39 million of which was reported in this segment; (3) $26 million of gains recorded in other revenues in 2005 from the settlement of two lawsuits in which White Mountains was a plaintiff; and (4) a $14 million increase in other net investment income. Additionally, the 2004 results included a $20 million realized loss from the impact that currency fluctuations had on hedging the cost of funding for the Sirius Acquisition. These loss-reducing factors were partially offset by a $126 million decrease in net realized investment gains from the valuation of the Montpelier Re warrants (a $110 million loss in 2005 versus a $16 million gain in 2004).

II. Summary of Investment Results

A summary of White Mountains' consolidated pre-tax investment results for the years ended December 31, 2006, 2005 and 2004 follows:

	Year Ended December 31,		
Millions	**2006**	**2005**	**2004**
Net investment income	**$ 435.5**	$ 491.5	$ 360.9
Net realized investment gains	**272.7**	112.6	181.1
Net unrealized investment gains (losses)	**120.1**	(275.1)	156.1
Total GAAP pre-tax investment results	**$ 828.3**	$ 329.0	$ 698.1

Gross investment returns versus typical benchmarks for the years ended December 31, 2006, 2005 and 2004 are as follows. For purposes of discussing rates of return, all percentages are presented gross of management fees and trading expenses in order to produce a more relevant comparison to benchmark returns, while all dollar amounts are presented net of any management fees and trading expenses.

	Year Ended December 31,		
	2006	**2005**	**2004**
Fixed maturity investments	**5.9%**	2.7%	4.4%
Short-term investments	**6.1**	5.6	1.9
Total fixed maturities	**6.0**	3.0	4.1
Lehman U.S. Aggregate Index	**4.3**	2.4	4.3
Common stock	**22.0**	5.1	35.4
Other investments	**16.9**	3.9	24.3
Total equities	**20.4**	4.7	31.8
S&P 500 Index (total return)	**15.8**	4.9	10.9
Total consolidated portfolio	**8.2%**	3.3%	7.4%

Investment Returns -Year Ended December 31, 2006 versus Year Ended December31, 2005

White Mountains' total pre-tax investment result was a gain of $828 million, a return of 8.2% for 2006 compared to a gain of $329 million, a return of 3.3% for 2005. White Mountains' total fixed maturity portfolio returned 6.0% during 2006 versus 3.0% during 2005. The higher return in 2006 was primarily due to a more favorable interest rate environment, where the rate of increase in interest rates during 2006 was lower than during 2005. In addition, the weakening of the U.S. dollar during 2006 reversed a trend from 2005 and produced unrealized currency exchange gains of $112 million in White Mountains' foreign denominated fixed maturity securities portfolio. White Mountains' total equity portfolio returned 20.4% during 2006 versus 4.7% during 2005. The equity return in 2005 was adversely impacted by 12.1 points due to the decline in the Montpelier Re investment.

Net investment income of $436 million during 2006 decreased 11% from $492 million during 2005, principally due to the receipt of a $74 million special dividend on the Montpelier Re investment during 2005. Net realized investment gains of $273 million during 2006 increased by 142% from $113 million during 2005, primarily due to a $170 million increase in realized gains from the Montpelier Re investment (a $5 million realized gain in 2006 period versus a $165 million realized loss in 2005). Net unrealized gains on investments of $120 million during 2006 improved from net unrealized losses of $275 million during 2005, primarily due to the effect of interest rate movements and foreign currency fluctuations, as described above. In addition, 2005 included a $65 million pre-tax unrealized loss from the Montpelier Re common share investment.

Investment Returns -Year Ended December 31, 2005 versus Year Ended December 31, 2004

White Mountains' total pre-tax investment result was $329 million, a return of 3.3% for 2005 versus $698 million, a return of 7.4%, for 2004. White Mountains' total fixed maturity portfolio returned 3.0% during 2005 versus 4.1% during 2004. The lower return in 2005 was primarily due to a less favorable

interest rate environment, where the rate of increase in interest rates during 2005 was much larger than during 2004. In addition, the strengthening of the U.S. dollar during 2005 reversed a trend from 2004 and produced unrealized currency exchange losses in White Mountains' foreign denominated fixed maturity securities portfolio. White Mountains' total equity portfolio returned 4.7% during 2005 versus 31.8% during 2004. The equity return in 2005 was adversely impacted by 12.1 percentage points due to the decline in the Montpelier Re investment, while the equity return in 2004 was favorably impacted by 7.4 percentage points due to gains in the Montpelier Re investment.

Net investment income of $492 million during 2005 increased 36% from $361 million during 2004, principally due to the receipt of a $74 million special dividend on the Montpelier Re investment during 2005. Net realized investment gains of $113 million during 2005 decreased by 38% from $181 million during 2004, primarily due to a $165 million realized loss from the Montpelier Re investment, partially offset by realized gains generated by reducing our positions in certain highly appreciated securities. Net unrealized losses on investments of $275 million during 2005 deteriorated from net unrealized gains of $156 million during 2004, primarily due to the effect of interest rate movements and foreign currency fluctuations, as described above. In addition, 2005 included a $65 million pre-tax unrealized loss from the Montpelier Re common share investment.

Portfolio composition

The following table presents the composition of White Mountains' investment portfolio as of December 31, 2006 and 2005:

Millions	As of December 31 2006, $ in millions	As of December 31 2006, % of total	As of December 31, 2005 $ in millions	As of December 31, 2005 % of total
Fixed maturity investments	**$ 7,911.5**	69.8%	$ 7,582.7	76.9%
Short-term investments	**1,344.9**	11.9	727.8	7.4
Common equity securities	**1,212.6**	10.7	967.8	9.8
Other investments	**524.8**	4.6	588.1	5.9
Trust account investments	**338.9**	3.0	—	—
Total investments	**$ 11,332.7**	100.0%	$ 9,866.4	100.0%

The breakdown of White Mountains' fixed maturity investments, including trust account investments, at December 31, 2006 by credit class, based upon issue credit ratings provided by Standard and Poor's, or if unrated by Standard and Poor's, long term obligation ratings provided by Moody's, is as follows:

Millions	As of December 31 2006, Amortized cost	As of December 31 2006, % of total
U.S. government and government-sponsored entities	**$ 2,406.5**	29.6%
AAA/Aaa	**3,000.2**	37.0
AA/Aa	**261.5**	3.2
A/A	**1,080.6**	13.3
BBB/Baa	**1,141.7**	14.1
Other/not rated	**227.4**	2.8
Total fixed maturity investments	**$ 8,117.9**	100.0%

The weighted average duration of White Mountains' fixed maturity portfolio, excluding short-term investments, at December 31, 2006 was three years. The cost or amortized cost and carrying value of White Mountains' fixed maturity available-for-sale investments at December 31, 2006 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

Millions	December 31, 2006 Cost or amortized cost	December 31, 2006 Carrying value
Due in one year or less	$ 445.7	$ 462.5
Due after one year through five years	3,058.3	3,101.4
Due after five years through ten years	1,135.7	1,139.6
Due after ten years	467.6	471.2
Asset-backed securities	2,899.1	2,904.7
Preferred stocks	111.5	136.1
Total	**$ 8,117.9**	**$ 8,215.5**

Montpelier Re investment

After-tax changes in White Mountains' book value from its investment in Montpelier Re for the years ended December 31, 2006, 2005 and 2004 were as follows:

Millions	Year Ended December 31, 2006	2005	2004
Net investment income, pre-tax	**$ 3.6**	$ 89.7	$ 18.3
Net realized investment gains (losses), pre-tax	**4.8**	(165.1)	51.5
Total revenues (losses), pre-tax	**8.4**	(75.4)	69.8
Tax benefit (expense) on total revenues	**1.3**	13.5	(17.9)
Total revenues (losses), after-tax	**9.7**	(61.9)	51.9
Change in net unrealized investment gains (losses), after-tax	**.1**	(42.3)	36.0
Equity in earnings of Montpelier, after-tax	**—**	—	11.0
Net after-tax change in White Mountains' book value from Montpelier investment	**$ 9.8**	$ (104.2)	$ 98.9

During 2005, White Mountains recognized $104 million of after-tax losses, net of dividends received, on its investment in Montpelier Re. Montpelier Re's common share price decreased from $38.45 at December 31, 2004 to $18.90 at December31, 2005, resulting in a $110 million pre-tax realized investment loss on White Mountains' Montpelier Re warrant investment. In addition, White Mountains recorded a $55 million pre-tax other-than-temporary impairment charge (reported as a realized investment loss) and a $42 million after-tax unrealized investment loss on its Montpelier Re common share investment during 2005. White Mountains' original cost of its Montpelier common share investment was $106 million, which was subsequently increased by $65 million in equity in earnings recorded by White Mountains from 2001 to 2004, the period in which it accounted for the investment under the equity method of accounting. The impairment charge represented the difference between White Mountains' GAAP cost of $171 million and the investment's fair value of $116 million at December 31, 2005.

During 2006, White Mountains recorded $4 million in pre-tax dividends from Montpelier Re in net investment income. During 2005, Montpelier Re declared a special dividend of $5.50 per share, payable to holders of both its common shares and warrants to acquire its common shares. White Mountains recorded pre-tax dividend income of $74 million in 2005 for this special dividend, in addition to $16 million in dividend income from Montpelier's normal quarterly dividends.

White Mountains sold a portion of its investment in Montpelier Re common shares during 2004 resulting in a $35 million pre-tax realized gain and, as a result, changed the method of accounting for its remaining Montpelier common shares to the fair value method, resulting in a $33 million increase in after-tax unrealized gains in the first quarter of 2004. During 2006, White Mountains sold an additional 5.4 million shares of its common share investment in Montpelier Re and realized a pre-tax gain of $5.5 million on the sale.

At December 31, 2006 and 2005, White Mountains' investment in Montpelier Re warrants and common stock totaled $67 million and $167 million, respectively.

Impairment

See **Note 5 - "Investments"** of the accompanying consolidated financial statements for White Mountains analysis of impairment losses on investment securities.

NON-GAAP FINANCIAL MEASURES

This report includes three non-GAAP financial measures that have been reconciled to their most comparable GAAP financial measures. White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains' financial performance and capital position.

Adjusted comprehensive net income is a non-GAAP financial measure that excludes the change in net unrealized gains and losses from Symetra's fixed maturity portfolio from comprehensive net income. In the calculation of comprehensive net income under GAAP, fixed maturity investments are marked-to-market while the liabilities to which those assets are matched are not. Symetra attempts to earn a "spread" between what it earns on its investments and what it pays out on its products. In order to try to fix this spread, Symetra invests in a manner that tries to match the duration and cash flows of its investments with the required cash outflows associated with its life insurance and structured settlements products. As a result, Symetra typically earns the same spread on in-force business whether interest rates fall or rise. Further, at any given time, some of Symetra's structured settlement obligations may extend 40 or 50 years into the future, which is further out than the longest maturing fixed maturity investments regularly available for purchase in the market (typically 30 years). For these long-dated products, Symetra is unable to fully match the obligation with assets until the remaining expected payout schedule comes within the duration of securities available in the market. If at that time, these fixed maturity investments have yields that are lower than the yields expected when the structured settlement product was originally priced, the spread for the product will shrink and Symetra will ultimately harvest lower returns for its shareholders. GAAP comprehensive net income increases when rates decline, which would suggest an increase in the value of Symetra - the opposite of what is happening to the intrinsic value of the business. Therefore, White Mountains' management and Board of Directors use adjusted comprehensive net income when assessing Symetra's quarterly financial performance. In addition, this measure is typically the predominant component of growth in fully converted tangible book value per share, which is used in calculation of White Mountains' performance for both short-term (annual bonus) and long-term incentive plans. The reconciliation of adjusted comprehensive net income to comprehensive net income is included on page 45.

Book value per share is derived by dividing the Company's total GAAP shareholders' equity as of a given date by the number of common shares outstanding as of that date, including the dilutive effects of outstanding Options and warrants to acquire common shares, as well as the unamortized accretion of preferred stock. Fully converted tangible book value per common and equivalent share is a non-GAAP measure which is derived by expanding the GAAP book value per share calculation to include the effects of assumed conversion of all convertible securities and to exclude any unamortized goodwill and net unrealized gains from Symetra's fixed maturity portfolio. The reconciliation of fully converted tangible book value per common and equivalent share to book value per share is included on page 44.

Total capital at White Mountains is comprised of common shareholders' equity, minority interest in OneBeacon Ltd., debt and, through December31, 2005, preferred stock subject to mandatory redemption. As a result of the OneBeacon Offering, the preferred stock was economically defeased and, therefore, was not included in total capital as of December 31, 2006. Tangible capital is a non-GAAP measure which excludes from total capital the unamortized goodwill and the equity in net unrealized gains from Symetra's fixed maturity portfolio. The reconciliation of total capital to total tangible capital is included on page 62.

LIQUIDITY AND CAPITAL RESOURCES

Operating cash and short-term investments

Holding company level. The primary sources of cash for the Company and certain of its intermediate holding companies are dividends and tax sharing payments received from its insurance and reinsurance operating subsidiaries, financing activities and net investment income and proceeds from sales and maturities of holding company investments. The primary uses of cash are interest payments on its debt obligations, dividend payments on the Company's common shares and on minority interest holders of OneBeacon Ltd.'s common shares, purchases of investments and holding company operating expenses.

Operating subsidiary level. The primary sources of cash for White Mountains' insurance and reinsurance operating subsidiaries are premium collections, net investment income and proceeds from sales and maturities of investments. The primary uses of cash are claim payments, policy acquisition costs, operating expenses, the purchase of investments and dividend and tax sharing payments made to holding companies.

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

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

Dividend Capacity

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

OneBeacon:

Subsequent to the OneBeacon Offering, the Company and its intermediate holding companies expect to receive regular dividends from OneBeacon Ltd. The board of OneBeacon Ltd. has authorized quarterly dividend payments of $0.21 per share, commencing in the first quarter of 2007.

Generally, OneBeacon's regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount equal to the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. As a result, based on 2006 statutory net income, OneBeacon's top tier regulated insurance operating subsidiaries have the ability to pay approximately $234 million of dividends during 2007 without prior approval of regulatory authorities, subject to the availability of unassigned funds. As of December 31, 2006, OneBeacon's top tier regulated insurance operating subsidiaries had $1.6 billion of unassigned funds.

In addition, as of December 31, 2006, OneBeacon had approximately $31 million of unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries and OneBeacon Ltd. and its intermediate holding companies had an additional $66 million of unrestricted cash and fixed maturity investments at its intermediate holding companies. During 2006, OneBeacon paid $90 million of dividends to Fund American and OneBeacon Ltd. paid $12 million of dividends to its immediate parent.

White Mountains Re:

Folksamerica Re has the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount equal to the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Based upon December 31, 2006 statutory surplus of $1,153 million, Folksamerica Re would have the ability to pay approximately $115 million of dividends during 2007 without prior approval of regulatory authorities, subject to the availability of earned surplus. As of December 31, 2006, Folksamerica Re had $1 million of earned surplus.

In addition, as of December 31, 2006, Folksamerica had approximately $31 million of unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries. During 2006, Folksamerica Re paid $5 million in dividends to its immediate parent.

Sirius International has the ability to pay dividends subject to the availability of unrestricted statutory surplus. Historically, Sirius International has allocated the majority of its earnings to the Safety Reserve (see **"Safety Reserve"** below). As a result, as of December31, 2006, Sirius International had no unrestricted statutory surplus.

In accordance with the provisions of Swedish law, Sirius International can voluntarily transfer its pre-tax income, or a portion thereof, subject to certain limitations, to its parent company to minimize taxes. In early 2007, Sirius International will transfer approximately $35 million of its 2006 pre-tax income to its parent company.

WMRUS has the ability to distribute its 2007 earnings without restriction. At December 31, 2006, WMRUS had $7 million of unrestricted cash. During 2006, WMRUS paid $14 million of dividends to its immediate parent.

In addition, as of December 31, 2006, White Mountains Re and its intermediate holding companies had an additional $26 million of unrestricted cash and fixed maturity investments outside of Folksamerica, Sirius and WMRUS. During 2006, White Mountains Re paid $46 million of dividends to its immediate parent.

Esurance:

Generally, Esurance's regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount equal to the lesser of prior year statutory net income or 10% of prior year end statutory surplus, subject to the

availability of unassigned funds. As a result, based on December 31, 2006 statutory surplus of $69 million, Esurance's top tier regulated insurance operating subsidiary has the ability to pay $7 million of dividends during 2007 without prior approval of regulatory authorities, subject to the availability of unassigned funds. As of December 31, 2006, Esurance's top tier regulated insurance operating subsidiary had $21 million of unassigned funds.

In addition, as of December 31, 2006, Esurance had $3 million of unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries. During 2006, Esurance did not pay any cash dividends to its immediate parent.

Other operations:

As of December 31, 2006, White Mountains had $497 million of unrestricted cash and fixed maturity investments at the Company and its intermediate holding companies included in its other operations segment.

Safety Reserve

In accordance with provisions of Swedish law, Sirius International is permitted to transfer up to the full amount of its pre-tax income, subject to certain limitations, into an untaxed reserve referred to as a safety reserve, which amounted to $1.3 billion at December 31, 2006. Under GAAP, an amount equal to the safety reserve, net of the related deferred tax liability established at the Swedish tax rate of 28%, is classified as shareholders' equity. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain predetermined levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International's safety reserve ($351 million at December 31, 2006) is included in solvency capital.

Keep-Well

On November 30, 2004, White Mountains completed a significant corporate reorganization, through which ownership of Folksamerica was transferred to White Mountains Re from Fund American. In order to effect the reorganization, White Mountains and Fund American entered into or amended certain agreements with respect to the Berkshire Preferred Stock. Under the terms of a Keep-Well Agreement dated November 30, 2004 between White Mountains and Fund American (the "Keep-Well"), White Mountains has agreed to return to Fund American up to approximately $1.1 billion, which equals the amount of net assets transferred out of Fund American as a result of the reorganization, if some or all of that amount is required by Fund American to meet its obligations to Berkshire under the Berkshire Preferred Stock. Additionally, the Keep-Well limits the aggregate amount of distributions that White Mountains may make to its shareholders. This distribution limit, which as of December 31, 2006 was $2.2 billion, will increase or decrease by an amount equal to White Mountains' consolidated net income or loss over the remaining life of the agreement. The Keep-Well will expire when all obligations of the Berkshire Preferred Stock, which is redeemable in May 2008, have been satisfied, or when approximately $1.1 billion has been returned to Fund American.

Insurance Float

Insurance float is an important dynamic of White Mountains' operations that must be managed effectively. Float is money that an insurance company holds for a limited time. In an insurance operation, float arises because premiums are collected before losses are paid. This interval can extend over many years. During that time, the insurer invests the funds. When the premiums that an insurer collects do not cover the losses and expenses it eventually must pay, the result is an underwriting loss, which is considered to be the cost of float. The amount and cost of float for White Mountains is affected by underlying market conditions, as well as acquisitions or dispositions of insurance and reinsurance businesses.

Although insurance float can be calculated using numbers determined under GAAP, insurance float is not a GAAP concept and, therefore, there is no comparable GAAP measure.

One of the means by which White Mountains calculates its insurance float is by taking its net investment assets and subtracting its total tangible capital. The following table illustrates White Mountains' consolidated insurance float position as of the past five year-ends:

	December 31,				
($ in millions)	**2006(1)**	**2005**	**2004**	**2003**	**2002**
Total investments	**$ 11,332.7**	$ 9,866.4	$ 10,529.5	$ 8,547.5	$ 8,899.4
Investments held in trust	**(338.9)**	**—**	**—**		
Cash	**159.0**	187.7	243.1	89.9	121.5
Investment in unconsolidated insurance affiliate(s)	**335.5**	479.7	466.6	515.9	399.9
Equity in net unrealized (gains) losses from Symetra's fixed maturity portfolio	**4.1**	(24.2)	(56.6)	—	—
Accounts receivable on unsettled investment sales	**8.5**	21.7	19.9	9.1	160.8
Accounts payable on unsettled investment purchases	**(66.8)**	(43.4)	(30.9)	(371.6)	(495.2)
Interest-bearing funds held by ceding companies (2)	**268.5**	293.9	516.9	70.4	50.1
Interest-bearing funds held under reinsurance treaties (3)	**(94.5)**	(100.6)	(105.1)	(152.5)	(236.2)
Net investment assets	**$ 11,608.1**	$ 10,681.2	$ 11,583.4	$ 8,708.7	$ 8,900.3
Total common shareholders' equity	**$ 4,455.3**	$ 3,833.2	$ 3,883.9	$ 2,979.2	$ 2,407.9
Minority interest — OneBeacon Ltd.	**490.7**	**—**	**—**	**—**	
Debt	**1,106.7**	779.1	783.3	743.0	793.2
Preferred stock subject to mandatory redemption	**—**	234.0	211.9	194.5	180.9
Convertible preference shares	**—**	—	—	—	219.0
Total capital	**$ 6,052.7**	$ 4,846.3	$ 4,879.1	$ 3,916.7	$ 3,601.0
Unamortized deferred credits and goodwill	**(32.5)**	(24.4)	(20.0)	(20.3)	—
Equity in net unrealized (gains) losses from Symetra's fixed maturity portfolio	**4.1**	(24.2)	(56.6)	—	—
Total tangible capital	**$ 6,024.3**	$ 4,797.7	$ 4,802.5	$ 3,896.4	$ 3,601.0

Insurance float	**$ 5,583.8**	$ 5,883.5	$ 6,780.9	$ 4,812.3	$ 5,299.3
Insurance float as a multiple of total tangible capital	**0.9x**	1.2x	1.4x	1.2x	1.5x
Net investment assets as a multiple of total tangible capital	**1.9x**	2.2x	2.4x	2.2x	2.5x
Insurance float as a multiple of common shareholders' equity	**1.3x**	1.5x	1.7x	1.6x	2.2x
Net investment assets as a multiple of common shareholders' equity	**2.6x**	2.8x	3.0x	2.9x	3.7x

(1) Excludes preferred stock subject to mandatory redemption, having an aggregate accreted liquidation preference at December 31, 2006 of $262 million, and $339 million of investments held in two irrevocable grantor trusts for the purpose of economically defeasing the preferred stock subject to mandatory redemption. The creation and funding of these trusts did not legally defease the preferred stock and therefore the preferred stock will continue to appear on White Mountains' balance sheet until it is redeemed.

(2) Excludes funds held by ceding companies from which White Mountains does not receive interest credits.

(3) Excludes funds held by White Mountains under reinsurance treaties for which White Mountains does not provide interest credits.

White Mountains has historically obtained its insurance float primarily through acquisitions, as opposed to organic growth. In recent years, White Mountains has had negative cash flows from operations but has grown float from its insurance and reinsurance operations. This is due to the fact that White Mountains' cash flow from operations does

not reflect cash and investments generated by the acquisition of insurance and reinsurance businesses in recent years. Post-acquisition, such companies are often placed into partial or complete run-off, thereby resulting in negative cash flows from operations as the investments acquired are liquidated over time to pay claims.

It is White Mountains' intention to generate low-cost float over time through a combination of acquisitions and/or by organic growth in its existing insurance and reinsurance operations. However, White Mountains will seek to increase its insurance float organically only when market conditions allow for an expectation of generating an underwriting profit.

Financing

The following table summarizes White Mountains' capital structure as of December 31, 2006 and 2005:

	December 31,	
($ in millions)	**2006**	**2005**
Senior Notes, carrying value	**$698.7**	$698.5
WTM Bank Facility	**320.0**	—
Other debt of operating subsidiaries (1)	**88.0**	80.6
Total debt	**1,106.7**	779.1
Preferred stock subject to mandatory redemption	**—(2)**	234.0
Minority interest — OneBeacon Ltd.	**490.7(3)**	—
Total common shareholders' equity	**4,455.3**	3,833.2
Total capital	**$6,052.7**	$4,846.3
Unamortized goodwill	**(32.5)**	(24.4)
Equity in net unrealized losses (gains) from Symetra's fixed maturity portfolio	**4.1**	(24.2)
Total tangible capital	**$6,024.3**	$4,797.7
Total debt to total tangible capital	**18%**	16%
Total debt and preferred stock to total tangible capital	**18%**	21%

(1) See **Note 6 - "Debt"** of the accompanying Consolidated Financial Statements for a discussion of operating subsidiary debt.

(2) The preferred stock subject to mandatory redemption, having an aggregate accreted liquidation preference $262 million, was not included in total capital at December 31, 2006 because it was economically defeased in connection with the OneBeacon Offering.

(3) The minority interest arising from White Mountains' ownership in OneBeacon Ltd. has been included in White Mountains' capitalization table because it supports debt service on the Senior Notes.

Management believes that White Mountains' strong financial position provides it with the flexibility and capacity to obtain funds externally as needed through debt or equity financing on both a short-term and long-term basis.

In connection with the OneBeacon Offering, White Mountains and Fund American terminated their existing $400 million credit facility, under which they were both permitted borrowers, and replaced it with two distinct credit facilities, as described below.

In November 2006, White Mountains and White Mountains Re Group, Ltd, as co-borrowers and co-guarantors, established a $500 million revolving credit facility that matures in November 2011. As of December 31, 2006, White Mountains had $320 million outstanding on this facility, which bears interest at a current rate of 5.9%, and had accrued $2.5 million of interest expense on this borrowing during 2006.

In November 2006, Fund American, a subsidiary of OneBeacon Ltd., established a $75 million revolving credit facility that matures in November 2011. All borrowings under this facility are guaranteed by OneBeacon Ltd. As of December 31, 2006, this facility was undrawn.

In connection with its acquisition of the Sierra Group on March 31, 2004, Folksamerica entered into a $62 million purchase note (the "Sierra Note"), $58 million of which may be adjusted over its approximate six-year term to reflect favorable or adverse loss reserve development on the acquired reserve portfolio and run-off of remaining policies in force (mainly workers compensation business) as well as certain other balance sheet protections. Since inception, the principal of the Sierra Note has been reduced by $35 million, to an outstanding balance of $27 million as of December 31, 2006, as a result of adverse development on the acquired reserves and run-off of unearned premiums.

In connection with its purchase of an office building in Canton, Massachusetts, OneBeacon entered into a $41 million construction facility to fund renovations to the new space that currently houses its U.S. headquarters. As of December 31, 2006, OneBeacon had drawn the entire $41 million under the facility.

Fund American's Senior Notes are currently rated "Baa2" (Medium Grade, the ninth highest of twenty-one ratings) with a stable outlook by Moody's, "BBB" (Adequate, the ninth highest of twenty-two ratings) with a stable outlook by Standard & Poor's, "bbb" (Very Good, the ninth highest of twenty-two ratings) with a stable outlook by A.M. Best and "BBB" (Good, the ninth highest of twenty-three ratings) with a stable outlook by Fitch Ratings.

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

The Senior Notes were issued under an indenture which contains restrictive covenants that, among other things, limit the ability of the Company, Fund American and their respective subsidiaries to create liens and enter into sale and leaseback transactions and limits the ability of Fund American and its respective subsidiaries to consolidate, merge or transfer their properties and assets. The indenture does not contain any financial ratios or specified levels of net worth or liquidity to which the Company or Fund American must adhere. At December 31, 2006, White Mountains was in compliance with all of the covenants under the Senior Notes, and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

The WTM Bank Facility and the FAC Bank Facility contain various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings and include maintaining certain minimum net worth and maximum debt to capitalization standards and in the case of the WTM Bank Facility minimum interest coverage standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under these facilities and result in acceleration of principal repayment on any amounts outstanding. At December31, 2006, White Mountains was in compliance with all of the covenants under the WTM Bank Facility and the FAC Bank Facility, and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

Contractual Obligations and Commitments

Below is a schedule of White Mountains' material contractual obligations and commitments as of December 31, 2006:

Millions	Due in One Year or Less	Due in Two to Three Years	Due in Four to Five Years	Due After Five Years	Total
Debt	$ 2.0	$ 31.9	$ 325.6	$ 748.5	$ 1,108.0
Mandatorily redeemable preferred stock (1)	20.0	300.0	—	—	320.0
Loss and LAE reserves (2)	2,921.4	2,461.2	1,194.7	2,661.1	9,238.4
Reserves for structured contracts	43.1	60.0	44.0	—	147.1
Interest on debt and dividends on preferred stock subject to mandatory redemption	71.3	98.2	88.1	93.4	351.0
Long-term incentive compensation	88.0	161.7	30.5	41.0	321.2
Pension and other benefit plan obligations	19.7	2.8	3.5	12.7	38.7
Operating leases	43.1	58.9	25.5	21.3	148.8
Total contractual obligations	$ 3,208.6	$ 3,174.7	$ 1,711.9	$ 3,578.0	$ 11,673.2

(1) Economically defeased in connection with the OneBeacon Offering.

(2) Represents expected future cash outflows resulting from loss and LAE payments. Accordingly, these balances add back the discount on OneBeacon's workers compensation loss and LAE reserves of $191 million and the remaining purchase accounting fair value adjustment of $271 million related to the OneBeacon acquisition as they are non-cash items. Further, the amounts presented are gross of reinsurance recoverables on unpaid losses of $4,016 million as of December 31, 2006.

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

The balances included in the table above regarding White Mountains' long-term incentive compensation plans include amounts payable for performance shares and units, as well as deferred compensation balances. Exact amounts to be paid cannot be predicted, for performance shares, with certainty, as the ultimate amounts of these liabilities are based on the future performance of the Company and the market price of the Company's common shares at the time the payments are made. The estimated payments reflected in the table are based on current accrual factors (common share price and pay-out percentage) and assume that all outstanding balances were 100% vested as of December 31, 2006.

There are no provisions within White Mountains' leasing agreements that would trigger acceleration of future lease payments. White Mountains does not finance its operations through the securitization of its trade receivables, through special purpose entities or through synthetic leases. Further, except as noted in the following paragraph, White Mountains has not entered into any material arrangement requiring it to guarantee payment of third party debt, lease payments or to fund losses of an unconsolidated special purpose entity.

Through Sirius International, White Mountains has a long-term investment as a stockholder in LUC Holdings, an entity that has entered into a head lease to rent the London Underwriting Center ("LUC") through 2016. LUC Holdings in turn subleases space in the LUC. In the LUC Holdings stockholders agreement, the stockholders have guaranteed any shortfall between the head lease and the sub-leases on a joint and several basis. As a consequence, in recent years the stockholders have funded an operating shortfall of LUC. At December 31, 2006, White Mountains has recorded a liability of $9 million for its share of the expected future shortfall between LUC Holdings' head lease payments and sub-lease receipts. White Mountains does not believe that future shortfalls, if any, will have a material impact on its results of operations.

White Mountains also has future binding commitments to fund certain limited partnership investments. These commitments, which total approximately $109 million, do not have fixed funding dates and are therefore excluded from the table above.

Detailed information concerning White Mountains' liquidity and capital resource activities during 2006, 2005 and 2004 follows:

For the year ended December 31, 2006

Financing and Other Capital Activities

During 2006, White Mountains declared and paid cash dividends of $86 million, $28 million and $2 million to holders of White Mountains' common shares, the Berkshire Preferred Stock and the Zenith Preferred Stock, respectively.

During 2006, OneBeacon Ltd. declared and paid a $12 million cash dividend to its immediate parent and OneBeacon paid $90 million of dividends to Fund American.. Also during 2006, White Mountains Re paid $46 million of dividends to its immediate parent.

During 2006, the Company, through various intermediate holding companies, contributed $100 million in cash and investments to White Mountains Re and $125 million in cash to Esurance.

During 2006, Fund American funded a trust account with $324 million of cash and investments to economically defease the Berkshire Preferred Stock and FAEH funded a trust account with $21 million of cash to economically defease the Zenith Preferred Stock.

During 2006, White Mountains paid a total of $41 million in interest under the Senior Notes.

During 2006, White Mountains borrowed and repaid $140 million under its previous credit facility and borrowed $320 million under its new WTM Bank Facility. In addition, OneBeacon drew an additional $22 million under its existing real estate construction loan.

During 2006, OneBeacon and Folksamerica repaid $8 million and $7 million, respectively, of loans to Dowling and Partners Connecticut Fund III LP.

During 2006, White Mountains Re received cash dividends from Symetra of $16 million on its common share investment and $9 million on its warrant investment.

Acquisitions and Dispositions

On December 22, 2006, White Mountains Re acquired Mutual Service for $34 million in cash.

On November 14, 2006, White Mountains closed on the OneBeacon Offering and received $650 million in net proceeds for the sale of 27.6% of its ownership interest in OneBeacon Ltd.

On August 2, 2006, White Mountains Re sold one of its subsidiaries, Sirius America, to an investor group for $139 million in cash. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity by investing $32 million into the investor group.

On September 29, 2006, OneBeacon transferred certain assets and the right to renew existing policies of its Agri division to QBE Insurance Group for $32 million in cash.

Other Liquidity and Capital Resource Activities

During the third quarter of 2006, White Mountains sold 5.4 million common shares of Montpelier Re for proceeds of $104 million in cash.

During 2006, the Company issued a total of 3,530 common shares to its employees through the exercise of Options during the period and received cash proceeds of $.6 million in connection with these Option exercises.

During 2006, White Mountains made payments totaling $57 million, in cash or by deferral into certain non-qualified compensation plans of the Company or its subsidiaries, to participants in its long-term incentive compensation plans. These payments were made with respect to 64,100 target performance shares

at payout levels ranging from 142% to 181% of target.

For the year ended December 31, 2005

Financing and Other Capital Activities

During 2005, White Mountains declared and paid cash dividends of $86 million, $28 million and $2 million to holders of White Mountains' common shares, the Berkshire Preferred Stock and the Zenith Preferred Stock, respectively.

During 2005, OneBeacon declared and paid dividends of $340 million to Fund American and White Mountains Re declared and paid $98 million of dividends to its immediate parent.

During 2005, White Mountains contributed $250 million to White Mountains Re (which, in turn, contributed $250 million to Folksamerica) and $10 million to Esurance.

During 2005, White Mountains paid a total of $41 million in interest under the Senior Notes.

During 2005, OneBeacon drew down $18 million on an 18-year mortgage note that it entered into in connection with its purchase of land and a home office building.

Acquisitions and Dispositions

During 2005, OneBeacon sold two of its insurance subsidiaries, NFU and Traders and Pacific Insurance Company, to third parties for a total of $162 million in cash.

During 2005, White Mountains Re sold one of its subsidiaries, California Indemnity Insurance Company, to a third party for a total of $20 million, $19 million of which was paid in cash.

On April 29, 2005, OneBeacon purchased a 284,000 square foot office facility located in Canton, MA for $23 million.

Other Liquidity and Capital Resource Activities

During 2005, White Mountains received a total of $60 million in tax refunds and interest from the Internal Revenue Service related to the completion of an audit of White Mountains' 1997-2000 tax years, the period during which the Company redomesticated to Bermuda.

During 2005, the Company issued a total of 7,750 common shares to its employees through the exercise of Options during the period and received cash proceeds of $1 million in connection with these Option exercises.

During the first quarter of 2005, White Mountains made payments totaling $235 million, in cash or by deferral into certain non-qualified compensation plans of the Company or its subsidiaries, to participants in its long-term incentive compensation plans. These payments were made with respect to 212,611 performance shares at payout levels ranging from 113% to 200% of target.

During the first quarter of 2005, White Mountains received a $74 million special dividend related to its common share and warrant investment in Montpelier Re. This dividend represented $5.50 per share and was in addition to Montpelier Re's normal quarterly dividend of $.36 per share.

For the year ended December 31, 2004

Financing and Other Capital Activities

On June 29, 2004, Berkshire exercised of all of its warrants to purchase 1,724,200 common shares of White Mountains for $294 million. Berkshire acquired the warrants in connection with the financing of White Mountains' acquisition of OneBeacon in 2001. The warrants were exercisable at any time until May 2008 and callable by the Company on or after May 31, 2005. In consideration for the early exercise of the warrants, Berkshire and the Company agreed to reduce the exercise price by approximately 2%.

During 2004, White Mountains declared and paid dividends of $9 million, $28 million and $2 million to holders of White Mountains' common shares, the Berkshire Preferred Stock and the Zenith Preferred Stock, respectively.

During 2004, White Mountains restructured and re-syndicated the Bank Facility to extend its maturity and to increase the availability of the revolving credit facility to $400 million.

During 2004, White Mountains paid a total of $41 million in interest under the Senior Notes.

During 2004, OneBeacon declared and paid a total of $305 million in dividends to Fund American. Also during 2004, WMRUS paid a total of $60 million of dividends to its immediate parent. On March 31, 2004, OneBeacon distributed Folksamerica to Fund American.

During 2004, the Company issued a net total of 3,938 common shares to its employees through the exercise of Options during the year and the Company received cash proceeds of $.5 million in connection with these Option exercises. In addition, during the first quarter of 2004, White Mountains issued 27,772 common shares to employees of OneBeacon in connection with OneBeacon's employee stock ownership plan. OneBeacon paid $13 million to the Company in consideration for these common shares.

On August 27, 2004, White Mountains repaid the $25 million note that was issued as part of the financing of its 2001 acquisition of C-F Insurance Company.

Acquisitions and Dispositions

During 2004, White Mountains acquired Sirius for $428 million, 19% of Symetra for $195 million, Tryg-Baltica for $58 million, the Sierra Group for $14 million in cash and a $62 million note and Atlantic Specialty for $30 million in cash and a $20 million note.

During 2004, White Mountains sold Potomac for $22 million, Western States, as well as its boiler inspection service business, for $15 million (both subsidiaries of OneBeacon) and Peninsula for $23 million.

See **Note 2 - "Significant Transactions"** of the accompanying Consolidated Financial Statements for further discussion of these transactions.

Other Liquidity and Capital Resource Activities

During the first quarter of 2004, White Mountains sold 4.5 million common shares of Montpelier Re to third parties for net proceeds of $155.3 million. Also during the first quarter of 2004, White Mountains purchased additional warrants to acquire 2.4 million common shares of Montpelier Re from an existing warrant holder for $54.1 million in cash.

During the first quarter of 2004, White Mountains made payments amounting to $127 million, in cash or by deferral into certain non-qualified compensation plans of the Company or its subsidiaries, to participants in its long-term incentive compensation plans. These payments were made with respect to 167,782 performance shares at payout levels ranging from 93% to 200% of target.

TRANSACTIONS WITH RELATED PERSONS

See **Note 17 - "Transactions with Related Persons"** in the accompanying Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with GAAP. The financial statements presented herein include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

In the current year presentation of financial information, certain amounts in the prior period financial statements have been reclassified to conform with the current presentation. White Mountains has completed numerous significant transactions during the periods presented that have affected the comparability of the financial statement information presented herein.

On an ongoing basis, management evaluates its estimates, including those related to loss and LAE reserves, purchase accounting, reinsurance estimates and its pension benefit obligations. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

Management believes that its critical accounting policies affect its more significant estimates used in the preparation of its consolidated financial statements. The descriptions below are summarized and have been simplified for clarity.

1. Loss and Loss Adjustment Expenses

OneBeacon

Reserves other than Asbestos and Environmental Reserves and Construction Defect Claim Reserves

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

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

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

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

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

OneBeacon's actuaries use several generally accepted actuarial methods to evaluate its loss reserves, each of which has its own strengths and weaknesses. OneBeacon places more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- *Historical paid loss development methods:* These methods use historical loss payments over discrete periods of time to estimate future losses. Historical paid loss development methods assume that the ratio of losses paid in one period to losses paid in an earlier period will remain constant. These methods necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use case reserves to estimate ultimate losses, they can be more reliable than the other methods discussed below that look to case reserves (such as actuarial methods that use incurred losses) in situations where there are significant changes in how case reserves are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged, meaning that small changes in payments have a larger impact on estimates of ultimate losses, than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative incurred amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.
- *Historical incurred loss development methods:* These methods, like historical paid loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. However, instead of using paid losses, these methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods can be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied overtime. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses can be less reliable than other methods.

- *Expected loss ratio methods:* These methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums written to calculate ultimate losses. Expected loss ratio methods are useful for estimating ultimate losses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available.
- *Adjusted historical paid and incurred loss development methods:* These methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes.

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

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

Upon completion of each quarterly review, OneBeacon's actuaries select indicated reserve levels based on the results of the actuarial methods described previously, which are the primary consideration in determining management's best estimate of required reserves. At December 31, 2006 and 2005, the differences between OneBeacon's total held reserves, which represents management's best estimate of required reserves, and the actuarially indicated reserve level were insignificant. However, in making its best estimate, management also considers other qualitative factors that may lead to a difference between held reserves and actuarially recommended levels in the future. Typically, these factors exist when management and OneBeacon's actuaries conclude that there is insufficient historical incurred and paid loss information or that trends included in the historical incurred and paid loss information are unlikely to repeat in the future. Such factors include, among others, recent entry into new markets or new products, improvements in the claims department that are expected to lessen future ultimate loss costs and legal and regulatory developments.

Construction Defect Claims Reserves

Construction defect claims are a non-A&E exposure that has proven to have a greater degree of uncertainty when estimating loss and LAE using generally accepted actuarial methods. OneBeacon's general liability and multiple peril lines of business have been significantly impacted by a large number of construction defect claims. Construction defect is a liability allegation relating to defective work performed in the construction of structures such as apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. Such claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. Much of the recent claims activity has been generated by plaintiffs' lawyers who approach new homeowners, and in many cases homeowner associations with large numbers of homeowners in multi-residential complexes, about defects or other flaws in their homes. Claims for construction defects began with claims relating to exposures in California. Then, as plaintiffs' lawyers organized suits in other states with high levels of multi-residential construction, construction defect claims were reported in nearby western states, such as Colorado and Nevada, and eventually throughout the country. The reporting of such claims can be quite delayed as the statute of limitations can be up to ten years. Court decisions have expanded insurers' exposure to construction defect claims as well. For example, in 1995 California courts adopted a "continuous trigger" theory in which all companies that had ever insured a property that was alleged to have been damaged must respond to the claimant, even if evidence of the alleged damage did not appear until after the insurance period had expired. As a result, construction defect claims may be reported more than ten years after a

project has been completed as litigation can proceed for several years before an insurance company is identified as a potential contributor. Claims have also emerged from parties claiming additional insured status on policies issued to other parties (e.g., such as contractors seeking coverage on a sub-contractor's

policy). Further, in reserving for these claims, there is additional uncertainty due to the potential for further unfavorable judicial rulings and regulatory actions. The primary actuarial methods that are used to estimate loss and LAE reserves for construction defect claims are frequency and severity methods. These methods separately project the frequency of future reported claims and the average cost, or severity, of individual claims. The reserve is the product of the projected number of reported claims and the severity.

A large number of construction defect claims have been identified relating to coverages that OneBeacon had written in the past through Commercial Union Corporation and General Accident Corporation of America, which OneBeacon refers to as their legacy companies, and their subsidiaries in California, Colorado, Nevada, Washington and Oregon. OneBeacon's management has sought to mitigate future construction defect risks in all states by no longer providing insurance to certain residential general contractors and sub-contractors involved in multi-habitational projects. Mitigating actions also included initiating the withdrawal from problematic sub-segments within OneBeacon's construction book of business, such as street and road construction, water, sewer and pipeline construction. As a result of these actions, OneBeacon's management believes that the number of reported construction defect claims relating to coverages written in the past peaked in 2004 and will continue to decline.

Asbestos and Environmental ("A&E") Reserves

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

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

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

OneBeacon also incurred A&E losses via its participation in industry pools and associations. The most significant of these pools was Excess Casualty Reinsurance Association ("ECRA"), which provided excess liability reinsurance to U.S. insurers from 1950 until the early 1980s. ECRA incurred significant liabilities forA&E, of which OneBeacon bears approximately a 4.7% share, or $65 million at both December 31, 2006 and 2005, which is fully reflected in OneBeacon's loss and LAE reserves.

More recently, since the 1990s, OneBeacon has experienced an increase in claims from commercial insureds, including many non-Fortune 500-sized accounts written during the 1970s and 1980s, who are named as defendants in asbestos lawsuits. As a number of large well-known manufacturers of asbestos and asbestos-containing products have gone into bankruptcy, plaintiffs have sought recoveries from peripheral defendants, such as installers, transporters or sellers of such products, or from owners of premises on which the plaintiffs' exposure to asbestos allegedly occurred. At December 31, 2006, 520 policyholders had asbestos-related claims against OneBeacon. In 2006, 121 new insureds with such peripheral involvement presented asbestos claims under prior OneBeacon policies.

Historically, most asbestos claims have been asserted as product liability claims. Recently, insureds who have exhausted the available products liability limits of their insurance policies have sought from insurers such as OneBeacon payment for asbestos claims under the premises and operations coverage of their liability policies, which may not be subject to similar aggregate limits. OneBeacon expects this trend to continue. However, to date there have been fewer of these premises and operations coverage claims than product liability coverage claims. This may

be due to a variety of factors, including that it may be more difficult for underlying plaintiffs to establish losses as stemming from premises and operations exposures, which requires proof of the defendant's negligence, rather than products liability under which strict legal liability applies. Premises and operations claims may vary significantly and policyholders may seek large amounts, although such claims frequently settle for a fraction of the initial alleged amount. Accordingly, there is a great deal of variation in damages awarded for the actual injuries. As of December 31, 2006, there were approximately 323 active claims by insureds against us without product liability coverage asserting operations or premises coverage, which may not be subject to aggregate limits under the policies.

Immediately prior to the OneBeacon Acquisition, OneBeacon purchased a reinsurance contract with NICO under which OneBeacon is entitled to recover from NICO up to $2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising from business written by OneBeacon in 1987 and prior, and certain other exposures, including mass torts. Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon's third party reinsurers in existence at the time the NICO Cover was executed ("Third Party Recoverables"). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Any amounts uncollectible from third party reinsurers due to dispute or the reinsurers' financial inability to pay are covered by NICO under its agreement with OneBeacon. Third Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments from 1995 through 2006, approximately 50% of asbestos and environmental losses have been recovered under the historical third party reinsurance.

In June 2005, OneBeacon completed an internal study of its A&E exposures. This study considered, among other items, (1) facts, such as policy limits, deductibles and available third party reinsurance, related to reported claims; (2) current law; (3) past and projected claim activity and past settlement values for similar claims; (4) industry studies and events, such as recent settlements and asbestos-related bankruptcies; and (5) collectibility of third-party reinsurance. Based on the study, OneBeacon increased its best estimate of its incurred losses ceded to NICO, net of underlying reinsurance, by $353 million

($841 million gross) to $2.1 billion, which is within the $2.5 billion coverage provided by the NICO Cover. Based on the study, OneBeacon estimated that the range of reasonable outcomes around its best estimate was $1.7 billion to $2.4 billion, versus a range of $1.5 billion to $2.4 billion from the previous study that was conducted in 2003. Due to the NICO Cover, there was no impact to income or equity from the change in estimate.

The increase in the estimate of incurred A&E losses was principally driven by raised projections for claims related to asbestos (particularly from assumed reinsurance business), and for mass torts other than asbestos and environmental, particularly lead poisoning and sexual molestation. The increase was partially offset by reduced projections of ultimate hazardous waste losses.

As part of its previously described actuarial review process, OneBeacon reviews A&E activity each quarter and compares that activity to what was assumed in the original internal study. As of December 31, 2006, OneBeacon estimated that the range of reasonable outcomes around its best estimate was $1.7 billion to $2.4 billion.

As noted above, OneBeacon estimates that on an incurred basis it has ceded estimated incurred losses of approximately $2.1 billion of the coverage provided by NICO at December31, 2006. Since entering into the NICO Cover, $29 million of the $2.1 billion of utilized coverage relates to uncollected amounts from third party reinsurers through December 31, 2006. Net losses paid totaled approximately $847 million as of December 31, 2006, with $146 million paid in 2006. Asbestos payments during 2006 reflect payments resulting from intensified efforts by claimants to resolve asbestos claims prior to the potential enactment of Federal asbestos legislation. To the extent that OneBeacon's estimate of ultimate A&E losses as well as the estimate and collectibility of Third Party Recoverables differs from actual experience, the remaining protection under the NICO Cover may be more or less than the approximate $404 million that OneBeacon estimates remained at December 31, 2006.

OneBeacon's reserves for A&E losses, net of Third Party Recoverables but prior to NICO recoveries, were $1.2 billion at December 31, 2006. An industry benchmark of reserve adequacy is the "survival ratio", computed as a company's reserves divided by its historical average yearly loss payments. This ratio indicates approximately how many more years of payments the reserves can support, assuming future yearly payments are equal to historical levels. OneBeacon's survival ratio was 16.6 at December 31, 2006. This was computed as the ratio of A&E reserves, net of Third Party Recoverables prior to the NICO Cover of $1.2 billion plus the remaining unused portion of the NICO Cover of $404 million, to the average A&E loss payments over the three-year period ended December 31, 2006, net of Third Party Recoverables. OneBeacon's survival ratio was 18.6 at December 31, 2005. OneBeacon believes that as a result of the NICO Cover and its historical third party reinsurance programs, OneBeacon should not experience material financial loss from A&E exposures under current coverage interpretations and that its survival ratio compares

favorably to industry survival ratios. However, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid using recent annual average payments. Many factors, such as aggressive settlement procedures, mix of business and coverage provided, have a significant effect on the amount of A&E reserves and payments and the resultant survival ratio. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

OneBeacon's reserves for A&E losses at December 31, 2006 represent management's best estimate of its ultimate liability based on information currently available. Based on this estimate, OneBeacon believes the NICO Cover will be adequate to cover all of its A&E obligations. However, as case law expands, medical and clean-up costs increase and industry settlement practices change, OneBeacon may be subject to A&E losses beyond currently estimated amounts. Therefore, OneBeacon cannot guarantee that its A&E loss and LAE reserves, plus the remaining coverage under the NICO Cover, will be sufficient to cover additional liability arising from any such unfavorable developments. See Note 3 — "Reserves for Unpaid Loss and LAE—Asbestos and environmental loss and LAE reserve activity" of the accompanying historical consolidated financial statements for more information regarding its A&E reserves.

OneBeacon A&E Claims Activity

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

A&E Claims Activity	Year Ended December 31, 2006	2005
Asbestos		
Accounts with asbestos claims at the beginning of the year	592	664
Accounts reporting asbestos claims during the year	121	128
Accounts on which asbestos claims were closed during the year	(193)	(200)
Accounts with asbestos claims at the end of the year	520	592
Environmental		
Accounts with environmental claims at the beginning of the year	495	644
Accounts reporting environmental claims during the year	130	180
Accounts on which environmental claims were closed during the year	(203)	(329)
Accounts with environmental claims at the end of the year	422	495
Total		
Total accounts with A&E claims at the beginning of the year	1,087	1,308
Accounts reporting A&E claims during the year	251	308
Accounts on which A&E claims were closed during the year	(396)	(529)
Total accounts with A&E claims at the end of the year	942	1,087

OneBeacon's Loss and LAE Reserves by Line of Business

The process of establishing loss reserves is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to OneBeacon's ultimate exposure to losses are an integral component of its loss reserving process. OneBeacon, like other insurance companies, categorizes and tracks its insurance reserves by "line of business", such as auto liability, multiple peril package business, and workers compensation. Furthermore, OneBeacon regularly reviews the appropriateness of reserve levels at the line of business level, taking into consideration the variety of trends that impact the ultimate settlement of claims for the subsets of claims in each particular line of business.

For loss and allocated loss adjustment expense reserves, excluding asbestos and environmental, the key assumption as of December 31, 2006 was that the impact of the various reserving factors, as described below, on future paid losses would be similar to the impact of those factors on the historical loss data with the following exceptions:

- Recent increases in paid loss trends were inflated due to changes in claim handling procedures that decreased the settlement time for claims. This resulted in some increases in paid loss activity that OneBeacon believes will not continue into the future.
- Increases in case reserve adequacy over the 2001-2004 calendar periods have resulted in trends in case incurred activity that OneBeacon believes will not continue into the future. Case incurred activity can be the result of underlying changes in expected claim costs or changes in the adequacy of the case reserves relative to the underlying expected claim cost. If the activity is the result of underlying changes in expected costs, it is more likely to repeat in the future, and would likely result in prior year reserve development, as the change in ultimate claim costs would not have been considered when making the previous selection of IBNR reserves. If the activity is the result of changes in case reserve adequacy, it would not indicate any change in the ultimate claim costs and would not be expected to repeat in the future. In these cases, it is unlikely that prior year reserve development would occur, as the change in case reserves would be offset by a corresponding change in IBNR reserves (i.e., deficiency or redundancy in case reserves was implicitly captured when making the previous selection of IBNR reserves).
- In 2004, OneBeacon established a separate claim group to manage run-off claims. Due to the recent nature of this event, OneBeacon does not believe that the impacts of this group on future losses have been reflected in historical losses. Therefore, OneBeacon has given considerable weight to the most recent loss experience for this segment.

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

Workers compensation

Workers compensation is generally considered a long tail coverage, as it takes a relatively long period of time to finalize claims from a given accident year. While certain payments such as initial medical treatment or temporary wage replacement for the injured worker are made quickly, some other payments are made over the course of several years, such as awards for permanent partial injuries. In addition, some payments can run as long as the injured worker’s life, such as permanent disability benefits and ongoing medical care. Despite the possibility of long payment tails, the reporting lags are generally short, settlements are generally not complex, and most of the liability can be considered high frequency with moderate severity. The largest reserve risk generally comes from the low frequency, high severity claims providing lifetime coverage for medical expense arising from a worker’s injury. Examples of common reserving factors that can change and, thus, affect the estimated workers compensation reserves include:

General workers compensation reserving factors

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

Indemnity reserving factors

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

Medical reserving factors

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

Workers compensation book of business reserving factors

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

Personal automobile liability

The personal automobile product line is a mix of property and liability coverages and, therefore, includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. Personal automobile reserves are typically analyzed in three components: bodily injury liability, property damage liability, and collision/comprehensive claims. This last component has minimum reserve risk and fast payouts and, accordingly, separate factors are not presented. Reporting lags are relatively short and the claim settlement process for personal automobile liability generally is the least complex of the liability products. It is generally viewed as a high frequency, low to moderate severity product line.

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

Personal automobile liability reserving factors

- Trends in jury awards
- Changes in the underlying court system and its philosophy
- Changes in case law
- Litigation trends
- Frequency of claims with payment capped by policy limits
- Change in average severity of accidents, or proportion of severe accidents
- Subrogation opportunities
- Degree of patient responsiveness to treatment
- Changes in claim handling philosophies (e.g., case reserving standards)

Personal automobile liability book of business reserving factors

- Changes in policy provisions (e.g., deductibles, policy limits, or endorsements)
- Changes in underwriting standards

Multiple peril

Commercial multiple peril provides a combination of property and liability coverage typically for small businesses and, therefore, includes both short and long tail coverages. For property coverage, it generally takes a relatively short period of time to close claims, while for the other coverages, generally for the liability coverages, it takes a longer period of time to close claims. The reserving risk for this line is dominated by the liability coverage portion of this product, except occasionally in the event of catastrophic or large single losses.

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

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

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

Multiple peril liability reserving factors

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

Multiple peril liability book of business reserving factors

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

Commercial automobile liability

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

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

Bodily injury and property damage liability reserving factors

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

Commercial automobile liability book of business reserving factors

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

General liability

See the above discussions under the liability product lines with regard to reserving factors for multiple peril.

Homeowners/Farmowners

Homeowners/Farmowners is generally considered a short tail coverage. Most payments are related to the property portion of the policy, where the claim reporting and settlement process is generally restricted to the insured and the insurer. Claims on property coverage are typically reported soon after the actual damage occurs, although delays of several months are not unusual. The resulting settlement process is typically fairly short term, although exceptions do exist. The liability portion of the homeowners/farmowners policy generates claims which take longer to pay due to the involvement of litigation and negotiation, but with generally small reporting lags. Overall, the line is generally high frequency, low to moderate severity (except for catastrophes), with simple to moderate claim complexity.

Examples of common reserving factors that can change and, thus, affect the estimated homeowners/farmowners reserves include:

Non-catastrophe reserving factors

- Salvage opportunities
- Amount of time to return property to residential use
- Changes in weather patterns
- Local building codes
- Litigation trends
- Trends in jury awards

Catastrophe reserving factors

- Physical concentration of policyholders
- Availability and cost of local contractors
- Local building codes
- Quality of construction of damaged homes
- Amount of time to return property to residential use
- For the more severe catastrophic events, “demand surge” inflation, whereby the greatly increased demand for building materials such as plywood far surpasses the immediate supply, leading to short-term material increases in building material costs

Homeowners/Farmowners book of business reserving factors

- Policy provisions mix (e.g., deductibles, policy limits, or endorsements)

- Degree of concentration of policyholders
- Changes in underwriting standards

OneBeacon Loss and LAE Development

Loss and LAE development—2006

In 2006, OneBeacon experienced $23 million of unfavorable development on prior accident year loss and LAE reserves, primarily due to additional losses incurred on hurricanes Katrina, Rita and Wilma in OBSP.

Loss and LAE development—2005

In 2005, OneBeacon experienced $95 million of unfavorable development on prior accident year loss and LAE reserves, primarily due to higher than anticipated legal defense costs and higher damages from liability assessments in general liability and multiple peril reserves in its run-off operations.

Specifically, OneBeacon's management had assumed at December 31, 2004 that the IBNR and known case development would be approximately 26% of actual case reserves for the 2001 and prior accident years for multiple peril and general liability. During 2005, case incurred loss and LAE was 72% of the entire future expected development which was unusually large for these long tail lines of business. As a result, OneBeacon's management increased IBNR reserves for these lines so that as of year end 2005 the IBNR was approximately 40% relative to the remaining case reserves.

Loss and LAE development—2004

OneBeacon experienced $99 million of net unfavorable development on prior accident year loss and LAE reserves during 2004, relating primarily to 2002 and prior accident years. The net unfavorable development related primarily to personal auto liability, general liability and multiple peril reserves due in part to emerging trends in claims experienced in its run-off operations, including national account and program claims administered by third parties. These claim trends principally included higher defense costs and higher damages from liability assessments.

Prior to 2004, OneBeacon's management had made assumptions that case reserving standards and settlement practices in the run-off operations would be consistent with the standards and practices that were observed in the ongoing operations. During 2004, multiple peril liability and general liability case incurred loss and LAE for run-off claims was double that for ongoing claims. As a result, OneBeacon's management increased the overall level of reserves for run-off during 2004. In addition, OneBeacon's management undertook a more in depth review of the standards and practices as they applied to run-off claims and formed a separate run-off claims unit.

OneBeacon's Case and IBNR Reserves by Line of Business

OneBeacon's net loss and LAE reserves by line of business at December 31, 2006 and 2005 were as follows:

Net loss and LAE reserves by class of business	**December 31, 2006**			**December 31, 2005**		
Millions	**Case**	**IBNR**	**Total**	**Case**	**IBNR**	**Total**
Workers compensation (1)	$ 82.0	$ 136.3	**$ 218.3**	$ 195.2	$ 132.6	$ 327.8
Personal automobile liability	378.6	187.5	**566.1**	445.5	174.7	620.2
Multiple peril (1)(2)	237.9	193.0	**430.9**	310.4	236.0	546.4
Commercial automobile liability	110.2	66.2	**176.4**	140.2	65.6	205.8
General liability (2)	77.0	281.1	**358.1**	106.1	227.2	333.3
Homeowners/Farmowners	72.7	33.4	**106.1**	81.1	41.4	122.5
Other (1)	105.2	67.4	**172.6**	115.5	59.9	175.4
Total	$ 1,063.6	$ 964.9	**$ 2,028.5**	$ 1,394.0	$ 937.4	$ 2,331.4

(1) Includes loss and LAE reserves related to A&E.
(2) Includes loss and LAE reserves related to construction defect claims.

OneBeacon's Range of Reserves by Line of Business

OneBeacon's range of reserve estimates at December 31, 2006 was evaluated to consider the strengths and weaknesses of the actuarial methods applied against OneBeacon's historical claims experience data. The following table shows the recorded reserves and the high and low ends of OneBeacon's range of reasonable loss reserve estimates at December 31, 2006. The high and low ends of OneBeacon's range of reserve estimates in the table below are based on the results of various actuarial methods described above.

OneBeacon net loss and LAE reserves by line of business			
Range and recorded reserves	**December 31, 2006**		
Millions	**Low**	**Recorded**	**High**
Workers compensation	$ 183	**$ 218.3**	$ 304
Personal automobile liability	502	**566.1**	582
Multiple peril	401	**430.9**	526
Commercial automobile liability	169	**176.4**	190
General liability	283	**358.1**	382
Homeowners/Farmowners	93	**106.1**	107
Other	159	**172.6**	174
Total	$ 1,790	**$ 2,028.5**	$ 2,265

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

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

The percentages shown in the following table represent the linear interpolation of where OneBeacon's recorded loss and LAE reserves are within the range of reserves estimates by line of business at December 31, 2006 and 2005, where the low end of the range equals zero, the middle of the range equals 50% and the high end of the range equals 100%.

OneBeacon net loss and LAE reserves by line of business (expressed as a percentage of the range)	**December 31,**	
	2006	**2005**
Workers compensation	**29%**	39%
Personal automobile liability	**81**	61
Multiple peril	**24**	30
Commercial automobile liability	**33**	37
General liability	**75**	57
Homeowners/Farmowners	**93**	83
Other	**91**	78
Total	**50%**	46%

For some types of claims, such as workers compensation, OneBeacon used forecasting models that consider the unique loss development characteristics of these types of claims. As a result of the trends suggested by these models, OneBeacon chose a point estimate that was at a lower point in the range at December 31, 2006 as compared to the prior year. OneBeacon selected a point estimate higher in the range for newer and/or growing segments of business, in part based on OneBeacon's view that actuarial methods that rely on historical loss and LAE patterns may have a higher degree of uncertainty for these businesses. As these segments accumulate more historical data, OneBeacon's selections place greater reliance on the emerging experience. For personal automobile liability, this resulted in OneBeacon recording reserves at the higher end of the range in 2006, reflecting a more conservative view of recently emerging favorable loss experience. OneBeacon also selected a point estimate higher in the range for general liability in 2006 as the reserves in this line are increasingly related to OneBeacon's growing professional liability business. For homeowners and "other" (principally shorter tailed lines of business such as ocean and inland marine insurance) recorded reserves remain at the high end of their respective ranges, as OneBeacon's selections reflect a conservative approach to recognition of recent favorable incurred loss development patterns.

Sensitivity Analysis

The following discussion includes disclosure of possible variations from current estimates of loss reserves due to a change in certain key assumptions. Each of the impacts described below is estimated individually, without consideration for any correlation among key assumptions or among lines of business. Therefore, it would be inappropriate to take each of the amounts described below and add them together in an attempt to estimate volatility for OneBeacon's reserves in total. It is important to note that the variations discussed are not meant to be a worst-case scenario, and therefore, it is possible that future variations may be more than amounts discussed below.

- Workers compensation: Recorded reserves for workers compensation were $218 million at December 31, 2006. The two most important assumptions for workers compensation reserves are loss development factors and loss cost trends, particularly medical cost inflation. Loss development patterns are dependent on medical cost inflation. Approximately half of the workers compensation net reserves are related to future medical costs. Across the entire reserve base, a 0.5 point change in calendar year medical inflation would have changed the estimated net reserve by $54 million at December 31, 2006, in either direction.

- Personal automobile liability: Recorded reserves for personal auto liability were $566 million across all lines at December 31, 2006. Personal auto liability reserves are shorter-tailed than other lines of business (such as workers compensation) and, therefore, less volatile. However, the size of the reserve base means that future changes in estimate could be material to OneBeacon's results of operations in any given period. A key assumption for personal auto liability is the implicit loss cost trend, particularly the severity trend component of loss costs. A 2.0 point change in assumed annual severity for the two most recent accident years would have changed the estimated net reserve by $16 million at December31, 2006, in either direction. Assumed annual severity for accident years prior to the two most recent accident years is likely to have minimal variability.

- Multiple peril liability and general liability: Recorded reserves for multiple peril and general liability combined were $789 million at December 31, 2006. Reported loss development patterns are a key assumption for these lines of business, particularly for more mature accident years. Historically, assumptions on reported loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g. construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. If the severity trend for construction defect claims changed by 3.0 points this would have changed the estimated net reserve by $11 million at December 31, 2006, in either direction. Separately, if case reserve adequacy for non construction defect claims changed by 10.0 points this would have changed the estimated net reserve by $23 million at December 31, 2006, in either direction.

White Mountains Re

White Mountains Re A&E Reserves

White Mountains Re's A&E exposure is primarily from reinsurance contracts written between 1974 through 1985 by Folksamerica predecessor companies (MONY Reinsurance and Christiania General). The exposures are mostly higher layer excess of loss treaty and facultative coverages with relatively low limits exposed for each claim. Folksamerica has a specialized unit that handles claims relating to A&E exposures. The issues presented by these types of claims require specialization, expertise and an awareness of the various trends and jurisdictional developments. Net incurred loss activity for asbestos and environmental in the last two years was as follows:

Net incurred loss and LAE activity Millions	December 31, 2006	 2005
Asbestos	**$ (0.1)**	$ 62.0
Environmental	**(0.2)**	(3.4)
Total	**$ (0.3)**	$ 58.6

In 2004, White Mountains Re experienced an increase in the number and amount of reported asbestos claims, primarily due to increased claim filings from uninjured claimants who may have been exposed to asbestos. This resulted in a change in its assumption regarding the level of projected future asbestos claims to be paid. During 2005, White Mountains Re completed a detailed, ground up asbestos study on all reported Folksamerica insureds that had over $250,000 of asbestos claims as well as a significant sample of all other insureds with reported asbestos claims of less than $250,000. Comparing estimates generated by the study to Folksamerica exposed limits by underwriting year led to an increase of approximately $50 million in IBNR during the third quarter of 2005.

Generally, White Mountains Re sets up claim files for each reported claim by each cedent for each individual insured. In many instances, a single claim notification from a cedent could involve several years and layers of coverage resulting in a file being set up for each involvement. Precautionary claim notices are submitted by the ceding companies in order to preserve their right to pursue coverage under the reinsurance contract. Such notices do not contain an incurred loss amount, accordingly, an open claim file is not established. As of December 31, 2006, White Mountains Re had approximately 1,173 open claim files for asbestos and 512 open claim files for environmental exposures.

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

White Mountains Re A&E Claims Activity

White Mountains Re's A&E claim activity for the last two years is illustrated in the table below.

A&E Claims Activity	Year ended December 31, 2006	 2005
Asbestos		
Total asbestos claims at the beginning of the year	**1,339**	1,401
Outgoing asbestos claims due to Sirius America divestiture	**(20)**	**—**
Incoming asbestos claims due to Mutual Service acquisition	**45**	**—**
Asbestos claims reported during the year	**186**	223
Asbestos claims closed during the year	**(377)**	(285)
Total asbestos claims at the end of the year	**1,173**	1,339
Environmental		
Total environmental claims at the beginning of the year	**750**	900
Incoming environmental claims due to Mutual Service acquisition	**43**	**—**
Environmental claims reported during the year	**46**	65
Environmental claims closed during the year	**(327)**	(215)
Total environmental claims at the end of the year	**512**	750
Total		
Total A&E claims at the beginning of the year	**2,089**	2,301
Outgoing A&E claims due to Sirius America divestiture	**(20)**	**—**
Incoming A&E claims due to Mutual Service acquisition	**88**	**—**
A&E claims reported during the year	**232**	288
A&E claims closed during the year	**(704)**	(500)
Total A&E claims at the end of the year	**1,685**	2,089

Loss and LAE Reserves by Class of Business

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

As with insurance reserves, the process of estimating reinsurance reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Based on the above, such uncertainty may be larger relative to the reserve for a reinsurer compared to an insurance company, and may take a longer time to emerge.

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

Upon notification of a loss from a ceding company, White Mountains Re establishes case reserves, including LAE reserves, based upon White Mountains Re's share of the amount of reserves established by the ceding company and its independent evaluation of the loss. In cases where available information indicates that reserves established by the ceding company are inadequate, White Mountains Re establishes case reserves or IBNR in excess of its share of the reserves established by the ceding company. In addition, specific claim information reported by ceding companies or obtained through claim audits can alert us to emerging trends such as changing legal interpretations of coverage and liability, claims from unexpected sources or classes of business, and significant changes in the frequency or severity of individual claims. Such information is often used to supplement estimates of IBNR.

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

Backlogs in the recording of assumed reinsurance can also complicate the accuracy of loss reserve estimation. As of December 31, 2006, there were no significant backlogs related to the processing of assumed reinsurance information at White Mountains Re.

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

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

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

White Mountains Re's expected annual loss reporting assumptions are updated once a year, at year end. These assumptions are applied to year-end IBNR to generate expected reported losses for the subsequent year. Interpolation methods are applied to estimate quarterly reported losses, which are then compared to actual reported losses each quarter. Significant differences may result in a change in estimates or a revision in the loss reporting pattern. Expected loss ratios underlying the current accident year are updated quarterly, to reflect new business that is underwritten by the company.

During 2006, White Mountains Re increased its estimate for net losses from hurricanes Katrina, Rita, and Wilma by $86 million following the receipt of new claims information from several ceding companies and subsequent reassessment of ultimate loss exposures. The company also entered into an indemnity agreement with Olympus, which resulted in an additional $137 million in losses and loss expenses. Also in 2006, White Mountains Re increased prior year loss and LAE reserves by $55 million for casualty losses associated with the Risk Capital acquisition, primarily as a result of a detailed study of loss exposure by individual contract. Reserves for 2004 and prior years were decreased by $46 million at Sirius in 2006, as we have seen lower than expected loss emergence across all lines of business and have reduced IBNR accordingly.

In 2005, White Mountains Re changed its assumptions relating to asbestos reserves, as discussed above in the A&E section. In 2004, White Mountains Re reduced its loss ratio assumptions for property and other short-tailed business written at Sirius in 2002 and 2003, resulting in a decrease of $35 million in loss reserves related to prior years. This was due to improved terms and conditions in reinsurance contracts written after the terrorist attacks of September 11, 2001, which had a greater impact on lowering loss ratios than had been expected in the original loss ratio assumptions. Also in 2004, White Mountains Re increased its estimates of prior year loss reserves by $55 million on long-tailed U.S. casualty contracts written between 1997 and 2001 at Folksamerica and Scandinavian Re. This was due to a higher than expected level of loss reporting, which caused White Mountains Re to raise its expected loss ratio assumptions and to lengthen the expected reporting tail for those contracts.

White Mountains Re's net loss and LAE reserves by class of business at December 31, 2006 and 2005 were as follows:

Net loss and LAE reserves by class of business	**December 31, 2006**			**December 31, 2005**		
Millions	**Case**	**IBNR**	**Total**	**Case**	**IBNR**	**Total**
Liability (excluding A&E)	$ 544.9	$ 964.4	**$ 1,509.3**	$ 829.3	$ 782.9	**$ 1,612.2**
Property	332.3	196.1	**528.4**	357.7	342.2	**699.9**
Specialty	273.0	143.3	**416.3**	233.9	138.4	**372.3**
A&E	44.0	68.4	**112.4**	42.0	75.4	**117.4**
Total	$ 1,194.2	$ 1,372.2	**$ 2,566.4**	$ 1,462.9	$ 1,338.9	**$ 2,801.8**

The actuarial methods described above are used to calculate a point estimate of loss and LAE reserves for each company within White Mountains Re. These point estimates are then aggregated to produce an actuarial point estimate for the entire segment. Once a point estimate is established, White Mountains

Re's actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated using similar methods to the point estimate calculation, but with different expected loss ratio and loss reporting pattern assumptions. For the low estimate, more optimistic loss ratios and faster reporting patterns are

assumed, while the high estimate uses more conservative loss ratios and slower reporting patterns. These variable assumptions are derived from historical variations in loss ratios and reporting patterns by class and type of business.

The actuarial point estimate is management's primary consideration in determining its best estimate of loss and LAE reserves. In making its best estimate, management also considers other qualitative factors that may lead to a difference between its best estimate of loss and LAE reserves and the actuarial point estimate. Typically, these factors exist when management and the company's actuaries conclude that there is insufficient historical incurred and paid loss information or that trends included in the historical incurred and paid loss information are unlikely to repeat in the future. These factors may include, among others, changes in the techniques used to assess underwriting risk, more accurate and detailed levels of data submitted with reinsurance applications, the uncertainty of the current reinsurance pricing environment, the level of inflation in loss costs, changes in ceding company reserving practices, and legal and regulatory developments. At December 31, 2006 and 2005, total carried reserves were 2.2% and 0.7% above the actuarial point estimate, respectively.

The following table illustrates White Mountains Re's recorded net loss and LAE reserves and high and low estimates for those classes of business for which a range is calculated, at December 31, 2006.

Net loss and LAE reserves by class of business	**December 31, 2006**		
Millions	**Low**	**Recorded**	**High**
Liability (excluding A&E)	$ 1,342	**$ 1,509.3**	$ 1,676
Property	503	**528.4**	553
Specialty	354	**416.3**	486
A&E	80	**112.4**	154
Total	$ 2,279	**$ 2,566.4**	$ 2,869

The probability that ultimate losses will fall outside of the range of estimates by class of business is higher for each class of business individually than it is for the sum of the estimates for all classes taken together due to the effects of diversification. While White Mountains Re has not determined the statistical probability of actual ultimate losses falling within the range, management believes that it is reasonably likely that actual ultimate losses will fall within the ranges noted above because the ranges were developed by using generally accepted actuarial methods. Although management believes reserves for White Mountains Re are reasonably stated, ultimate losses may deviate, perhaps materially, from the recorded reserve amounts and could be above the high end of the range of actuarial projections.

2. White Mountains Re Reinsurance Estimates

There is a time lag from the point when premium and related commission and expense activity is recorded by a ceding company to the point when such information is reported by the ceding company, through its reinsurance intermediary, to White Mountains Re. This time lag can vary from one to several contractual reporting periods (i.e. quarterly/monthly). This lag is common in the reinsurance business, but slightly longer when a reinsurance intermediary is involved.

As a result of this time lag in reporting, White Mountains Re estimates a portion of its written premium and related commissions and expenses. Given the nature of White Mountains Re's business, estimated premium balances, net of related commissions and expenses, comprise a large portion of total premium balances receivable. The estimation process begins by identifying which major accounts have not reported activity at the most recent period end. In general, premium estimates for excess of loss business are based on minimum deposit premium information included in the contractual terms. For proportional business, White Mountains Re's estimates are derived based on a variety of factors and assumptions, including: expected premium volume based on contractual terms or ceding company reports and other correspondence and communication with underwriters, intermediaries and ceding companies, prior reporting from the intermediary or ceding company and historical reporting patterns. Once premium estimates are determined, related commission and expense estimates are derived using contractual terms.

White Mountains Re closely monitors its estimation process on a quarterly basis and adjusts its estimates as more information and actual amounts become known. There is no assurance that the amounts estimated by White Mountains Re will not deviate from the amounts reported by the ceding company or reinsurance intermediary. Any such deviations are reflected in the results of operations when they become known.

The following table summarizes White Mountains Re's premium estimates and related commissions and expenses:

	December 31, 2006			
Millions	**Liability**	**Property**	**Specialty**	**Total**
Gross premium estimates	$ 86.7	$ 162.1	$ 158.4	$ 407.2
Net premium estimates	$ 86.0	$ 93.7	$ 140.4	$ 320.1
Net commission and expense estimates	40.6	29.4	41.0	111.0
Net amount included in reinsurance balances receivable	$ 45.4	$ 64.3	$ 99.4	$ 209.1

	December 31, 2005			
Millions	**Liability**	**Property**	**Specialty**	**Total**
Gross premium estimates	$ 123.1	$ 245.0	$ 101.3	$ 469.4
Net premium estimates	$ 111.2	$ 123.0	$ 77.5	$ 311.7
Net commission and expense estimates	38.3	26.0	25.5	89.8

Net amount included in reinsurance balances receivable	$ 72.9	$ 97.0	$ 52.0	$ 221.9

The net amounts recorded in reinsurance balances receivable may not yet be due from the ceding company at the time of the estimate since actual reporting from the ceding company has not yet occurred. Therefore, based on the process described above, White Mountains Re believes all of its estimated balances are collectible, and as such no allowance has been recorded.

3. Reinsurance Transactions

White Mountains' insurance and reinsurance subsidiaries purchase reinsurance from time to time to protect their businesses from losses due to exposure aggregation, to manage their operating leverage ratios and to limit ultimate losses arising from catastrophic events. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts related to reinsurance contracts are recorded in accordance with SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" ("SFAS 113").

The collectibility of reinsurance recoverables is subject to the solvency and willingness to pay of the reinsurer. The Company is selective in choosing its reinsurers, placing reinsurance principally with those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis. See **Note 4 - "Third Party Reinsurance"** in the accompanying Consolidated Financial Statements for additional information on White Mountains' reinsurance programs.

4. Purchase Accounting

When White Mountains acquires another company, management must estimate the fair values of the assets and liabilities acquired, as prescribed by SFAS No. 141, "Business Combinations." Certain assets and liabilities require little judgment to estimate their fair values, particularly those that are quoted on a market exchange, such as publicly-traded investment securities. Other assets and liabilities, however, require a substantial amount of judgment to estimate their fair values. The most significant of these is the estimation required to fair value loss and LAE reserves. White Mountains estimates the fair value of loss and LAE reserves obtained in an acquisition following the principles contained within FASB Statement of Financial Accounting Concepts No. 7: "Using Cash Flow Information and Present Value in Accounting Measurements" ("CON 7"). Under CON 7, the fair value of a particular asset or liability essentially contains five elements: (1) an estimate of the future cash flows, (2) expectations about possible variations in the amount or timing of those cash flows; (3) the time value of money, represented by the risk-free rate of interest; (4) the

price for bearing the uncertainty inherent in the asset or liability; and (5) other, sometimes unidentifiable, factors including illiquidity and market imperfections.

White Mountains' actuaries estimate the fair value of loss and LAE reserves obtained in an acquisition by taking the acquired company's recorded reserves and discounting them based on expected reserve payout patterns using the current risk-free rate of interest. Then, White Mountains' actuaries develop additional cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. In each scenario, the risk-free rate of interest is used to discount future cash flows. These scenarios are put in a statistical model that assigns a probability to each cash flow scenario. White Mountains' actuaries then choose the scenario that best represents the price for bearing the uncertainty inherent within the acquired company's recorded reserves. The "price" for bearing the uncertainty inherent within the acquired company's reserves is measured as the difference between the selected cash flow scenario and the expected cash flow scenario. The scenario selected has typically been between 1.5 and 2 standard deviations from the expected cash flow outcome. The fair value of the acquired company's loss and LAE reserves is determined to be the sum of the expected cash flow scenario (i.e., the acquired company's discounted loss and LAE reserves) and the uncertainty "price".

The difference between an acquired company's loss and LAE reserves and White Mountains' best estimate of the fair value of such reserves at the acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. Historically, the fair value of an acquired company's loss and LAE reserves has been less than its nominal reserves at acquisition. Accordingly, the amortization has been and will continue to be recorded as an expense on White Mountains' income statement until fully amortized.

FORWARD-LOOKING STATEMENTS

The information contained in this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21 E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or referenced in this report which address activities, events or developments which White Mountains expects or anticipates will or may occur in the future are forward-looking statements. The words "will", "believe," "intend," "expect," "anticipate," "project," "estimate," "predict" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements include, among others, statements with respect to White Mountains':

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

These statements are based on certain assumptions and analyses made by White Mountains in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual

results and developments will conform with its expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from expectations, including:

- the risks discussed in Item 1A of this Form 10-K;
- claims arising from catastrophic events, such as hurricanes, earthquakes, floods or terrorist attacks; the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to it and pursued;
- competitive forces, including the conduct of other property and casualty insurers and reinsurers;
- changes in domestic or foreign laws or regulations, or their interpretation, applicable to White Mountains, its competitors or its clients;
- an economic downturn or other economic conditions adversely affecting its financial position; recorded loss reserves subsequently proving to have been inadequate; and
- other factors, most of which are beyond White Mountains' control.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

White Mountains' consolidated balance sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risk. The term market risk refers to the risk of loss arising from adverse changes in interest rates and other relevant market rates and prices. Due to White Mountains' sizable balances of interest rate sensitive instruments, market risk can have a significant effect on White Mountains' consolidated financial position.

Interest Rate Risk

Fixed Maturity Portfolio. In connection with the Company's consolidated insurance and reinsurance subsidiaries, White Mountains invests in interest rate sensitive securities, primarily debt securities. White Mountains strategy is to purchase fixed maturity investments that are attractively priced in relation to perceived credit risks. White Mountains' fixed maturity investments are held as available for sale in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), whereby these investments are carried at fair value on the balance sheet with net unrealized gains or losses reported net of tax in a separate component of common shareholders' equity. White Mountains generally manages its interest rate risk associated with its portfolio of fixed maturity investments by monitoring the average duration of the portfolio, which allows White Mountains to achieve an adequate yield without subjecting the portfolio to an unreasonable level of interest rate risk. White Mountains' fixed maturity portfolio is comprised of primarily investment grade corporate securities, U.S. government and agency securities, municipal obligations and mortgage-backed securities (e.g., those receiving an investment grade rating from Standard & Poor's or Moody's).

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

The table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on White Mountains' fixed maturity portfolio and fixed maturity investments in the pension plan.

($ in millions)	Fair Value at December 31, 2006	Assumed Change in Relevant Interest Rate	Estimated Fair Value After Change in Interest Rate	After-Tax Increase (Decrease) in Carrying Value
Fixed maturity investments	**$ 7,911.5**	100 bp decrease	$ 8,058.7	$ 98.0
		50 bp decrease	7,988.2	51.1
		50 bp increase	7,837.6	(49.2)
		100 bp increase	7,759.6	(101.1)
Pension fixed maturity investments	**$ 285.1**	100 bp decrease	$ 293.6	$ 5.6
		50 bp decrease	289.3	2.8
		50 bp increase	280.8	(2.8)
		100 bp increase	276.5	(5.5)

Long-term obligations. As of December 31, 2006, White Mountains' interest and dividend bearing long-term obligations consisted primarily of the Senior Notes, the Berkshire Preferred Stock and the Zenith Preferred Stock obligations, which have fixed interest and dividend rates. As a result, White Mountains' exposure to interest rate risk resulting from variable interest rate obligations is limited to the $320 million that it had drawn under the WTM Bank Facility as of December 31, 2006.

The Senior Notes were issued in 2003 and mature on May 15, 2013. At December31, 2006, the fair value of the Senior Notes was approximately $693 million, which compared to a carrying value of $699 million. The Berkshire Preferred Stock and Zenith Preferred Stock obligations were issued in 2001 and mature on May 31, 2008 and May 31, 2011, respectively. At December 31, 2006, the fair values of the Berkshire Preferred Stock and Zenith Preferred Stock obligations were approximately $320 million and $21 million, respectively, which compared to carrying values of $242 million and $20 million, respectively.

The fair values of these obligations were estimated by discounting future cash flows using current market rates for similar obligations or using quoted market prices.

Equity Price Risk

The carrying values of White Mountains' common equity securities and its other investments are based on quoted market prices or management's estimates of fair value (which is based, in part, on quoted market prices) as of the balance sheet date. Market prices of common equity securities, in general, are subject to fluctuations which could cause the amount to be realized upon sale or exercise of the instruments to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, general market conditions and supply and demand imbalances for a particular security.

Foreign Currency Exchange Risk

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

At December 31, 2006, OneBeacon held approximately $259 million in bonds denominated in foreign currencies, mostly those denominated in British Pounds and Australian dollars. Assuming a hypothetical 10% increase or decrease in the rate of exchange from the British Pound and Australian dollar to the U.S. dollar as of December 31, 2006, the carrying value of OneBeacon's foreign currency-denominated bond portfolio would have respectively decreased or increased by approximately $26 million.

The functional currency of Sirius International is the Swedish Krona. Assuming a hypothetical 10% increase or decrease in the rate of exchange from the Swedish Krona to the U.S. dollar as of December 31, 2006, the carrying value of White Mountains' net assets denominated in Swedish Kronor would have respectively decreased or increased by approximately $58 million.

Weather Derivative Risk

Weather derivatives, which can be structured as either swaps or options, are typically purchased by corporations and governments exposed to volatility in earnings due to variable weather. Weather derivatives are products with financial settlements linked to an underlying index that measures a quantifiable weather element such as temperature, precipitation, snowfall and windspeed, typically over the course of a six-month summer or winter season. Galileo manages its exposure to weather and market risks based on guidelines established by senior management. Galileo manages its weather portfolio through the employment of a variety of strategies. These strategies include geographical diversification of risk exposures and economic hedging within the over-the-counter and exchange traded derivative markets. Additionally, Galileo economically hedges its risk exposure by buying and selling similar weather risk contracts with different counterparties. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then purchase an option from another counterparty that pays Galileo if it becomes too cold in that same location. Galileo also diversifies its risk exposure by entering into contracts that protect different clients with opposite exposures to the same quantifiable weather element. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then sell another option that protects a different customer if it becomes too warm in that same location. Risk management is undertaken on a product portfolio-wide basis, to maintain a portfolio that Galileo believes is well diversified and that remains within the aggregate risk tolerance established by senior management.

Galileo uses value-at-risk ("VaR") analysis to monitor the risks associated with its weather derivative contracts. VaR is a tool that measures the potential loss that could occur over a defined period of time, calculated at a given statistical confidence level. Galileo's portfolio VaR analyses are calculated using a Monte Carlo simulation model that uses historical weather data, actual weather data since each contract's inception, forecasted weather conditions and prevailing market rates as inputs. Galileo performs a VaR analysis for each of its portfolios using both a seasonal and 20-day holding period. The average, low and high of amounts produced by Galileo's 20 day VaR analyses performed during the period ended December 31, 2006, calculated at a 99% confidence level, were approximately $3 million, zero, and $8 million, respectively. White Mountains did not offer weather risk management products prior to 2006.

Variable Annuity Guarantee Risk

White Mountains entered into an agreement to reinsure death and living benefit guarantees associated with certain variable annuities issued in Japan, commencing September 1, 2006. The reinsurance agreement assumes risk related to a shortfall between the account value and the guaranteed value that must be paid by the ceding company to an annuitant or to an annuitant's beneficiary in accordance with the underlying annuity contracts. Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese Yen, as well as with increases in market volatilities. The liability is also affected by annuitant-related actuarial assumptions, including surrender and mortality rates. At December 31, 2006, the total liability for the reinsured variable annuity guarantees was $(14) million.

White Mountains purchases derivative instruments, including futures and over-the counter option contracts on interest rates, major equity indices, and foreign currencies, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. At December 31, 2006, the fair value of these derivative instruments was $21 million and had an inception to date loss of $16 million.

White Mountains measures its net exposure to changes in relevant interest rates, foreign exchange rates and equity markets on a daily basis and adjusts its economic hedge positions within risk guidelines established by senior management. At December 31, 2006, White Mountains' modeled net exposure to a 10% change in each of these factors were as follows:

	($ in millions)		
Change	Equity Markets	Interest Rates	Foreign Exchange Rates Against the Japanese Yen
+ 10 Percent	$ .3	$ .4	$ (1.5)
-10 Percent	(1.8)	(.3)	(4.4)

White Mountains also monitors the effects of annuitant-related experience against actuarial assumptions (including surrender and mortality rates) on a weekly basis and adjusts relevant assumptions and economic hedge positions if required. While White Mountains actively manages its economic hedge positions, several factors, including policyholder behavior and mismatches between underlying variable annuity funds and the hedge indices, may result in economic hedge ineffectiveness.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 97 of this report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Principal Executive Officer ("PEO") and the Principal Financial Officer ("PFO") of White Mountains have evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-1 5(e) of the Exchange Act) as of December 31, 2006. Based on that evaluation, the PEO and PFO have concluded that White Mountains' disclosure controls and procedures are adequate and effective.

The PEO and the PFO of White Mountains have evaluated the effectiveness of its internal control over financial reporting as of December 31, 2006. Based on that evaluation, the PEO and PFO have concluded that White Mountains' internal control over financial reporting is effective. Management's annual report on internal control over financial reporting is included on page F-97 of this report. The attestation report on management's assessment of its internal control over financial reporting by PricewaterhouseCoopers LLP is included on pages F-94 through F-95 of this report.

There has been no change in White Mountains' internal controls over financial reporting that occurred during the fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect White Mountains' internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Reported under the captions "The Board Of Directors", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance - Committees of the Board - Audit Committee" in the Company's 2007 Proxy Statement, herein incorporated by reference, and under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

The Company's Code of Business Conduct, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company, is available at www.whitemountains.com and is included as Exhibit 14 to the Company's 2004 Annual Report on Form 10-K. The Company's Code of Business Conduct is also available in print free of charge to any shareholder upon request.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company's Board of Directors. The procedures for shareholders to nominate directors are reported under the caption "Corporate Governance - Committees of the Board - Nominating and Governance Committee" in the Company's 2007 Proxy Statement, herein incorporated by reference.

Item 11. Executive Compensation

Reported under the captions "Executive Compensation" and "Corporate Governance - Compensation Committee Interlocks and Insider Participation" in the Company's 2007 Proxy Statement, herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Reported under the captions "Voting Securities and Principal Holders Thereof" and "Equity Compensation Plan Information" in the Company's 2007 Proxy Statement, herein incorporated by reference.

Item 13. Certain Relationships, Related Transactions and Director Independence

Reported under the caption "Transactions with Related Persons, Promoters and Certain Control Persons" and "Corporate Governance - Director Independence" in the Company's 2007 Proxy Statement, herein incorporated by reference.

Item 14. Principal Accountant Fees and Services

Reported under the caption "Principal Accountant Fees and Services" in the Company's 2007 Proxy Statement, herein incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

a. Documents Filed as Part of the Report

The financial statements and financial statement schedules and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 97 of this report. A listing of exhibits filed as part of the report appear on pages 94 through 95 of this report.

b. Exhibits

Exhibit number	Name
2	Plan of Reorganization (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3.1	Memorandum of Continuance of the Company (incorporated by reference herein to Exhibit (3)(I) of the Company's Current Report on Form 8-K dated November 1, 1999)
3.2	Bye-Laws of the Company (incorporated by reference herein to Annex III of the Company's Registration Statement on Form S-4 (No. 333-87649) dated September 23, 1999)
4	Amended and Restated Certificate of Designation of Series A Preferred Stock of Fund American (incorporated by reference herein to Exhibit 99.1 of the Company's Report on Form 8-K dated December 3, 2004)
10.1	Amendment Agreement dated as of November 30, 2004, between General Reinsurance Corporation, a Delaware corporation, the Company and Fund American (incorporated by reference herein to Exhibit 99.2 of the Company's Report on Form 8-K dated December 3, 2004)
10.2	Keep-Well Agreement, dated as of November 30, 2004, by and between the Company and Fund American (incorporated by reference herein to Exhibit 99.3 of the Company's Report on Form 8-K dated December 3, 2004)
10.3	$500,000,000 Credit Agreement, dated November14, 2006 among the Company and White Mountains Re Group, Ltd., as the Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Lender, and the other lenders party hereto. (*)
10.4	$75,000,000 Credit Agreement, dated as of November14, 2006 among Fund American as the Borrower, OneBeacon Insurance Group, Ltd., as Parent, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Lender, and the other lenders party hereto. (*)
10.5	Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance Company and GRC dated April 13, 2001 (incorporated by reference herein to Exhibit 99(m) of the Company's Report on Form 8-K dated June 1,2001)
10.6	Adverse Development Agreement of Reinsurance between NICO (and certain of its affiliates) and Potomac Insurance Company dated April 13, 2001 and related documents (incorporated by reference herein to Exhibits 99(n), 99(o), 99(p) and 99(q) of the Company's Report on Form 8-K dated June 1, 2001)
10.7	Subscription Agreement among Berkshire, Fund American and the Registrant dated May 30, 2001 (incorporated by reference herein to Exhibits 99(t) of the Company's Report on Form 8-K dated June 1, 2001)
10.8	Master Agreement by and among the Company, OneBeacon and Liberty Mutual including the Liberty RRA and related documents (incorporated by reference herein to Exhibits 99(d), 99(e), 99(f), 99(g) and 99(h) of the Company's Report on Form 8-K dated November 1, 2001)
10.9	Investment Management Agreement between Prospector Partners, LLC and White Mountains Advisors LLC (incorporated by reference herein to Exhibit 99.1 of the Company's Report on Form 8-K dated June 20, 2005)
10.10	Amendment to the Investment Management Agreement between Prospector Partners, LLC and White Mountains Advisors, LLC dated February 23, 2006 (incorporated by reference herein to the Company's Report on Form 8-K dated February 28, 2006)
10.11	Investment Management Agreement between Prospector Partners, LLC and OneBeacon dated November14, 2006 (*)
10.12	Consulting Letter Agreement between Prospector Partners, LLC and White Mountains Advisors LLC (incorporated by reference herein to Exhibit 99.2 of the Company's Report on Form 8-K dated June 20, 2005)
10.13	Folksamerica Holding Company, Inc. Voluntary Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.14 of the Company's 2004 Annual Report on Form 10-K)
10.14	Folksamerica Holding Company, Inc. Deferred Benefit Plan (incorporated by reference herein to Exhibit 10.15 of the Company's 2004 Annual Report on Form 10-K)
10.15	White Mountains Long-Term Incentive Plan (*)
10.16	White Mountains Bonus Plan (incorporated by reference herein to Exhibit 10.17 of the Company's 2004 Annual Report on Form 10-K)
10.17	The Company's Voluntary Deferred Compensation Plan (incorporated by reference herein to Exhibit 4(c) of the Company's Report on Form S-8 dated October 19, 1999)
10.18	White Mountains Insurance Group Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.14 of the Company's 2003 Annual Report on Form 10-K)
10.19	Fund American Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.15 of the Company's 2003 Annual Report on Form 10-K)

10.20	OneBeacon Performance Unit Plan (*)
10.21	OneBeacon Insurance 2006 Management Incentive Plan (*)
10.22	OneBeacon Insurance Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.18 of the Company's 2003 Annual Report on Form 10-K)
10.23	OneBeacon Phantom WTM Share Plan (*)
10.24	OneBeacon Long-Term Incentive Plan (*)
10.25	OneBeacon Insurance Group, Ltd. Non-Qualified Stock Option Agreement for T. Michael Miller (*)
10.26	Amended and Restated Revenue Sharing Agreement among John D. Gillespie, Fund American Companies, Inc. and Folksamerica Reinsurance Company (incorporated by reference herein to Exhibit 10.26 of the Company's 2004 Annual Report on Form 10-K)

11	Statement Re Computation of Per Share Earnings (**)
12	Statement Re Computation of Ratio of Earnings to Fixed Charges (*)
14	The Company's Code of Business Conduct, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company (incorporated by reference herein to Exhibit 14 of the Company's 2004 Annual Report on Form 10-K)
21	Subsidiaries of the Registrant (*)
23	Consent of PricewaterhouseCoopers LLP dated February 28, 2007 (*)
24	Powers of Attorney (*)
31.1	Principal Executive Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934 (*)
31.2	Principal Financial Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934 (*)
32.1	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
32.2	Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
99	Text entitled "Non-Asbestos and Environmental Reserves" under the caption "Loss and Loss Adjustment Expense Reserves" (incorporated by reference herein to pages 31 through 43 of the Company's Form S-3 dated March 14, 2003)

(*) Included herein.
(**) Not included herein as the information is contained elsewhere within report. See Note 1 of the Notes to Consolidated Financial Statements.

c. Financial Statement Schedules

The financial statement schedules and report of independent registered public accounting firm have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 97 of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Date: February 28, 2007

By: /s/ J. BRIAN PALMER
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RAYMOND BARRETTE Raymond Barrette	Chairman and CEO (Principal Executive Officer)	February 28, 2007
BRUCE R. BERKOWITZ* Bruce R. Berkowitz	Director	February 28, 2007
HOWARD L. CLARK, JR.* Howard L. Clark, Jr.	Director	February 28, 2007
ROBERT P. COCHRAN* Robert P. Cochran	Director	February 28, 2007
MORGAN W. DAVIS* Morgan W. Davis	Director	February 28, 2007
STEVEN E. FASS* Steven E. Fass	Director	February 28, 2007
A. MICHAEL FRINQUELLI* A. Michael Frinquelli	Director	February 28, 2007
/s/ DAVID T. FOY David T. Foy	Executive Vice President and CFO (Principal Financial Officer)	February 28, 2007
GEORGE J. GILLESPIE, III* George J. Gillespie, III	Director	February 28, 2007
JOHN D. GILLESPIE* John D. Gillespie	Director	February 28, 2007
EDITH E. HOLIDAY* Edith E. Holiday	Director	February 28, 2007
/s/ J. BRIAN PALMER J. Brian Palmer	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2007
LOWNDES A. SMITH* Lowndes A. Smith	Director	February 28, 2007
ALLAN L. WATERS* Allan L. Waters	Director	February 28, 2007

*By: /s/ RAYMOND BARRETTE
Raymond Barrette, Attorney-in-Fact

WHITE MOUNTAINS INSURANCE GROUP, LTD.
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CONSOLIDATED BALANCE SHEETS

(Millions, except share and per share amounts)	December 31, 2006	2005
Assets		
Fixed maturity investments, at fair value (amortized cost $7,812.9 and $7,548.4)	**$ 7,911.5**	$ 7,582.7
Common equity securities, at fair value (cost $972.0 and $796.5)	**1,212.6**	967.8
Short-term investments, at amortized cost (which approximates fair value)	**1,344.9**	727.8
Other investments (cost $467.1 and $510.8)	**524.8**	588.1
Trust account investments, at amortized cost (fair value $337.9 and $0)	**338.9**	—
Total investments	**11,332.7**	9,866.4
Cash	**159.0**	187.7
Reinsurance recoverable on unpaid losses	**2,134.5**	3,003.6
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	**1,881.2**	2,022.1
Reinsurance recoverable on paid losses	**159.4**	77.0
Insurance and reinsurance premiums receivable	**913.6**	1,014.3
Securities lending collateral	**649.8**	674.9
Funds held by ceding companies	**452.8**	620.4
Investments in unconsolidated insurance affiliates	**335.5**	479.7
Deferred acquisition costs	**320.3**	288.4
Deferred tax asset	**276.0**	341.2
Ceded unearned premiums	**87.9**	200.7
Accrued investment income	**87.4**	93.5
Accounts receivable on unsettled investment sales	**8.5**	21.7
Other assets	**645.1**	526.5
Total assets	**$ 19,443.7**	$ 19,418.1
Liabilities		
Loss and loss adjustment expense reserves	**$ 8,777.2**	$ 10,231.2
Unearned insurance and reinsurance premiums	**1,584.9**	1,582.0
Debt	**1,106.7**	779.1
Securities lending payable	**649.8**	674.9
Deferred tax liability	**311.5**	274.3
Long-term incentive compensation payable	**285.2**	240.2

Reserves for structured contracts	**147.1**	224.6
Funds held under reinsurance treaties	**141.6**	171.4
Ceded reinsurance payable	**138.4**	204.5
Accounts payable on unsettled investment purchases	**66.8**	43.4
Other liabilities	**913.7**	828.9
Preferred stock subject to mandatory redemption:		
Held by Berkshire Hathaway Inc. (redemption value $300.0)	**242.3**	214.0
Held by others (redemption value $20.0)	**20.0**	20.0
Total liabilities	**14,385.2**	15,488.5
Minority interest- OneBeacon Insurance Group, Ltd.	**490.7**	—
Minority interest- consolidated limited partnerships	**112.5**	96.4
Total minority interest	**603.2**	96.4
Common shareholders' equity		
Common shares at $1 par value per share — authorized 50,000,000 shares; issued and outstanding 10,782,753 and 10,779,223 shares	**10.8**	10.8
Paid-in surplus	**1,716.7**	1,716.4
Unearned compensation - restricted common share awards	**—**	(1.9)
Retained earnings	**2,496.0**	1,899.8
Accumulated other comprehensive income, after-tax:		
Net unrealized gains on investments	**194.0**	233.9
Net unrealized foreign currency translation gains (losses)	**37.2**	(21.8)
Other	**0.6**	(4.0)
Total common shareholders' equity	**4,455.3**	3,833.2
Total liabilities, minority interest and common shareholders' equity	**$ 19,443.7**	$ 19,418.1

See Notes to Consolidated Financial Statements including Note 18 for Commitments and Contingencies.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Millions, except per share amounts	Year Ended December 31, 2006	2005	2004
Revenues			
Earned insurance and reinsurance premiums	**$ 3,712.7**	$ 3,798.6	$ 3,820.5
Net investment income	**435.5**	491.5	360.9
Net realized investment gains	**272.7**	112.6	181.1
Gain on sale of shares of OneBeacon Insurance Group, Ltd.	**171.3**	**—**	**—**
Other revenue	**202.0**	229.2	192.8
Total revenues	**4,794.2**	4,631.9	4,555.3
Expenses			
Loss and loss adjustment expenses	**2,452.7**	2,858.2	2,591.1
Insurance and reinsurance acquisition expenses	**754.8**	761.2	744.4
Other underwriting expenses	**505.4**	424.7	520.4
General and administrative expenses	**218.3**	148.8	301.0
Accretion of fair value adjustment to loss and loss adjustment expense reserves	**24.5**	36.9	43.3
Interest expense on debt	**50.1**	44.5	49.1
Interest expense - dividends on preferred stock subject to mandatory redemption	**30.3**	30.3	30.3
Interest expense - accretion on preferred stock subject to mandatory redemption	**28.3**	22.1	17.3
Total expenses	**4,064.4**	4,326.7	4,296.9
Pre-tax income	**729.8**	305.2	258.4
Income tax provision	**(98.9)**	(36.5)	(47.0)
Income before minority interest, equity in earnings of unconsolidated affiliates and extraordinary item	**630.9**	268.7	211.4
Minority interest	**(16.0)**	(12.2)	(10.6)
Equity in earnings of unconsolidated affiliates	**36.9**	33.6	37.4
Income before extraordinary item	**651.8**	290.1	238.2
Excess of fair value of acquired net assets over cost	**21.4**	—	180.5
Net income	**673.2**	290.1	418.7
Change in net unrealized gains and losses for investments held	**125.3**	(50.8)	218.0
Recognition of net unrealized gains and losses for investments sold	**(156.0)**	(131.4)	(87.9)
Change in foreign currency translation	**59.0**	(70.3)	48.8
Net change in minimum pension liability and other	**4.6**	(1.6)	(2.4)
Comprehensive net income	**$ 706.1**	$ 36.0	$ 595.2
Basic earnings per share			
Income before extraordinary item	**$ 60.52**	$ 26.96	$ 24.05
Net income	**62.51**	26.96	42.28
Diluted earnings per share			
Income before extraordinary item	**$ 60.33**	$ 26.56	$ 22.67

Net income	**62.32**	26.56	39.92
Dividends declared and paid per common share	**$ 8.00**	$ 8.00	$ 1.00

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

Millions	Common shareholders' equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income, after-tax	Unearned compensation
Balances at January 1, 2004	$ 2,979.2	$ 1,408.6	$ 1,286.4	$ 285.7	$ (1.5)
Net income	418.7	—	418.7	—	—
Net change in unrealized investment gains	130.1	—	—	130.1	—
Net change in foreign currency translation	48.8	—	—	48.8	—
Net change in minimum pension liability	(2.4)	—	—	(2.4)	—
Dividends declared on common shares	(9.1)	—	(9.1)	—	—
Exercise of warrants held by Berkshire Hathaway, Inc.	294.0	294.0	—	—	—
Issuances of common shares	13.7	13.7	—	—	—
Repurchases and retirements of common shares	(.2)	(.1)	(.1)	—	—
Issuance of restricted common shares	—	4.7	—	—	(4.7)
Amortization of restricted common share awards	2.0	—	—	—	2.0
Accrued Option expense	9.1	9.1	—	—	—
Balances at December 31, 2004	3,883.9	1,730.0	1,695.9	462.2	(4.2)
Net income	290.1	—	290.1	—	—
Net change in unrealized investment gains	(182.2)	—	—	(182.2)	—
Net change in foreign currency translation	(70.3)	—	—	(70.3)	—
Net change in minimum pension liability and other	(1.6)	—	—	(1.6)	—
Dividends declared on common shares	(86.2)	—	(86.2)	—	—
Issuances of common shares	1.1	1.1	—	—	—
Repurchases and retirements of common shares	(.1)	(.1)	—	—	—
Forfeiture of restricted common shares	—	(.3)	—	—	.3
Amortization of restricted common share awards	2.0	—	—	—	2.0
Accrued Option expense	(3.5)	(3.5)	—	—	—
Balances at December 31, 2005	3,833.2	1,727.2	1,899.8	208.1	(1.9)
Cumulative effect adjustment - hybrid instruments	—	—	9.2	(9.2)	—
Cumulative effect adjustment - share-based compensation	—	(1.9)	—	—	1.9
Net income	673.2	—	673.2	—	—
Net change in unrealized investment gains	(30.7)	—	—	(30.7)	—
Net change in foreign currency translation	59.0	—	—	59.0	—
Net change in other	.5	—	—	.5	—
Dividends declared on common shares	(86.2)	—	(86.2)	—	—
Issuances of common shares	0.6	0.6	—	—	—
Amortization of restricted common share awards	1.6	1.6	—	—	—
Adjustment for initial adoption of FAS 158, net of tax	4.1	—	—	4.1	—
Balances at December 31, 2006	**$ 4,455.3**	**$ 1,727.5**	**$ 2,496.0**	**$ 231.8**	**$ —**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 2006	2005	2004
Cash flows from operations:			
Net income	**$ 673.2**	$ 290.1	$ 418.7
Charges (credits) to reconcile net income to net cash used for operations:			
Excess of fair value of acquired net assets over cost	**21.4**	—	(180.5)
Net realized investment gains	**(272.7)**	(112.6)	(181.1)
Gain on sale of shares of OneBeacon Insurance Group, Ltd.	**(171.3)**	—	—
Undistributed equity in earnings from unconsolidated insurance affiliates, after-tax	**48.7**	(33.6)	(37.4)
Deferred income tax provision (benefit)	**33.2**	28.2	(59.0)

Other operating items:			
Net Federal income tax receipts (payments)	**48.3**	35.3	(86.5)
Net change in insurance and reinsurance premiums receivable	**111.1**	(58.9)	90.0
Net change in reinsurance recoverable on paid and unpaid losses	**738.2**	(1,416.4)	300.8
Net change in loss and LAE reserves	**(1,300.2)**	1,188.0	(750.4)
Net change in reserves for structured contracts	**(77.5)**	(151.3)	(56.3)
Net change in unearned insurance and reinsurance premiums	**(4.5)**	(37.1)	(54.0)
Net change in funds held by ceding reinsurers	**177.3**	307.2	12.2
Net change in other assets and liabilities, net	**70.3**	(323.9)	26.8
Net cash provided from (used for) operations	**95.5**	(285.0)	(556.7)
Cash flows from investing activities:			
Net change in short-term investments	**(526.2)**	295.3	768.2
Sales of fixed maturity investments	**4,576.2**	5,785.6	5,905.1
Maturities, calls and paydowns of fixed maturity investments	**833.9**	597.2	1,561.7
Sales of common equity securities and other investments	**819.2**	581.1	557.3
Sales of trust account investments	**7.1**	—	—
Sales of consolidated and unconsolidated affiliates, net of cash sold	**771.4**	180.7	220.9
Sales of renewal rights	**32.0**	—	—
Purchases of trust account assets	**(344.0)**	—	—
Purchases of common equity securities and other investments	**(697.0)**	(589.8)	(378.8)
Purchases of fixed maturity investments	**(5,800.5)**	(6,484.7)	(7,157.3)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	**(33.0)**	—	(659.8)
Net change in unsettled investment purchases and sales	**36.6**	10.7	(337.2)
Net acquisitions of property and equipment	**(19.8)**	(38.5)	(13.6)
Net cash (used for) provided from investing activities	**(344.1)**	337.6	466.5
Cash flows from financing activities:			
Issuance of debt	**482.4**	18.4	—
Repayment of debt	**(155.0)**	—	(25.0)
Cash dividends paid to common shareholders	**(86.2)**	(86.2)	(9.1)
Cash dividends paid to preferred shareholders	**(30.3)**	(30.3)	(30.3)
Proceeds from issuances of common shares	**.6**	1.1	307.8
Net cash provided from (used for) financing activities	**211.5**	(97.0)	243.4
Effect of exchange rate changes on cash	**8.4**	(11.0)	—
Net (decrease) increase in cash during year	**(28.7)**	(55.4)	153.2
Cash balance at beginning of year	**187.7**	243.1	89.9
Cash balance at end of year	**$ 159.0**	$ 187.7	$ 243.1

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the "Company" or the "Registrant") and its subsidiaries and have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("GAAP"). Within this report, the term "White Mountains" is used to refer to one or more entities within the consolidated organization, as the context requires. The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company's headquarters are located at Bank of Butterfield Building, 42 Reid Street, Hamilton, Bermuda HM 12, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains' reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. ("OneBeacon Ltd."), a Bermuda-based company that owns a family of U.S.-based property and casualty insurance companies (collectively "OneBeacon"), substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the "OneBeacon Acquisition"). During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd.'s common shares in an initial public offering (the "OneBeacon Offering"). In connection with the OneBeacon Offering, White Mountains undertook an internal reorganization (the "Reorganization") and formed OneBeacon Ltd. for the purpose of holding certain of its property and casualty insurance businesses. As a result of the Reorganization, certain of White Mountains' businesses that have been historically reported as part of its Other Operations segment are now owned by OneBeacon Ltd., and accordingly have been included in the OneBeacon segment for all periods presented in this report. In addition, certain other businesses of White Mountains that had been historically reported as part of its OneBeacon segment and which were not held by OneBeacon Ltd. following the OneBeacon Offering are included in the Other Operations segment for all periods presented in this report.

The White Mountains Re segment consists of White Mountains Re Group, Ltd., a Bermuda-based company, and its subsidiaries (collectively "White Mountains Re"). White Mountains Re offers reinsurance capacity for property, liability, accident & health, aviation and certain marine exposures on a worldwide basis through its subsidiaries, Folksamerica Reinsurance Company ("Folksamerica Re", together with its immediate parent, Folksamerica Holding Company ("FHC"), "Folksamerica"), which has been a wholly-owned subsidiary of White Mountains since 1998, and Sirius International Insurance Corporation ("Sirius

International"). On April 16, 2004, White Mountains acquired Sirius Insurance Holdings Sweden AB and its subsidiaries ("Sirius") (the "Sirius Acquisition"). The principal companies acquired were Sirius International, Sirius America Insurance Company ("Sirius America"), which provides primary insurance programs in the United States, and Scandinavian Reinsurance Company Ltd. ("Scandinavian Re"), a reinsurance company that has been in run-off since 2002. White Mountains Re also provides reinsurance advisory services, specializing primarily in property and other short-tailed lines of reinsurance, through White Mountains Re Underwriting Services Ltd. ("WMRUS"). On August 2, 2006, White Mountains Re sold Sirius America to an investor group. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity, Lightyear Delos Acquisition Corp. ("Delos"), and accounts for Delos on the equity method within its Other Operations segment.

The Esurance segment consists of Esurance Holdings, Ltd., a Bermuda-based company, and certain of its subsidiaries (collectively, "Esurance"). Esurance, which has been a unit of White Mountains since October 2000, sells personal auto insurance directly to customers online and through select online agents.

White Mountains' Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC ("WM Advisors"), its weather risk management business ("Galileo"), its variable annuity reinsurance business ("WM Life Re"), as well as the International American Group, Inc. (the "International American Group") and various other entities not included in other segments. The International American Group, which was acquired by White Mountains in 1999, consists of American Centennial Insurance Company ("American Centennial") and British Insurance Company of Cayman ("British Insurance Company"), both of which are in run-off. The Other Operations segment also includes White Mountains' investments in warrants to purchase common shares of Montpelier Re Holdings, Ltd. ("Montpelier Re"), warrants to purchase common shares of Symetra Financial Corporation ("Symetra") and common and preferred shares of Delos.

All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation.

Investment securities

White Mountains' invested assets comprise securities and other investments held for general investment purposes and those held in two segregated trust accounts.

White Mountains' portfolio of fixed maturity investments and common equity securities held for general investment purposes are classified as available for sale and are reported at fair value as of the balance sheet date as determined by quoted market prices. Net unrealized investment gains and losses on available for sale securities are reported net, after-tax, as a separate component of shareholders' equity. Changes in net unrealized investment gains and losses, net of the effect of adjustments for minority interest and after-tax, are reported as a component of other comprehensive income.

White Mountains' portfolio of fixed maturity investments held in the segregated trust accounts are classified as held to maturity as the Company has the ability and intent to hold the investments until maturity. Securities classified as held to maturity are recorded at amortized cost.

Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, the financial health of and specific prospects for the issuer and the ability and intent to hold the investment to recovery. Investment losses that are other than temporary are recognized in earnings. Realized gains and losses resulting from sales of investment securities are accounted for using the weighted average method. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment.

Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 2006 and 2005. Short-term investments held in the segregated trust account are included in the total of investments held in trust.

Other investments comprise White Mountains' investments in limited partnerships, warrants, equity method investments and an interest rate swap accounted for as a cash flow hedge.

Investments in limited partners hips

White Mountains has investments in a number of limited partnerships, which are recorded in other investments. Changes in White Mountains' interest in limited partnership interests accounted for using the equity method are included in net realized investment gains. Changes in White Mountains' interest in limited partnerships not accounted for under the equity method are reported, net of tax, as a component of shareholders' equity, with changes therein reported, after-tax, as a component of other comprehensive income.

Securities lending

White Mountains participates in a securities lending program as a mechanism for generating additional investment income on its fixed maturity portfolio. Under the security lending arrangements, certain of its fixed maturity investments are loaned to other institutions for short periods of time through a lending agent. White Mountains maintains control over the securities it lends, retains the earnings and cash flows associated with the loaned securities and receives a fee from the borrower for the temporary use of the asset. Collateral, in the form of cash and United States government securities, is required at a rate of 102% of the fair value of the loaned securities, is controlled by the lending agent and may not be sold or re-pledged. The fair value of the securities lending collateral is recorded as both an asset and liability on the balance sheet. However, other than in the event of default by the borrower, this collateral is not available to White Mountains and will be remitted to the borrower by the lending agent upon the return of the loaned securities. Because of these restrictions, White Mountains considers the collateral transactions associated with its securities lending activities to be non-cash transactions. An indemnification agreement with the lending agent protects White Mountains in the event a borrower becomes insolvent or fails to return any of the securities on loan.

Derivative financial instruments

White Mountains holds a variety of derivative financial instruments for both risk management and investment purposes. White Mountains recognizes all derivatives as either assets or liabilities, measured at fair value, in the consolidated balance sheets.

Convertible bonds

White Mountains owns convertible bonds. The equity conversion option is considered an embedded derivative. Prior to January 1, 2006, in accordance with Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), White Mountains bifurcated all equity option derivatives that are embedded in its convertible bonds. The original host instruments were reported, at fair value, in fixed maturity investments and the embedded derivatives were reported, at fair value, in other investments. Changes in the fair values of the equity options were included in realized gains and losses. Effective January 1, 2006, White Mountains adopted FAS No. 155, "Accounting for Certain Hybrid Instruments, an amendment to Statement Nos. 133 and 140" ("FAS 155"). FAS 155 eliminated the requirement to bifurcate financial instruments with embedded derivatives if the holder of the instrument elects to account for the entire instrument on a fair value basis with changes in fair value of the entire instrument recorded through income as realized gains. Prior to adoption of FAS 155, White Mountains had recorded $283.5 million related to the host instrument in fixed maturity investments and $99.8 million for the equity conversion option in other investments. Upon adoption of FAS 155, White Mountains recorded an adjustment of $9.2 million to reclassify net unrealized gains on investments (gross gains of $9.8 million and gross losses of $.6 million) to opening retained earnings to reflect the cumulative effect of adoption. The fair value of convertible bonds at December 31, 2006 was $429.5 million and was included in fixed maturity investments.

Warrants

White Mountains holds warrants to acquire common shares of Symetra and Montpelier Re. White Mountains also holds warrants that it has received in the restructuring (e.g., securities received from bankruptcy proceedings) of certain of its common equity and/or fixed maturity investments. White Mountains accounts for its investments in warrants in accordance with SFAS 133 as derivatives. The warrants are recorded in other investments at fair value with changes therein recorded in realized gains or losses in the period in which they occur.

White Mountains holds warrants to acquire 7.2 million common shares of Montpelier Re and warrants to acquire 1.1 million common shares of Symetra. The Company uses a Black-Scholes valuation model to determine the fair value of the Montpelier Re and Symetra warrants. The major assumptions used in the valuation of the Montpelier Re warrants were a risk-free rate of 4.70%, volatility of 30% and an expected life of approximately 5 years. The major assumptions used in valuing the Symetra warrants were a risk-free rate of 4.70%, volatility of 25% and an expected life of approximately 5 years.

Cash flow hedge

Contemporaneously with entering into a variable rate mortgage note, OneBeacon entered into an interest rate swap agreement under which it pays a fixed rate and receives a variable rate to hedge its exposure to interest rate fluctuations. The notional amount of the swap is equal to the outstanding principal of the mortgage note it hedges and is adjusted at the same time as the mortgage note principal changes for drawdowns and repayments. The underlying index used to determine the variable interest paid under the swap is the same as that used for OneBeacon's variable rate mortgage note. In accordance with SFAS 133, OneBeacon has accounted for the swap as a cash flow hedge and has recorded the interest rate swap at fair value on the balance sheet in other assets. Changes in the fair value of the interest rate swap, after tax, are reported as a component of other comprehensive income. OneBeacon monitors continued effectiveness of the hedge by monitoring the changes in the terms of the instruments as described above as compared to the actual changes in principal and notional amount in the mortgage note and interest rate swap.

Weather contracts

During 2006, White Mountains entered into the weather risk management business through its newly formed subsidiary, Galileo. Galileo offers weather risk management products, which, at December 31, 2006, were all in the form of derivative financial instruments. All weather derivatives are recognized as either assets or liabilities in the balance sheet. The fair value for exchange traded contracts are based upon quoted market prices, where available. Where quoted market prices are not available, management uses available market data and internal pricing models based upon consistent statistical methodologies to estimate the fair value. The gain or loss at the inception date for contracts valued based upon internal pricing models are deferred and amortized into income over the period at risk for each underlying contract. At December 31, 2006, Galileo has unamortized deferred gains of $4.7 million.

Galileo's weather derivatives are not designed to meet the GAAP criteria for hedge accounting. Accordingly, changes in the fair value subsequent to inception are recognized in the period in which they occur and are recorded in other revenues within the income statement. For the year ended December 31, 2006, Galileo recognized $2.1 million of net losses on its weather derivatives portfolio. The fair values of Galileo's risk management products are subject to change in the near-term and reflect management's best estimate based on various factors including, but not limited to, realized and forecasted weather conditions, changes in interest or foreign currency exchange rates and other market factors. Estimating the fair value of derivative instruments that do not have quoted market prices requires management's judgment in determining amounts that could reasonably be expected to be received from or paid to a third party to settle the contracts. Such amounts could be materially different from the amounts that might be realized in an actual transaction to settle the contract with a third party.

At December 31, 2006, Galileo had recorded a net liability of $2.1 million for exchange traded weather derivative contracts and a net liability of $10.0 million for weather derivative contracts valued based on internal pricing models. Galileo requires certain counterparties to provide cash collateral that it

invests until the underlying contract has settled. At December 31, 2006, Galileo had recorded a $25.2 million liability for collateral received.

Galileo's weather risk management contracts, all of which mature within one year, are summarized in the following table:

(Millions)	
Carrying value of net liability for weather derivative contracts at January 1, 2006	$ —
Net consideration received during the year for new contracts	12.6
Net payments made on contracts settled during the year	(2.6)
Net decrease in fair value on settled and unsettled contracts	2.1
Carrying value of net liability for weather derivative contracts at December 31, 2006 (1)	$ 12.1

(1) Amount includes $4.7 million in unamortized deferred gains.

Derivatives - Variable annuity reinsurance

In August 2006, White Mountains entered into an agreement to reinsure death and living benefit guarantees associated with certain variable annuities in Japan through its wholly owned subsidiary, WM Life Re. The accounting for benefit guarantees differs depending on whether or not the guarantee is classified as a derivative or an insurance liability.

Guaranteed minimum accumulation benefits ("GMABs") are paid to an annuitant for any shortfall between accumulated account value at the end of the accumulation period and the annuitant's total deposit, less any withdrawal payments made to the annuitant during the accumulation period. GMABs meet the definition of a derivative for accounting purposes and are accounted for under FAS 133. Therefore, GMABs are carried at fair value, with changes thereon recognized in income in the period of the change. The liability for the reinsured GMAB contracts has been determined using internal valuation models that use assumptions for interest rates, equity markets, foreign exchange rates and market volatilities at the valuation date, as well as annuitant-related actuarial assumptions, including surrender and mortality rates.

If an annuitant dies during the accumulation period of an annuity contract, guaranteed minimum death benefits ("GMDBs") are paid to the annuitant's beneficiary for shortfalls between accumulated account value at the time of an annuitant's death and the annuitant's total deposit, less any living benefit payments or withdrawal payments previously made to the annuitant. GMDBs are accounted for in accordance with Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (the

"SOP"). The liability for the reinsured GMDB contracts has been calculated using the methodology prescribed within the SOP for variable annuity contracts and is based on investment returns, mortality, surrender rates and other assumptions.

The valuation of these liabilities involve significant judgment and is subject to change based upon changes in capital market assumptions and emerging surrender and mortality experience of the underlying contracts in force. At December 31, 2006, the liability recorded for the variable annuity benefit guarantees was $(13.8) million, which is included in other liabilities.

WM Life Re has entered into derivative contracts that are designed to economically hedge against changes in the fair value of living and death benefit liabilities associated with its variable annuity reinsurance arrangements. The derivatives include futures and over-the-counter option contracts on interest rates, major equity indices, and foreign currencies. All derivative instruments are recorded as assets or liabilities at fair value on the balance sheet. These derivative financial instruments do not meet the hedging criteria under FAS 133, and accordingly, changes in fair value are recognized in the current period as gains or losses in the income statement. At December 31, 2006, the fair value of these derivative contracts, which is recorded in other assets, was $21.2 million and had inception to date losses of $15.7 million, which are included in other revenues. In connection with these derivative contracts, WM Life Re has deposited collateral comprising $2.2 million of cash and $7.7 million of securities with counterparties.

Cash

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company's consolidated subsidiaries.

Insurance and reinsurance operations

White Mountains accounts for insurance and reinsurance policies that it writes in accordance with SFAS No. 60, "Accounting and Reporting by Insurance Enterprises" ("SFAS 60"). Premiums written are recognized as revenues and are earned ratably over the term of the related policy or reinsurance treaty. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force. AutoOne Insurance, which acts as a limited assigned distribution ("LAD") servicing carrier, enters into contractual arrangements with insurance companies to assume private passenger automobile assigned risk exposures in the state of New York. AutoOne Insurance receives LAD servicing fees for assuming these risks. LAD servicing fees are typically a percentage of the total premiums that AutoOne Insurance must write to fulfill the obligation of the transferor company. LAD servicing carriers may choose to write certain policies voluntarily by taking risks out of the New York Automobile Insurance Plan ("NYAIP"). These policies generate takeout credits which can be "sold" for fees to the transferor company ("takeout fees"). These fees are also typically a percentage of the transferor company's NYAIP premium assignments. AutoOne Insurance's LAD servicing and takeout fees are recorded as written premium when billed and are earned ratably over the term of the related policy to which the fee relates.

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs which are directly attributable to and vary with the production of new business. These costs are deferred and amortized over the applicable premium recognition period as insurance and reinsurance acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. This limitation is referred to as a premium deficiency. A premium deficiency is recognized if the sum of expected loss and loss adjustment expenses ("LAE"), expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums. A premium deficiency is

recognized by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency.

Losses and LAE are charged against income as incurred. Unpaid insurance losses and LAE are based on estimates (generally determined by claims adjusters, legal counsel and actuarial staff) of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance losses and LAE are based primarily on reports received from ceding companies and actuarial projections. Unpaid loss and LAE reserves represent management's best estimate of ultimate losses and LAE, net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any adjustments resulting therefrom are reflected in current operations. The process of estimating loss and LAE involves a considerable degree of judgment by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

OneBeacon discounts certain of its long-term workers compensation loss and LAE reserves when such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual claim basis. OneBeacon discounts these reserves using an average discount rate which is determined based on the facts and circumstances applicable at the time the claims are settled (5.3% and 5.0% at December 31, 2006 and 2005). As of December 31, 2006 and 2005, the discount on OneBeacon's workers compensation loss and LAE reserves amounted to $190.7 million and $214.3 million.

In connection with purchase accounting for the OneBeacon Acquisition, White Mountains was required to adjust to fair value OneBeacon's loss and LAE reserves and the related reinsurance recoverables by $646.9 million and $346.9 million, respectively, on OneBeacon's acquired balance sheet as of June 1, 2001. This net reduction to loss and LAE reserves of $300.0 million is being accreted through an income statement charge ratably with and over the period the claims are settled. See Note 3.

In connection with purchase accounting for Sirius, White Mountains was required to adjust to fair value the loss and LAE reserves on Sirius' acquired balance sheet by $58.1 million. This fair value adjustment is being accreted through an income statement charge ratably with and over the period the claims are settled. See Note 3.

White Mountains' insurance and reinsurance subsidiaries enter into ceded reinsurance contracts from time to time to protect their businesses from losses due to concentration of risk, to manage their operating leverage ratios and to limit losses arising from catastrophic events. Such reinsurance contracts are executed through excess of loss treaties and catastrophe contracts under which the reinsurer indemnifies for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. White Mountains has also entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are covered on a pro-rata basis. The amount of each risk ceded by White Mountains is subject to maximum limits which vary by line of business and type of coverage. Amounts related to reinsurance contracts are recorded in accordance with SFAS 113 and Emerging Issues Task Force Topic No. D-54, as applicable.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The collectibility of reinsurance recoverables is subject to the solvency of the reinsurers. White Mountains is selective in regard to its reinsurers, principally placing reinsurance with those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis.

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly. Funds held by ceding companies represent amounts due to White Mountains in connection with certain assumed reinsurance agreements in which the ceding company retains a portion of the premium to provide security against future loss payments. The funds held by ceding companies are generally invested by the ceding company and a contractually agreed interest amount is credited to the Company and recognized as investment income. Funds held under reinsurance treaties represent contractual payments due to the reinsurer that White Mountains has retained to secure obligations of the reinsurer. Such amounts are recorded as liabilities in the consolidated financial statements.

Mandatory Shared Market Mechanisms

As a condition to its licenses to do business in certain states, White Mountains' insurance operations must participate in various mandatory shared market mechanisms commonly referred to as "residual" or "involuntary" markets. These markets generally consist of risks considered to be undesirable from a standard or routine underwriting perspective. Each state dictates the levels of insurance coverage that is mandatorily assigned to participating insurers within these markets. The total amount of such business an insurer must accept in a particular state is generally based on that insurer's market share of voluntary business written within that state. In certain cases, White Mountains is obligated to write business from shared market mechanisms at a future date based on its historical market share of all voluntary policies written within that state. Involuntary business generated from mandatory shared market mechanisms is accounted for in accordance with SFAS 60 or as assumed reinsurance under SFAS 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" (hereafter referred to as structured contracts) depending upon the structure of the mechanism.

OneBeacon's market assignments are typically required to be written in the current period, however, in certain cases OneBeacon is required to accept policy assignments at a future date. OneBeacon's residual market assignments to be written in the future primarily relate to private passenger automobile assigned

risk exposures within the State of New York where several of OneBeacon's insurance subsidiaries write voluntary automobile insurance. The share of involuntary written premium for policies assigned by the NYAIP to a particular insurer in a given year is based on the proportion of the total voluntary writings in New York two years prior. Anticipated losses associated with future market assignments are recognized in accordance with SFAS No. 5, "Accounting for Contingencies", when the amount of such anticipated losses is determined to be probable and can be reasonably estimated.

Insurance-Related Assessments

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. In accordance with Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments" ("SOP 97-3"), White Mountains' insurance subsidiaries record guaranty fund assessments when it is probable that an assessment will be made and the amount can be reasonably estimated.

Reserves for Structured Contracts

The reserve for structured contracts represents deposit liabilities for reinsurance contracts that do not satisfy the conditions for reinsurance accounting established in SFAS 113.

For insurance and reinsurance contracts that transfer only significant timing risk or that transfer neither significant timing risk nor significant underwriting risk, the amount of the deposit asset or liability is adjusted at the balance sheet date by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments. Changes in the carrying amounts are reported as a component of net investment income. Fees related to these contracts are recorded as investment income and are earned using the effective yield method or evenly over the life of the contract dependent upon contract terms.

Deferred Software Costs

White Mountains capitalizes costs related to computer software developed for internal use during the application development stage of software development projects in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". These costs generally consist of certain external, payroll and payroll-related costs. White Mountains begins amortization of these costs once the project is completed and ready for its intended use. Amortization is on a straight-line basis and over a useful life of three to five years. At December 31, 2006 and 2005, White Mountains had deferred software costs of $43.9 million and $50.2 million.

Federal and foreign income taxes

The majority of White Mountains' subsidiaries file consolidated tax returns in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective tax rate lower than that imposed by the United States.

Deferred tax assets and liabilities are recorded when a difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes exists, and for other temporary differences as defined by SFAS No. 109, "Accounting for Income Taxes". The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses. The deferred tax asset is recognized when it is more likely than not that it will be realized.

Foreign currency exchange

The U.S. dollar is the functional currency for all of the Company's businesses except for the foreign reinsurance operations of Folksamerica, Sirius and WMRUS and certain other smaller international activities. The national currencies of the subsidiaries are their functional currencies since their business is primarily transacted in such local currency. White Mountains also invests in securities denominated in foreign currencies. Assets and liabilities recorded in these foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are converted using the average exchange rates for the period. Net foreign exchange gains and losses arising from the translation are generally reported in shareholders' equity, in accumulated other comprehensive income or loss, net of tax.

Assets and liabilities relating to foreign operations are translated into the functional currency using current exchange rates; revenues and expenses are translated into the functional currency using the exchange rate of the transaction day. The resulting exchange gains and losses are reported as a component of net income in the period in which they arise. As of December 31, 2006 and 2005, White Mountains had an after-tax unrealized foreign currency translation gain/(loss) of $37.2 million, net of minority interest of $.7 million and $(21.8) million, respectively, recorded on its consolidated balance sheet.

The following rates of exchange for the U.S. dollar have been used for the most significant operations:

Currency	Opening Rate 2006	Closing Rate 2006	Opening Rate 2005	Closing Rate 2005
Swedish Krona	7.9603	6.8640	6.6231	7.9603
British Pound	.5798	.5088	.5218	.5798
Canadian Dollar	1.1647	1.1603	1.2132	1.1647

Earnings per share

Basic earnings per share amounts are based on the weighted average number of common shares outstanding excluding unearned restricted common shares ("Restricted Shares"), which are being fully expensed over the vesting period and were anti-dilutive for all periods presented. Diluted earnings per share amounts are based on the weighted average number of common shares and the net effect of potentially dilutive common shares outstanding, based on

the treasury stock method. The following table outlines the Company's computation of earnings per share for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,		
	2006	**2005**	**2004**
Basic earnings per share numerators (in millions):			
Income before extraordinary item	**$ 651.8**	$ 290.1	$ 238.2
Extraordinary item - excess of fair value of acquired net assets over cost	**21.4**	—	180.5
Net income	**$ 673.2**	$ 290.1	$ 418.7
Diluted earnings per share numerators (in millions):			
Income before extraordinary item	**$ 651.8**	$ 290.1	$ 238.2
Other effects on diluted earnings (1)	**—**	(3.5)	(0.9)
Income before extraordinary item	**$ 651.8**	$ 286.6	$ 237.3
Extraordinary item - excess of fair value of acquired net assets over cost	**21.4**	—	180.5
Adjusted net income	**$ 673.2**	$ 286.6	$ 417.8
Basic earnings per share denominators (in thousands):			
Average common shares outstanding during the period	**10,780**	10,774	9,916
Average unearned restricted common shares	**(11)**	(13)	(14)
Basic earnings per share denominator	**10,769**	10,761	9,902
Diluted earnings per share denominator (in thousands):			
Average common shares outstanding during the period	**10,780**	10,774	9,916
Average unearned restricted shares (2)	**—**	(13)	(14)
Average outstanding dilutive options and warrants to acquire common shares (3)	**23**	33	565
Diluted earnings per share denominator	**10,803**	10,794	10,467
Basic earnings per share (in dollars):			
Income before extraordinary item	**$ 60.52**	$ 26.96	$ 24.05
Extraordinary item -excess of fair value of acquired net assets over cost	**1.99**	—	18.23
Net income	**$ 62.51**	26.96	$ 42.28
Diluted earnings per share (in dollars):			
Income before extraordinary item	**$ 60.33**	26.56	$ 22.67
Extraordinary item - excess of fair value of acquired net assets over cost	**1.99**	—	17.25
Net income	**$ 62.32**	26.56	$ 39.92

(1) The diluted earnings per share numerator for the year ended December 31, 2005 has been adjusted to exclude an income statement credit associated with outstanding options to acquire common shares (see footnote 3 below). The diluted earnings per share numerator for the year ended December 31, 2004 has been adjusted to exclude a portion of White Mountains' equity in earnings from Montpelier Re brought about by outstanding warrants and options to acquire common shares of Montpelier Re that are in-the-money. As of March 31, 2004, White Mountains changed its method of accounting for its investment in Montpelier Re from equity accounting to fair value, therefore, this equity adjustment is not applicable to periods beginning after such date.

(2) Restricted Shares cliff vest on a stated anniversary date. In accordance with the adoption of FAS No. 123(R), the diluted earnings per share denominator adjustment is limited to unearned Restricted Shares measured as if such Restricted Shares are earned ratably.

(3) The diluted earnings per share denominator for the year ended December 31, 2006 includes the effects of options to acquire 32,596 common shares at an average strike price of $154.05 per common share. The diluted earnings per share denominator for the year ended December 31, 2005 includes the effects of options to acquire 42,910 common shares at an average strike price of $145.33 per common share. The diluted earnings per share denominator for the year ended December 31, 2004 includes the dilutive effects of average outstanding warrants to acquire 852,678 common shares at an average strike price of $173.99 per common share. The warrants were fully exercised on June 29, 2004, therefore this adjustment is not applicable for periods after such date.

Variable Interest Entities

Variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an entity has a variable interest, or a combination of variable interests, that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The entity with a controlling financial interest is the primary beneficiary and consolidates the VIE.

In accordance with the Financial Accounting Standards Board ("FASB") Interpretation No. 46-R, "Consolidation of Variable Interest Entities" ("FIN 46-R"), White Mountains consolidates VIEs for which it is the primary beneficiary. White Mountains determines whether or not it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interest creates or absorbs variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, White Mountains performs a quantitative analysis to calculate whether White Mountains' financial interest in the VIE is large enough to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected returns, or both.

Mandatorily Redeemable Preferred Stock

White Mountains has two classes of mandatorily redeemable preferred stock of subsidiaries which are considered noncontrolling interests and have been recorded as liabilities at their historical carrying values. Dividends and accretion on White Mountains' mandatorily redeemable preferred stock have been recorded as interest expense. (See Note 10).

Minority Interest

Minority interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of income attributable to minority interests is presented net of related income taxes in the statement of income and comprehensive income. The change in unrealized investment gains, foreign currency translation and the change in the fair value of the cash flow hedge presented in accumulated other comprehensive income is net of the minority interest portion.

Recently Adopted Changes in Accounting Principles

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("FAS") No. 123 (Revised), "Share-Based Payment" ("FAS 123R"), which is a revision to FAS 123 and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations, including FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans" ("FIN 28"). Effective January 1, 2006, White Mountains adopted FAS 123R to account for its share-based compensation under the modified prospective method of adoption. Under this method of adoption, FAS 123R applies to new grants of share-based awards, awards modified after the effective date and the remaining portion of the fair value of the unvested awards at the adoption date. The unvested portion of White Mountains incentive stock options ("Incentive Options"), restricted common share awards ("Restricted Shares") and performance share awards outstanding as of January 1, 2006, as well as new awards, are subject to the fair value measurement and recognition requirements of FAS 123R.

Prior to adoption of FAS 123R, White Mountains accounted for performance shares, Restricted Shares and Incentive Options under the recognition and measurement principles of APB 25 and FIN 28, and adopted the disclosure provisions of FAS 123. Under APB 25 and FIN 28, the liability for the compensation cost for performance share awards was measured each period based upon the current market price of the underlying common shares. The compensation cost recognized for White Mountains' Restricted Shares under APB 25 was based upon fair value of the award at the date of issuance and was charged to compensation expense ratably over the service period. Forfeitures were recognized as they occurred. Upon adoption of FAS 123R, an estimate of future forfeitures was incorporated into the determination of the compensation cost for performance shares and Restricted Shares. The effect of this change was immaterial.

White Mountains' Incentive Options have an escalating exercise price and vest on a pro rata basis over the service period. As a result, the Company's outstanding Incentive Options were accounted for as variable awards under FIN 28, with compensation expense charged to earnings over the service period based on the intrinsic value of the underlying common shares and with forfeitures recognized as they occurred. Upon adoption of FAS 123R, the grant date fair value of the awards as originally disclosed for FAS 123, adjusted for estimated future forfeitures, became the basis for recognition of compensation expense for the Incentive Options.

The following table illustrates the pro forma effect on net income and earnings per share for the years ended December 31, 2005 and 2004 as if the Company had applied the fair value recognition provisions of FAS 123 to its Incentive Options at those times.

	Year Ended December 31,	
Millions, except per share amounts	2005	2004
Net income, as reported	$ 290.1	$ 418.7
Incentive Option expense (income) included in reported net income	(3.5)	9.0
Incentive Option expense determined under fair value based method	(.1)	(.1)
Net income, pro forma	$ 286.5	$ 427.6
Earnings per share:		
Basic - as reported	$ 26.96	$ 42.28
Basic - pro forma	26.63	43.18
Diluted - as reported	26.56	39.92
Diluted - pro forma	26.56	40.77

Hybrid Financial Instruments

On February 16, 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Instruments, an amendment to Statement Nos. 133 and 140" ("FAS 155"). The Statement eliminates the requirement to bifurcate financial instruments with embedded derivatives if the holder of the instrument elects to account for the entire instrument on a fair value basis. Changes in fair value are recorded as realized gains. The fair value election may be applied upon adoption of the statement for hybrid instruments that had been bifurcated under FAS 133 prior to adoption. The Statement is effective for fiscal years commencing after September 15, 2006 with early adoption permitted as of the beginning of an entity's fiscal year.

White Mountains adopted FAS 155 effective January 1, 2006. See Convertible bonds section of this note for discussion of effect of adoption.

Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("FAS 158") which amends FASB Statement Nos. 87, 88, 106 and 132(R). The Statement requires an employer that sponsors a

defined benefit plan to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation (for defined benefit pension plans) or the accumulated benefit obligation (for other postretirement benefit plans) in its statement of financial position. The Statement also requires recognition of amounts previously deferred and amortized under FAS 87 and FAS 106 in other comprehensive income in the period in which they occur. Under the new Statement, plan assets and obligations must be measured as of the fiscal year end. The recognition provisions of the Statement are effective for fiscal years ending after December 15, 2006. The measurement provisions of the Statement are effective for fiscal years ending after December 15, 2008. White Mountains recognized an increase to ending accumulated other comprehensive income of $4.1 million upon adoption of the recognition provisions of FAS 158 at December 31, 2006.

Recent Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). The Statement provides a revised definition of fair value and guidance on the methods used to measure fair value. The Statement also expands financial statement disclosure requirements for fair value information. The Statement establishes a fair value hierarchy that distinguishes between assumptions based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). The fair value hierarchy in FAS 157 prioritizes inputs within three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). The guidance in FAS 157 is applicable to derivatives as well as other financial instruments measured at fair value and nullifies the guidance in EITF 02-3, FAS 133 and FAS 155 that provided for the deferral of gains at the date of initial measurement. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application allowed for entities that have not issued financial statements in the fiscal year of adoption. White Mountains has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is an interpretation of FAS 109, "Accounting for Income Taxes." The Interpretation prescribes when the benefit of a given tax position should be recognized and how it should be measured. FIN 48 also requires additional disclosures. Under the new guidance, recognition is based upon whether or not a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more-likely-than-not recognition threshold, a company should presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. White Mountains expects the effect of adoption to be modest and to consist of reclassification of certain income tax-related liabilities in our statement of financial position and an immaterial effect on the balance of retained earnings. White Mountains does not expect the adoption to have a material effect on its results of operations or cash flows.

NOTE 2. Significant Transactions

Mutual Service Casualty

On December 22, 2006, White Mountains Re completed its acquisition of Mutual Service Casualty Insurance Company ("Mutual Service Casualty"), a runoff insurer formerly affiliated with Country Insurance & Financial Services. As part of a sponsored demutualization and conversion to a stock company, Mutual Service Casualty has been renamed Stockbridge Insurance Company ("Stockbridge"). White Mountains Re paid approximately $33.6 million for Stockbridge and recorded an after-tax extraordinary gain of $21.4 million, which represents the excess of fair value of acquired assets over the purchase price. The fair value of net assets acquired were $55.1 million, including $81.0 million of cash and investments, $55.5 million of reinsurance recoverables, $12.2 million of deferred tax assets, $91.2 million of loss and LAE reserves and $2.3 million of deferred tax liabilities.

OneBeacon

On November 14, 2006, in connection with the OneBeacon Offering, White Mountains sold 27.6 million common shares, or 27.6%, of its subsidiary OneBeacon Ltd. for net proceeds of $650.3 million in cash. As a result of the sale, White Mountains recorded a gain of $171.3 million, which represents the excess of the offering proceeds over 27.6% of the book value of OneBeacon at the time of the sale.

Main Street America

On October 31, 2006, White Mountains' investment in Main Street America Holdings, Inc. ("MSA") was restructured. White Mountains received a $70 million cash dividend from MSA, following which White Mountains sold its 50% common stock investment in MSA to Main Street America Group, Inc. ("the MSA Group") for (i) $70.0 million in 9.0% non-voting cumulative perpetual preferred stock of the MSA Group, and (ii) $24.5 million, or 4.9%, of the common stock of the MSA Group. These transactions resulted in a net after tax realized gain of $8.5 million.

Sirius America

On August 3, 2006, White Mountains Re sold its wholly-owned subsidiary, Sirius America, to an investor group for $138.8 million in cash, which was $16.9 million above the book value of Sirius America at the time of the sale. Sirius America is a U.S.-based insurer focused on primary insurance programs that was acquired as part of the Sirius Acquisition (defined below).

As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity, Delos, and accounts for Delos under the equity method. White Mountains recognized a gain of $14.0 million ($9.1 million after tax) on the sale through other revenues and has deferred $2.9 million ($1.9 million after tax) of the gain related to its remaining equity interest in Delos (See Note 14).

National Farmers Union Property and Casualty Company

On September 30, 2005, OneBeacon sold National Farmers Union Property and Casualty Company ("NFU") to QBE Insurance Group for $138.3 million in cash and recognized a gain of approximately $26.2 million ($21.7 million after-tax) on the sale through other revenues.

Sirius

On April 16, 2004, White Mountains acquired Sirius from ABB Ltd. for SEK 3.27 billion (approximately $427.5 million based upon the foreign exchange spot rate at the date of acquisition), which included $10.5 million of expenses incurred in connection with the acquisition. The principal companies acquired were Sirius International, Sirius America and Scandinavian Re. Sirius International is domiciled in Sweden and has offices in Belgium, Hamburg, London, Singapore, Stockholm and Zurich. Scandinavian Re is a reinsurance company that has been in run-off since 2002. The Sirius Acquisition was accounted for under the purchase method of accounting and, therefore, the identifiable assets and liabilities of Sirius were recorded by White Mountains at their fair values on April 16, 2004. The process of determining the fair value of such assets and liabilities acquired was as follows: (1) the purchase price of Sirius was preliminarily allocated to the acquired assets and liabilities, based on their respective estimated fair values at April 16, 2004; (2) the excess of the estimated fair value of acquired net assets over the purchase price was used to reduce the estimated fair values of all non-current, non-financial assets acquired to zero; and (3) the remaining excess of the estimated fair value of net assets over the purchase price was recorded as an extraordinary gain.

The fair value of identifiable assets and liabilities acquired on April 16, 2004 were as follows (in millions):

Fair value of assets acquired	$3,306.9
Fair value of liabilities acquired	2,768.0
Fair value of net assets acquired	538.9
Total purchase price, including expenses	(427.5)
Resulting extraordinary gain	$ 111.4

Significant assets and liabilities acquired through Sirius included $1,851.9 million of cash and investments, $790.1 million of funds held by ceding companies, $286.2 million of reinsurance recoverable on paid and unpaid losses, $245.8 million of insurance and reinsurance balances receivable, $1,612.7 million of loss and loss adjustment expense reserves, $432.2 million of reserves for structured settlements, $276.5 million of unearned insurance premiums and $289.4 million of deferred tax liabilities.

Supplemental unaudited pro forma condensed combined income statement information for the year ended December 31, 2004, which assumes that the Sirius Acquisition had occurred as of January 1, 2004 follows:

(Unaudited) Millions, except per share amounts	Pro Forma Twelve Months Ended December 31, 2004
Total revenues	$ 4,699.7
Income before extraordinary items	$ 273.4
Net income	$ 453.9
Earnings per share:	
Pro forma net income - basic	$ 45.83
Pro forma net income - diluted	$ 43.28

The unaudited pro forma information presented above for the year ended December 31, 2004 has been supplied for comparative purposes only and does not purport to reflect the actual results that would have been reported had the Sirius Acquisition been consummated at January 1, 2004. Additionally, such pro forma financial information does not purport to represent results that may occur in the future.

Symetra

On August 2, 2004, White Mountains, Berkshire Hathaway Inc. (“Berkshire”) and several other private investors capitalized Symetra in order to purchase the life and investments operations of Safeco Corporation for $1.35 billion. The acquired companies focus mainly on group insurance, individual life insurance, structured settlements and retirement services. Symetra had an initial capitalization of approximately $1.4 billion, consisting of $1,065 million of common equity and $315 million of bank debt. White Mountains invested $194.7 million in Symetra in exchange for 2.0 million common shares of Symetra. In addition, White Mountains and Berkshire each received warrants to acquire an additional 1.1 million common shares of Symetra at $100 per share. White Mountains owns approximately 19% of the outstanding common shares of Symetra, which are accounted for under the equity method, and approximately 24% of Symetra on a fully-converted basis including the warrants, which are accounted for under the provisions of SFAS 133. Three White Mountains designees serve on Symetra’s eight member board of directors.

White Mountains recorded its initial investment in Symetra by allocating the $194.7 million purchase price between the common shares and the warrants. The allocation was determined by recording the warrants at their fair value of $35.4 million, with the remaining $159.3 million allocated to the common shares. White Mountains then recognized an extraordinary gain of $40.7 million, representing the difference between the initial cost of the common shares and the amount of White Mountains’ equity in the underlying net assets of Symetra, as required by APB 18, “The Equity Method of Accounting for Investments in Common Stock”.

Sierra Group

On March 31, 2004, Folksamerica acquired the Sierra Insurance Group companies (the “Sierra Group”), consisting of California Indemnity Insurance Company and its three subsidiaries, from Nevada-based Sierra Health Services, Inc. Folksamerica paid $76.2 million for the Sierra Group, which included $14.2 million in cash and a $62.0 million purchase note (see Note 6). $58.0 million of the purchase note may be adjusted over its six-year term to reflect favorable or adverse loss reserve development on the acquired reserve portfolio and run-off of remaining policies in force (mainly workers compensation business), as well as certain other balance sheet protections. The acquired companies’ net assets at the time of the close were $84.8 million, including $270.3 million of investments, $174.4 million of reinsurance balances recoverable, $406.9 million of loss and loss adjustment expense reserves and $25.1 million of unearned premiums. The acquisition resulted in an $8.6 million extraordinary gain, which White Mountains recognized in the first quarter of 2004.

Tryg-Baltica

On November 11, 2004, Sirius International acquired 100% of Denmark-based Tryg-Baltica Forsikring, internationalt forsikringsselskab A/S ("Tryg-Baltica"). Under the terms of the agreement, Sirius paid approximately DKK 316.3 million ($57.7 million). Following the closing, White Mountains Re placed Tryg-Baltica into run-off, though certain business was renewed by Sirius International. White Mountains Re did not acquire any infrastructure or employees and manages the company's run-off administration. The acquired companies' net assets at closing were $77.5 million, including $144.3 million of cash and investments, $86.7 million of receivables, $20.8 million of deposits with insurance companies, $150.8 million of loss and LAE reserves and $36.9 million of unearned insurance premiums. The acquisition resulted in a $19.8 million extraordinary gain, which White Mountains recognized in the fourth quarter of 2004.

Other Acquisitions and Dispositions

On September 29, 2006, OneBeacon transferred certain assets and the right to renew existing policies of its Agri division to QBE for $32.0 million in cash and recorded a gain of $30.4 million on the sale through other revenues.

On September 30, 2005, White Mountains Re sold one of its subsidiaries, California Indemnity Insurance Company, for total proceeds of $19.8 million, $19.3 million of which was paid in cash, and recognized a gain of approximately $5.0 million ($3.3 million after-tax) on the sale through other revenues.

On August 2, 2005, OneBeacon sold one of its subsidiaries, Traders and Pacific Insurance Company ("TPIC"), to Endurance Reinsurance for $23.4 million in cash and recognized a gain of approximately $8.0 million ($5.2 million after-tax) on the sale through other revenues.

During the fourth quarter of 2004, OneBeacon sold two of its subsidiaries, Potomac Insurance Company of Illinois for $21.7 million and Western States Insurance Company, as well as its boiler inspection service business, for $15.1 million and recognized combined gains on the sales of $22.1 million through other revenues.

During the third quarter of 2004, OneBeacon entered into an agreement to sell the renewal rights to most of its pre-Atlantic Mutual (defined below) New York commercial business to Tower Insurance Group. The transaction, effective with December 1, 2004 renewals, impacted $110.0 million of premiums. OneBeacon retained the commercial business acquired from Atlantic Mutual.

On March 31, 2004, OneBeacon acquired Atlantic Specialty Insurance Company ("Atlantic Specialty"), a subsidiary of Atlantic Mutual Insurance Company ("Atlantic Mutual"), and the renewal rights to Atlantic Mutual's segmented commercial insurance business, including the unearned premiums on the acquired book (the "Atlantic Specialty Transaction"). The overall gross written premium for this book of business totaled approximately $404 million. Under the terms of the agreement, OneBeacon will pay Atlantic Mutual a renewal commission on the premiums renewed. In connection with its acquisition of Atlantic Specialty, OneBeacon paid $30.1 million in cash and issued a $20.0 million note to the seller. See Note 6.

During the first quarter of 2004, White Mountains purchased additional warrants to acquire 2,390,786 common shares of Montpelier Re from an existing warrant holder for $54.1 million in cash. Also during the first quarter of 2004, White Mountains sold 4.5 million common shares of Montpelier Re to third parties for net proceeds of $155.3 million. As a result of this sale, as well as changes to the composition of the Board of Directors of both Montpelier Re and White Mountains, White Mountains changed the method of accounting for its remaining common share investment in Montpelier Re as of March 31, 2004 from an equity method investment in an unconsolidated affiliate to a common equity security, which is classified as available for sale and carried at fair value. During the third quarter of 2006, White Mountains sold an additional 5.4 million shares of its common share investment in Montpelier Re to third parties, thereby reducing the total number of Montpelier Re common shares owned by White Mountains to 0.9 million. See Note 5.

In January 2004, Folksamerica sold Peninsula Insurance Company to the Donegal Group for $23.3 million, or 107.5% of its GAAP book value, resulting in a pre-tax gain of $2.1 million that White Mountains recognized in the first quarter of 2004.

NOTE 3. Reserves for Unpaid Losses and Loss Adjustment Expenses

Insurance

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

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

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

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

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

Reinsurance

White Mountains' reinsurance subsidiaries establish loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for reinsured events that have already occurred. White Mountains' reinsurance subsidiaries also obtain reinsurance whereby another reinsurer contractually agrees to indemnify White Mountains for all or a portion of the reinsurance risks underwritten by White Mountains. Such arrangements, where one reinsurer provides reinsurance to another reinsurer, are usually referred to as "retrocessional reinsurance" arrangements. White Mountains establishes estimates of amounts recoverable from retrocessional reinsurance in a manner consistent with the loss and LAE liability associated with reinsurance contracts offered to its customers (the "ceding companies"), net of an allowance for uncollectible amounts. Net reinsurance loss reserves represent loss and LAE reserves reduced by retrocessional reinsurance recoverable on unpaid losses.

Reinsurance loss and LAE reserve estimates reflect the judgment of both the ceding companies and White Mountains, based on the experience and knowledge of their respective claims personnel, regarding the nature and value of the claims. The ceding companies may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made. Upon notification of a loss from a ceding company, White Mountains establishes case reserves, including LAE reserves, based upon White Mountains' share of the amount of reserves established by the ceding company and White Mountains' independent evaluation of the loss. In cases where available information indicates that reserves established by the ceding company are inadequate, White Mountains establishes reserves in excess of its share of the reserves established by the ceding company.

The estimation of net reinsurance loss and LAE reserves is subject to the same factors as the estimation of insurance loss and LAE reserves. In addition to those factors which give rise to inherent uncertainties in establishing insurance loss and LAE reserves, the claim-tail for reinsurers is further extended because claims are first reported through one or more intermediary insurers or reinsurers.

White Mountains establishes loss reserves for White Mountains Re based on a single point estimate, which is management's best estimate of ultimate losses and loss adjustment expenses. This "best estimate" is derived from a combination of generally accepted actuarial methods. For current accident year business, the estimate is based on an expected loss ratio method. The parameters underlying this method are developed during the underwriting and pricing process. Loss ratio expectations are derived for each contract and these are aggregated by class of business and type of contract. These loss ratios are then applied to the actual earned premiums by class and type of business to estimate ultimate losses. Paid losses are deducted to determine loss and loss expense reserves.

For prior accident years, White Mountains Re gradually replaces this expected loss ratio approach with estimates based on historical loss reporting patterns. For both current and prior accident years, estimates also change when new information becomes available, such as changing loss emergence patterns, or as a result of claim and underwriting audits.

Once a point estimate is established by White Mountains Re, its actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated using similar methods to the point estimate calculation, but with different expected loss ratio and loss reporting pattern assumptions. For the low estimate, more optimistic loss ratios and faster reporting patterns are assumed, while the high estimate uses more conservative loss ratios and slower reporting patterns. These variable assumptions are derived from historical variations in loss ratios and reporting patterns by class and type of business.

Loss and loss adjustment expense reserve summary

The following table summarizes the loss and LAE reserve activities of White Mountains' insurance and reinsurance subsidiaries for the years ended December 31, 2006, 2005 and 2004:

Millions	Year Ended December 31, 2006	2005	2004
Gross beginning balance	**$ 10,231.2**	$ 9,398.5	$ 7,728.2
Less beginning reinsurance recoverable on unpaid losses	**(5,025.7)**	(3,797.4)	(3,473.8)
Net loss and LAE reserves	**5,205.5**	5,601.1	4,254.4
Loss and LAE reserves sold - Sirius America	**(124.1)**	—	—
Loss and LAE reserves acquired - Stockbridge (3)	**38.3**	—	—
Loss and LAE reserves sold - NFU	**—**	(95.9)	—
Loss and LAE reserves sold - TPIC	**—**	(11.8)	—
Loss and LAE reserves acquired - Sirius (1)	**—**	—	1,328.9
Loss and LAE reserves acquired - Sierra Insurance Group (1)	**—**	—	244.4
Loss and LAE reserves acquired - Tryg-Baltica (1)	**—**	—	136.8
Loss and LAE reserves consolidated - New Jersey Skylands Insurance Association	**—**	—	62.1
Loss and LAE reserves sold - Peninsula Insurance Company	**—**	—	(17.0)
Losses and LAE incurred relating to:			
Current year losses	**2,208.7**	2,697.1	2,476.0
Prior year losses (2)	**244.0**	161.1	115.1
Total incurred losses and LAE	**2,452.7**	2,858.2	2,591.1
Accretion of fair value adjustment to net loss and LAE reserves	**24.5**	36.9	43.3
Foreign currency translation adjustment to net loss and LAE reserves	**35.2**	(39.4)	48.0

Loss and LAE paid relating to:			
Current year losses	**(845.5)**	(848.7)	(926.3)
Prior year losses	**(2,025.1)**	(2,294.9)	(2,164.6)
Total loss and LAE payments	**(2,870.6)**	(3,143.6)	(3,090.9)
Net ending balance	**4,761.5**	5,205.5	5,601.1
Plus ending reinsurance recoverable on unpaid losses	**4,015.7**	5,025.7	3,797.4
Gross ending balance	**$ 8,777.2**	$ 10,231.2	$ 9,398.5

(1) Reinsurance recoverables on unpaid losses acquired in the Sirius, Sierra Group and Tryg-Baltica acquisitions totalled $283.8 million, $162.5 million and $14.0 million.

(2) During the years ended December 31, 2005 and 2004, White Mountains Re recorded $22.8 million and $10.0 million of unfavorable development on its workers compensation reserves relating to its Sierra Insurance Group acquisition, which was offset dollar-for-dollar by a reduction in the principal amount of the adjustable note that White Mountains Re issued as part of the financing of that acquisition (See Note 6).

(3) Reinsurance recoverables on unpaid losses acquired in the Stockbridge acquisition totalled $52.9 million.

Loss and LAE development - 2006

During the year ended December 31, 2006, White Mountains experienced $244.0 million of unfavorable development on prior accident loss reserves, of which $218.0 million was experienced by White Mountains Re and $22.9 million was experienced by OneBeacon. The adverse development was primarily related to adverse development on loss and LAE reserves previously established for Katrina, Rita and Wilma.

During 2006, following the receipt of new claims information reported from several ceding companies and subsequent reassessment of the ultimate loss exposures, White Mountains Re increased its gross loss estimates for hurricanes Katrina, Rita and Wilma by $201 million.

The vast majority of the newly reported claims were on off-shore energy and marine exposures, and as a result, Folksamerica Re set its gross loss and LAE reserves in 2006 on off-shore energy and marine exposures for hurricanes Katrina and Rita at full contract limits and also increased reserves on other exposures affected by hurricanes Katrina, Rita and Wilma.

Under the terms of Folksamerica Re's 2005 quota share reinsurance treaty with Olympus Reinsurance Company ("Olympus"), $139 million of these losses, net of reinstatement premiums, recorded in 2006 were ceded to Olympus. However, Folksamerica entered into an indemnity agreement with Olympus, under which it agreed to reimburse Olympus for up to $137 million of these losses, which was recorded as loss and LAE expense during 2006.

Loss and LAE development - 2005

During the year ended December 31, 2005, White Mountains experienced $161.1 million of unfavorable development on prior accident year loss reserves, of which $95.0 million was experienced at OneBeacon and approximately $51.8 million was experienced by White Mountains Re.

The adverse development at OneBeacon was primarily due to higher than anticipated legal defense costs and higher damages from liability assessments in general liability and multiple peril reserves in OneBeacon's run-off operations. Specifically, OneBeacon's management had assumed at December 31, 2004 that the IBNR and known case development would be approximately 26% of actual case reserves for the 2001 and prior accident years for multiple peril and general liability. During 2005, case incurred loss and LAE was 72% of the entire future expected development, which was unusually large for these long tail lines of business. As a result, OneBeacon's management increased IBNR reserves for these lines so that as of year end 2005 the IBNR was approximately 40% relative to the remaining case reserves.

The majority of the adverse development at White Mountains Re resulted from actions taken in response to a ground-up study of Folksamerica's exposure to asbestos claims that was completed in the third quarter of 2005. The study examined losses incurred by all insureds that had reported over $250,000 of asbestos claims to Folksamerica and a significant sample of all other insureds with reported asbestos claims of less than $250,000. Comparing estimates generated by the study to Folksamerica's exposed limits by underwriting year led management to record an increase of approximately $50 million in IBNR during the third quarter of 2005. This unfavorable development was partially offset by favorable development in the Sirius International reserve portfolio of approximately $12.0 million, mainly from the three most recent underwriting years.

Loss and LAE development - 2004

White Mountains experienced $115.1 million of unfavorable development on prior accident year loss and LAE reserves during 2004, of which approximately $100.3 million (relating primarily to 2002 and prior accident years) was experienced by OneBeacon and approximately $10.8 million was experienced by White Mountains Re.

The net unfavorable development at OneBeacon related primarily to personal auto liability, general liability and multiple peril reserves due in part to emerging trends in claims experienced in OneBeacon's run-off operations, as well as national account and program claims administered by third parties. These claim trends principally included higher legal defense costs and higher damages from liability assessments. Prior to 2004, OneBeacon's management had made assumptions that case reserving standards and settlement practices in the run-off operations would be consistent with the standards and practices that were observed in the ongoing operations. During 2004, multiple peril liability and general liability case incurred loss and LAE for run-off claims was double that for ongoing operations claims. As a result, OneBeacon's management increased the overall level of reserves for run-off during 2004. In addition, OneBeacon's management undertook a more in depth review of the standards and practices as applicable to run-off claims and formed a separate run-off claims unit.

The majority of the unfavorable development recorded at White Mountains Re resulted from certain discontinued lines at Folksamerica as well as run-off operations acquired as part of the Sirius Acquisition. This unfavorable development was partially offset by favorable development in the Sirius International reserve portfolio, mainly from the three most recent underwriting years, and is indicative of the favorable terms and conditions that have existed in the global reinsurance marketplace during that time.

Fair value adjustment

In connection with purchase accounting for the acquisitions of OneBeacon, Sirius and Mutual Service Casualty, White Mountains was required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on OneBeacon's, Sirius' and Mutual Service Casualty's acquired balance sheets. The net reduction to

loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled. Accordingly, White Mountains recognized $24.5 million, $36.9 million and $43.3 million of such charges, recorded as loss and LAE during 2006, 2005 and 2004.

The fair values of OneBeacon's loss and LAE reserves and related reinsurance recoverables acquired on June 1, 2001, Sirius' loss and LAE reserves and related reinsurance recoverables acquired on April 16, 2004, and Mutual Service Casualty loss and LAE reserves and related recoverables acquired on December 22, 2006 were based on the present value of their expected cash flows with consideration for the uncertainty inherent in both the timing of, and the ultimate amount of, future payments for losses and receipts of amounts recoverable from reinsurers. In estimating fair value, management adjusted the nominal loss reserves of OneBeacon (net of the effects of reinsurance obtained from the NICO Cover, as defined below and the GRC Cover, as defined below), Sirius and Mutual Service Casualty and discounted them to their present value using an applicable risk-free discount rate. The series of future cash flows related to such loss payments and reinsurance recoveries were developed using OneBeacon's, Sirius' and Mutual Service Casualty's historical loss data. The resulting discount was reduced by the "price" for bearing the uncertainty inherent in OneBeacon's, Sirius' and Mutual Service Casualty's net loss reserves in order to estimate fair value. This was approximately 11%, 12% and 2% of the present value of the expected underlying cash flows of the loss reserves and reinsurance recoverables of OneBeacon, Sirius and Mutual Service Casualty, respectively, which is believed to be reflective of the cost OneBeacon, Sirius and Mutual Service Casualty would incur if they had attempted to reinsure the full amount of its net loss and LAE reserves with a third party reinsurer.

Asbestos and environmental loss and loss adjustment expense reserve activity

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

Immediately prior to White Mountains' acquisition of OneBeacon, OneBeacon purchased a reinsurance contract with National Indemnity Company ("NICO") under which OneBeacon is entitled to recover from NICO up to $2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising from business written by OneBeacon in 1987 and prior, and certain other exposures (the "NICO Cover"). Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon's third party reinsurers in existence at the time the NICO Cover was executed ("Third Party Recoverables"). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Any amounts uncollectible from third party reinsurers due to dispute or the reinsurers' financial inability to pay are covered by NICO under its agreement with OneBeacon. Third Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments in the past 11 years, approximately 50% of asbestos and environmental losses have been recovered under the historical third party reinsurance.

In June 2005, OneBeacon completed an internal study of its A&E exposures. This study considered, among other items, (1) facts, such as policy limits, deductibles and available third party reinsurance, related to reported claims; (2) current law; (3) past and projected claim activity and past settlement values for similar claims; (4) industry studies and events, such as recent settlements and asbestos-related bankruptcies; and (5) collectibility of third-party reinsurance. Based on the study, OneBeacon increased its best estimate of its incurred losses ceded to NICO, net of underlying reinsurance, by $353 million ($841 million gross) to $2.1 billion, which is within the $2.5 billion coverage provided by the NICO Cover. OneBeacon estimates that the range of reasonable outcomes around its best estimate is $1.7 billion to $2.4 billion, versus a range of $1.5 billion to $2.4 billion from its previous study that was conducted in 2003. Due to the NICO Cover, there was no impact to income or equity from the change in estimate.

The increase in the estimate of incurred A&E losses was principally driven by raised projections for claims related to asbestos (particularly from assumed reinsurance business), and for mass torts other than asbestos and environmental, particularly lead and sexual molestation. This increase was partially offset by reduced projections of ultimate hazardous waste losses.

As noted above, OneBeacon estimates that on an incurred basis it has used approximately $2.1 billion of the coverage provided by NICO at December 31, 2006. Since entering into the NICO Cover, $29.2 million of the $2.1 billion of utilized coverage relates to uncollected amounts from third party reinsurers through December 31, 2006. Net losses paid totaled approximately $847 million as of December 31, 2006, with $146 million paid in 2006. Asbestos payments during 2006 reflect payments resulting from intensified efforts by claimants to resolve asbestos claims prior to enactment of potential Federal asbestos legislation. To the extent that OneBeacon's estimate of ultimate A&E losses as well as the estimate and collectibility of Third Party Recoverables differs from actual experience, the remaining protection under the NICO Cover may be more or less than the approximate $404 million that OneBeacon estimates remained at December 31, 2006.

White Mountains' reserves for A&E losses at December 31, 2006 represent management's best estimate of its ultimate liability based on information currently available. However, as case law expands, and medical and clean-up costs increase and industry settlement practices change, White Mountains may be subject to asbestos and environmental losses beyond currently estimated amounts. White Mountains cannot reasonably estimate at the present time loss reserve additions arising from any such future unfavorable developments and cannot be sure that allocated loss reserves, plus the remaining capacity under the NICO Cover and other reinsurance contracts, will be sufficient to cover additional liability arising from any such unfavorable developments.

The following tables summarize reported asbestos and environmental loss and LAE reserve activities (gross and net of reinsurance) for OneBeacon, White Mountains Re and White Mountains' other operations, consisting of American Centennial and British Insurance Company, for the years ended December 31, 2006, 2005 and 2004, respectively.

OneBeacon

Net A&E Loss Reserve Activity	Year Ended December 31,								
Millions	2006			2005			2004		
	Gross	Pre-NICO Net (1)	Net	Gross	Pre-NICO Net (1)	Net	Gross	Pre-NICO Net (1)	Net
Asbestos:									
Beginning balance	**$ 1,323.4**	**$ 845.9**	**$ 7.4**	$ 868.9	$ 599.2	$ 8.5	$ 969.5	$ 641.6	$ 4.2
Incurred losses and LAE	**(4.0)**	**(1.6)**	**—**	544.8	307.5	—	6.7	1.5	5.9
Paid losses and LAE	**(91.8)**	**(77.7)**	**(.6)**	(90.3)	(60.8)	(1.1)	(107.3)	(43.9)	(1.6)
Ending balance	**1,227.6**	**766.6**	**6.8**	1,323.4	845.9	7.4	868.9	599.2	8.5

Environmental:									
Beginning balance	**729.7**	**421.5**	**6.5**	513.0	408.4	10.2	559.8	454.8	8.6
Incurred losses and LAE	**(8.6)**	**(7.8)**	**—**	265.7	42.7	2.0	9.6	4.7	6.7
Paid losses and LAE	**(43.1)**	**(19.1)**	**4.1**	(49.0)	(29.6)	(5.7)	(56.4)	(51.1)	(5.1)
Ending balance	**678.0**	**394.6**	**10.6**	729.7	421.5	6.5	513.0	408.4	10.2
Total asbestos and environmental:									
Beginning balance	**2,053.1**	**1,267.4**	**13.9**	1,381.9	1,007.6	18.7	1,529.3	1,096.4	12.8
Incurred losses and LAE	**(12.6)**	**(9.4)**	**—**	810.5	350.2	2.0	16.3	6.2	12.6
Paid losses and LAE	**(134.9)**	**(96.8)**	**3.5**	(139.3)	(90.4)	(6.8)	(163.7)	(95.0)	(6.7)
Ending balance	**$ 1,905.6**	**$ 1,161.2**	**$ 17.4**	$ 2,053.1	$ 1,267.4	$ 13.9	$ 1,381.9	$ 1,007.6	$ 18.7

(1) Represents A&E reserve activity, net of third party reinsurance, but prior to the NICO Cover.

White Mountains Re

Net A&E Loss Reserve Activity **Millions**	**Year Ended December 31,**					
	2006		**2005**		**2004**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos:						
Beginning balance	**$ 147.7**	**$ 109.1**	$ 68.1	$ 59.3	$ 69.7	$ 64.1
Incoming (Outgoing) asbestos reserves due to Sirius America acquisition/ divestiture	**(3.3)**	**(0.9)**	**—**	—	9.7	6.9
Incoming asbestos reserves due to MSC acquisition	**1.3**	**1.0**	**—**	**—**	**—**	**—**
Incurred losses and LAE	**(0.3)**	**(0.1)**	91.3	62.0	8.0	2.6
Paid losses and LAE	**(9.8)**	**(7.9)**	(11.7)	(12.2)	(19.3)	(14.3)
Ending balance	**135.6**	**101.2**	147.7	109.1	68.1	59.3
Environmental:						
Beginning balance	**13.5**	**8.3**	21.9	15.7	17.4	15.1
Incoming (Outgoing) environmental reserves due to Sirius America acquisition/ divestiture	**(1.5)**	**(0.9)**	**—**	—	3.2	1.9
Incoming environmental reserves due to MSC acquisition	**5.2**	**4.4**	**—**	—	—	—
Incurred losses and LAE	**(0.8)**	**(0.2)**	(3.6)	(3.4)	2.8	.1
Paid losses and LAE	**(0.6)**	**(0.5)**	(4.8)	(4.0)	(1.5)	(1.4)
Ending balance	**15.8**	**11.1**	13.5	8.3	21.9	15.7
Total asbestos and environmental:						
Beginning balance	**161.2**	**117.4**	90.0	75.0	87.1	79.2
Incoming (Outgoing) A&E reserves due to Sirius America acquisition/ divestiture	**(4.8)**	**(1.8)**	—	—	12.9	8.8
Incoming A&E reserves due to MSC acquisition	**6.5**	**5.4**	—	—	—	—
Incurred losses and LAE	**(1.1)**	**(0.3)**	87.7	58.6	10.8	2.7
Paid losses and LAE	**(10.4)**	**(8.4)**	(16.5)	(16.2)	(20.8)	(15.7)
Ending balance	**$ 151.4**	**$ 112.3**	$ 161.2	$ 117.4	$ 90.0	$ 75.0

Other operations

Net A&E Loss Reserve Activity (1) **Millions**	**Year Ended December 31,**					
	2006		**2005**		**2004**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos:						
Beginning balance	**$ 45.8**	**$ 44.7**	$ 37.5	$ 36.5	$ 27.0	$ 25.7
Incurred losses and LAE	**5.6**	**3.8**	11.9	9.7	15.3	7.6
Paid losses and LAE	**(3.0)**	**(1.4)**	(3.6)	(1.5)	(4.8)	3.2
Ending balance	**48.4**	**47.1**	45.8	44.7	37.5	36.5
Environmental:						
Beginning balance	**10.1**	**9.7**	6.9	6.8	5.7	5.5
Incurred losses and LAE	**(0.6)**	**(0.4)**	4.1	3.3	2.0	.9
Paid losses and LAE	**(0.4)**	**(0.2)**	(.9)	(.4)	(.8)	.4
Ending balance	**9.1**	**9.1**	10.1	9.7	6.9	6.8
Total asbestos and environmental:						
Beginning balance	**55.9**	**54.4**	44.4	43.3	32.7	31.2
Incurred losses and LAE	**5.0**	**3.4**	16.0	13.0	17.3	8.5
Paid losses and LAE	**(3.4)**	**(1.6)**	(4.5)	(1.9)	(5.6)	3.6
Ending balance	**$ 57.5**	**$ 56.2**	$ 55.9	$ 54.4	$ 44.4	$ 43.3

(1) The asbestos and environmental reserve activity for White Mountains' other operations is comprised of American Centennial and British Insurance Company, two insurance subsidiaries that have been in run-off since 1985. The majority of the A&E reserves from other operations are recorded at American Centennial. At December 31, 2006, American Centennial had 48 insureds with open asbestos and environmental claims of which 30 related to asbestos claims and 18 related to environmental claims.

NOTE 4. Third Party Reinsurance

In the normal course of business, White Mountains' insurance and reinsurance subsidiaries seek to limit losses that may arise from catastrophes or other events by reinsuring with third party reinsurers. White Mountains remains liable for risks reinsured even if the reinsurer does not honor its obligations under reinsurance contracts. The effects of reinsurance on White Mountains' insurance and reinsurance subsidiaries' written and earned premiums and on losses and LAE were as follows:

Year ended December 31, 2006 Millions	OneBeacon	White Mountains Re	Esurance	Other Insurance Operations	Total
Gross written premiums:					
Direct	$ 2,028.0	$ 236.2	$ 563.5	$ —	**$ 2,827.7**
Assumed	60.4	1,388.4	36.0	—	**1,484.8**
Ceded	(130.8)	(334.7)	(3.6)	—	**(469.1)**
Net written premiums	$ 1,957.6	$ 1,289.9	$ 595.9	$ —	**$ 3,843.4**
Gross earned premiums:					
Direct	$ 2,007.6	$ 240.2	$ 495.3	$ —	**$ 2,743.1**
Assumed	65.4	1,448.8	35.7	—	**1,549.9**
Ceded	(129.0)	(447.8)	(3.5)	—	**(580.3)**
Net earned premiums	$ 1,944.0	$ 1,241.2	$ 527.5	$ —	**$ 3,712.7**
Losses and LAE:					
Direct	$ 1,245.1	$ 132.0	$ 359.5	$ 5.6	**$ 1,742.2**
Assumed	54.1	1,030.7	25.0	(0.1)	**1,109.7**
Ceded	(118.9)	(278.1)	(0.7)	(1.6)	**(399.3)**
Net losses and LAE	$ 1,180.3	$ 884.6	$ 383.8	$ 3.9	**$ 2,452.6**

Year ended December 31, 2005 Millions	OneBeacon(1)	White Mountains Re	Esurance	Other Insurance Operations	Total
Gross written premiums:					
Direct	$ 2,177.0	$ 338.0	$ 320.9	$ —	$ 2,835.9
Assumed	89.6	1,643.3	31.0	1.9	1,765.8
Ceded	(145.5)	(677.2)	(2.8)	(.1)	(825.6)
Net written premiums	$ 2,121.1	$ 1,304.1	$ 349.1	$ 1.8	$ 3,776.1
Gross earned premiums:					
Direct	$ 2,175.8	$ 347.6	$ 280.1	$ —	$ 2,803.5
Assumed	102.7	1,784.6	29.1	1.9	1,918.3
Ceded	(160.1)	(760.6)	(2.4)	(.1)	(923.2)
Net earned premiums	$ 2,118.4	$ 1,371.6	$ 306.8	$ 1.8	$ 3,798.6
Losses and LAE:					
Direct	$ 2,220.5	$ 224.2	$ 186.2	$ 13.7	$ 2,644.6
Assumed	187.0	2,113.9	20.1	1.9	2,322.9
Ceded	(1,006.0)	(1,100.2)	(.1)	(3.0)	(2,109.3)
Net losses and LAE	$ 1,401.5	$ 1,237.9	$ 206.2	$ 12.6	$ 2,858.2

Year ended December 31, 2004 Millions	OneBeacon(1)	White Mountains Re	Esurance	Other Insurance Operations	Total
Gross written premiums:					
Direct	$ 2,367.9	$ 367.4	$ 176.7	$ —	$ 2,912.0
Assumed	289.6	1,565.9	24.6	—	1,880.1
Ceded	(198.4)	(687.0)	(1.9)	—	(887.3)
Net written premiums	$ 2,459.1	$ 1,246.3	$ 199.4	$ —	$ 3,904.8
Gross earned premiums:					
Direct	$ 2,253.9	$ 310.4	$ 153.6	$ —	$ 2,717.9
Assumed	331.1	1,625.4	24.4	—	1,980.9
Ceded	(206.5)	(670.3)	(1.5)	—	(878.3)
Net earned premiums	$ 2,378.5	$ 1,265.5	$ 176.5	$ —	$ 3,820.5
Losses and LAE:					

Direct	$ 1,439.3	$ 196.3	$ 108.6	$ 2.4	$ 1,746.6
Assumed	221.3	1,159.7	14.0	11.0	1,406.0
Ceded	(115.4)	(437.1)	(.2)	(8.8)	(561.5)
Net losses and LAE	$ 1,545.2	$ 918.9	$ 122.4	$ 4.6	$ 2,591.1

(1) On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual pursuant to a renewal rights agreement (the "Liberty Agreement"). Assumed amounts principally relate to business assumed under the Liberty Agreement.

OneBeacon

In the ordinary course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third party reinsurers in order to minimize loss from large risks or catastrophic events.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon's operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is both a function of the amount and type of insured exposure in an area affected by the event and the severity of the event. OneBeacon uses models (primarily AIR V.8) to estimate losses its exposures would generate under various scenarios as well as the probability of those losses occurring. OneBeacon uses this model output in conjunction with other data to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas, such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures. OneBeacon believes that its largest single event natural catastrophe exposures are Northeastern United States windstorms and California earthquakes.

OneBeacon seeks to reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective July 1, 2006, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2007. Under that cover, the first $200 million of losses resulting from any single catastrophe are retained by OneBeacon and losses from a single event in excess of $200 million and up to $850 million are reinsured for 100% of the loss. OneBeacon anticipates this $850 million limit is sufficient to cover Northeast windstorm losses with a 0.4%-0.5% probability of occurrence (1-in-250-year event to 1-in-200-year event). In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is automatically reinstated for the remainder of the original contract term for a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

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

On December 22, 2005, the United States government extended the Terrorism Act, which was set to expire on December 31, 2005, for two more years. The Terrorism Act, originally enacted on November 26, 2002, establishes a Federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. The law limits the industry's aggregate liability by requiring the Federal government to share 85% of certified losses in 2007 once a company meets a specific retention or

deductible as determined by its prior year's direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at $100.0 billion. In exchange for this "back-stop," primary insurers are required to make coverage available to commercial insureds for losses from acts of non-domestic terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage. OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $162 million in 2007. The aggregate industry retention level is $27.5 billion in 2007. The Federal government will pay 85% of covered terrorism losses that exceed OneBeacon's or the industry's retention levels in 2007 up to a total of $100 billion.

OneBeacon's current property and casualty catastrophe reinsurance programs provide coverage for "non-certified" events as defined under the Terrorism Act, provided such losses are not the result of a nuclear, biological or chemical attack.

OneBeacon also purchases individual property reinsurance coverage for certain risks to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of $5 million up to $75 million. Individual risk facultative reinsurance may be purchased above $75 million where it deems it appropriate. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of $10 million up to $75 million on an individual risk basis for terrorism losses. However, nuclear, biological and chemical events are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual risk or catastrophe losses involving workers compensation, general liability, automobile liability or umbrella liability in excess of $6 million up to $81 million. This program provides coverage for either "certified" or "non-certified" terrorism losses but does not provide coverage for losses resulting from nuclear, biological or chemical attacks.

In 2001, OneBeacon purchased reinsurance contracts with two reinsurance companies rated "AAA" ("Extremely Strong", the highest of twenty-one ratings) by Standard & Poor's and "A++" ("Superior", the highest of fifteen ratings) by A.M. Best. One contract is a reinsurance cover with NICO which entitles OneBeacon to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to A&E claims arising from business written by OneBeacon's predecessor prior to 1992 for asbestos claims and 1987 for environmental claims. As of December 31, 2006, OneBeacon has ceded estimated incurred losses of approximately $2.1 billion to the NICO Cover. The other contract is a reinsurance cover with General Reinsurance Corporation, or GRC, for up to $570 million of additional losses on all claims arising from accident years 2000 and prior. As of December 31, 2006, OneBeacon has ceded estimated incurred losses of $550 million to the GRC Cover. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting the recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its investments. This cost, if any, is expected to be immaterial.

Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectibility of balances due from reinsurers is critical to its financial strength. The following table provides a listing of OneBeacon's top reinsurers, excluding industry pools and associations and affiliates of White Mountains, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurer's A.M. Best rating.

Top Reinsurers (Millions)	Balance at December 31, 2006	% of Total	A.M. Best Rating (1)
Subsidiaries of Berkshire (NICO and GRC) (2)	**$ 2,217.2**	71%	A++
Munich RE America (formerly Amer Re)	**59.3**	2%	A
Nichido (formerly Tokio Fire and Marine Insurance Company)	**52.3**	2%	A++
Liberty Mutual and subsidiaries (3)	**42.5**	1%	A
Swiss Re	**22.7**	1%	A+

(1) A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of fifteen ratings), "A+" (Superior, which is the second highest of fifteen ratings) and "A" (Excellent, which is the third highest of fifteen ratings).
(2) Includes $404.0 million of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover if they are unable to collect from third party reinsurers. OneBeacon also has an additional $384 million of Third Party Recoverables from various reinsurers, the majority of which are rated "A" or better by A.M. Best.
(3) At December 31, 2006, OneBeacon had assumed balances payable and expenses payable of approximately $28.7 million under its renewal rights agreement with Liberty Mutual Insurance Group ("Liberty Mutual"), which expired on October 31, 2003. In the event of a Liberty Mutual insolvency, OneBeacon has the right to offset these balances against its reinsurance recoverable due from Liberty Mutual.

White Mountains Re

White Mountains Re's reinsurance protection is provided through Folksamerica Re's quota share retrocessional arrangements with Olympus and a newly-formed reinsurer, Helicon Reinsurance Company, Ltd. ("Helicon") and through excess of loss protection purchased by Sirius to cover Sirius' property catastrophe and aviation exposures. These reinsurance protections are designed to increase White Mountains Re's underwriting capacity, where appropriate, and to reduce its potential loss exposure to any large, or series of smaller, catastrophe events.

Under White Mountains Re's 2006 arrangements with Olympus and Helicon, Folksamerica Re ceded 35% of its 2006 underwriting year short-tailed excess of loss business, mainly property and marine. Olympus and Helicon shared approximately 56% and 44%, respectively, in the 2006 underwriting year cession. Under White Mountains Re's 2005 arrangements with Olympus, Folksamerica Re ceded up to 75% of substantially all of its 2005 underwriting year short-tailed excess of loss business, mainly property and marine, and 50% of its 2005 underwriting year proportional property business and Sirius International ceded 25% of its 2005 underwriting year short-tailed proportional and excess of loss business. White Mountains Re received fee income based on premiums ceded to Olympus and Helicon.

During 2007, Folksamerica Re will continue to cede 35% of its 2007 underwriting year short-tailed excess of loss business, mainly property and marine, with Olympus and Helicon sharing approximately 55% and 45%, respectively, in 2007.

White Mountains Re is also entitled to receive a profit commission with respect to the profitability of the business recommended to Olympus and Helicon. However, this profit commission arrangement is subject to a deficit carryforward whereby net underwriting losses from one year carryover to future years. As a result of the Gulf Coast hurricanes and several other significant loss events during 2005, Olympus recorded substantial net underwriting losses. Accordingly, White Mountains Re did not record a profit commission from Olympus or Helicon during 2006 or 2005 and does not expect to record profit commissions from Olympus or Helicon for the foreseeable future.

At December 31, 2006 and 2005, White Mountains Re had $655.0 million and $871.8 million of reinsurance recoverables from Olympus. Included in the December 31, 2005 amount is $640.7 million related to hurricanes Katrina, Rita and Wilma. White Mountains Re's reinsurance recoverables from Olympus recorded as of December 31, 2006, are fully collateralized in the form of assets in a trust, funds held and offsetting balances payable.

In 2000, Folksamerica purchased a reinsurance contract from Imagine Re (the "Imagine Cover") to reduce its statutory operating leverage and protect its surplus from adverse development relating to A&E exposures as well as the reserves assumed in certain recent acquisitions. In accordance with SFAS 113, the amounts related to reserves transferred to Imagine Re for liabilities incurred as a result of past insurable events have been accounted for as retroactive reinsurance. At December 31, 2006 and 2005, Folksamerica's reinsurance recoverables included $186.9 million and $221.7 million recorded under the Imagine Cover. All balances due from Imagine are fully collateralized, either with Folksamerica as the beneficiary of invested assets in a trust, with funds held, or through a letter of credit. As of December 31, 2003, the entire $115.0 million limit available under this contract had been fully utilized. At December 31, 2006 and 2005, Folksamerica had recorded $29.3 million and $36.8 million in deferred gains related to retroactive reinsurance with Imagine Re. White Mountains Re is recognizing these deferred gains into income over the expected settlement period of the underlying claims, and accordingly recognized $7.5 million, $5.7 million and $8.1 million of such deferred gains during 2006, 2005 and 2004.

Reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies. Therefore, collectibility of balances due from its retrocessional reinsurers is critical to White Mountains Re's financial strength. The following table provides a listing of White Mountains Re's top reinsurers based upon recoverable amounts, the percentage of total recoverables and the reinsurer's A.M. Best Rating.

Top Reinsurers (Millions)	Balance at December 31, 2006	% of Total	A.M. Best Rating (2)	% Collateralized
Olympus (1)(3)	**$ 655.0**	52%	N/A	100%
Imagine Re (1)	**186.9**	15%	A-	100%
London Life (1)	**118.9**	9%	A	100%
General Re	**71.2**	6%	A++	3%
St. Paul Travelers Group	**63.3**	5%	A+	—%

(1) Represents non-U.S. insurance entities which balances are fully collateralized through Funds Held, Letters of Credit or Trust Agreements.
(2) A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of fifteen ratings), "A" (Excellent, which is the third highest of fifteen ratings), "A-" (Excellent, which is the fourth highest of fifteen ratings) and "B+" (Very Good, which is the sixth highest of fifteen ratings).
(3) Gross of amounts due to Olympus under its indemnity agreement with Folksamerica.

NOTE 5. Investment Securities

White Mountains' net investment income is comprised primarily of interest income associated with White Mountains' fixed maturity investments, dividend income from its equity investments and interest income from its short-term investments. Net investment income for 2006, 2005 and 2004 consisted of the following:

Millions	Year Ended December 31, 2006	2005	2004
Investment income:			
Fixed maturity investments	**$ 341.6**	$ 332.1	$ 304.3
Short-term investments	**63.3**	51.7	24.9
Common equity securities	**29.8**	54.5	25.1
Other	**14.7**	67.9	15.0

Total investment income	**449.4**	506.2	369.3
Less investment expenses	**(13.9)**	(14.7)	(8.4)
Net investment income, pre-tax	**$435.5**	$491.5	$360.9

During the first quarter of 2005, Montpelier Re declared a special dividend of $5.50 per share, payable to holders of both its common shares and warrants to acquire its common shares. White Mountains recorded pre-tax investment income of $74.1 million in the first quarter for this special dividend, of which $34.7 million (relating to its common share investment) was included in net investment income from common equity securities and $39.4 million (relating to its warrant investment) was included in net investment income from other investments. For the year ended December 31, 2006, White Mountains also recorded an aggregate of $3.6 million in pre-tax investment income from Montpelier Re's regular quarterly dividend.

The composition of realized investment gains (losses) consisted of the following:

	Year Ended December 31,		
Millions	**2006**	**2005**	**2004**
Fixed maturity investments	**$ 38.2**	$ 58.7	$ 32.2
Common equity securities	**142.0**	93.5	100.3
Other investments	**92.5**	(39.6)	48.6
Net realized investment gains, pre-tax	**272.7**	112.6	181.1
Income taxes attributable to realized investment gains and losses	**(74.1)**	(54.2)	(56.7)
Net realized investment gains, after-tax	**$198.6**	$ 58.4	$124.4

Net realized gains from common equity securities include gains of $5.5 million and losses of $54.8 million on Montpelier Re common shares for 2006 and 2005. Net realized gains from other investments include losses of $.7 million, losses of $110.3 million and gains of $15.7 million on Montpelier Re warrants for 2006, 2005 and 2004 and investment gains of $6.2 million and $10.5 million for 2006 and 2005 on its Symetra warrants.

White Mountains recognized gross realized investment gains of $344.4 million, $356.3 million and $229.7 million and gross realized investment losses of $71.7 million, $243.7 million and $48.6 million on sales of investment securities during 2006, 2005 and 2004. Of the $243.7 million in losses realized during 2005, $110.3 million related to the Company's investment in Montpelier Re warrants, $54.8 million of other-than-temporary impairment related to White Mountains' investment in Montpelier Re common shares and $11.4 million of foreign exchange losses.

In 2001, the Company received warrants to acquire 4,781,572 common shares of Montpelier Re at $16.67 per share (as adjusted for stock splits) that are exercisable until December 2011. During the first quarter of 2004, White Mountains sold 4.5 million common shares of Montpelier Re to third parties for net proceeds of $155.3 million, resulting in a realized investment gain of $35.2 million. Also during the first quarter of 2004, White Mountains purchased additional warrants to acquire 2,390,786 common shares of Montpelier Re from an existing warrant holder for $54.1 million in cash, thereby raising the total number of such warrants owned by White Mountains to 7,172,358.

The following table summarizes the carrying value of White Mountains' investment in Montpelier Re as of December 31, 2006 and December 31, 2005:

	As of December 31, 2006			As of December 31, 2005		
Millions	**Shares**	**Carrying Value**	**Fair Value**	**Shares**	**Carrying Value**	**Fair Value**
Montpelier Re						
Common shares	0.9	$ 17.0	**$ 17.0**	6.3	$ 115.9	$ 115.9
Warrants to acquire common shares	7.2	49.9	**49.9**	7.2	50.6	50.6
Total	8.1	$ 66.9	**$ 66.9**	13.5	$ 166.5	$ 166.5

As of December 31, 2006 and 2005, White Mountains reported $66.8 million and $43.4 million in accounts payable on unsettled investment purchases and $8.5 million and $21.7 million in accounts receivable on unsettled investment sales.

The components of White Mountains' change in unrealized investment gains, after-tax, as recorded on the statements of income and comprehensive income were as follows:

	Year Ended December 31,		
Millions	**2006**	**2005**	**2004**
Net change in pre-tax unrealized gains for investment securities held	**$ 225.7**	$ (25.1)	$ 250.0
Net change in pre-tax unrealized gains (losses) from investments in unconsolidated affiliates	**(38.3)**	(45.3)	51.6
Net change in pre-tax unrealized investment gains (losses) for investments held	**187.4**	(70.4)	301.6
Income taxes attributable to investments held	**139.6**	19.6	(83.6)
Net change in unrealized gains (losses) for investments held, after-tax	**327.0**	(50.8)	218.0
Recognition of pre-tax net unrealized gains for investments sold	**(217.8)**	(190.1)	(129.6)
Income taxes attributable to investments sold	**61.8**	58.7	41.7
Recognition of net unrealized gains for investments sold, after-tax	**(156.0)**	(131.4)	(87.9)
Change in net unrealized investment gains (losses), after-tax	**171.0**	(182.2)	130.1
Change in net unrealized foreign currency gains (losses) on investments, after-tax	**77.6**	(39.5)	23.7
Net realized investment gains, after-tax	**198.6**	58.4	124.4
Total investment gains (losses) recorded during the period, after-tax	**$ 447.2**	$ (163.3)	$ 278.2

The components of White Mountains' ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated insurance affiliates were as follows:

	December 31,	
Millions	**2006**	**2005**

Investment securities:		
Gross unrealized investment gains	**$353.6**	$368.4
Gross unrealized investment losses	**(52.2)**	(68.8)
Net unrealized gains from investment securities	**301.4**	299.6
Net unrealized gains from investments in unconsolidated insurance affiliates	**.3**	32.5
Total net unrealized investment gains, before tax	**301.7**	332.1
Income taxes attributable to such gains	**(103.2)**	(98.2)
Minority interest	**(4.5)**	—
Total net unrealized investment gains, after-tax	**$194.0**	$233.9

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' fixed maturity available-for-sale investments as of December 31, 2006 and 2005, were as follows:

	December 31, 2006				
Millions	**Cost or amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains (losses)**	**Carrying value**
U.S. Government obligations	$ 1,651.3	$ 5.0	$ (11.9)	$ —	$ 1,644.4
Debt securities issued by industrial corporations	2,478.3	21.8	(23.6)	25.4	2,501.9
Municipal obligations	15.5	.5	—	—	16.0
Asset-backed securities	2,899.1	10.8	(7.5)	2.3	2,904.7
Foreign government obligations	657.2	2.1	(6.1)	55.2	708.4
Preferred stocks	111.5	17.1	(.4)	7.9	136.1
Total fixed maturity investments	**$ 7,812.9**	**$ 57.3**	**$ (49.5)**	**$ 90.8**	**$ 7,911.5**

	December 31, 2005				
Millions	**Cost or amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains (losses)**	**Carrying value**
U.S. Government obligations	$ 1,785.9	$ 6.6	$ (16.5)	$ —	$ 1,776.0
Debt securities issued by industrial corporations	2,843.4	78.2	(28.5)	(25.1)	2,868.0
Municipal obligations	66.6	.9	(.6)	—	66.9
Asset-backed securities	2,124.5	3.4	(16.1)	5.1	2,116.9
Foreign government obligations	683.0	8.0	(3.1)	.2	688.1
Preferred stocks	45.0	17.8	(.2)	4.2	66.8
Total fixed maturity investments	$ 7,548.4	$ 114.9	$ (65.0)	$ (15.6)	$ 7,582.7

The trust account investments comprise $305.0 million of fixed maturity investments and $33.9 million of short-term investments, classified as held-to-maturity. The carrying value, gross unrealized investment gains and losses, and estimated fair values of these investments as of December 31, 2006, were as follows:

	December 31, 2006				
Millions	**Carrying value**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains (losses)**	**Estimated fair value**
U.S. Government obligations - fixed maturities	$ 305.0	$ —	$ (1.0)	$ —	$ 304.0
U.S. Government obligations - short-term	$ 33.9	$ —	$ —	$ —	$ 33.9
Total trust account investments	$ 338.9	$ —	$ (1.0)	$ —	$ 337.9

The cost or amortized cost and carrying value of White Mountains' fixed maturity available-for-sale investments at December 31, 2006 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31, 2006	
Millions	**Cost or amortized cost**	**Carrying value**
Due in one year or less	$ 432.4	$ 449.2
Due after one year through five years	2,766.6	2,810.7
Due after five years through ten years	1,135.7	1,139.6
Due after ten years	467.6	471.2
Asset-backed securities	2,899.1	2,904.7
Preferred stocks	111.5	136.1
Total	**$ 7,812.9**	**$ 7,911.5**

The carrying value and estimated fair value of White Mountains' held-to-maturity, trust account investments at December 31, 2006 is presented below by contractual maturity.

Millions	December 31, 2006 Carrying value	Estimated fair value
Due in one year or less	$ 47.2	$ 47.2
Due after one year through five years	291.7	290.7
Due after five years through ten years	—	—
Due after ten years	—	—
Total	**$ 338.9**	**$ 337.9**

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' common equity securities and other investments as of December 31, 2006 and 2005, were as follows:

Millions	December 31, 2006 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying Value
Common equity securities	**$ 972.0**	$ 237.2	$ (1.3)	$ 4.7	**$ 1,212.6**
Other investments	**$ 467.1**	$ 59.1	$ (1.4)	$ —	**$ 542.8**

Millions	December 31, 2005 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying Value
Common equity securities	$ 796.5	$ 175.3	$ (2.9)	$ (1.1)	$ 967.8
Other investments	$ 510.8	$ 78.2	$ (.9)	$ —	$ 588.1

White Mountains' consolidated insurance and reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits totalled $352.7 million and $473.2 million as of December 31, 2006 and 2005.

Sales and maturities of investments, excluding short-term investments, totalled $6,236.4 million, $6,963.9 million and $8,024.1 million for the years ended December 31, 2006, 2005 and 2004. There were no non-cash exchanges or involuntary sales of investment securities during 2006, 2005 or 2004.

The Company participates in a securities lending program whereby it loans investment securities to other institutions for short periods of time. The Company receives a fee from the borrower in return for the use of its assets and its policy is to require collateral equal to approximately 102% of the fair value of the loaned securities, which is held by a third party. All securities loaned can be redeemed on short notice. The total market value of the Company's securities on loan at December 31, 2006 was $636.1 million with corresponding collateral of $649.8 million.

Impairment

White Mountains' portfolio of fixed maturity investments is comprised primarily of investment grade corporate debt securities, U.S. government and agency securities and mortgage-backed securities and are classified as available for sale. At December 31, 2006, approximately 99% of White Mountains' fixed maturity investments received an investment grade rating from Standard and Poor's or from Moody's Investor Services if a given security was unrated by Standard & Poor's. White Mountains expects to continue to invest primarily in high quality, fixed maturity investments. Nearly all the fixed maturity investments currently held by White Mountains are publicly traded, and as such are considered to be liquid.

Temporary losses on investment securities are recorded as unrealized losses. Temporary losses do not impact net income and earnings per share but serve to reduce comprehensive net income, shareholders' equity and tangible book value. Unrealized losses subsequently identified as other-than-temporary impairments are recorded as realized losses. Other-than-temporary impairments previously recorded as unrealized losses do not impact comprehensive net income, shareholders' equity and tangible book value but serve to reduce net income and earnings per share.

White Mountains' methodology of assessing other-than-temporary impairments is based on security-specific facts and circumstances as of the balance sheet date. As a result, subsequent adverse changes in an issuers' credit quality or subsequent weakening of market conditions that differ from expectations could result in additional otherthan-temporary impairments. In addition, the sale of a fixed maturity security with a previously recorded unrealized loss would result in a realized loss. Either of these situations would adversely impact net income and earnings per share but would not impact comprehensive net income, shareholders' equity or tangible book value.

The following table presents an analysis of the continuous periods during which White Mountains has held investment positions which were carried at an unrealized loss as of December 31, 2006 (excluding short-term investments):

($ in millions)	December 31, 2006 0-6 Months	6-12 Months	> 12 Months	Total
Fixed maturity investments:				
Number of positions	245	79	328	652
Market value	$1,947.8	$ 565.4	$2,207.5	$4,720.7
Amortized cost	$1,953.3	$ 569.1	$2,247.8	$4,770.2
Unrealized loss	$ (5.5)	$ (3.7)	$ (40.3)	$ (49.5)
Common equity securities:				
Number of positions	52	3	—	55
Market value	$ 64.4	$ .1	$ —	$ 64.5

Amortized cost	$ 65.7	$ .1	$ —	$ 65.8
Unrealized loss	$ (1.3)	$ —	$ —	$ (1.3)
Other investments:				
Number of positions	1	2	2	5
Market value	$ 3.8	$ 17.6	$ 2.9	$ 24.3
Amortized cost	$ 3.8	$ 18.4	$ 3.5	$ 25.7
Unrealized loss	$ —	$ (.8)	$ (.6)	$ (1.4)
Total:				
Number of positions	298	84	330	712
Market value	$ 2,016.0	$ 583.1	$ 2,210.4	$ 4,809.5
Amortized cost	$ 2,022.8	$ 587.6	$ 2,251.3	$ 4,861.7
Unrealized loss	$ (6.8)	$ (4.5)	$ (40.9)	$ (52.2)
% of total gross unrealized losses	13.0%	8.6%	78.4%	100.0%

White Mountains believes that the gross unrealized losses relating to its fixed maturity investments at December 31, 2006 resulted primarily from increases in market interest rates from the dates that certain investments within that portfolio were acquired as opposed to fundamental changes in the credit quality of the issuers of such securities. White Mountains views these decreases in value as being temporary because it has the intent and ability to retain such investments until recovery. However, should White Mountains determine that it no longer has the intent and ability to hold a fixed maturity investment that has an existing unrealized loss resulting from an increase in market interest rates until it recovers, this loss would be realized through the income statement at the time such determination is made. White Mountains also believes that the gross unrealized losses recorded on its common equity securities and its other investments at December 31, 2006 resulted primarily from decreases in quoted market values from the dates that certain investments securities within that portfolio were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. Therefore, these decreases are also viewed as being temporary. However, due to the inherent risk involved in investing in the equity markets, it is possible that the decrease in market value of these investments may ultimately prove to be other than temporary. At December 31, 2006, White Mountains' investment portfolio did not include any investment securities with an after-tax unrealized loss of more than $3.0 million for more than a six-month period.

NOTE 6. Debt

White Mountains' debt outstanding as of December 31, 2006 and 2005 consisted of the following:

Millions	December 31, 2006	2005
Senior Notes, at face value	**$ 700.0**	$ 700.0
Unamortized original issue discount	**(1.3)**	(1.5)
Senior Notes, carrying value	**698.7**	698.5
WTM Bank Facility	**320.0**	—
FAC Bank Facility	**—**	—
Mortgage Note	**40.8**	18.4
Sierra Note	**27.2**	27.2
Atlantic Specialty Note	**20.0**	20.0
Other debt	**—**	15.0
Total debt	**$ 1,106.7**	$ 779.1

A schedule of contractual repayments of White Mountains' debt as of December 31, 2006 follows:

Millions	December 31, 2006
Due in one year or less	**$ 2.0**
Due in two to three years	**31.9**
Due in four to five years	**325.6**
Due after five years	**748.5**
Total	**$ 1,108.0**

Senior Notes

In May 2003, Fund American Companies, Inc. ("Fund American"), a wholly-owned subsidiary of OneBeacon Ltd., issued $700.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.7% (the "Senior Notes"). The Senior Notes bear an annual interest rate of 5.9%, payable semi-annually in arrears on May 15 and November 15, until maturity in May 2013. Pursuant to the offering of the Senior Notes, White Mountains fully and unconditionally guaranteed the payment of principal and interest on the Senior Notes. Following the OneBeacon Offering, White Mountains continues to guarantee the payment of principal and interest on the Senior Notes. OneBeacon Ltd. pays White Mountains a guarantee fee equal to 25 basis points per annum on the outstanding principal amount of the Senior Notes. If White Mountains' voting interest in OneBeacon Ltd.'s common shares ceases to represent more than 50% of all their voting securities, OneBeacon Ltd. will seek to redeem, exchange or otherwise modify the senior notes in order to fully and permanently eliminate White Mountains' obligations under its guarantee. In the event that White Mountains' guarantee is not eliminated, the guarantee fee will increase over time up to a maximum of 450 basis points.

Fund American incurred $7.3 million in expenses related to the issuance of the Senior Notes (including the $4.5 million underwriting discount), which have been deferred and are being recognized into interest expense over the life of the Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the Senior Notes have an effective yield to maturity of approximately 6.0% per annum.

Bank Facilities

In connection with the OneBeacon Offering, White Mountains and Fund American terminated their existing $400 million credit facility, under which they were both permitted borrowers, and replaced it with two credit facilities, as described below.

In November 2006, White Mountains and White Mountains Re Group, Ltd., as co-borrowers and co-guarantors, established a $500 million revolving credit facility that matures in November 2011 (the "WTM Bank Facility"). As of December 31, 2006, White Mountains had $320 million outstanding on this facility, which bears interest at a current rate of 5.9%. White Mountains incurred $2.5 million of interest expense on this borrowing during 2006.

In November 2006, Fund American established a $75 million revolving credit facility that matures in November 2011 (the "FAC Bank Facility"). All borrowings under this facility are guaranteed by OneBeacon Ltd. As of December 31, 2006, the FAC Bank Facility was undrawn.

Mortgage Note

In December 2005, OneBeacon entered into a $40.8 million, 18-year mortgage note, which has a variable interest rate based upon the lender's 30-day LIBOR rate, to purchase land and its U.S. headquarters building in Canton, Massachusetts. As of December 31, 2006, OneBeacon had drawn down the entire $40.8 million available under the mortgage note. Repayment will commence on January 31, 2009.

Concurrent with entering into the mortgage note, OneBeacon also entered into an interest rate swap to hedge its exposure to variability in the interest rate on the mortgage note. The notional amount of the swap is equal to the debt outstanding on the mortgage note and will be adjusted to match the drawdowns and repayments on the mortgage note so that the principal amount of the mortgage note and the notional amount of the swap are equal at all times. Under the terms of the swap, OneBeacon pays a fixed interest rate of approximately 6% and receives a variable interest rate based on the same LIBOR index used for the mortgage note. Interest paid or received on the swap is reported in interest expense. Changes in the fair value of the interest rate swap, which was a $.6 million gain, after tax and net of minority interest, for the year ended December 31, 2006, is reported as a component of other comprehensive income.

Sierra Note

In connection with its acquisition of the Sierra Group on March 31, 2004, Folksamerica entered into a $62.0 million purchase note (the "Sierra Note"), $58.0 million of which may be adjusted over its six-year term to reflect favorable or adverse loss reserve development on the acquired reserve portfolio and run-off of remaining policies in force (mainly workers compensation business), as well as certain other balance sheet protections. Since the closing of this acquisition, the Sierra Note has been reduced by $34.8 million as a result of adverse development on the acquired reserves and run-off of unearned premium, $22.8 million of which occurred during 2005. Interest accrues on the unpaid balance of the Sierra Note at a rate of 4.0% per annum, compounded quarterly, and is payable at its maturity.

Atlantic Specialty Note

In connection with its acquisition of Atlantic Specialty on March 31, 2004, OneBeacon issued a $20.0 million ten-year note to the seller (the "Atlantic Specialty Note"). OneBeacon is required to repay $2.0 million of principal on the notes per year, commencing with the first payment due on January 1, 2007. The note accrues interest at a rate of 5.2%, except that the outstanding principal amount in excess of $15.0 million accrues interest at a rate of 3.6%.

Other Debt

OneBeacon Professional Partners ("OBPP") and Folksamerica Specialty Underwriting, Inc. ("FSUI") had borrowed $8.0 million and $7.0 million, respectively, from Dowling & Partners Connecticut Fund III, LP ("Fund III") in connection with an incentive program sponsored by the State of Connecticut known as the Connecticut Insurance Reinvestment Act (the "CIR Act"). These loans were repaid during 2006.

Interest

Total interest expense incurred by White Mountains for its indebtedness was $50.1 million, $44.5 million and $49.1 million in 2006, 2005 and 2004. Total interest paid by White Mountains for its indebtedness was $47.5 million, $44.7 million and $48.9 million in 2006, 2005 and 2004.

NOTE 7. Income Taxes

The Company is domiciled in Bermuda and has subsidiaries domiciled in several countries. The majority of the Company's worldwide operations are taxed in the United States. Income earned or losses incurred by non-U.S. companies will generally be subject to an overall effective tax rate lower than that imposed by the United States.

The total income tax provision (benefit) for the years ended December 31, 2006, 2005 and 2004 consisted of the following:

Millions	Year Ended December 31, 2006	2005	2004
Current tax provision (benefit):			
Federal	**$ 29.8**	$ (30.0)	$ 79.2
State	**(1.8)**	(1.0)	1.0
Non-U.S.	**18.3**	39.3	25.8
Total current tax provision	**46.3**	8.3	106.0
Deferred tax provision (benefit):			
Federal	**(2.2)**	60.6	(59.7)
State	**—**	—	—
Non-U.S.	**54.8**	(32.4)	.7
Total deferred tax provision (benefit)	**52.6**	28.2	(59.0)
Total income tax provision	**$ 98.9**	$ 36.5	$ 47.0

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. An outline of the significant components of White Mountains' deferred tax assets and liabilities follows:

Millions	December 31, 2006	2005
Deferred income tax assets related to:		
Discounting of loss reserves	**$ 155.7**	$ 197.9
Incentive compensation	**90.9**	78.3
Net unearned insurance and reinsurance premiums	**83.8**	90.2
U.S. net operating loss and tax credit carryforwards	**67.2**	105.2
Non-U.S. net operating losses and tax credit carryforwards	**53.5**	49.7
Olympus reimbursement	**48.0**	—
Deferred Compensation	**31.0**	41.3
Deferred gain on reinsurance contract	**20.9**	22.0
Accrued interest	**18.9**	9.6
Pension Compensation Plans	**11.0**	19.6
Fixed assets	**9.6**	7.1
Involuntary pool and guaranty fund accruals	**4.5**	5.2
Allowance for doubtful accounts	**2.8**	3.8
Foreign currency translation on investments and other assets	**—**	1.8
Other items	**22.5**	19.2
Total deferred income tax assets	**$ 620.3**	$ 650.9
Deferred income tax liabilities related to:		
Safety reserve	**$ 350.8**	$ 260.2
Net unrealized investment gains	**103.2**	98.2
Deferred acquisition costs	**89.6**	95.8
Purchase accounting	**14.8**	17.4
Foreign currency translation on investments and other assets	**4.9**	—
Equity in unconsolidated insurance affiliates	**—**	17.9
Other items	**24.8**	14.0
Total deferred income tax liabilities	**$ 588.1**	$ 503.5
Net deferred tax asset before valuation allowance	**$ 32.2**	$ 147.4
Valuation allowance	**(67.7)**	(80.5)
Net deferred tax asset (liability)	**$ (35.5)**	$ 66.9

At December 31, 2006 and 2005, the total net deferred tax asset related to U.S. operations is $276.0 million and $299.3 million respectively. At December 31, 2006 and 2005, the total net deferred tax liability for non-U.S. operations (primarily Sweden) is $311.5 million and 232.4 million respectively.

At December 31, 2006 and 2005, a valuation allowance of $54.8 million and $75.1 million, respectively, was recorded for certain assets applicable to Scandinavian Re (those relating to loss reserve discounting and net operating loss carryforwards). The Company believes that it is more likely than not that these assets will not be realized and has therefore established a full valuation allowance against them. The change in the valuation allowance from 2005 to 2006 primarily relates to current year NOL utilization of $(7.3) million and the effect of net operating loss carryforwards that expired in 2006 of $(12.0) million.

At December 31, 2006 and 2005, a valuation allowance of $12.9 million and $5.4 million, respectively, was established for net deferred tax assets of consolidated insurance reciprocals, which file separate consolidated tax returns. The Company believes that it is more likely than not that results of future operations will generate sufficient taxable income to realize the deferred tax asset balances (net of valuation allowance) carried at December 31, 2006 and 2005.

A reconciliation of taxes calculated using the 35% U.S. statutory rate (the tax rate at which the majority of the Company's worldwide operations are taxed) to the income tax provision on pre-tax earnings follows:

Millions	Year Ended December 31, 2006	2005	2004
Tax provision at the U.S. statutory rate	**$ 255.4**	$ 102.6	$ 86.7
Differences in taxes resulting from:			
Interest expense - dividends and accretion on preferred stock	**20.5**	18.3	16.7
Tax reserve adjustments	**(15.6)**	3.5	(7.6)
Tax exempt interest and dividends	**(20.3)**	(3.2)	(4.1)
Purchase price adjustments	**—**	(8.0)	(5.0)
Change in valuation allowance	**0.2**	(9.2)	3.3
Non-U.S. earnings, net of foreign taxes	**(140.8)**	(68.5)	(18.5)
Restructuring	**—**	—	16.6
Foreign tax credit	**—**	—	(38.8)
Non deductible interest expense	**—**	—	1.4
Other, net	**(0.5)**	1.0	(3.7)
Total income tax provision on pre-tax earnings	**$ 98.9**	$ 36.5	$ 47.0

The non-U.S. component of pre-tax earnings was $629.7 million, $247.6 million and $100.0 million for the years ended December 31, 2006, 2005 and 2004, respectively.

At December 31, 2006, there were U.S. net operating loss carryforwards of approximately $122.7 million available which will begin to expire in 2011. Included in these tax losses are losses of $54.3 million subject to an annual limitation on utilization under Internal Revenue Code Section 382. Also included in these losses are net operating losses of $22.7 million related to the insurance reciprocals which file separate consolidated tax returns. There were $50.2 million of net operating loss carryforwards available to reduce Swedish taxable income relating to Scandinavian Re. These net operating loss carryforwards expire as follows: $12.3 million in 2007, $14.9 million in 2008 and $23.0 million in 2009.

At December 31, 2006, there were alternative minimum tax credit carryforwards available of approximately $6.1 million. The alternative minimum tax credit does not expire.

Subsequent to the passage of the Jobs Creation Act of 2004, which extended the carryforward period for utilization of a foreign tax credit, the Company filed amended United States tax returns to claim a credit rather than a deduction for foreign taxes paid. At December 31, 2006, $18.2 million of the credit remained which will expire in 2010.

The U.S. federal income tax returns of the Company's U.S. subsidiaries are routinely audited by taxing authorities. For federal income tax purposes, years 2003 through 2005 are currently under examination. All years prior to 2003 have been settled. During 2006, White Mountains recognized $26.3 million in tax benefits related to the settlement of U.S. Federal income tax audits for years prior to 2003. In management's opinion, adequate tax liabilities have been established for all open tax years. These liabilities could be revised in the future if estimates of White Mountains' ultimate liability changes.

NOTE 8. Retirement and Postretirement Plans

OneBeacon sponsors a qualified, non-contributory defined benefit pension plan and a non-qualified, non-contributory defined benefit pension plan covering substantially all of OneBeacon's employees who were employed as of December 31, 2001 and who remain actively employed. OneBeacon's pension plans were curtailed in the fourth quarter of 2002 so that they no longer added new participants or increased benefits for existing participants. Non-vested plan participants continue to vest during their employment with OneBeacon. The benefits for the plans are based primarily on years of service and employees' pay through December 31, 2002. Participants generally vest after five years of continuous service. OneBeacon's funding policy is consistent with the funding requirements of federal laws and regulations. OneBeacon uses a December 31st measurement date for its defined benefit pension plans.

In addition to the defined benefit pension plans, OneBeacon had a contributory postretirement benefit plan which provided medical and life insurance benefits to pensioners and survivors. In the fourth quarter of 2005, OneBeacon settled its retiree medical obligation through the funding of an independent trust to provide benefits for covered participants in the amount of $31.2 million. Upon completing the funding of the independent trust, OneBeacon terminated the postretirement benefit plan. OneBeacon's settlement of its postretirement benefit obligation and termination of the plan resulted in recognition of a $53.6 million gain.

The following tables set forth the obligations and funded status, assumptions, plan assets and cash flows associated with the various pension plan and postretirement benefits at December 31, 2006 and 2005:

Obligations and Funded Status

Millions	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$ 507.3	$ 525.5	$ —	$ 50.9
Service cost	2.6	1.5	—	.1
Interest cost	27.7	29.7	—	2.8
Curtailment	—	(4.9)	—	(31.2)
Plan amendments	1.6	2.8	—	—
Assumption changes	36.9	24.4	—	—
Actuarial (gain) loss	3.3	7.6	—	(14.0)
Benefits and expenses paid, net of participant contributions	(42.2)	(50.6)	—	(8.1)
Benefits paid directly by OneBeacon	(3.1)	(3.0)		
Effect of disposition (1)	—	(25.7)	—	(.5)
Projected benefit obligation at end of year	**$ 534.1**	$ 507.3	$ —	$ —
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 488.0	$ 492.5	$ —	$ —
Actual return on plan assets	83.4	68.9	—	—
Employer contributions	—	3.0	—	39.3
Benefits and expenses paid, net of participant contributions	(40.6)	(50.8)	—	(39.3)
Effect of disposition (1)	—	(22.8)	—	—
Special termination benefits	(1.6)	(2.8)		
Other adjustments	3.5	—	—	—
Fair value of plan assets at end of year	**$ 532.7**	$ 488.0	$ —	$ —
Funded status	**$ (1.4)**	$ (19.3)	$ —	$ —

(1) The effect of disposition includes the sale of NFU to a third party on September 30, 2005.

At December 31, 2006, the qualified pension plan was overfunded by $27.4 million and the non-qualified plan was underfunded by $28.8 million. The non-qualified plan does not hold any assets. OneBeacon has established $20.1 million in irrevocable rabbi trusts for the benefit of non-qualified pension plan participants that are recorded in other assets at December 31, 2006. The assets held in the rabbi trusts are not reflected in the funded status of the consolidated pension plans as presented.

Amounts recognized in the financial statements consist of:

Millions	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Prepaid benefit cost	$ 27.4	$ 14.9	$ —	$ —
Accrued benefit cost	(28.8)	(29.6)	—	—

Accumulated other comprehensive income (pre-tax)	—	5.2	—	—
Net amount accrued as a liability	**$ (1.4)**	$ (9.5)	**$ —**	$ —

Because OneBeacon's defined benefit pension plans have been curtailed, the accumulated benefit obligation is equal to the projected benefit obligation for both the qualified and non-qualified defined benefit pension plans. The accumulated benefit obligation and projected benefit obligation for the qualified defined benefit plan at December 31, 2006 and 2005 was $505.3 million and $477.6 million. The accumulated benefit obligation and projected benefit obligation for the non-qualified defined benefit plan at December 31, 2006 and 2005 was $28.8 million and $29.6 million. The fair value of the plan assets for the qualified defined benefit plan at December 31, 2006 and 2005 was $532.7 million and $488.0 million. The non-qualified defined benefit plan did not hold any assets at December 31, 2006 and 2005.

At December 31, 2006 White Mountains adopted FAS 158 and accordingly recognized the funded status of OneBeacon's defined benefit plans upon adoption. The following summarizes the incremental effect of adoption on individual line items in the statement of financial position:

Millions	Before Adoption of FAS 158	Adjustments	After Adoption of FAS 158
Prepaid benefit cost recorded in other assets	$ 18.6	$ 8.8	$ 27.4
Accrued benefit cost recorded in other liabilities	28.8	—	28.8
Deferred federal income taxes	314.6	(3.1)	311.5
Net effect of adoption before adjustment for minority interest	n/a	5.7	n/a
Minority interest	604.8	(1.6)	603.2
Accumulated other comprehensive income	227.7	4.1	231.8
Total shareholders' equity	$ 4,451.2	$ 4.1	$ 4,455.3

The components of net periodic benefit costs for the years ended December 31, 2006, 2005 and 2004 were as follows:

	Pension Benefits			Other Postretirement Benefits		
Millions	2006	2005	2004	2006	2005	2004
Service cost	$ 2.6	$ 1.5	$ 1.9	$ —	$ .1	$ .1
Interest cost	27.7	29.7	30.7	—	2.8	3.2
Expected return on plan assets	(30.6)	(31.7)	(32.2)	—	—	—
Amortization of prior service benefit	—	—	—	—	(4.2)	(4.1)
Amortization of unrecognized loss	.3	—	—	—	—	.1
Recognized actuarial loss	—	—	—	—	—	—
Net periodic pension cost before settlements, curtailments and special termination benefits	—	(.5)	.4	—	(1.3)	(.7)
Settlement gain	—	—	—	—	—	—
Curtailment gain (1)	—	(1.6)	—	—	—	—
Special termination benefits expense (2)	1.6	2.8	2.9	—	—	—
Effect of disposition	—	(3.6)	—	—	(.6)	—
Total settlements, curtailments, special termination benefits, and effect of disposition	—	(2.4)	2.9	—	(.6)	—
Total net periodic benefit cost (income)	**$ 1.6**	$ (2.9)	$ 3.3	**$ —**	$ (1.9)	$ (.7)

(1) During June 2005, NFU froze its pension plan and recognized a $1.6 million curtailment gain. NFU was sold to a third party on September 30, 2005.
(2) Special termination benefits are additional payments made from the pension plan when a vested participant terminates employment due to a reduction in force.

Assumptions

The weighted average discount rate used to determine benefit obligations at December 31, 2006 and 2005 was:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Discount rate	**5.027%**	5.500%	**—**	**—**

The weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2006, 2005 and 2004 were:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005 (1)	2004 (2)
Discount rate	**5.500%**	5.875%	6.000%	**—**	—	6.125%
Expected long-term rate of return on plan assets	**6.500%**	6.750%	7.000%	**—**	—	—
Rate of compensation increase (3)	**—**	—	.190%	**—**	—	.034%

(1) The discount rate in effect from January 1 through June 30, 2005 was 6.25%. The retiree medical plan was re-measured on June 30 due to plan changes that became effective on July 1. The plan formally terminated December 31, 2005.
(2) The discount rate in effect from January 1 through June 30, 2004 was 6.0%. The retiree medical plan was re-measured on June 30 due to plan changes that became effective on July 1. The discount rate was raised to 6.25% for the re-measurement and remained in effect through December 31, 2004.
(3) The rate of compensation increase affects only the NFU qualified pension plan for 2004. OneBeacon sold NFU to a third party on September 30, 2005. Both the OneBeacon qualified and non-qualified pensions plans are frozen.

OneBeacon's discount rate assumptions used to account for its qualified and non-qualified pension plans reflect the rates at which the benefit obligations could be effectively settled. These rates were determined based on consideration of published yields for high quality long-term corporate bonds and U.S. Treasuries, as well as settlement rates from insurance company annuity contracts.

OneBeacon performed an analysis of expected long-term rates of return based on the allocation of its pension plan assets at both December 31, 2006 and 2005 to develop expected rates of return for each significant asset class or economic indicator. A range of returns was developed based both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. Although the expected investment return assumption is long-term in nature, the range of reasonable returns had dropped over the past few years as a consequence of lower inflation and lower bond yields.

Plan Assets

OneBeacon's pension plans weighted-average asset allocations at December 31, 2006 and 2005, by asset category were as follows:

	Plan Assets at December 31,	
Asset Category	**2006**	**2005**
Equity securities	42%	38%
Debt securities	32%	31%
Convertible securities	20%	22%
Cash and cash equivalents	6%	9%
Total	100%	100%

The majority of the plans' assets are invested by WM Advisors, a subsidiary of White Mountains. The investment policy places an emphasis on preserving invested assets through a diversified portfolio of high-quality income producing investments and equity investments.

The investment management process integrates the risks and returns available in the investment arena with the risks and returns available to the plan in establishing the proper allocation of invested assets. The asset classes include fixed income, equity, convertible securities, and cash and cash equivalents. The factors examined in establishing the appropriate investment mix include: the outlook for risk and return in the various investment markets and sectors, and the long term need for capital growth.

Cash Flows

OneBeacon does not expect to make a contribution to its pension plans in 2007. OneBeacon expects to pay $2.8 million of benefit payments in 2007 related to the non-qualified pension plan, for which OneBeacon has established assets held in rabbi trusts.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Millions	**Expected Benefit Payments**
2007	$ 37.7
2008	37.1
2009	36.3
2010	35.9
2011	35.5
2012-2016	173.9

Other Benefit Plans

Certain of the Company's subsidiaries sponsor various employee savings plans (defined contribution plans) covering the majority of employees. The contributory plans provide qualifying employees with matching contributions of up to six percent of qualifying employees' salary (subject to federal limits on allowable contributions in a given year). Total expense for the plans was $4.9 million, $4.7 million and $5.8 million in 2006, 2005 and 2004.

OneBeacon had a post-employment benefit liability of $9.6 million and $12.2 million related to its long-term disability plan at December 31, 2006 and 2005.

NOTE 9. Employee Share-Based Incentive Compensation Plans

White Mountains' share-based incentive compensation plans are designed with one goal in mind, maximization of shareholder value over long periods of time. White Mountains believes that this goal is best pursued by utilising a pay-for-performance program for its key employees that closely aligns the financial interests of management with those of its shareholders. White Mountains accomplishes this by emphasizing highly variable long-term compensation that is contingent on performance over a number of years rather than entitlements (such as base salary, pensions and employee benefits). To that end, the Company's Compensation Committee has established base salaries and target annual bonuses for key employees that tend to be lower than those paid by other property and casualty (re)insurers, while granting the bulk of target compensation as long-term, share-based incentive compensation.

White Mountains expenses all its share-based compensation. As a result, White Mountains' calculation of its owners' returns includes the expense of all outstanding share-based compensation awards. See Note 1 for a summary of White Mountains' accounting policies regarding its share-based compensation plans.

Incentive Compensation Plans

White Mountains' Long-Term Incentive Plan (the "Incentive Plan") provides for granting various types of share-based and non share-based incentive awards to key employees of the Company and certain of its subsidiaries. The Incentive Plan was adopted by the Board, was approved by the Company's sole shareholder in 1985 and was subsequently amended by its shareholders in 1995, 2001, 2003 and 2005. Share-based incentive awards that may be granted under the plan include performance shares, Restricted Shares, Incentive Options and non-qualified stock options ("Non-Qualified Options"). Performance

shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. In general, grants are earned, subject to the attainment of pre-specified performance goals, at the end of a three-year period and are valued based on the market value of common shares at the time awards are paid.

The OneBeacon Long-Term Incentive Plan (the "OneBeacon Incentive Plan") provides for granting to key employees of OneBeacon Ltd., and certain of its subsidiaries, various types of share-based incentive awards, including performance shares, Restricted Shares, Incentive Options and Non-Qualified Options.

Certain of White Mountains' subsidiary incentive plans, consisting of the OneBeacon Phantom White Mountains Share Plan, the White Mountains Re Performance Plan, the Folksamerica Performance Plan and the Esurance Performance Plan, provide for granting phantom White Mountains performance shares (the "Phantom Share Plans") to certain key employees of OneBeacon, White Mountains Re, Folksamerica and Esurance. The performance goals for full payment of performance shares issued under these plans are identical to those of the Incentive Plan. Performance shares earned under the Phantom Share Plans are payable solely in cash or by deferral into certain non-qualified compensation plans of White Mountains.

In addition, the Company offers certain types of share-based compensation under qualified retirement plans. The defined contribution plans of OneBeacon, Folksamerica and Esurance (the "401(k) Plans") offer its participants the ability to invest their balances in several different investment options, including the Company's common shares. OneBeacon's employee stock ownership plan ("ESOP") is a OneBeacon-funded benefit plan that provides all of its participants with an annual base contribution in common shares equal to 3% of their salary, up to the applicable Social Security wage base (or $94,200 with respect to 2006). Additionally, those participants not otherwise eligible to receive certain other OneBeacon benefits can earn a variable contribution up to an additional 6% of their salary, up to the applicable Social Security wage base, contingent upon OneBeacon's performance.

Performance Shares

Performance shares reward company-wide performance as their level of payout, which can be from 0x to 2x the number initially granted, is dependent upon the Company's financial performance. Performance shares become payable at the conclusion of a performance cycle (typically three years) if pre-defined financial targets are met.

The Company's principal performance measure used for performance shares is its after-tax corporate growth in intrinsic business value per share. In measuring growth in intrinsic business value per share, for many years the Company's Compensation Committee has looked to growth in economic value per share (which is weighted 50%), growth in tangible book value per share (which is weighted 25%) and growth in market value per share (which is weighted 25%), in each case including dividends. Economic value is calculated by starting with GAAP book value, then adjusting White Mountains' assets and liabilities to their underlying economic value (such as through the discounting of reserves).

White Mountains' share-based compensation expense consists primarily of performance share expense. The following summarizes performance share activity for the years ended December 31, 2006, 2005 and 2004 for performance shares granted under the Incentive Plan and performance shares and phantom performance shares granted under subsidiary plans ("Phantom Share Plans"):

	Year Ended December 31,					
	2006		2005		2004	
Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accured Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	**183,031**	**$ 100.5**	368,646	$ 340.0	462,187	$ 257.7
Payments and deferrals	**(64,100)**	**(57.0)(1)**	(212,611)	(234.5)(2)	(167,445)	(132.6)(3)
Forfeitures and cancellations	**(4,753)**	**(2.7)**	(57,621)	(27.1)	(1,346)	(1.1)
New Awards	**71,185**	**—**	84,617	—	75,250	—
Expense Recognized	**—**	**61.6**	—	22.1	—	216.0
Ending December 31,	**185,363**	**$ 102.4**	183,031	$ 100.5	386,646	$ 340.0

(1) Performance share payments in 2006 for the 2003-2005 performance cycle ranged from 142% to 181% of target.
(2) Performance share payments in 2005 for the 2002-2004 performance cycle ranged from 160% to 180% of target.
(3) Performance share payments in 2004 for the 2001-2003 performance cycle ranged from 93% to 200% of target.

If 100% of the outstanding performance shares had been vested on December 31, 2006, the total additional compensation cost to be recognized would have been $59.2 million, based on current accrual factors (common share price and payout assumptions).

All performance shares earned for the 2003-2005, 2002-2004 and 2001-2003 performance cycles were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company or its subsidiaries.

Performance shares granted under the Incentive Plan

The following summarizes performance shares outstanding and accrued performance share expense for performance shares awarded under the Incentive Plan at December 31, 2006 for each performance cycle:

Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2004 - 2006	58,100	$ 53.7
2005 - 2007	47,770	21.1
2006 - 2008	62,915	20.1
Sub-total	168,785	$ 94.9
Assumed forfeitures	(4,220)	(2.4)
Total at December 31, 2006	**164,565**	**$ 92.5**

The targeted performance goal for full payment of outstanding performance shares granted under the Incentive Plan to non-investment personnel is a 13% growth in intrinsic business value per share. Growth of 6% or less would result in a payout of 0% and growth of 20% or more would result in a payout of 200%.

For investment personnel, the targeted performance goal for full payment of outstanding performance shares granted under the Incentive Plan is based in part on growth in intrinsic business value per share (as described above) and in part on achieving a total return on invested assets as measured against metrics based on United States treasury note and/or industry benchmark returns.

Phantom performance shares granted under Phantom Share Plans

The following summarizes performance shares outstanding and accrued phantom performance share expense for awards made under the Phantom Share Plans at December 31, 2006 for each performance cycle:

Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2004 - 2006	5,200	$ 4.5
2005 - 2007	7,861	3.1
2006 - 2008	8,270	2.6
Sub-total	21,331	$ 10.2
Assumed forfeitures	(533)	(0.3)
Total at December 31, 2006	**20,798**	**$ 9.9**

The targeted performance goal for full payment of outstanding performance shares granted under the Phantom Share Plans is a 13% growth in intrinsic business value per share. Growth of 6% or less would result in a payout of 0% and growth of 20% or more would result in a payout of 200%.

Restricted Shares

At December 31, 2006, 2005 and 2004, the Company had 10,000, 13,000 and 15,000 unvested Restricted Shares outstanding under the Incentive Plan, respectively, which were granted to certain key employees during 2004. The following outlines the unrecognized compensation cost associated with the outstanding Restricted Share awards under the Incentive Plan for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,					
	2006		2005		2004	
Millions, except share amounts	Restricted Shares	Unamortized Grant Date Fair Value	Restricted Shares	Unamortized Grant Date Fair Value	Restricted Shares	Unamortized Grant Date Fair Value
Non-vested, beginning of year	**13,000**	**$ 1.9**	15,000	$ 4.2	6,000	$ 1.5
Granted	**—**	**—**	—	—	10,000	4.7
Vested	**(3,000)**	**—**	(1,000)	—	(1,000)	—
Forfeited	**—**	**—**	(1,000)	(0.3)	—	—
Expense recognized	**—**	**(1.6)**	—	(2.0)	—	(2.0)
Non-vested at end of year	**10,000**	**$ .3**	13,000	$ 1.9	15,000	$ 4.2

The 10,000 Restricted Shares outstanding at December 31, 2006 are scheduled to cliff vest on February 23, 2007. The unrecognized compensation cost of $.3 million at December 31, 2006 is expected to be recognized over the remaining vesting period. Vesting is dependent on continuous service by the employee throughout the award period. Upon vesting, all restrictions initially placed upon the common shares lapse.

Upon adopting FAS 123R, on January 1, 2006 White Mountains recorded an adjustment of $1.9 million to reclassify unearned compensation in common shareholders' equity relating to its outstanding Restricted Shares to opening paid-in surplus to reflect the cumulative effect of adoption.

Stock Options

Incentive Options

At December 31, 2006, 2005 and 2004, the Company had 29,550, 34,280 and 46,530 Incentive Options outstanding which were granted to certain key employees on February 28, 2000 (the grant date) under the Incentive Plan. The 81,000 Incentive Options originally granted were issued at an exercise price equal to the market price of the Company's underlying common shares on February 27, 2000. The exercise price escalates by 6% per annum over the life of the Incentive Options. The Incentive Options vest ratably over a ten-year service period. The fair value of each Incentive Option award at the grant date was estimated using a closed-form option model using an expected volatility assumption of 18.5%, a risk-free interest rate assumption of 6.4% and an expected term of ten years.

The following summarizes the Company's Incentive Option activity for the years ended December 31, 2006, 2005 and 2004:

	Year ending December 31,		
Millions, except share and per share amounts	2006	2005	2004

Opening balance - outstanding Incentive Options	**34,280**	46,530	50,565
Forfeited	**(1,200)**	(4,500)	—
Exercised	**(3,530)**	(7,750)	(4,035)
Ending balance - outstanding Incentive Options	**29,550**	34,280	46,530
Opening balance - exercisable Incentive Options	**9,080**	10,530	7,365
Vested	**6,000**	6,300	7,200
Exercised	**(3,530)**	(7,750)	(4,035)
Ending balance - exercisable Incentive Options	**11,550**	9,080	10,530
Intrinsic value of Incentive Options exercised	**$ 1.5**	$ 3.4	$ 1.9
Exercise price - beginning of year	**$ 149.25**	$ 140.80	$ 132.83
Exercise price - end of year	**$ 158.21**	$ 149.25	$ 140.80
Compensation expense (income)	**$ —**	$ (3.5)	$ 9.0

The total in-the-money value of all outstanding Incentive Options and those Incentive Options currently exercisable at December 31, 2006 was $12.5 million and $4.9 million. The Incentive Options expire in February of 2010. White Mountains expects approximately 6,000 Incentive Options to become exercisable in 2007 and will issue common shares when the Incentive Options are exercised.

Non-Qualified Options

In November 2006, in connection with the Offering, OneBeacon Ltd. issued to its key employees 1,420,000 fixed-price Non-Qualified Options to acquire OneBeacon Ltd. common shares. The exercise price of the Non-Qualified Options were set at 20% above the middle of the price range in OneBeacon's preliminary prospectus for the OneBeacon Offering or $30.00. The Non-Qualified Options vest in equal installments on each of the third, fourth and fifth anniversaries of the date of the OneBeacon Offering and have a 5.5 year term. The fair value of each Non-Qualified Option award at the grant date was estimated using a closed-form option model using an expected volatility assumption of 30%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. OneBeacon Ltd. recognized $.2 million of expense during 2006 associated with its Non-Qualified Options.

Share-Based Compensation Under Qualified Retirement Plans

As of December 31, 2006 and 2005, the 401(k) Plans owned less than 1% of the total Company's common shares outstanding. For 2007, OneBeacon expects to offer its employees the ability to invest their balances in several different investment options, including the Company's and OneBeacon Ltd.'s common shares.

The variable contribution amounts earned by eligible participants of the ESOP constituted approximately 6%, 3% and 4.5% of salary for the years ended 2006, 2005 and 2004. OneBeacon recorded $15.5 million, $7.8 million and $13.3 million in compensation expense to pay benefits and allocate common shares to participant's accounts for the years ended 2006, 2005 and 2004. The contributions made to the ESOP with respect to the years ended 2004 and 2005 were made with the Company's common shares and the contributions made to the ESOP with respect to the year ended 2006 were made with OneBeacon Ltd. common shares.

NOTE 10. Mandatorily Redeemable Preferred Stock of Subsidiaries

White Mountains has two classes of mandatorily redeemable preferred stock of subsidiaries that fall within the scope of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" and are considered noncontrolling interests under FASB Staff Position No. 150-3. Accordingly, White Mountains classifies these instruments as liabilities and has recorded them at their historical carrying values. All dividends and accretion on White Mountains' mandatorily redeemable preferred stock have been recorded as interest expense. During the years ended December 31, 2006, 2005 and 2004, White Mountains recorded $58.6 million, $52.4 million and $47.6 million as interest expense on preferred stock.

Berkshire Preferred Stock

As part of the financing for the OneBeacon Acquisition, Berkshire invested a total of $300 million in cash, of which (1) $225 million was for the purchase of cumulative non-voting preferred stock of Fund American (the "Berkshire Preferred Stock"), which has a $300 million redemption value; and (2) $75 million was for the purchase of warrants to acquire 1,724,200 common shares of the Company. The Berkshire Preferred Stock is entitled to a dividend of no less than 2.35% per quarter and is mandatorily redeemable on May 31, 2008. The Berkshire Preferred Stock was initially recorded at $145.2 million, as the aggregate proceeds received from Berkshire of $300 million were originally allocated between the Berkshire Preferred Stock and the warrants, based on their relative fair values, in accordance with Accounting Principles Board Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants". The difference between the redemption value and the amount initially recorded for the Berkshire Preferred Stock will be accreted through the income statement as interest expense. Through December 31, 2006, the carrying value of the Berkshire Preferred Stock had been accreted up to $242.3 million. During each of the years ended December 31, 2006, 2005 and 2004, White Mountains declared and paid dividends of $28.2 million on the Berkshire Preferred Stock. During the years ended December 31, 2006, 2005 and 2004, White Mountains recorded $28.3 million, $22.1 million and $17.3 million of accretion charges related to the Berkshire Preferred Stock.

Zenith Preferred Stock

Also as part of the financing for the OneBeacon Acquisition, Zenith Insurance Company ("Zenith") purchased $20.0 million in cumulative non-voting preferred stock of a subsidiary of the Company (the "Zenith Preferred Stock"). The Zenith Preferred Stock is entitled to a dividend of no less than a 2.5% per quarter through June 30, 2007 and a dividend of no less than 3.5% per quarter thereafter and is mandatorily redeemable on May 31, 2011. At White Mountains' option, which it expects to exercise, the Zenith Preferred Stock may be redeemed on June 30, 2007. During 2006, 2005 and 2004, White Mountains declared and paid dividends of $2.0 million, $2.0 million and $2.0 million on the Zenith Preferred Stock.

Economic Defeasance

In connection with the OneBeacon Offering, White Mountains established two irrevocable grantor trusts to economically defease the Berkshire Preferred Stock and the Zenith Preferred Stock. The assets of each trust are solely dedicated to the satisfaction of the payment of dividends and redemption amounts on the $300 million liquidation preference of the Berkshire Preferred Stock and the $20 million liquidation preference of the Zenith Preferred Stock. Concurrently with the closing of the OneBeacon Offering, White Mountains funded the trusts with cash that was used to purchase a portfolio of fixed maturity securities issued by the U.S. government or government-sponsored enterprises. The scheduled interest and principal payments of the portfolio of fixed maturity securities in each trust is sufficient to pay when due all amounts required under the terms of the Berkshire Preferred Stock and the Zenith Preferred Stock, including the mandatory redemption of the Berkshire Preferred Stock in May 2008 and the optional redemption of the Zenith Preferred Stock in June 2007. As of December 31, 2006, the carrying value of the investments held in trust was $338.9 million.

NOTE 11. Common Shareholders' Equity

Common shares repurchased and retired

During 2006 and 2005, the Company did not repurchase any common shares. During 2004, the Company repurchased for cash 97 common shares for $.1 million. In addition, during 2006, 2005 and 2004 the Company repurchased 0, 316 and 316 outstanding Restricted Shares held by certain key employees who were instead granted the market value of such shares in various non-qualified deferred compensation plans of the Company and its subsidiaries (See Note 9). During 2005, the Company cancelled and retired 1,000 Restricted Shares that were forfeited by a former employee. In conformance with Bermuda law, the Company retires all common shares it repurchases.

Common shares issued

On June 29, 2004, Berkshire exercised all of its warrants to purchase 1,724,200 common shares of White Mountains for $294 million. Berkshire holds approximately 16.0% of White Mountains' outstanding common stock at December 31, 2006 and 2005. Berkshire acquired the warrants in connection with the financing of White Mountains' acquisition of OneBeacon in 2001. The warrants were exercisable at any time until May 2008 and callable by the Company on or after May 31, 2005. In consideration for the early exercise of the warrants, Berkshire and the Company agreed to reduce the exercise price by approximately 2%.

During 2006, the Company issued a total of 3,530 common shares, which consisted of shares issued in satisfaction of Options exercised. During 2005, the Company issued a total of 7,750 common shares, which consisted of shares issued in satisfaction of Options exercised. During 2004, in addition to the Berkshire warrant exercise, the Company issued a total of 41,807 common shares, which consisted of 27,772 shares issued to the OneBeacon employee stock ownership plan, 10,000 Restricted Shares issued to key management personnel, and 4,035 shares issued in satisfaction of Options exercised.

Dividends on common shares

During 2006, 2005 and 2004, the Company declared and paid cash dividends totalling $86.2 million (or $8.00 per common share), $86.2 million (or $8.00 per common share) and $9.1 million (or $1.00 per common share), respectively.

NOTE 12. Statutory Capital and Surplus

White Mountains' insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. Over the last several years most states have implemented laws that establish standards for current, as well as continued, state accreditation. In addition, the NAIC uses risk-based capital ("RBC") standards for property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. At December 31, 2006, White Mountains' active insurance and reinsurance operating subsidiaries met their respective RBC requirements.

OneBeacon's consolidated combined policyholders' surplus as reported to various regulatory authorities as of December 31, 2006 and 2005, was $2,013.1 million and $1,675.9 million. OneBeacon's consolidated combined statutory net income for the years ended December 31, 2006, 2005 and 2004 was $372.0 million, $212.7 million and $381.9 million. The principal differences between OneBeacon's combined statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts, market value adjustments for debt securities and recognition of pension plan curtailment gains. OneBeacon's insurance subsidiaries' statutory policyholders' surplus at December 31, 2006 was in excess of the minimum requirements of relevant state insurance regulations.

Folksamerica Re's policyholders' surplus, as reported to various regulatory authorities as of December 31, 2006 and 2005, was $1,153.3 million and $1,074.2 million. Folksamerica Re's statutory net income (loss) for the years ended December 31, 2006, 2005 and 2004 was $46.9 million, $(81.7) million and $(1.0) million. The principal differences between Folksamerica Re's statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts and market value adjustments for debt securities. Folksamerica Re's statutory policyholders' surplus at December 31, 2006 was in excess of the minimum requirements of relevant state insurance regulations.

In accordance with Swedish regulations, Sirius International holds restricted reserves of $902 million, which represents 72% of untaxed reserves, as a component Swedish statutory shareholders' equity. These restricted reserves cannot be paid as dividends. Sirius International's regulatory capital at December 31, 2006, which includes Scandinavian Re and its other subsidiaries, was $1.4 billion.

Dividend Capacity

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

OneBeacon:

Subsequent to the OneBeacon Offering, the Company and its intermediate holding companies expect to receive regular shareholder dividends from OneBeacon, Ltd. The board of OneBeacon Ltd. has authorized quarterly dividend payments of $0.21 per share, commencing in the first quarter of 2007.

Generally, OneBeacon's regulated insurance operating subsidiaries have the ability to pay dividends during any 12 month period without the prior approval of regulatory authorities in an amount equal to the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. As a result, based upon 2006 statutory net income OneBeacon's top tier regulated insurance operating subsidiaries have the ability to pay approximately $234.3 million of dividends during 2007 without prior approval of regulatory authorities, subject to the availability of unassigned funds. At December 31, 2006, OneBeacon's top tier regulated insurance operating subsidiaries had $1.6 billion of unassigned funds.

In addition, as of December 31, 2006, OneBeacon had approximately $30.7 million of unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries and OneBeacon Ltd. and its intermediate holding companies had an additional $65.8 million of unrestricted cash and fixed maturity investments. During 2006, OneBeacon paid $90.1 million of dividends to Fund American and OneBeacon Ltd. paid $12.0 million of dividends to its immediate parent.

White Mountains Re:

Folksamerica Re has the ability to pay dividends during any 12 month period without the prior approval of regulatory authorities in an amount equal to the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. As a result, based upon December 31, 2006 statutory surplus of $1,153.3 million, Folksamerica Re would have the ability to pay approximately $115.3 million of dividends during 2007 without prior approval of regulatory authorities, subject to the availability of earned surplus. As of December 31, 2006, Folksamerica Re had $0.6 million of earned surplus.

In addition, as of December 31, 2006, Folksamerica had approximately $31.0 million of unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries. During 2006, Folksamerica Re paid $5.0 million in dividends to its immediate parent.

Sirius International has the ability to pay dividends subject to the availability of unrestricted statutory surplus. Historically, Sirius International has allocated the majority of its earnings to the Safety Reserve (see **"Safety Reserve"** below). As a result, as of December31, 2006, Sirius International had no unrestricted statutory surplus.

In accordance with the provisions of Swedish law, Sirius International can voluntarily transfer its pre-tax income, or a portion thereof, subject to certain limitations, to its parent company to minimize taxes. In early 2007, Sirius International will transfer approximately $35.0 million of its 2006 pre-tax income to its parent company.

WMRUS has the ability to distribute its 2007 earnings without restriction. At December 31, 2006, WMRUS had $7.0 million of unrestricted cash. During 2006, WMRUS paid $14.0 million of cash dividends to its immediate parent.

In addition, as of December 31, 2006, White Mountains Re and its intermediate holding companies had an additional $25.8 million of unrestricted cash and fixed maturity investments outside of Folksamerica, Sirius and WMRUS. During 2006, White Mountains Re paid $45.9 million of dividends to its immediate parent.

Esurance:

Generally, Esurance's regulated insurance operating subsidiaries have the ability to pay dividends during any 12 month period without the prior approval of regulatory authorities in an amount equal to the lesser of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. As a result, based on December 31, 2006 statutory net income, Esurance's top tier regulated insurance operating subsidiary has the ability to pay $4.2 million of dividends during 2007 without prior approval of regulatory authorities, subject to the availability of unassigned funds. As of December 31,2006, Esurance's top tier regulated insurance operating subsidiary had $21.2 million of unassigned funds.

In addition, as of December 31, 2006, Esurance had $2.5 million of unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries. During 2006, Esurance did not pay any cash dividends to its immediate parent.

Other Operations:

As of December 31, 2006, White Mountains had $496.7 million of unrestricted cash and fixed maturity investments at the Company and its intermediate holding companies included in its other operations segment.

Safety Reserve

In accordance with provisions of Swedish law, Sirius International is permitted to transfer up to the full amount of its pre-tax income, subject to certain limitations, into an untaxed reserve referred to as a safety reserve, which amounted to $1.3 billion at December 31, 2006. Under GAAP, an amount equal to the safety reserve, net of the related deferred tax liability established at the Swedish tax rate of 28%, is classified as shareholders' equity. Generally, this deferred tax liability is only required

to be paid by Sirius International if it fails to maintain predetermined levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International's safety reserve ($351 million at December 31, 2006) is included in solvency capital.

NOTE 13. Segment Information

White Mountains has determined that its reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations. White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board of Directors. Significant intercompany transactions among White Mountains' segments have been eliminated herein. Segment information for all prior periods has been restated for the effect of the Reorganization (See Note 1). Financial information for White Mountains' segments follows:

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Year ended December 31, 2006					
Earned insurance and reinsurance premiums	$ 1,944.0	$ 1,241.2	$ 527.5	$ —	$ 3,712.7
Net investment income	187.6	182.7	18.4	46.8	435.5
Net realized investment gains	156.4	59.0	6.9	50.4	272.7
Gain on sale of shares of OneBeacon Insurance Group, Ltd.	—	—	—	171.3	171.3
Other revenue	38.8	47.8	7.4	108.0	202.0
Total revenues	**2,326.8**	**1,530.7**	**560.2**	**376.5**	**4,794.2**
Losses and LAE	1,180.3	884.6	383.9	3.9	2,452.7
Insurance and reinsurance acquisition expenses	332.3	287.2	135.3	—	754.8
Other underwriting expenses	360.1	94.7	48.8	1.8	505.4
General and administrative expenses	15.3	24.2	.2	178.6	218.3
Accretion of fair value adjustment to loss and LAE reserves	23.0	1.5	—	—	24.5
Interest expense on debt	45.6	1.5	—	3.0	50.1
Interest expense - dividends and accretion on preferred stock	58.6	—	—	—	58.6
Total expenses	**2,015.2**	**1,293.7**	**568.2**	**187.3**	**4,064.4**
Pretax income (loss)	**$ 311.6**	**$ 237.0**	**$ (8.0)**	**$ 189.2**	**$ 729.8**
Year ended December 31, 2005					
Earned insurance and reinsurance premiums	$ 2,118.4	$ 1,371.6	$ 306.8	$ 1.8	$ 3,798.6
Net investment income	242.4	148.9	9.8	90.4	491.5
Net realized investment gains (losses)	122.8	76.8	2.1	(89.1)	112.6
Other revenue	50.3	33.5	3.0	142.4	229.2
Total revenues	2,533.9	1,630.8	321.7	145.5	4,631.9
Losses and LAE	1,401.5	1,237.9	206.2	12.6	2,858.2
Insurance and reinsurance acquisition expenses	390.7	279.6	90.8	0.1	761.2
Other underwriting expenses	278.9	107.0	37.2	1.6	424.7
General and administrative expenses	8.4	12.4	—	128.0	148.8
Accretion of fair value adjustment to loss and LAE reserves	26.0	10.9	—	—	36.9
Interest expense on debt	44.1	0.4	—	—	44.5
Interest expense - dividends and accretion on preferred stock	52.4	—	—	—	52.4
Total expenses	2,202.0	1,648.2	334.2	142.3	4,326.7
Pretax income (loss)	$ 331.9	$ (17.4)	$ (12.5)	$ 3.2	$ 305.2

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Year ended December 31, 2004					
Earned insurance and reinsurance premiums	$ 2,378.5	$ 1,265.5	$ 176.5	$ —	$ 3,820.5
Net investment income	219.9	98.5	3.5	39.0	360.9
Net realized investment gains	129.4	29.6	1.1	21.0	181.1
Other revenue	59.5	36.1	2.2	95.0	192.8
Total revenues	2,787.3	1,429.7	183.3	155.0	4,555.3
Losses and LAE	1,545.2	918.9	122.4	4.6	2,591.1
Insurance and reinsurance acquisition expenses	442.3	271.8	30.3	—	744.4
Other underwriting expenses	369.2	122.9	26.8	1.5	520.4
General and administrative expenses	81.9	15.1	—	204.0	301.0
Accretion of fair value adjustment to loss and LAE reserves	33.2	10.1	—	—	43.3
Interest expense on debt	45.0	3.8	—	.3	49.1
Interest expense - dividends and accretion on preferred stock	47.6	—	—	—	47.6

Total expenses	2,564.4	1,342.6	179.5	210.4	4,296.9
Pretax income (loss)	$ 222.9	$ 87.1	$ 3.8	$ (55.4)	$ 258.4

Millions Selected Balance Sheet Data	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
December 31, 2006					
Total investments	$ 5,212.2	$ 4,568.7	$ 518.8	$ 1,033.0	**$ 11,332.7**
Reinsurance recoverable on paid and unpaid losses	2,875.0	1,269.1	.7	30.3	**4,175.1**
Total assets	9,866.8	7,344.9	723.6	1,508.4	**19,443.7**
Loss and LAE reserves	4,837.7	3,708.8	167.4	63.3	**8,777.2**
Total liabilities	8,089.6	5,239.6	415.1	640.9	**14,385.2**
Minority interest	—	—	—	603.2	**603.2**
Total common shareholders' equity	1,777.2	2,105.3	308.5	264.3	**4,455.3**
December 31, 2005					
Total investments	$ 4,793.0	$ 4,231.0	$ 289.7	$ 552.7	$ 9,866.4
Reinsurance recoverable on paid and unpaid losses	3,145.2	1,931.0	.2	26.3	5,102.7
Total assets	9,768.0	8,458.2	414.2	777.7	19,418.1
Loss and LAE reserves	5,395.9	4,680.3	94.1	60.9	10,231.2
Total liabilities	8,423.3	6,519.7	237.5	308.0	15,488.5
Minority interest	—	—	—	96.4	96.4
Total common shareholders' equity	1,344.7	1,938.5	176.7	373.3	3,833.2

The following tables provide net written premiums and earned insurance premiums for OneBeacon's ongoing businesses and in total for the years ended December 31, 2006, 2005 and 2004:

Millions Twelve Months Ended December 31, 2006	Specialty	Personal (1)	Commercial	Total (2)
Net written premiums	$ 437.6	$ 800.6	$ 718.3	**$ 1,957.6**
Earned insurance premiums	$ 432.3	$ 822.3	$ 689.3	**$ 1,944.0**
Twelve Months Ended December 31, 2005				
Net written premiums	$ 548.8	$ 910.2	$ 654.4	$ 2,121.1
Earned insurance premiums	$ 521.9	$ 933.7	$ 654.7	$ 2,118.4
Twelve Months Ended December 31, 2004				
Net written premiums	$ 565.7	$ 1,063.3	$ 826.8	$ 2,459.1
Earned insurance premiums	$ 539.0	$ 1,070.9	$ 710.3	$ 2,378.5

(1) Includes results of consolidated reciprocals.
(2) Includes results from runoff operations and eliminations between underwriting units.

NOTE 14. Investments in Unconsolidated Insurance Affiliates

White Mountains' investments in unconsolidated insurance affiliates represent operating investments in other insurers in which White Mountains has a significant voting and economic interest but does not control the entity.

Symetra

On August 2, 2004, White Mountains invested $194.7 million in Symetra in exchange for 2.0 million common shares and 1.1 million warrants to purchase common shares of Symetra (See Note 2). As of December 31, 2006, White Mountains owned 19% of Symetra's common shares outstanding and 24% of Symetra's common shares on a fully converted basis. White Mountains accounts for its investment in common shares of Symetra using the equity method of accounting and accounts for its Symetra warrants under SFAS 133, recording them at fair value and recognizing the changes in fair value through the income statement as a realized investment gain or loss.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra:

Millions	Common shares	Warrants	Total
Initial value of investment in Symetra at closing, August 2, 2004	$ 159.3	$ 35.4	$ 194.7
Extraordinary gain - excess of fair value of acquired net assets over cost	40.7	—	40.7
Equity in earnings of Symetra (1)	10.2	—	10.2
Net unrealized gains from Symetra's equity portfolio	.9	—	.9
Increase in value of warrants	—	1.9	1.9
Net unrealized gains from Symetra's fixed maturity portfolio	56.6	—	56.6
Carrying value of investment in Symetra as of December 31, 2004 (2)	$ 267.7	$ 37.3	$ 305.0
Equity in earnings of Symetra (1)	28.0	—	28.0
Net unrealized gains from Symetra's equity portfolio	.6	—	.6
Increase in value of warrants	—	10.5	10.5
Net unrealized gains (losses) from Symetra's fixed maturity portfolio	(32.4)	—	(32.4)
Carrying value of investment in Symetra as of December 31, 2005 (2)	$ 263.9	$ 47.8	$ 311.7
Equity in earnings of Symetra (1)	26.6	—	26.6
Net unrealized gains from Symetra's equity portfolio	2.7	—	2.7

Dividends	(15.6)	—	(15.6)
Increase in value of warrants	—	6.2	6.2
Net unrealized gains (losses) from Symetra's fixed maturity portfolio	(28.3)	—	(28.3)
Carrying value of investment in Symetra as of December 31, 2006 (2)	**$ 249.3**	**$ 54.0**	**$ 303.3**

(1) Equity in earnings is net of tax of $0.

(2) Includes equity in net unrealized gains (losses) from Symetra's fixed maturity portfolio at December 31, 2006, 2005 and 2004 of $(4.1) million, $24.2 million and $56.6 million.

During 2006, White Mountains received cash dividends from Symetra of $15.6 million on its common share investment which is accounted for as a reduction of White Mountains' investment in Symetra in accordance with equity accounting. During 2006, White Mountains also received cash dividends from Symetra of $8.5 million on its investment in Symetra warrants that was recorded as net investment income.

The following table summarizes financial information for Symetra as of December 31, 2006 and 2005:

Millions	2006	2005
Symetra balance sheet data:		
Total cash and investments	$ 17,558.6	$ 18,443.8
Separate account assets	1,233.9	1,188.8
Total assets	20,115.3	20,980.1
Funds held under deposit contracts	15,986.2	16,697.9
Long-term debt	298.7	300.0
Separate account liabilities	1,233.9	1,188.8
Total liabilities	18,787.9	19,575.2
Common shareholders' equity	1,327.4	1,404.9

The following table summarizes financial information for Symetra for the years ended December 31, 2006, 2005 and 2004:

Millions	2006	2005	2004
Symetra income statement data:			
Net premiums earned	$ 525.7	$ 575.5	$ 263.2
Net investment income	983.5	994.2	411.5
Total revenues	1,564.4	1,628.2	702.2
Policy benefits	1,030.1	1,138.4	484.4
Total expenses	1,323.3	1,436.7	618.7
Net income	158.7	145.5	57.9
Comprehensive net income (loss)	22.5	(30.9)	269.3

MSA

On October 31, 2006, White Mountains' investment in MSA was restructured. White Mountains received a $70 million cash dividend from MSA, following which White Mountains sold its 50% common stock investment in MSA to the MSA Group for (i) $70.0 million in 9.0% non-voting cumulative perpetual preferred stock of the MSA Group, and (ii) 4.9%, of the common stock of the MSA Group, which was recorded at an initial carrying value of $24.5 million. These transactions resulted in a net after tax realized gain of $8.5 million.

Effective October 31, 2006, White Mountains accounts for its remaining investment in the MSA Group in accordance with FAS 115. Prior to the sale, White Mountains owned 50% of the total common shares outstanding of MSA and accounted for this investment using the equity method of accounting. The following table provides summary financial amounts recorded by White Mountains under the equity method relating to its investment in MSA common stock:

Millions	2006	2005	2004
Amounts recorded by White Mountains under the equity method:			
Investment in MSA common stock	**$ —**	$ 168.0	$ 161.6
Equity in earnings from MSA common stock (1)	**10.3**	5.6	16.4
Equity in net unrealized investment gains (losses) from MSA's investment portfolio (2)	**.3**	(4.0)	1.3

(1) Equity in earnings amounts are net of taxes of $5.6 million, $3.0 million and $1.2 million for the ten months ended October 31, 2006 and the years ended December 31, 2005 and 2004, respectively.
(2) Recorded directly to shareholders' equity (after-tax) as a component of other comprehensive income.

At December 31, 2005 and 2004, White Mountains' consolidated retained earnings included $59.7 million and $51.0 million of accumulated undistributed earnings of MSA. No dividends were declared or paid by MSA during 2005 and 2004.

Delos

On August 3, 2006, White Mountains Re sold its wholly-owned subsidiary, Sirius America, to an investor group led by Lightyear Capital for $138.8 million in cash (See Note 2). As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity, Delos. White Mountains accounts for its investment in Delos under the equity method. For the year ended December 31, 2006, White Mountains recorded $.2 million of equity in earnings from its investment in Delos. White Mountains' investment in Delos at December 31, 2006 totalled $32.2 million.

Montpelier Re

During the first quarter of 2004, White Mountains sold a portion of its investment in Montpelier Re common shares to third parties. As a result of this sale, as well as changes to the composition of the Board of Directors of both Montpelier Re and White Mountains, White Mountains changed the method of accounting for its remaining common share investment in Montpelier Re as of March 31, 2004 from an equity method investment in an unconsolidated affiliate to a common equity security classified as available for sale and carried at fair value. White Mountains accounts for its warrants in Montpelier Re as derivative instruments and recognizes changes in the fair value of the warrants during a given period in its income statement as a realized gain or loss. (See Note 5 for details of White Mountains' investment in Montpelier Re as of December 31, 2005).

White Mountains' equity in earnings of Montpelier Re was $10.8 million (net of $6.1 million tax) for the year ended December 31, 2004.

NOTE 15. Variable Interest Entities

Reciprocals

Reciprocals are not-for-profit, policyholder owned insurance carriers organized as unincorporated associations. Each policyholder insured by the reciprocal shares risk with the other policyholders. Policyholders share profits and losses in the same proportion as the amount of insurance purchased but are not subject to additional assessments for losses of the reciprocal.

OneBeacon has capitalized three reciprocals by loaning money to them in exchange for surplus notes. Principal and interest on the surplus notes are repayable to OneBeacon only with regulatory approval. The obligation to repay principal on the notes is subordinated to all other liabilities including obligations to policyholders and claimants for benefits under insurance policies.

OneBeacon has no ownership interest in the three reciprocals. However, under the provisions of FIN 46(R), OneBeacon has determined that each of the reciprocals qualify as a VIE. Further, OneBeacon has determined that it is the primary beneficiary and is required to consolidate all three reciprocals.

In 2002, OneBeacon formed New Jersey Skylands Management LLC to provide management services for a fee to New Jersey Skylands Insurance Association, a reciprocal, and its wholly owned subsidiary New Jersey Skylands Insurance Company (together, "New Jersey Skylands Insurance"). New Jersey Skylands Insurance was capitalized with a $31.3 million surplus note issued to OneBeacon in 2002. At December 31, 2006 and 2005, consolidated amounts related to New Jersey Skylands Insurance included total assets of $89.2 million and $105.6 million and total liabilities of $113.7 million and $119.6 million. At December 31, 2006, the net amount of capital at risk is equal to the surplus note of $31.3 million less the accumulated losses to date of $24.5 million.

In 2004, OneBeacon formed Houston General Management Company to provide management services for a fee to another reciprocal, Houston General Insurance Exchange. During 2004, OneBeacon contributed $2.0 million of capital to Houston General Insurance Exchange. In 2005, OneBeacon contributed one of its subsidiaries, Houston General Insurance Company, with assets of $149.4 million and liabilities of $127.6 million, to Houston General Insurance Exchange (together "Houston General Insurance"). Subsequent to the contribution of Houston General Insurance Company, Houston General Insurance Exchange issued a surplus note of $23.7 million to OneBeacon. At December 31, 2006 and 2005, consolidated amounts related to Houston General Insurance included total assets of $167.2 million and $187.3 million and total liabilities of $148.8 million and $165.3 million. At December 31, 2006 the net amount of capital at risk is equal to the surplus note of $23.7 million.

In 2006, Adirondack AIF, LLC, a wholly owned subsidiary of OneBeacon, entered into an agreement to provide management services for a fee to Adirondack Insurance Exchange ("Adirondack Insurance"), a reciprocal. Adirondack Insurance was capitalized with a $70.7 million surplus note issued to OneBeacon in May 2006. At December 31, 2006, consolidated amounts related to Adirondack Insurance included total assets of $124.8 million and total liabilities of $130.3 million. At December 31, 2006, the net amount of capital at risk is equal to the surplus note of $70.7 million less the accumulated losses to date of $5.5 million.

Prospector Offshore Fund

White Mountains has determined that the Prospector Offshore Fund, Ltd. ("the Prospector Fund") is a VIE for which White Mountains is the primary beneficiary and is required to consolidate the Prospector Fund. At December 31, 2006 and 2005, White Mountains consolidated total assets of $211.1 million and $177.3 million and total liabilities of $70.0 million and $38.8 million of the Prospector Fund. In addition, at December 31, 2006 and 2005, White Mountains recorded a minority interest liability of $82.4 million and $83.5 million representing the noncontrolling interests in the Prospector Fund. For the years ended December 31, 2006 and 2005, White Mountains recorded $5.6 million and $4.2 million of minority interest expense related to the Fund. At December 31, 2006, the net amount of capital at risk is equal to White Mountains' investment in the Fund of $58.7 million, which represents White Mountains' ownership interest of 41.6% in the Prospector Fund.

Tuckerman LP, I

White Mountains has determined that Tuckerman Limited Partnership, I ("Tuckerman I") is a VIE for which White Mountains is the primary beneficiary and is required to consolidate Tuckerman I. At December 31, 2006 and 2005, White Mountains consolidated total assets of $35.6 million and $38.5 million and total liabilities of $15.1 million and $12.6 million of Tuckerman I. In addition, at December 31, 2006 and 2005, White Mountains recorded a minority interest liability of $3.5 million and $2.4 million representing the noncontrolling interests in Tuckerman I. For the years ended December 31, 2006 and 2005, White Mountains recorded $1.9 million and $1.3 million of minority interest expense related to Tuckerman I. At December 31, 2006, the net amount of capital at risk is equal to White Mountains' investment in Tuckerman I of $17.0 million, which represents White Mountains' ownership interest of 95.9% in Tuckerman I.

Tuckerman LP, II

White Mountains has determined that Tuckerman Limited Partnership, II ("Tuckerman II") is a VIE for which White Mountains is the primary beneficiary and is required to consolidate Tuckerman II. At December 31, 2006 and 2005, White Mountains consolidated total assets of $65.4 million and $25.2 million and total liabilities of $17.4 million and $4.8 million. In addition, at December 31, 2006 and 2005, White Mountains recorded a minority interest liability of $26.7 million and $10.4 million representing the noncontrolling interest in Tuckerman II. For the years ended December 31, 2006 and 2005, White Mountains recorded $3.6 million and $6.7 million of minority interest expense related to Tuckerman II. At December 31, 2006, the net amount of capital at risk is equal to White Mountains' investment in Tuckerman II of $21.3 million, which represents White Mountains' ownership interest of 49.6% in Tuckerman II.

NOTE 16. Fair Value of Financial Instruments

SFAS No. 107, "Disclosure about Fair Value of Financial Instruments" ("SFAS 107"), requires disclosure of fair value information of financial instruments. For certain financial instruments where quoted market prices are not available, the fair values of these financial instruments were estimated by discounting future cash flows using current market rates for similar obligations or using quoted market prices. Because considerable judgment is used, these estimates are not necessarily indicative of amounts that could be realized in a current market exchange. SFAS 107 excludes certain financial instruments from disclosure, including insurance contracts, other than financial guarantees and investment contracts. White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness and its mandatorily redeemable preferred stock.

At December 31, 2006 and 2005, White Mountains' fixed-rate, long-term indebtedness consisted of its Senior Notes. The fair value of White Mountains' Senior Notes was $692.7 million and $705.4 million, which compared to a carrying value of $698.7 million and $698.5 million, respectively.

At December 31, 2006, the fair values of the Berkshire Preferred Stock and the Zenith Preferred Stock were $319.5 million and $20.6 million, respectively, which compared to carrying values of $242.3 million and $20.0 million, respectively. At December 31, 2005, the fair values of the Berkshire Preferred Stock and the Zenith Preferred Stock were $331.5 million and $21.6 million, respectively, which compared to carrying values of $214.0 million and $20.0 million, respectively.

NOTE 17. Transactions with Related Persons

Prospector

Mr. John Gillespie, a director of the Company, is the founder and Managing Member of Prospector. Prospector serves as a discretionary adviser with respect to specified assets, primarily equity securities, managed by WM Advisors on behalf of White Mountains (including, prior to its IPO, OneBeacon) and other clients of WM Advisors, including the defined benefit and defined contribution plans of OneBeacon. Pursuant to an investment management agreement with WM Advisors (the "WMA Agreement"), through March 1, 2006, Prospector charged WM Advisors fees based on the following schedule: 100 basis points on the first $200 million of assets under management; 50 basis points on the next $200 million; and 15 basis points on amounts over $400 million. Effective March 1, 2006, pursuant to an amendment to the WMA Agreement, Prospector charged WM Advisors fees based on the following schedule: 100 basis points on the first $200 million; 50 basis points on the next $200 million; and 25 basis points on amounts over $400 million. At December 31, 2006, Prospector managed approximately $1.2 billion of assets for WM Advisors under this arrangement.

Effective November 14, 2006, in connection with the OneBeacon Offering, OneBeacon entered into a separate investment management agreement with Prospector pursuant to which Prospector supervises and directs specified assets, primarily equity securities. Pursuant to this investment management agreement (the "OneBeacon Agreement"), Prospector charged OneBeacon fees based on the following schedule: 100 basis points on the first $200 million; 50 basis points on the next $200 million; and 25 basis points on amounts over $400 million. At December 31, 2006, Prospector managed approximately $1.1 billion of assets for OneBeacon under this arrangement.

During 2006, Prospector earned $9.0 million in fees pursuant to the WMA Agreement and $.5 million in fees pursuant to the OneBeacon Agreement.

Prospector also advises White Mountains on matters including capital management, asset allocation, private equity investments and mergers and acquisitions. Pursuant to a Consulting Agreement for those services, Prospector was granted 8,000 performance shares for the 2007-2009 performance cycle, 8,400 performance shares for the 2006-2008 performance cycle and 7,000 performance shares for the 2005-2007 performance cycle. In accordance with the terms of the Incentive Plan, performance against target governing the performance shares will be confirmed by the Compensation Committee of the Board following the end of each performance cycle and the number of performance shares actually awarded at that time will range from 0% to 200% of the target number granted. Unless and until the Consulting Agreement has been terminated, and subject to the approval of the Compensation Committee, at the beginning of each performance cycle Prospector is to be granted performance shares with a value of approximately $4.5 million. The Compensation Committee establishes the performance target for such performance shares.

Pursuant to a revenue sharing agreement, Prospector has agreed to pay White Mountains 6% of the revenues in excess of $500,000 of certain of Prospector's funds in return for White Mountains having made a founding investment in 1997. White Mountains earned $.7 million during 2006 under this arrangement.

At December 31, 2006, White Mountains had $133.1 million invested in limited partnership investment interests managed by Prospector. In addition, Messrs. Barrette, George Gillespie and John Gillespie, each directors of the Company, owned limited partnership investment interests managed by Prospector as of such date.

FSA

In May 2006, White Mountains was required to sell its 1% economic interest in Financial Security Assurance Holdings Ltd. ("FSA") back to FSA's parent, Dexia S.A., at its fair value of $56.6 million. Mr. Robert Cochran, a director of the Company, is Chairman and CEO of FSA.

Other relationships and transactions

Mr. Howard Clark, a director of the Company, is Vice Chairman of Lehman Brothers, Inc. ("Lehman"). Lehman has, from time to time, provided various services to White Mountains including investment banking services, brokerage services, underwriting of debt and equity securities and financial consulting services. During 2006, Lehman served as sole book-running manager for the OneBeacon Offering. Also during 2006, Lehman served as a joint book-running manager for two new revolving credit facilities for White Mountains.

Mr. George Gillespie, a director of the Company, serves as Special Counsel to Cravath, Swaine & Moore LLP ("CS&M"). CS&M has been retained by White Mountains from time to time to perform legal services. During 2006, among other services rendered, CS&M acted as White Mountains' counsel for the OneBeacon Offering.

Mr. John Gillespie indirectly through general and limited partnership interests holds a 44% interest in Fund III. Two of the Company's indirect subsidiaries, OBPP and FSUI, had previously borrowed approximately $8 million and $7 million, respectively, from Fund III in connection with an incentive program sponsored by the State of Connecticut known as the CIR Act. The CIR Act provides for Connecticut income tax credits to be granted for qualifying investments made by approved fund managers. Both loans were repaid in full during 2006. The loans were qualifying investments which generated tax credits to be shared equally between Fund III on the one hand and OBPP and FSUI on the other. As a result of his interest in Fund III, during 2006 Mr. Gillespie generated approximately $.3 million in such tax credits.

WM Advisors currently leases a building partially owned by Mr. John Gillespie and trusts for the benefit of members of his family (the "Gillespie Trusts"). For 2006, the rental payments attributable to Mr. Gillespie's ownership in the building totalled approximately $26,000 and the rental payments attributable to the Gillespie Trusts' ownership in the building totalled approximately $208,000. In addition, WM Advisors currently sublets a portion of the building it leases from the Gillespie Trusts to Prospector and, for 2006, Prospector paid WM Advisors $102,000.

NOTE 18. Commitments and Contingencies

White Mountains leases certain office space under noncancellable operating leases that expire on various dates through 2010. Rental expense for all of White Mountains' locations was approximately $49.1 million, $49.1 million and $46.5 million for the years ended December 31, 2006, 2005 and 2004. White Mountains also has various other lease obligations that are immaterial in the aggregate.

White Mountains' future annual minimum rental payments required under noncancellable leases, which are primarily for office space, are $43.1 million, $37.5 million, $21.4 million, $13.7 million and $33.0 million for 2007, 2008, 2009, 2010 and 2011 and thereafter, respectively.

Assigned Risks

As a condition of its license to do business in certain states, White Mountains' insurance operations are required to participate in mandatory shared market mechanisms. Each state dictates the types of insurance and the level of coverage that must be provided. The total amount of business an insurer is required to accept is based on its market share of voluntary business in the state. In certain cases, White Mountains is obligated to write business from mandatory shared market mechanisms at some time in the future based on the market share of voluntary policies it is currently writing. Underwriting results related to assigned risk plans are typically adverse and are not subject to the predictability associated with White Mountains' voluntarily written business.

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. White Mountains accrues any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated. The actual amount of such assessments will depend upon the final outcome of rehabilitation proceedings and will be paid over several years. At December 31, 2006, the reserve for such assessments totalled $17.3 million.

Legal Contingencies

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

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group ("Liberty Mutual") pursuant to a renewal rights agreement (the "Liberty Agreement"), which expired on October 31, 2003. OneBeacon is in a dispute with Liberty Mutual over certain costs Liberty Mutual claims it incurred in connection with the Liberty Agreement. Liberty Mutual asserts that these costs are part of unallocated loss adjustment expenses ("ULAE") due Liberty Mutual under the Liberty Agreement. Liberty Mutual further asserts that ULAE on charges previously billed to and settled by OneBeacon since the inception of the Liberty Agreement should be retroactively recast in addition to changing the calculation of ULAE charges for the period not yet settled. OneBeacon believes that the recast charges, which are significantly higher than prior ULAE calculations, and the calculation of ULAE charges for the period not yet settled are inconsistent with the terms of the Liberty Agreement and with standard industry definitions of ULAE. The amount of additional ULAE Liberty Mutual claims that it incurred under the Liberty Agreement totals approximately $68.4 million. Liberty Mutual has netted amounts billed under the ULAE dispute against amounts otherwise payable to OneBeacon. As of December 31, 2006, OneBeacon has recorded in its loss and LAE reserves an estimate of ULAE expenses due Liberty Mutual on a basis that it believes is consistent with the terms of the Liberty Agreement and with standard industry definitions of ULAE. In January 2006, Liberty Mutual initiated an arbitration proceeding against OneBeacon with respect to this dispute ("the ULAE Arbitration"). The initial organizational meeting on the ULAE Arbitration was held in February 2007 and the final hearing is scheduled for April 2008.

In September 2006, OneBeacon initiated an arbitration against Liberty Mutual (and Peerless Insurance Company) seeking payment of approximately $57 million relating to reinsurance premiums, ceding commissions, recoveries and commutations due to OneBeacon from Liberty Mutual pursuant to the terms and conditions of the rewritten indemnity reinsurance agreement. To date, Liberty Mutual has refused to pay, asserting that it is entitled to an offset against the ULAE amounts disputed by OneBeacon and subject to the ULAE Arbitration. The parties are in the process of selecting an arbitration panel and the dates for the arbitration hearing have not yet been scheduled. In January 2007, this arbitration was consolidated into the ULAE arbitration.

OneBeacon Insurance Group LLC and OBIC also have asserted claims against Liberty Mutual (and Peerless Insurance Company) in the Court of Common Pleas for Philadelphia County, Pennsylvania, or the Court, in which they assert that Liberty Mutual (and Peerless Insurance Company) breached the Pre-Closing Administrative Services Agreement, handled claims files negligently, breached fiduciary duties and were unjustly enriched. The Court has stayed those claims pending

the resolution of the arbitration between OBIC and Liberty Mutual for breach of contract. The arbitration hearing commenced in November 2006 and will continue in May 2007.

OneBeacon believes that its loss and LAE reserves are sufficient to cover reasonably anticipated outcomes of all related disputes with Liberty Mutual.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements included in this report. The financial statements have been prepared in conformity with GAAP in the United States. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Audit Committee of the Board, which is comprised entirely of independent, qualified directors, is responsible for the oversight of our accounting policies, financial reporting and internal control including the appointment and compensation of our independent registered public accounting firm. The Audit Committee meets periodically with management, our independent registered public accounting firm and our internal auditors to ensure they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing our financial reports. Our independent registered public accounting firm and internal auditors have full and unlimited access to the Audit Committee, with or without management present, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to their attention.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. There are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, an effective internal control environment as of a point in time may become inadequate in the future because of changes in conditions, or deterioration in the degree of compliance with the policies and procedures.

We assessed the effectiveness of White Mountains' internal control over financial reporting as of December 31, 2006. Our assessment did not include an assessment of the internal control over financial reporting for Mutual Service Casualty Insurance Company which was acquired on December 22, 2006. This acquisition represents less than 1% of White Mountains' total assets as of December 31, 2006 and less than 1% of White Mountains' total revenue for the year ended December 31, 2006. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, we have concluded that White Mountains maintained effective internal control over financial reporting as of December 31, 2006.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has audited management's assessment of the effectiveness of White Mountains' internal control over financial reporting as of December 31, 2006 as stated in their report which appears on pages F-65 through F-66.

February 28, 2007

/s/ Raymond Barrette	/s/ David T. Foy
Chairman and CEO (Principal Executive Officer)	Executive Vice President and CFO (Principal Financial Officer)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of White Mountains Insurance Group, Ltd.:

We have completed integrated audits of White Mountains Insurance Group, Ltd.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of White Mountains Insurance Group, Ltd. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable

assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under item 9A which appears on page F-64, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Annual Report on Internal Control Over Financial Reporting, management has excluded Mutual Service Casualty Insurance Company from its assessment of internal control over financial reporting as of December 31, 2006 because it was acquired by the Company in purchase business combinations during 2006. As a result, we have also excluded Mutual Service Casualty Insurance Company from our audit of internal control over financial reporting. Mutual Service Casualty Insurance Company is a wholly-owned subsidiary whose total assets and total revenues represent less than 1% of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 28, 2007

SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)

Selected quarterly financial data for 2006 and 2005 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods.

	2006 Three Months Ended				2005 Three Months Ended			
Millions, except per share amounts	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Revenues	**$ 1,349.3**	**$ 1,186.2**	**$ 1,200.9**	**$ 1,057.8**	$ 1,058.1	$ 1,177.6	$ 1,170.9	$ 1,225.3
Expenses	**1,036.4**	**957.7**	**1,129.3**	**941.0**	1,044.4	1,306.4	974.9	1,001.0
Pre-tax earnings (loss)	**312.9**	**228.5**	**71.6**	**116.8**	13.7	(128.8)	196.0	224.3
Tax benefit (provision)	**(32.0)**	**(69.3)**	**29.3**	**(26.9)**	19.6	55.6	(55.4)	(56.3)
Minority interest in consolidated subsidiaries	**(10.5)**	**(2.7)**	**0.1**	**(2.9)**	(5.9)	(2.0)	(2.9)	(1.4)
Equity in earnings of unconsolidated affiliates	**7.5**	**5.6**	**14.8**	**9.0**	5.9	8.9	9.1	9.7
Income (loss) before extraordinary items	**$ 277.9**	**$ 162.1**	**$ 115.8**	**$ 96.0**	$ 33.3	$ (66.3)	$ 146.8	$ 176.3
Income (loss) before extraordinary items per share:								
Basic	**$ 60.52**	**$ 15.05**	**$ 10.75**	**$ 8.92**	$ 3.10	$ (6.16)	$ 13.64	$ 16.38
Diluted	**60.33**	**15.01**	**10.72**	**8.89**	2.82	(6.16)	13.64	16.24
Fully converted tangible book value per share	**$ 406.00**	**$ 373.33**	**$ 355.16**	**$ 352.01**	$ 342.51	$ 345.02	$ 359.11	$ 347.89

SCHEDULE I

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES
At December 31, 2006

Millions	Cost	Carrying Value	Fair Value
Fixed maturities (1):			
Bonds:			
U.S. Government and government agencies and authorities (2)	$ 1,956.3	**$ 1,949.4**	$ 1,948.4
Corporate bonds and asset-backed securities	4,947.9	**4,977.1**	4,977.1
States, municipalities and political subdivisions	15.5	**16.0**	16.0
Convertibles and bonds with warrants attached	429.5	**429.5**	429.5
Foreign governments	657.2	**708.4**	708.4
Redeemable preferred stocks	111.5	**136.1**	136.1
Total fixed maturities	8,117.9	**8,216.5**	8,215.5
Short-term investments	1,378.8	**1,378.8**	1,378.8
Common equity securities:			
Banks, trust and insurance companies	197.5	**232.2**	232.2
Public utilities	34.2	**64.4**	64.4
Industrial, miscellaneous and other	740.3	**916.0**	916.0
Total common equity securities	972.0	**1,212.6**	1,212.6
Other investments	467.1	**524.8**	524.8
Total investments	$ 10,935.8	**$ 11,332.7**	$ 11,331.7

(1) White Mountains' portfolio of fixed maturity investments held for general investment purposes are classified as available for sale and are reported at fair value at December 31, 2006. White Mountains' portfolio of fixed maturity investments held in the segregated trust accounts are classified at held to maturity and are reported at amortized cost

(2) Includes mortgage-backed securities issued by GNMA, FNMA and FHLMC.

SCHEDULE II

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Registrant Only)

CONDENSED BALANCE SHEETS

Millions	December 31, 2006	2005
Assets:		
Fixed maturity investments, at fair value	**$ 194.3**	$ 193.5
Short-term investments, at amortized cost	**85.6**	.4
Other assets	**81.1**	4.6
Investments in consolidated and unconsolidated affiliates	**4,486.2**	3,669.7
Total assets	**$ 4,847.2**	$ 3,868.2
Liabilities:		
Long-term debt	**$ 320.0**	$ —
Accounts payable and other liabilities	**71.9**	35.0
Total liabilities	**391.9**	35.0
Common shareholders' equity	**4,455.3**	3,833.2
Total liabilities, convertible preference shares and common shareholders' equity	**$ 4,847.2**	$ 3,868.2

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Millions	Year Ended December 31, 2006	2005	2004
Revenues (including realized gains and losses)	**$ 22.9**	$ 47.1	$ 3.7

Expenses	**41.1**	1.1	65.3
Pre-tax income (loss)	**(18.2)**	46.0	(61.6)
Income tax benefit (provision)	**(2.6)**	(.6)	9.3
Net income (loss)	**(20.8)**	45.4	(52.3)
Earnings from consolidated affiliates	**694.0**	244.7	430.3
Excess of fair value of acquired net assets over cost	**—**	—	40.7
Consolidated net income	**673.2**	290.1	418.7
Other comprehensive net income items, after-tax	**32.9**	(254.1)	176.5
Consolidated comprehensive net income	**$ 706.1**	$ 36.0	$ 595.2
Computation of net income available to common shareholders:			
Consolidated net income	**$ 673.2**	$ 290.1	$ 418.7
Redemption value adjustment — Convertible Preference Shares	**—**	—	—
Net income available to common shareholders	**$ 673.2**	$ 290.1	$ 418.7

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Registrant Only)

CONDENSED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 2006	2005	2004
Net income	**$ 673.2**	$ 290.1	$ 418.7
Charges (credits) to reconcile net income to net cash from operations:			
Excess of fair value of acquired net assets over cost	**—**	—	(40.7)
Net realized gains on sales of investments	**(8.6)**	(8.8)	(1.9)
Undistributed current earnings from consolidated subsidiaries	**(694.0)**	(209.7)	(420.1)
Net Federal income tax receipts	**—**	11.1	—
Net change in other assets and other liabilities	**15.4**	(64.0)	(7.8)
Net cash (used for) provided from operations	**(14.0)**	18.7	(51.8)
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	**(85.2)**	15.8	(5.1)
Purchases of investment securities	**(243.2)**	(99.3)	(242.1)
Sales and maturities of investment securities	**158.8**	149.9	—
Net change in unsettled investment purchases and sales	**8.1**	—	—
Net cash (used for) provided from investing activities	**(161.5)**	66.4	(247.2)
Cash flows from financing activities:			
Issuance of debt	**460.0**	—	—
Repayment of debt	**(140.0)**	—	—
Issuance of debt to affiliates	**(448.7)**	—	—
Repayment of debt from affiliates	**477.3**	—	—
Contributions to affiliates	**(87.5)**	—	—
Proceeds from issuances of common shares	**.6**	1.1	307.8
Dividends paid on common shares	**(86.2)**	(86.2)	(9.1)
Net cash provided from (used for) financing activities	**175.5**	(85.1)	298.7
Net decrease in cash during the year	**—**	—	(.3)
Cash balance at beginning of year	**—**	—	.3
Cash balance at end of year	**$ —**	$ —	$ —

SCHEDULE III

WHITE MOUNTAINS INSURANCE GROUP, LTD.
SUPPLEMENTARY INSURANCE INFORMATION
(Millions)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Segment	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premiums earned	Net investment income (1)	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses	Premiums written
Years ended:										
December 31, 2006:										
OneBeacon	**$ 183.8**	**$ 4,837.7**	**$ 985.2**	**$ —**	**$ 1,944.0**	**$ 176.1**	**$ 1,180.4**	**$ 332.2**	**$ 360.1**	**$ 1,957.6**
WM Re	**99.8**	**3,708.8**	**431.6**	**—**	**1,241.2**	**182.7**	**884.6**	**287.3**	**94.7**	**1,290.0**
Esurance	**36.6**	**167.5**	**168.1**	**—**	**527.5**	**18.4**	**383.9**	**135.3**	**48.8**	**595.9**
Other insurance operations	**—**	**63.2**	**—**	**—**	**—**	**1.0**	**3.9**	**—**	**1.8**	**—**

December 31, 2005:										
OneBeacon	$ 180.1	$ 5,395.9	$ 960.3	$ —	$ 2,118.4	$ 238.1	$ 1,401.5	$ 390.7	$ 278.9	$ 2,121.1
WM Re	87.2	4,680.3	521.9	—	1,371.6	148.9	1,237.9	279.6	107.0	1,304.1
Esurance	21.1	94.0	99.8	—	306.8	9.8	206.2	90.8	37.2	349.1
Other insurance operations	—	61.0	—	—	1.8	29.4	12.6	0.1	1.6	1.8
December 31, 2004:										
OneBeacon	$ 200.2	$ 5,114.0	$ 1,066.8	$ —	$ 2,378.5	$ 222.9	$ 1,545.2	$ 442.3	$ 369.2	$ 2,459.1
WM Re	99.1	4,170.3	615.5	—	1,265.5	98.5	918.9	271.8	122.9	1,246.3
Esurance	8.9	63.0	57.2	—	176.5	3.5	122.4	30.3	26.8	199.4
Other insurance operations	—	51.2	—	—	—	6.4	4.6	—	1.5	—

(1) The amounts shown exclude net investment income (expense) relating to non-insurance operations of $48.0 million, $65.3 million and $29.6 million for the twelve months ended December 31, 2006, 2005 and 2004, respectively.

SCHEDULE IV

WHITE MOUNTAINS INSURANCE GROUP, LTD.

REINSURANCE
($ in millions)

Column A	Column B	Column C	Column D	Column E	Column F
Premiums earned Years ended:	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
December 31, 2006:					
OneBeacon	**$ 2,007.6**	**$ (129.0)**	**$ 65.4**	**$ 1,944.0**	**3.4%**
WM Re	**240.2**	**(447.8)**	**1,448.8**	**1,241.2**	**116.7%**
Esurance	**495.3**	**(3.5)**	**35.7**	**527.5**	**6.8%**
Other insurance operations	**—**	**—**	**—**	**—**	**—%**
December 31, 2005:					
OneBeacon	$ 2,175.8	$ (160.1)	$ 102.7	$ 2,118.4	4.8%
WM Re	347.6	(760.6)	1,784.6	1,371.6	130.1%
Esurance	280.1	(2.4)	29.1	306.8	9.5%
Other insurance operations	—	(.1)	1.9	1.8	105.6%
December 31, 2004:					
OneBeacon	$ 2,253.9	$ (206.5)	$ 331.1	$ 2,378.5	13.9%
WM Re	310.4	(670.3)	1,625.4	1,265.5	128.4%
Esurance	153.6	(1.5)	24.4	176.5	13.8%
Other insurance operations	—	—	—	—	—%

SCHEDULE V

WHITE MOUNTAINS INSURANCE GROUP, LTD.

VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions (subtractions)			
Millions Years ended:	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions described (1)	Balance at end of period
December 31, 2006:					
Reinsurance recoverable on paid losses:					
Allowance for reinsurance balances	**$ 41.6**	**$ (16.9)**	**$ —**	**$ 4.3**	**$ 29.0**
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	**20.7**	**(4.3)**	**—**	**6.5**	**22.9**
December 31, 2005:					
Reinsurance recoverable on paid losses:					
Allowance for reinsurance balances	$ 36.9	$ 5.0	$ (4.6)	$ 4.3	$ 41.6

Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	27.0	1.9	(8.8)	.6	20.7
December 31, 2004:					
Reinsurance recoverable on paid losses:					
Allowance for reinsurance balances	$ 15.9	$ 5.7	$ —	$ 15.3(2)	$ 36.9
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	23.0	(12.1)	3.2	12.9(2)	27.0

(1) Represents net reinstatements (charge-offs) of balances receivables.

(2) Includes $17.8 million and $2.2 million of reinsurance recoverable on unpaid losses and property and casualty insurance and reinsurance premiums receivable, respectively, acquired from Sirius.

SCHEDULE VI

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUPPLEMENTAL INFORMATION FOR PROPERTY AND CASUALTY INSURANCE UNDERWRITERS (Millions)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H		Column I	Column J	Column K
Affiliation with registrant	Deferred acquisition costs	Reserves for Unpaid Claims and Claims Adjustment Expenses	Discount, if any, deducted in Column C	Unearned Premiums	Earned Premiums	Net investment income	Claims and Claims Adjustment Expenses Incurred Related to (1) Current Year	Claims and Claims Adjustment Expenses Incurred Related to (2) Prior Year	Amortization of deferred policy acquisition costs	Paid Claims and Claims Adjustment Expenses	Premiums written
OneBeacon:											
2006	**$ 183.8**	**$ 4,837.7**	**$ 461.2**	**(2) $ 985.2**	**$ 1,944.0**	**$ 176.1**	**$ 1,169.0**	**$ 11.3**	**$ 332.2**	**$ 1,553.0**	**$ 1,957.6**
2005	180.1	5,395.9	531.8	(2) 960.3	2,118.4	238.1	1,306.5	95.0	390.7	1,839.8	2,121.1
2004	200.2	5,114.0	620.9	(2) 1,066.8	2,378.5	222.9	1,444.9	100.3	442.3	2,085.9	2,459.1
WM Re:											
2006	**$ 99.8**	**$ 3,708.8**	**$ 39.1**	**(3) $ 431.6**	**$ 1,241.2**	**$ 182.7**	**$ 666.6**	**$ 218.0**	**$ 287.2**	**$ 1,070.9**	**$ 1,290.0**
2005	87.2	4,680.3	39.5	(3) 521.9	1,371.6	148.9	1,186.8	51.0	279.6	1,229.7	1,304.1
2004	99.1	4,170.3	48.0	(3) 615.5	1,265.5	98.5	903.8	15.1	271.8	910.6	1,246.3
Esurance:											
2006	**$ 36.6**	**$ 167.5**	**$ —**	**$ 168.1**	**$ 527.5**	**$ 18.4**	**$ 380.9**	**$ 3.0**	**$ 135.3**	**$ 309.6**	**$ 595.9**
2005	21.1	94.0	—	99.8	306.8	9.8	213.9	(7.7)	90.8	175.0	349.1
2004	8.9	63.0	—	57.2	176.5	3.5	127.5	(5.1)	30.3	96.6	199.4
Other insurance operations:											
2006	**$ —**	**$ 63.2**	**$ —**	**$ —**	**$ —**	**$ 1.0**	**$ 3.9**	**$ —**	**$ —**	**$ 4.1**	**$ —**
2005	—	61.1	—	—	1.8	29.4	—	12.6	0.1	6.5	1.8
2004	—	51.2	—	—	—	6.4	—	4.6	—	(2.2)	—
50%-or-less owned property and casualty investees(1):											
Delos(4):											
2006	**$ 0.2**	**$ 68.2**	**$ —**	**$ 8.8**	**$ 2.1**	**$ 0.4**	**$ 1.3**	**$ —**	**$ —**	**$ 2.1**	**$ 0.7**
MSA(5):											
2005	31.2	190.2	—	154.5	233.8	13.6	149.3	18.0	62.8	143.9	240.8
2004	30.8	162.8	—	144.2	217.8	13.2	144.7	4.7	60.0	132.7	227.3

(1) The amounts shown represent White Mountains' share of its 50% owned unconsolidated property and casualty insurance affiliates.

(2) The amounts shown represent OneBeacon's discount on its long-term workers compensation loss and LAE reserves, as such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual basis. OneBeacon discounts these reserves using a discount rate which is determined based on the facts and circumstances applicable at the time the claims are settled (5.3%, 5.0% and 4.7% at December 31, 2006, 2005 and 2004). Also the amounts shown exclude unamortized fair value adjustments to reserves for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains' purchase of OneBeacon for the years ended December 31, 2006, 2005 and 2004, respectively

(3) The amount shown represents unamortized fair value adjustments to reserves for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains' purchase of Sirius during 2004.

(4) On August 3, 2006 White Mountains acquired an equity interest of approximately 18% in Delos. See Note 2

(5) On October 31, 2006 White Mountains restructured its investment in MSA. See Note 2.

CREDIT AGREEMENT

Dated as of November 14, 2006

among

WHITE MOUNTAINS INSURANCE GROUP, LTD.,

and

WHITE MOUNTAINS RE GROUP, LTD.,
as the Borrowers,

BANK OF AMERICA, N.A.,
as Administrative Agent, Swing Line Lender and
Issuing Lender,

and

THE OTHER LENDERS PARTY HERETO

LEHMAN BROTHERS INC.,
as Syndication Agent

and

JPMORGAN CHASE BANK, N.A.,

THE BANK OF NEW YORK,

THE BANK OF TOKYO-MITSUBISHI UFJ. LTD., NEW YORK BRANCH,

and

DEUTSCHE BANK AG NEW YORK BRANCH
as Co-Documentation Agents

and

BANC OF AMERICA SECURITIES LLC,

and

LEHMAN BROTHERS INC.
as Joint Lead Arrangers and Joint Book Runners

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CREDIT AGREEMENT

This **CREDIT AGREEMENT**, dated as of November 14, 2006, among (i) **WHITE MOUNTAINS INSURANCE GROUP, LTD.**, a company existing under the laws of Bermuda ("Parent"), (ii) **WHITE MOUNTAINS RE GROUP, LTD.**, a company existing under the laws of Bermuda ("White Mountains Re" and, together with Parent, collectively, the "Borrowers" and, individually, a "Borrower"), (iii) each lender from time to time party hereto (collectively, the "Lenders"), (iv) **BANK OF AMERICA, N.A.**, as Administrative Agent, Swing Line Lender and the Issuing Lender and (v) **LEHMAN BROTHERS INC.**, as Syndication Agent.

PRELIMINARY STATEMENTS

The Borrowers have requested that the Lenders provide a revolving credit facility, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

1. DEFINITIONS

1.1. Defined Terms. As used in this Agreement, the terms listed in this Section 1.1 shall have the respective meanings set forth in this Section 1.1.

"Act of 1934" means the Securities Exchange Act of 1934 and the regulations issued thereunder.

"Administrative Agent" means Bank of America, N.A., in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent appointed in accordance with Section 9.9.

"Administrative Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 10.2, or such other address or account as the Administrative Agent may from time to time notify the Borrowers and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Agent Fee Letter" means that certain letter agreement dated as of November 14, 2006 by and between the Borrowers, Fund American, the Administrative Agent and Banc of America Securities LLC.

"Agent-Related Persons" means the Administrative Agent, together with its Affiliates (including, Bank of America, N.A. in its capacity as the Administrative Agent and Banc of America Securities LLC in its capacity as one of the Arrangers), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"Agreement" means this Credit Agreement, as amended, restated, extended, supplemented or otherwise modified from time to time.

"Annual Report" means the Annual Statement required to be filed by Sirius with the Department in Sweden.

"Annual Statement" means the annual statutory financial statement of any Insurance Subsidiary required to be filed with the Department of its jurisdiction of incorporation or organization, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or organization or, if no specific form is so required, in the form of financial statements permitted by such Department to be used for filing annual statutory financial statements and shall contain the type of information permitted or required by such Department to be disclosed therein, together with all exhibits or schedules filed therewith.

"Applicable Margin" means the applicable percentage per annum set forth below corresponding to the Total Consolidated Debt to Total Consolidated Capitalization Ratio as of the most recent fiscal quarter of the Parent for which a Compliance Certificate has been or is required to have been delivered pursuant to Section 6.2(b):

Pricing Level	Total Consolidated Debt to Total Consolidated Capitalization Ratio	Applicable Margin
I	£ 10.0%	0.320%
II	> 10.0% £ 15.0%	0.400%
III	> 15.0% £ 22.5%	0.525%
IV	> 22.5% < 30.0%	0.675%
V	³ 30.0%	0.875%

The Applicable Margin in effect from the Closing Date through the first Business Day immediately following the date the first Compliance Certificate is delivered to the Administrative Agent pursuant to Section 6.2(b), shall be the Applicable Margin set forth in pricing level III. Any increase or decrease in the Applicable Margin resulting from a change in the Total Consolidated Debt to Total Consolidated Capitalization Ratio, as set forth on a Compliance Certificate delivered pursuant to Section 6.2(b), shall become

effective as of the first Business Day immediately following delivery of such Compliance Certificate; provided, however, that if a Compliance Certificate is not delivered when due in accordance with Section 6.2(b), then the level V Applicable Margin shall apply as of the first Business Day after the date on which such Compliance Certificate was required to have been delivered until the first Business Day after the date on which such Compliance Certificate is delivered.

"Application" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time used by the Issuing Lender, which shall not be inconsistent with this Agreement or impose additional obligations on the Borrowers.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Arranger Fee Letter" means that certain letter agreement dated as of November 14, 2006 by and among the Borrowers, Fund American, the Arrangers and LBB.

"Arrangers" means Banc of America Securities LLC and Lehman Brothers Inc., in their respective capacities as joint lead arrangers and joint book runners.

"Assignee Group" means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.7(b), and accepted by the Administrative Agent, in substantially in the form of Exhibit H or any other form approved by the Administrative Agent.

"Attorney Costs" means and includes all reasonable fees, expenses and disbursements of any law firm or other external counsel.

"Available Cash Flow" means, with respect to any Reference Period of Parent, the sum (without duplication) of: (a) actual cash received during such period (whether by way of dividends, distributions, principal or interest payments or guarantee fees) from Non-Regulated Operating Subsidiaries; provided that, there shall be netted against such amounts received from each individual Non-Regulated Operating Subsidiary (but only to the extent of such amounts received from such Non-Regulated Operating Subsidiary), without duplication, an amount equal to the aggregate amount of investments made by a Holding Company in such Non-Regulated Operating Subsidiary during such period, (b) net tax sharing payments, group contributions or similar payments received from Operating Subsidiaries during such period, (c) in respect of investments reflected as fixed maturity investments, short-term investments or common equity securities on the consolidated balance sheet of Parent, net investment income earned, or

capital gains realized, by any Holding Company during such period determined in accordance with GAAP and, in respect of other investments reflected on the consolidated balance sheet of Parent (including investments reflected as investments in unconsolidated affiliates), actual cash received during such period, (d) the greater of (i) the actual cash received during such period (whether by way of dividends, distributions, principal or interest payments or guarantee fees) from Insurance Subsidiaries and (ii) the annual dividend capacity of Insurance Subsidiaries as determined as of the most recent fiscal quarter then ended, it being understood that Sirius's annual dividend capacity shall be equal to its trailing twelve month statutory after tax income and (e) actual cash received during such period (whether by way of dividends, distributions, principal or interest payments or guarantee fees) from OneBeacon Limited and its Subsidiaries. For purposes of calculating Available Cash Flow, (x) amounts will be deemed received to the extent such amounts are actually received by a Holding Company (except to the extent such Holding Company would be unable to transfer the amounts so received directly or indirectly to a Borrower without third-party approval and such third-party approval shall not have been obtained) and (y) for purposes of clauses (a), (b), (c) and (d) of the definition hereof, Available Cash Flow shall not, in any event, include Available Cash Flow of OneBeacon Limited and its Subsidiaries.

"Available Revolving Credit Commitment" means, with respect to any Lender at any time, an amount equal to the excess, if any, of (a) such Lender's Revolving Credit Commitment then in effect over (b) such Lender's Revolving Extensions of Credit then outstanding.

"Base Rate" means, for any day, a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A. as its "prime rate." The "prime rate" is a rate set by Bank of America, N.A. based upon various factors including Bank of America, N.A.'s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America, N.A. shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Loans" means Loans for which the applicable rate of interest is based upon the Base Rate.

"Benefitted Lender" has the meaning specified in Section 10.8.

"Berkshire Hathaway" means, Berkshire Hathaway Inc., or an Affiliate thereof.

"Berkshire Preferred Stock" means the $300,000,000 aggregate liquidation preference amount of non-voting preferred stock issued by Fund American to Berkshire Hathaway pursuant to the Certificate of Designation of Series A Preferred Stock of TACK Acquisition Corp. (n/k/a Fund American) as amended, supplemented or otherwise modified from time to time.

"Board" means the Board of Governors of the Federal Reserve System of the United States (or any successor).

"Borrower Materials" has the meaning specified in Section 6.2(e).

"Borrowers" has the meaning specified in the preamble hereto.

"Borrowing Date" means any Business Day specified by a Borrower as a date on which such Borrower requests the relevant Lenders to make Loans hereunder.

"Borrowing Request" means a notice of (a) a borrowing, (b) a conversion of Loans from one Type to the other, or (c) a continuation of Eurodollar Loans pursuant to Sections 2.2 or 2.9 which, if in writing, shall be substantially in the form of Exhibit B-1.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Loans, a day (other than a Saturday or Sunday) on which banks generally are open in New York City for the conduct of substantially all of their commercial lending activities, interbank wire transfers can be made on the Fedwire system and dealings in Dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in New York City for the conduct of substantially all of the commercial lending activities, and interbank wire transfers can be made on the Fedwire system.

"Capital Lease Obligations" means, with respect to any Person, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP; and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"Capital and Surplus" means, as of any date, (a) as to any Insurance Subsidiary domiciled in the United States, the total surplus as regards policyholders (or any successor line item description that contains the same information) as shown in its Annual Statement or Quarterly Statement, or an amount determined in a consistent manner for any date other than one as of which an Annual Statement or Quarterly Statement is prepared, (b) as to Sirius, the total solvency capital (or any successor line item description that contains the same information) as shown in its Annual Report or Interim Report, or an amount determined in a consistent manner for any date other than one as of which an Annual Report or Interim Report is prepared and (c) as to any other Insurance Subsidiary, the equivalent amount (determined in good faith by Parent).

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock or share capital of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

"Cash Collateralize" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Issuing Lender and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent and the Issuing Lender (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings.

"Change of Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof), other than (i) Berkshire Hathaway, (ii) Franklin Mutual or (iii) John J. Byrne or any Related Person with respect to John J. Byrne (together with, in the case of clauses (i), (ii) and (iii), their Affiliates) of Capital Stock representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of Parent, (b) the occupation, within a period of two years, of a majority of the seats (other than vacant seats) on the board of directors of Parent by Persons who were neither (i) nominated by the board of directors of Parent nor (ii) appointed by directors so nominated or (c) neither White Mountains Re nor, if applicable, its successors shall be a Subsidiary of Parent. For the avoidance of doubt, none of the Capital Stock held by the entities listed in clauses (a)(i), (a)(ii) and (a)(iii), nor the Capital Stock held by any of their Affiliates, shall be included as being owned by a Person or group when determining whether such Person or group has met the 30% threshold set forth in clause (a).

"Closing Certificate" means a certificate substantially in the form of Exhibit E.

"Closing Date" means the first date on which all the conditions precedent in Section 4.1 are satisfied or waived in accordance with Section 10.1.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Commitments" means, collectively the Revolving Credit Commitments, the Swing Line Commitment, the L/C Commitment or as the context may require, any such Commitment.

"Commonly Controlled Entity" means an entity, whether or not incorporated, that is under common control with the Borrowers within the meaning of Section 4001 (a) (14) of ERISA or that is treated as a single employer with the Borrowers under Section 414 of the Code.

"Compensation Period" has the meaning specified in Section 2.14(e)(ii).

"Compliance Certificate" means a certificate duly executed by a Responsible Officer on behalf of Parent substantially in the form of Exhibit A.

"Conditional Common Equity" means convertible preferred stock which will convert to common equity upon shareholder approval (provided that such shareholder approval is obtained within the period required by the terms thereof).

"Consolidated Net Income" means, for any period, the consolidated net income (or loss) of Parent and its consolidated Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; provided, that in calculating Consolidated Net Income for any period, there shall be excluded for purposes of the calculation of Consolidated Net Income (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of Parent or is merged into or consolidated with Parent or any of its Subsidiaries and (b) any effects resulting from SFAS 158.

"Consolidated Net Worth" means, as at any date, the sum of all amounts that would, in conformity with GAAP be included on a consolidated balance sheet of Parent and its consolidated Subsidiaries under stockholders' equity at such date, plus minority interests in Subsidiaries, as determined in accordance with GAAP; provided, however, that any effects resulting from (a) SFAS 115 or (b) SFAS 158 shall be excluded for purposes of the calculation of Consolidated Net Worth.

"Cure Period" has the meaning specified in Section 7.1(b).

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its Property is bound.

"Debt" means indebtedness for borrowed money.

"Debtor Relief Laws" the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions, domestic or foreign, from time to time in effect and affecting the rights of creditors generally.

"Default" means any of the events specified in Section 8.1, whether or not any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Defaulting Lender" means any Lender that (a) has failed to fund any portion of the Loans or participations in the L/C Obligations required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder unless such failure has been cured, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute or unless such failure has been cured or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

"Default Rate" has the meaning specified in Section 2.11(c).

"Department" means, with respect to any Insurance Subsidiary, the insurance commissioner or other Governmental Authority of such Insurance Subsidiary's jurisdiction of domicile with which such Insurance Subsidiary is required to file its Annual Statement.

"Dollars" and "$" means lawful currency of the United States of America.

"Eligible Assignee" means any Person that meets the requirements to be an assignee under Section 10.7(b)(iii), (v), (vi), (vii) and (viii) (subject to such consents, if any, as may be required under Section 10.7(b)(iii)).

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, injunctive or equitable relief, fines, penalties or indemnities), of a Borrower or any of its Subsidiaries resulting from or based upon (a) a violation of any environmental law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) human exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Loans" means Loans for which the applicable rate of interest is based upon the Eurodollar Rate.

"Eurodollar Rate" means, for any Interest Period with respect to a Eurodollar Loan, the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 A.M., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "Eurodollar Rate" for such Interest Period shall be the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Loan being made, continued or converted by Bank of America, N.A. and with a term equivalent to such Interest Period would be offered by Bank of America, N.A.'s London branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 A.M. (London time) two Business Days prior to the commencement of such Interest Period.

"Excluded Taxes" has the meaning specified in Section 2.16(a).

"Existing Credit Agreement" means that certain Credit Agreement, dated as of August 26, 2004, among Parent, Fund American, the several banks and other

financial institutions or entities from time to time parties thereto, JP Morgan Chase Bank, as syndication agent, and Bank of America, N.A., as administrative agent.

"Existing Letters of Credit" means those letters of credit set forth on Schedule 1A.

"Event of Default" means any of the events specified in Section 8.1, provided that any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Facility Fee Rate" means the applicable percentage per annum set forth below corresponding to the Total Consolidated Debt to Total Consolidated Capitalization Ratio as of the most recent fiscal quarter of the Parent for which a Compliance Certificate has been or is required to have been delivered pursuant to Section 6.2(b):

Pricing Level	Total Consolidated Debt to Total Consolidated Capitalization Ratio	Facility Fee Rate
I	£ 10.0%	0.080%
II	> 10.0% £ 15.0%	0.100%
III	> 15.0% £ 22.5%	0.125%
IV	> 22.5% < 30.0%	0.175%
V	³ 30.0%	0.225%

The Facility Fee Rate in effect from the Closing Date through the first Business Day immediately following the date the first Compliance Certificate is delivered to the Administrative Agent pursuant to Section 6.2(b), shall be the Facility Fee Rate set forth in pricing level III. Any increase or decrease in the Facility Fee Rate resulting from a change in the Total Consolidated Debt to Total Consolidated Capitalization Ratio, as set forth on a Compliance Certificate delivered pursuant to Section 6.2(b), shall become effective as of the first Business Day immediately following delivery of such Compliance Certificate; provided, however, that if a Compliance Certificate is not delivered when due in accordance with Section 6.2(b), then the level V Facility Fee Rate shall apply as of the first Business Day after the date on which such Compliance Certificate was required to have been delivered until the first Business Day after the date on which such Compliance Certificate is delivered.

"Federal Funds Rate" means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank

of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the

average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America, N.A. on such day on such transactions as reasonably determined by the Administrative Agent.

"Fee Letters" means, collectively, the Agent Fee Letter and the Arranger Fee Letter.

"Fitch" means Fitch, Inc. (or any successor thereto).

"Franklin Mutual" means any investment fund managed by Franklin Mutual Advisers LLC (or any successor thereto) or any of its Affiliates.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in revolving credit facilities and similar extensions of credit in the ordinary course of its business.

"Fund American" means Fund American Companies, Inc., a Delaware corporation.

"Fund American Administrative Agent" means Bank of America, N.A., in its capacity as administrative agent under any of the Fund American Loan Documents, or any successor administrative agent appointed in accordance with the terms contained in the Fund American Credit Agreement.

"Fund American Arrangers" means Banc of America Securities LLC and Lehman Brothers Inc., in their respective capacities as joint lead arrangers and joint book runners under the Fund American Credit Agreement**.**

"Fund American Credit Agreement" means that certain Credit Agreement, dated as of the date hereof, among Fund American, OneBeacon Limited, as parent, the Fund American Lenders, the Fund American Administrative Agent, the Fund American Arrangers and the Fund American Syndication Agent, as such agreement may be amended, restated, extended, supplemented or otherwise modified in writing from time to time.

"Fund American Enterprises" means Fund American Enterprises Holdings, Inc., a Delaware corporation.

"Fund American Lenders" means the financial institutions from time to time party to the Fund American Credit Agreement.

"Fund American Loan Documents" means the "Loan Documents" as defined in the Fund American Credit Agreement.

"Fund American Notes" means those certain 5.875% Senior Notes issued pursuant to the Senior Indenture, dated as of May 19, 2003, between Parent, Fund American and Bank One, National Association, as trustee, in the aggregate principal amount of $700,000,000 due May 15, 2013.

"Fund American Preferred Stock" means collectively, the Berkshire Preferred Stock and the Zenith Preferred Stock.

"Fund American Syndication Agent" means Lehman Brothers Inc., and any other Fund American Lender as may be designated from time to time by Fund American as a syndication agent under the Fund American Credit Agreement, with the consent of such Fund American Lender and the Fund American Arrangers.

"Fundamental Change" means any of (a) Parent consolidating or amalgamating with or merging into any other Person, (b) Parent failing to preserve, renew and keep, in full force and effect, its corporate existence, (c) Parent, directly or indirectly through one or more of its Subsidiaries, conveying or transferring the properties and assets of Parent and its Subsidiaries (taken as a whole for Parent and its Subsidiaries) substantially as an entirety (other than to Parent or one or more of its Subsidiaries), or (d) Parent liquidating, winding up or dissolving itself, other than, in the case of clauses (a) through (d), any such transaction or transactions the sole purpose of which is to change the domicile of Parent (in any such redomiciliation (x) the surviving**,** amalgamated or transferee entity shall expressly assume, by an agreement reasonably satisfactory to the Administrative Agent, the obligations of Parent to be performed or observed hereunder and deliver to the Administrative Agent such corporate authority documents and legal opinions as the Administrative Agent shall reasonably request, (y) the surviving**,** amalgamated or transferee entity shall succeed to, and be substituted for, and may exercise every right and power of, Parent under this Agreement with the same effect as if such surviving, amalgamated or transferee entity had been named as Parent herein and (z) the surviving**,** amalgamated or transferee entity shall be organized under the laws of the United States of America, any state thereof, the District of Columbia or Bermuda); provided that a conveyance or transfer of all or any part of OneBeacon Limited or any of its Subsidiaries shall not constitute a Fundamental Change.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time and set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, except that for purposes of Section 7.1, GAAP shall be determined on the basis of such principles in effect on the date hereof.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof whether state or local and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing, including any board of insurance, insurance department or insurance commissioner.

"Granting Lender" has the meaning specified in Section 10.7(h).

"Guarantee Obligation" means as to any Person (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any Property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase Property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by Parent in good faith.

"Guarantor" has the meaning specified in Section 2.21 hereto, as applicable.

"Guaranty" has the meaning specified in Section 2.21(b) hereto.

"Hazardous Materials" means all explosive or radioactive substances or wastes, hazardous or toxic substances or wastes, pollutants, solid, liquid or gaseous wastes, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls ("PCBs") or PCB-containing materials or equipment, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any environmental law.

"Hedge Agreements" means all interest rate swaps, caps or collar agreements or similar arrangements entered into by the Borrowers or their Subsidiaries providing for protection against fluctuations in interest rates or currency exchange rates or otherwise providing for the exchange of nominal interest obligations, either generally or under specific contingencies.

"Holding Company" means, collectively, the Borrowers and each Subsidiary of a Borrower that is not an Operating Subsidiary, excluding OneBeacon Limited and its Subsidiaries.

"Increase Effective Date" has the meaning specified in Section 2.22(b).

"Indebtedness" means, as to any Person at any date, without duplication, all of the following, whether or not included as Indebtedness or liabilities in accordance with GAAP (a) all Debt of such Person, (b) all obligations of such Person for the deferred purchase price of Property or services (other than trade payables incurred in the ordinary course of such Person's business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to Property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such Property), (e) all Capital Lease Obligations of such Person, (f) all obligations of such Person, contingent or otherwise, as an account party or applicant under acceptance, letter of credit, bank guarantees, surety bonds or similar facilities, (g) all obligations of such Person, contingent or otherwise, to purchase, redeem, retire, defease or otherwise acquire for value any Capital Stock of such Person, (h) all Guarantee Obligations of such Person in respect of any of the foregoing, (i) all obligations of the kind referred to in clauses (a) through (h) above secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on Property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation and (j) for the purposes of Section 8.1(h) only, all obligations of such Person in respect of Hedge Agreements entered into in the ordinary course of business and not for speculative purposes. For the avoidance of doubt, Indebtedness shall include Surplus Debentures and shall in any event not include any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided, that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on the Closing Date are reasonably satisfactory to the Administrative Agent.

"Indemnified Liabilities" has the meaning specified in Section 10.6.

"Indemnitees" has the meaning specified in Section 10.6.

"Insolvency" means with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent" means pertaining to a condition of Insolvency.

"Insurance Regulations" means any Law, directive or order applicable to an insurance company.

"Insurance Regulator" means any Person charged with the administration, oversight or enforcement of any Insurance Regulation.

"Insurance Subsidiary" means any Subsidiary which is required to be licensed by any Department as an insurer or reinsurer and each direct or indirect Subsidiary of such Subsidiary.

"Intellectual Property" means the collective reference to all rights, priorities and privileges relating to intellectual property, arising under Laws, including, without limitation, copyrights, copyright licenses, patents, patent licenses, trademarks, trademark licenses, technology, know-how and processes, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

"Interest Payment Date" means (a) as to any Base Rate Loan, the first Business Day of each of January, April, July and October and the last day of the Revolving Credit Commitment Period, (b) as to any Eurodollar Loan, the last day of each Interest Period applicable to such Loan and the last day of the Revolving Credit Commitment Period; provided, however, that if any Interest Period for a Eurodollar Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates, and (c) as to any Loan (other than a Base Rate Loan), the date of any repayment or prepayment made in respect thereof.

"Interest Period" means, as to any Eurodollar Loan, (a) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months (or, unless unavailable to any Lender, nine or twelve months) thereafter, as selected by the relevant Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months (or, unless unavailable to any Lender, nine or twelve months) thereafter, as selected by the relevant Borrower by irrevocable notice to the Administrative Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto; provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) any Interest Period in respect of the Loans that would otherwise extend beyond the Revolving Credit Termination Date shall end on the Revolving Credit Termination Date, and

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period.

"Interim Report" means the interim financial report required to be filed by Sirius with the Department in Sweden in any fiscal year.

"IPO" means an initial public offering by OneBeacon Limited of its common stock pursuant to an effective S-1 Registration Statement under the Securities Act of 1933, as amended.

"ISP" means, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

"Issuer Documents" means with respect to any Letter of Credit, the Application, and any other document, agreement and instrument entered into by the Issuing Lender and the relevant Borrower (or any Subsidiary) or by the relevant Borrower (or any Subsidiary) in favor of the Issuing Lender and relating to any such Letter of Credit.

"Issuing Lender" means Bank of America, N.A. and any other Lender from time to time designated by the Borrowers as an Issuing Lender, with the consent of such Lender and the Administrative Agent.

"Laws" means any law, treaty, rule, regulation or order of an arbitrator or a court or other Governmental Authority.

"LBB" means Lehman Brothers Bank, FSB.

"L/C Advance" means, with respect to each Lender, such Lender's funding of its participation in any L/C Borrowing in accordance with its Revolving Credit Percentage.

"L/C Borrowing" means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a borrowing.

"L/C Commitment" means $100,000,000, as the same may be reduced from time to time pursuant to Section 2.7.

"L/C Credit Extension" means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof or the increase of the amount thereof.

"L/C Fee Payment Date" means the first Business Day of each of January, April, July and October and the last day of the Revolving Credit Commitment Period.

"L/C Obligations" means, at any time, an amount equal to the sum of (a) the aggregate amount available to be drawn under all outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 3.3. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.3. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"L/C Participants" means, with respect to any Letter of Credit, the collective reference to all of the Lenders, other than the Issuing Lender that issued such Letter of Credit.

"Lenders" has the meaning specified in the preamble hereto.

"Letters of Credit" means any letters of credit issued hereunder and shall include the Existing Letters of Credit.

"License" means any license, certificate of authority, permit or other authorization which is required to be obtained from any Governmental Authority in connection with the operation, ownership or transaction of insurance or reinsurance business.

"Lien" means any mortgage, pledge, security interest, encumbrance, charge or security interest of any kind.

"Loan" means any loan made by any Lender to any Borrower pursuant to this Agreement, including any Revolving Credit Loan and any Swing Line Loan made by the Swing Line Lender.

"Loan Documents" means this Agreement, the Applications, the Notes and any Instrument of Accession executed hereunder pursuant to Section 2.22.

"Majority Lenders" means the holders of more than 50% of the Total Revolving Extensions of Credit (or, if no such Revolving Extensions of Credit are outstanding, prior to any termination of the Revolving Credit Commitments, the holders of more than 50% of the Total Revolving Credit Commitments). The Revolving Credit Commitment in effect (or, when applicable, Revolving Extensions of Credit outstanding) of any Defaulting Lender shall be excluded for purposes of any vote of Majority Lenders.

"Mandatory Convertible Securities" means equity securities or subordinated debt securities (which debt securities, if issued by a Borrower, will include subordination to the obligations of such Borrower hereunder), issued by Parent or one of its Subsidiaries which (i) are not (w) Mandatory Redeemable Securities or (x) Conditional Common Equity and (ii) provide, pursuant to the terms thereof, that the issuer of such securities (or an affiliate of such issuer) may cause (without the payment of

additional cash consideration by the issuer thereof) the conversion of such securities to equity securities of Parent or one of its Subsidiaries upon the occurrence of a certain date or of certain events.

"Mandatory Redeemable Securities" means debt or equity securities (other than Conditional Common Equity, so long as such Conditional Common Equity may not be required, by the holder thereof, to be repurchased or redeemed during the period provided for shareholder approval of conversion pursuant to the terms of such Conditional Common Equity) issued by Parent or one of its Subsidiaries which provide, pursuant to the terms thereof, that such securities must be repurchased or redeemed, or the holder of such securities may require the issuer of such securities to repurchase or redeem such securities, upon the occurrence of a certain date or of certain events.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, property or financial condition of the Borrowers and their Subsidiaries taken as a whole, or (b) the validity or enforceability of this Agreement or any of the other Loan Documents or the rights and remedies of the Administrative Agent and the Lenders hereunder or thereunder.

"Material Debt Offerings" means an issuance or incurrence by a Holding Company of Debt that (a) has a stated maturity of one year or longer and (b) results in Net Proceeds to such Person of $50,000,000 or more, other than (i) any such Debt incurred to refinance or replace other existing Indebtedness of a Borrower or any of its Subsidiaries, (ii) any such Debt incurred to finance the acquisition, construction or improvement of any Property by a Borrower or any of its Subsidiaries and (iii) any such Debt owed to a Borrower or any of its Subsidiaries.

"Material Debt Offering Notice" means a written notice signed by a Responsible Officer on behalf of the Parent (a) describing and setting forth in reasonable detail the terms of such Material Debt Offering, (b) detailing the calculations utilized in computing the Net Proceeds of such Material Debt Offering, and (c) as applicable (i) the amount of any prepayment of the Loans to be made in connection therewith pursuant to Section 2.7(b), (ii) a statement certifying that the Borrowers or their Subsidiaries intend to use such Net Proceeds in accordance with the terms herein.

"Material Insurance Subsidiary" means any Insurance Subsidiary (whether existing on or acquired or formed after the Closing Date) having Capital and Surplus equal to 10% or more of the Consolidated Net Worth of Parent as of the most recent Annual Statement or Quarterly Statement (or, in the case of Sirius, Annual Report or Interim Report) of such Insurance Subsidiary.

"Maximum Rate" has the meaning specified in Section 10.20(a).

"Moody's" means Moody's Investors Service, Inc. (or any successor thereto).

"Multiemployer Plan" means a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in the absence of the National Association of Insurance Commissioners or such successor, any other association, agency or other organization performing advisory, coordination or other like functions among insurance departments, insurance commissioners and similar Governmental Authorities of the various states of the United States towards the promotion of uniformity in the practices of such Governmental Authorities.

"Net Proceeds" means the aggregate amount of all cash proceeds received by a Holding Company from any Material Debt Offering less all fees and expenses (including legal, underwriting and similar fees and expenses) incurred in connection therewith, but only to the extent that the amounts so deducted are properly attributable to such transaction.

"Non-Excluded Taxes" has the meaning specified in Section 2.16(a).

"Non-Regulated Operating Subsidiary" means each Subsidiary of the Borrowers engaged directly (as opposed to indirectly through the ownership of Capital Stock of a Person engaged in a Principal Business) in a Principal Business, whether now owned or hereafter acquired, which is not an Insurance Subsidiary.

"Non-U.S. Lender" has the meaning specified in Section 2.16(d).

"Note" means any promissory note, including any revolving credit note or swing line note, made by the Borrowers in favor of a Lender evidencing any Loan, substantially in the forms of Exhibit C-1 and C-2, as the case may be and as any such Note may be amended, restated, supplemented, modified or replaced from time to time.

"OneBeacon Insurance Group" means OneBeacon Insurance Group, LLC, a Delaware limited liability company, and, for purposes of Section 6.1(b), the grouping of Subsidiaries of OneBeacon Insurance Group identified by NAIC Group Code 1129 (or any successor grouping equivalent thereto).

"OneBeacon Limited" means OneBeacon Insurance Group, Ltd., a company existing under the laws of Bermuda.

"OneBeacon Limited Consolidated Net Worth" means, as at any date, the sum of all amounts that would, in conformity with GAAP be included on a consolidated balance sheet of OneBeacon Limited and its consolidated Subsidiaries under stockholders' equity at such date, plus minority interests in Subsidiaries, as determined in accordance with GAAP; provided, however, that any effects resulting from (a) SFAS 115 or (b) SFAS 158 shall be excluded for purposes of the calculation of OneBeacon Limited Consolidated Net Worth.

"OneBeacon Limited Debt to Capitalization Ratio" means, as at the end of any fiscal quarter of OneBeacon Limited, the ratio of (a) OneBeacon Limited Total Consolidated Debt to (b) OneBeacon Limited Total Consolidated Capitalization.

"OneBeacon Limited Total Consolidated Capitalization" means, as at any date, the sum, without duplication, of (a) OneBeacon Limited Consolidated Net Worth plus (b) OneBeacon Limited Total Consolidated Debt plus, (c) the amounts in respect of Trust Preferred Securities, Mandatory Convertible Securities, Mandatory Redeemable Securities, Conditional Common Equity and any other preferred stock that would, in conformity with GAAP, be reflected on a consolidated balance sheet of OneBeacon Limited and its consolidated Subsidiaries prepared as of such date and which are not already included in clause (a) or (b) above. OneBeacon Limited Total Consolidated Capitalization shall in any event not include (x) any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on the Closing Date are reasonably satisfactory to the Administrative Agent or (y) any effects resulting from SFAS 158.

"OneBeacon Limited Total Consolidated Debt" means, at any date, the sum, without duplication, of (a) all amounts that would, in conformity with GAAP, be reflected and classified as debt on a consolidated balance sheet of OneBeacon Limited and its consolidated Subsidiaries prepared as of such date, (b) Indebtedness represented by (i) Trust Preferred Securities or Qualified Mandatory Redeemable Securities (in each case, owned by Persons other than OneBeacon Limited or any of its consolidated Subsidiaries) but only to the extent that such securities (other than

Mandatory Convertible Securities) exceed 15% of OneBeacon Limited Total Consolidated Capitalization or (ii) Mandatory Redeemable Securities (owned by Persons other than OneBeacon Limited or any of its consolidated Subsidiaries) other than Qualified Mandatory Redeemable Securities, and (c) Indebtedness represented by Mandatory Convertible Securities (owned by Persons other than OneBeacon Limited or any of its consolidated Subsidiaries) but only to the extent that such Mandatory Convertible Securities plus Trust Preferred Securities and Qualified Mandatory Redeemable Securities (in each case, owned by Persons other than OneBeacon Limited or any of its consolidated Subsidiaries) exceed 25% of OneBeacon Limited Total Consolidated Capitalization; provided, that in the event that the notes related to the Mandatory Convertible Securities remain outstanding following the exercise of forward purchase contracts related to such Mandatory Convertible Securities, then such outstanding notes will be included in OneBeacon Limited Total Consolidated Debt thereafter. OneBeacon Limited Total Consolidated Debt shall, in any event, not include (a) Hedge Agreements entered into in the ordinary course of business for non-speculative purposes, (b) Indebtedness of OneBeacon Limited of the type described in Sections 7.2(a)(ii), (a)(iii), (a)(iv), (a)(vi) and (a)(vii), (c) Conditional Common Equity, (d) any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on the Closing Date are reasonably satisfactory to the Administrative Agent (e) any other amounts in respect of Trust Preferred Securities,

Mandatory Redeemable Securities or Mandatory Convertible Securities, or (f) any effects resulting from SFAS 158.

"Operating Subsidiary" means, collectively, Insurance Subsidiaries and Non-Regulated Operating Subsidiaries.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Parent" has the meaning specified in the preamble hereto.

"Parent Guaranty" has the meaning specified in Section 2.21(a).

"Parent Interest Expense" means, with respect to any Reference Period of Parent, the sum of all interest expense of Holding Companies during such period determined in accordance with GAAP that is required to be paid in cash (excluding amounts owed or paid to any other Holding Company).

"Parent Only Interest Coverage Ratio" means, as at the end of any Reference Period of Parent, the ratio of (a) Available Cash Flow for such Reference Period to (b) Parent Interest Expense for such Reference Period.

"Participant" has the meaning specified in Section 10.7(d).

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

"Permitted Acquisitions" means, as to any Borrower, any direct or indirect acquisition of, or investments by such Borrower or any of its Subsidiaries in, businesses or entities, so long as, (a) in the case of (i) an investment in and/or acquisition of a majority interest in a Person whose securities are publicly traded or (ii) an investment in and/or acquisition of a Person that would trigger any anti-takeover provisions under any applicable state Law or organizational documents of such Person (including any shareholder rights plan), such investment or acquisition has been approved by the board of directors or other governing body of such Person, and (b) at the time of delivery of the relevant Material Debt Offering Notice, no Default or Event of Default shall have occurred and be continuing.

"Permitted Liens" means (a) any Lien upon Property to secure any part of the cost of development, construction, alteration, repair or improvement of such Property, or Debt incurred to finance such cost; (b) any extension, renewal or replacement, in whole or in part, of any Lien referred to in the foregoing clause (a); (c) any Lien relating to a sale and leaseback transaction; (d) any Lien in favor of a Borrower or any Subsidiary granted by a Borrower or any Subsidiary in order to secure any intercompany obligations; (e) mechanic's, materialmen's, carriers' or other like Liens arising in the ordinary course of business (including construction of facilities) in respect of obligations which are not

due or which are being contested in good faith: (f) any Lien arising in connection with any legal proceeding which is being contested in good faith; (g) Liens for taxes not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; (h) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not incurred in connection with Debt and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person; (i) pledges or deposits under workers' compensation Laws, unemployment insurance Laws or similar social security legislation; (j) any deposit to secure performance of letters of credit, bank guarantees, bids, leases, statutory obligations, surety and appeal bonds, performance bonds or other obligations of a like nature in the ordinary course of business; (k) any interest or title of a lessor under any lease entered into in the ordinary course of business; (l) Liens on assets of any Insurance Subsidiary securing (i) short-term Debt (i.e. with a maturity of less than one year when issued, provided that such Debt may include an option to extend for up to an additional one year period) incurred to provide short-term liquidity to facilitate claims payments in the event of catastrophe, (ii) Debt incurred in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Debt) and letters of credit issued for the account of any such Subsidiary in the ordinary course of its business or in securing insurance-

related obligations (that do not constitute Debt) or (iii) insurance-related obligations (that do not constitute Debt); and (m) Liens securing the obligations hereunder.

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan" means at a particular time, any employee pension benefit plan that is subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which either of the Borrowers or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Platform" has the meaning specified in Section 6.2(e).

"Principal Business" means (a) a business of the type engaged in by the Borrowers and their Subsidiaries on the date of this Agreement, (b) any other insurance, insurance services, insurance related or risk management related business and (c) any business reasonably incident to any of the foregoing.

"Property" means any property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Qualified Mandatory Redeemable Securities" means Mandatory Redeemable Securities that, pursuant to the terms thereof, must be redeemed or repurchased, or may be required to be redeemed or

repurchased at the option of the holder of such securities (other than upon the occurrence of one or more events or conditions other than the occurrence of a certain date), not sooner than the Revolving Credit Termination Date.

"Quarterly Statement" means the quarterly statutory financial statement of any Insurance Subsidiary required to be filed with the Department of its jurisdiction of incorporation, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such Department to be used for filing quarterly statutory financial statements and shall contain the type of information permitted or required by such Department to be disclosed therein, together with all exhibits or schedules filed therewith.

"Reference Period" means, as of any date of determination, the period of four consecutive fiscal quarters of the Parent ending on such date (treated as a single accounting period).

"Refunded Swing Line Loans" has the meaning specified in Section 2.4(b).

"Refunding Date" has the meaning specified in Section 2.4(c).

"Register" has the meaning specified in Section 10.7(c).

"Regulation U" means Regulation U of the Board as in effect from time to time.

"Reimbursement Obligation" means the obligation of the Borrowers to reimburse an Issuing Lender pursuant to Section 3.3(a) for amounts drawn under Letters of Credit issued by such Issuing Lender for the account of the Borrowers.

"Related Person" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

"Reorganization" means, with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the thirty day notice period is waived.

"Requested Reimbursement Date" has the meaning specified in Section 3.3(a).

"Requirement of Law" means, as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such

Person (excluding, in the case of Section 2.15(a)(i), any of the foregoing relating to the Administrative Agent or any Lender), and any Law, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"Responsible Officer" means, as to any Borrower or Subsidiary, the chief executive officer, president, chief financial officer, treasurer, chief accounting officer, any vice president or any managing director of such Borrower or any Subsidiary, as the context requires. Any document delivered hereunder that is signed by a Responsible Officer on behalf of a Borrower or Subsidiary shall be conclusively presumed to have

been authorized by all necessary corporate, partnership and/or other action on the part of such Borrower or Subsidiary and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Borrower or Subsidiary.

"Revolving Credit Commitment" means, as to any Lender, the obligation of such Lender, if any, to make Revolving Credit Loans and participate in Swing Line Loans and Letters of Credit, in an aggregate principal or face amount not to exceed the amount set forth under the heading "Revolving Credit Commitment" opposite such Lender's name on Schedule 1 to this Agreement, or, as the case may be, in the Assignment and Assumption pursuant to which such Lender became a party hereto, as the same may be adjusted from time to time pursuant to the terms hereof.

"Revolving Credit Commitment Period" means the period from and including the Closing Date to the earliest of (a) the Revolving Credit Termination Date, (b) the date of termination of the Revolving Credit Commitments pursuant to Section 2.7, and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of the Issuing Lender to make L/C Credit Extensions pursuant to Section 8.2.

"Revolving Credit Loans" has the meaning specified in Section 2.1.

"Revolving Credit Percentage" means, as to any Lender at any time, the percentage (carried out to the ninth decimal place) which such Lender's Revolving Credit Commitment then constitutes of the Total Revolving Credit Commitments (or, at any time after the commitment of each Lender to make Loans and the obligation of the Issuing Lender to make L/C Credit Extensions shall have terminated pursuant to Section 8.2 or if the Revolving Credit Commitments shall have expired, then the percentage which the aggregate amount of such Lender's Revolving Extensions of Credit then outstanding constitutes of the amount of the Total Revolving Extensions of Credit then outstanding).

"Revolving Credit Termination Date" means November 14, 2011; provided, however, that, if such date is not a Business Day, the Revolving Credit Termination Date shall be the next succeeding Business Day.

"Revolving Extensions of Credit" means, as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Credit

Loans made by such Lender then outstanding, (b) the principal amount equal to such Lender's Revolving Credit Percentage of the L/C Obligations then outstanding and (c) the principal amount equal to such Lender's Revolving Credit Percentage of the aggregate principal amount of Swing Line Loans then outstanding.

"S&P" means Standard & Poor's Rating Services (or any successor thereto).

"SAP" means with respect to any Insurance Subsidiary, the statutory accounting practices prescribed or permitted by the Department in the jurisdiction of such Insurance Subsidiary for the preparation of annual statements and other financial reports by insurance companies of the same type as such Insurance Subsidiary, which are applicable to the circumstances as of the date of determination.

"SEC" means the Securities and Exchange Commission (or successors thereto or an analogous Governmental Authority).

"SFAS" means the Statements of Financial Accounting Standards adopted by the Financial Accounting Standards Board.

"Single Employer Plan" means any Plan that is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Sirius" means Sirius International Insurance Corporation, a Swedish corporation.

"SPC" has the meaning specified in Section 10.7(h).

"Specified Event of Default" means an Event of Default pursuant to Sections 8.1(a), 8.1(b) (with respect to Section 7.1 only) or 8.1(c).

"Stated Rate" has the meaning specified in Section 10.20(a).

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, limited liability company, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of Parent.

"Surplus Debentures" means as to any Insurance Subsidiary, debt securities of such Insurance Subsidiary the proceeds of which are permitted to be included, in whole or in part, as Capital and Surplus of such Insurance Subsidiary as approved and permitted by the applicable Department.

"Swing Line Commitment" means the obligation of the Swing Line Lender to make Swing Line Loans pursuant to Section 2.3 in an aggregate principal amount at any one time outstanding not to exceed $50,000,000.

"Swing Line Lender" means Bank of America, N.A., in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

"Swing Line Loans" has the meaning specified in Section 2.3(a).

"Swing Line Participation Amount" has the meaning specified in Section 2.4(c).

"Syndication Agent" means Lehman Brothers Inc., and any other Lender as may be designated from time to time by the Borrowers as a syndication agent, with the consent of such Lender and the Arrangers.

"Total Consolidated Capitalization" means, as at any date, the sum, without duplication, of (a) Consolidated Net Worth plus (b) Total Consolidated Debt plus, (c) the amounts in respect of Trust Preferred Securities, Mandatory Convertible Securities, Mandatory Redeemable Securities, Conditional Common Equity and any other preferred stock that would, in conformity with GAAP, be reflected on a consolidated balance sheet of Parent and its consolidated Subsidiaries prepared as of such date and which are not already included in clause (a) or (b) above. Total Consolidated Capitalization shall in any event not include (x) any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on the Closing Date are reasonably satisfactory to the Administrative Agent or (y) any effects resulting from SFAS 158.

"Total Consolidated Debt" means, at any date, the sum, without duplication, of (a) all amounts that would, in conformity with GAAP, be reflected and classified as debt on a consolidated balance sheet of Parent and its consolidated Subsidiaries prepared as of such date, (b) Indebtedness represented by (i) Trust Preferred Securities or Qualified Mandatory Redeemable Securities (in each case, owned by Persons other than Parent or any of its consolidated Subsidiaries) but only to the extent that such securities (other than Mandatory Convertible Securities) exceed 15% of Total Consolidated Capitalization or (ii) Mandatory Redeemable Securities (owned by Persons other than Parent or any of its consolidated Subsidiaries) other than Qualified Mandatory Redeemable Securities, and (c) Indebtedness represented by Mandatory Convertible Securities (owned by Persons other than Parent or any of its consolidated Subsidiaries) but only to the extent that such Mandatory Convertible Securities plus Trust Preferred Securities and Qualified Mandatory Redeemable Securities (in each case, owned by Persons other than Parent or any of its consolidated Subsidiaries) exceed 25% of Total Consolidated Capitalization; provided, that in the event that the notes related to the Mandatory Convertible Securities remain outstanding following the exercise of forward

purchase contracts related to such Mandatory Convertible Securities, then such outstanding notes will be included in Total Consolidated Debt thereafter. Total Consolidated Debt shall, in any event, not include (1) Hedge Agreements entered into in the ordinary course of business for non-speculative purposes, (2) Indebtedness of the type described in Sections 7.2(a)(ii), (a)(iii), (a)(iv), (a)(vi) and (a)(vii), (3) Conditional Common Equity, (4) any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on the Closing Date are reasonably satisfactory to the Administrative Agent, (5) any other amounts in respect of Trust Preferred Securities, Mandatory Redeemable Securities or Mandatory Convertible Securities, or (6) any effects resulting from SFAS 158.

"Total Consolidated Debt to Total Consolidated Capitalization Ratio" means, as at the end of any fiscal quarter of Parent, the ratio of (a) Total Consolidated Debt to (b) Total Consolidated Capitalization.

"Total Revolving Credit Commitments" means, at any time, the aggregate amount of the Revolving Credit Commitments then in effect. The aggregate amount of the Total Revolving Credit Commitments on the Closing Date is $500,000,000.

"Total Revolving Extensions of Credit" means, at any time, the aggregate amount of the Revolving Extensions of Credit of the Lenders outstanding at such time.

"Transferee" means a Participant or an assignee of any Lender's rights and obligations under this Agreement pursuant to an Assignment and Assumption.

"Trust Preferred Securities" means preferred securities issued by a special purpose entity, the proceeds of which are used to purchase subordinated debt securities of Parent or one of its Subsidiaries having terms that substantially mirror those of such preferred securities issued by the special purpose entity such that the debt securities constitute credit support for obligations in respect of such preferred securities and such preferred securities are reflected on a consolidated balance sheet of Parent and its consolidated Subsidiaries in accordance with GAAP.

"Type" means, as to any Loan, its nature as a Base Rate Loan or a Eurodollar Loan.

"Unreimbursed Amount" has the meaning specified in Section 3.3(a).

"White Mountains Re" has the meaning specified in the preamble hereto.

"White Mountains Re Guaranty" has the meaning specified in Section 2.21(b).

"Zenith Preferred Stock" means the $20,000,000 aggregate liquidation preference amount of non-voting preferred stock issued by Fund American Enterprises to

Zenith Insurance Company pursuant to the Certificate of Designation of Series A Preferred Stock of TACK Holding Corp. (n/k/a Fund American Enterprises), as amended, supplemented or otherwise modified from time to time.

1.2. Other Definitional Provisions. Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(a) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, accounting terms relating to the Borrowers or their Subsidiaries not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP or SAP, as the case may be.

(b) References herein to particular pages, columns, lines or sections of any Person's Annual Statement shall be deemed, where appropriate, to be references to the corresponding page, column, line or section of such Person's Quarterly Statement, or if no such corresponding page, column, line or section exists or if any report form changes, then to the corresponding item referenced thereby.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(e) The word "or" is not exclusive and the words "include", "includes" or "including" shall be deemed to be followed by the phrase "without limitation".

(f) References to "preferred stock" includes Capital Stock designated as preferred stock, preference shares, preferred shares or any similar term.

1.3. Letter of Credit Amounts. Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, other than with respect to the calculation of L/C Fees, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

1.4. Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.5. Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

2. AMOUNT AND TERMS OF COMMITMENTS

2.1. Revolving Credit Commitments. (a) Subject to the terms and conditions hereof, the Lenders severally agree to make revolving credit loans ("Revolving Credit Loans") to each Borrower from time to time on any Business Day during the Revolving Credit Commitment Period in an aggregate principal amount at any one time outstanding for each Lender which, when added to such Lender's Revolving Credit Percentage of the sum of (i) the L/C Obligations then outstanding and (ii) the aggregate principal amount of the Swing Line Loans then outstanding, does not exceed the amount of such Lender's Revolving Credit Commitment. During the Revolving Credit Commitment Period each Borrower may use the Revolving Credit Commitments by borrowing, prepaying the Revolving Credit Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Revolving Credit Loans may from time to time be Eurodollar Loans or Base Rate Loans, as determined by the applicable Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 2.9, provided that no Revolving Credit Loan shall be made as a Eurodollar Loan after the day that is one month prior to the Revolving Credit Termination Date.

(b) Each Borrower shall repay to the Lenders all outstanding Revolving Credit Loans made to such Borrower on the Revolving Credit Termination Date.

2.2. Procedure for Revolving Credit Borrowing. A Borrower may borrow under the Revolving Credit Commitments on any Business Day during the Revolving Credit Commitment Period, provided that such Borrower shall give the Administrative Agent a borrowing request in the form of Exhibit B-1 hereto (hereinafter, a "Borrowing Request") (which Borrowing Request must be received by the Administrative Agent prior to 11:00 A.M., New York City time, (a) three Business Days prior to the requested Borrowing Date, in the case of Eurodollar Loans, or (b) on the requested Borrowing Date, in the case of Base Rate Loans, provided that requests for Base Rate Loans not received prior to 11:00 A.M., New York City time on the requested Borrowing Date shall be deemed received on the following Business Day), and must specify (i) the amount and Type of Revolving Credit Loans to be borrowed, (ii) the requested Borrowing Date and (iii) in the case of Eurodollar Loans, the length of the initial Interest Period therefor; provided, however, that if a Borrower wishes to request Eurodollar Loans having an Interest Period of nine or twelve months in duration as provided in the definition of "Interest Period," the applicable notice must be received by the Administrative Agent not later than 11:00 A.M. New York City time, four Business Days prior to the requested date of such borrowing, whereupon the Administrative Agent shall give prompt notice to the Lenders of such request and determine whether the requested Interest Period is unavailable to any of them. Not later than 10:00 A.M. New York City time, three Business Days before the requested date of such borrowing, the Administrative Agent shall notify such Borrower (which notice may be by telephone) whether or not the requested Interest Period is unavailable to any Lender. If a Borrower requests a borrowing of Eurodollar Loans in any Borrowing Request, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month. Each borrowing of Revolving Credit Loans under the Revolving Credit Commitments shall be in an amount equal to (x) in the case of Base Rate Loans, $1,000,000 or a whole multiple

thereof (or, if the then aggregate Available Revolving Credit Commitments are less than $1,000,000, such lesser amount) and (y) in the case of Eurodollar Loans, $5,000,000 or a whole multiple of $1,000,000 in excess thereof; provided, that the Swing Line Lender may request, on behalf of any Borrower, borrowings of Base Rate Loans under the Revolving Credit Commitments in other amounts pursuant to Section 2.4. Upon receipt of any such notice from a Borrower, the Administrative Agent shall promptly notify each Lender thereof. Each Lender will make its Revolving Credit Percentage of the amount of each borrowing of Revolving Credit Loans available to the Administrative Agent for the account of such Borrower at the Administrative Agent's Office prior to 12:00 Noon, New York City time, on the Borrowing Date requested by such Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to such Borrower by the Administrative Agent in like funds as received by the Administrative Agent.

2.3. Swing Line Commitment. (a) Subject to the terms and conditions hereof, the Swing Line Lender agrees, in reliance on the agreements of the other Lenders set forth in Section 2.4, that during the Revolving Credit Commitment Period, it will make available to the Borrowers in the form of swing line loans ("Swing Line Loans") a portion of the credit otherwise available to the Borrowers under the Revolving Credit Commitments; provided that (i) the aggregate principal amount of Swing Line Loans outstanding at any time shall not exceed the Swing Line Commitment then in effect (notwithstanding that the Swing Line Loans outstanding at any time, when aggregated with the Swing Line Lender's other outstanding Revolving Credit Loans hereunder, may exceed the Swing Line Commitment then in effect or such Swing Line Lender's Revolving Credit Commitment then in effect) and (ii) the Borrowers shall not request, and the Swing Line Lender shall not make, any Swing Line Loan if, after giving effect to the making of such Swing Line Loan, the aggregate amount of the Available Revolving Credit Commitments would be less than zero. During the Revolving Credit Commitment Period, the Borrowers may use the Swing Line Commitment by borrowing, repaying and reborrowing, all in accordance with the terms and conditions hereof. Swing Line Loans shall be Base Rate Loans only.

(b) The Borrowers shall repay all outstanding Swing Line Loans on the Revolving Credit Termination Date. Each payment in respect of Swing Line Loans shall be made to the Swing Line Lender.

2.4. Procedure for Swing Line Borrowing; Refunding of Swing Line Loans. (a) A Borrower may borrow under the Swing Line Commitment on any Business Day during the Revolving Credit Commitment Period, provided, such Borrower shall give the Swing Line Lender irrevocable telephonic notice confirmed promptly in writing in the form of Exhibit B-2 (which telephonic notice must be received by the Swing Line Lender not later than 1:00 P.M., New York City time, on the proposed Borrowing Date), specifying (i) the amount to be borrowed and (ii) the requested Borrowing Date. Each borrowing under the Swing Line Commitment shall be in an amount equal to $500,000 or a whole multiple of $100,000 in excess thereof. Not later than 3:00 P.M., New York City time, on the Borrowing Date specified in the borrowing notice in respect of any Swing Line Loan, the Swing Line Lender shall make available to the Administrative Agent at the Administrative Agent's Office an amount in immediately available funds equal to the amount of such Swing Line Loan. The Administrative

Agent shall make the proceeds of such Swing Line Loan available to such Borrower on such Borrowing Date in like funds as received by the Administrative Agent.

(b) The Swing Line Lender, not less frequently than once each week shall, and at any other time, from time to time, as the Swing Line Lender elects in its sole and absolute discretion, may, on behalf of a Borrower (which hereby irrevocably directs the Swing Line Lender to act on its behalf), on one Business Day's notice given by the Swing Line Lender no later than 12:00 Noon, New York City time, request each Lender to make, and each Lender hereby agrees to make, a Revolving Credit Loan, in an amount equal to such Lender's Revolving Credit Percentage of the aggregate amount of the Swing Line Loans (the "Refunded Swing Line Loans") outstanding on the date of such notice, to repay the Swing Line Lender. Each Lender shall make the amount of such Revolving Credit Loan available to the Administrative Agent at the Administrative Agent's Office in immediately available funds, not later than 10:00 A.M., New York City time, one Business Day after the date of such notice. The proceeds of such Revolving Credit Loans shall be made immediately available by the Administrative Agent to the Swing Line Lender for application by the Swing Line Lender to the repayment of the Refunded Swing Line Loans. Upon the written request of any Lender, the Administrative Agent will, within three Business Days of such request, inform such Lender of the aggregate amount of Swing Line Loans outstanding on the date of such request.

(c) If prior to the time a Revolving Credit Loan would have otherwise been made pursuant to Section 2.4(b), one of the events described in Section 8.1(c) shall have occurred and be continuing with respect to either Borrower, or if for any other reason, as determined by the Swing Line Lender in its sole discretion, Revolving Credit Loans may not be made as contemplated by Section 2.4(b), each Lender shall, on the date such Revolving Credit Loan was to have been made pursuant to the notice referred to in Section 2.4(b) (the "Refunding Date"), purchase for cash an undivided participating interest in the then outstanding Swing Line Loans by paying to the Swing Line Lender an amount (the "Swing Line Participation Amount") equal to (i) such Lender's Revolving Credit Percentage times (ii) the sum of the aggregate principal amount of Swing Line Loans then outstanding which were to have been repaid with such Revolving Credit Loans.

(d) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.4(b) by the time specified in Section 2.4(b), the Swing Line Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Swing Line Lender in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Swing Line Lender in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Loan included in the relevant borrowing or funded participation in the relevant Swing Line Loan, as the case may be. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this paragraph (d) shall be conclusive absent manifest error.

(e) Each Lender's obligation to make the Loans referred to in Section 2.4(b) and to purchase participating interests pursuant to Section 2.4(c) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against the Swing Line Lender, the Borrowers or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 4; (iii) any adverse change in the condition (financial or otherwise) of the Borrowers; (iv) any breach of this Agreement or any other Loan Document by the Borrowers or any Lender; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. No such funding of risk participations shall relieve or otherwise impair the obligation of the Borrowers to repay Swing Line Loans, together with interest as provided herein.

(f) Whenever, at any time after the Swing Line Lender has received from any Lender such Lender's Swing Line Participation Amount, the Swing Line Lender receives any payment on account of the Swing Line Loans, the Swing Line Lender will distribute to such Lender its Swing Line Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Lender's pro rata portion of such payment if such payment is not sufficient to pay the principal of and interest on all Swing Line Loans then due); provided, however, that in the event that such payment received by the Swing Line Lender is required to be returned, such Lender will return to the Swing Line Lender any portion thereof previously distributed to it by the Swing Line Lender. The obligation of the Lenders under this paragraph (f) shall survive the payment in full of the Obligations and the termination of this Agreement.

(g) The Swing Line Lender shall be responsible for invoicing the Borrowers for interest on the Swing Line Loans. Until each Lender funds its Refunded Swing Line Loan or risk participation pursuant to this Section 2.4 to refinance such Lender's Revolving Credit Percentage of any Swing Line Loan, interest in respect of such Revolving Credit Percentage shall be solely for the account of the Swing Line Lender.

(h) The Borrowers shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Administrative Agent for the account of the Swing Line Lender.

2.5. Repayment of Loans; Evidence of Debt. (a) Each of the Borrowers hereby unconditionally promise to pay to the Administrative Agent for the account of the appropriate Lender (i) the then unpaid principal amount on the Revolving Credit Termination Date (or on such earlier date on which the Loans become due and payable pursuant to Section 8.2) of each Revolving Credit Loan of such Lender made to such Borrower and (ii) the then unpaid principal amount on the Revolving Credit Termination Date (or on such earlier date on which the Loans become due and payable pursuant to Section 8.2) of each Swing Line Loan of such Swing Line Lender made to such Borrower. Each of the Borrowers hereby further agrees to pay interest to the Administrative Agent for the account of the appropriate Lender on the unpaid principal amount of the Loans made to it from time to time outstanding from the date hereof until payment in full thereof at the rates per annum, and on the dates, set forth in Section 2.11.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing indebtedness of each Borrower to such Lender resulting from each Loan of such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement.

(c) The Administrative Agent, on behalf of each Borrower, shall maintain the Register pursuant to Section 10.7(c), and a subaccount therein for each Lender, in which shall be recorded (i) the amount of each Loan to such Borrower made hereunder and any Note evidencing such Loan, the Type of such Loan and each Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from such Borrower to each Lender hereunder and (iii) both the amount of any sum received by the Administrative Agent hereunder from or for the account of such Borrower and each Lender's share thereof. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

(d) The entries made in the Register and the accounts of each Lender maintained pursuant to Section 2.5(b) shall, to the extent permitted by applicable Law, be prima facie evidence of the existence and amounts of the obligations of each Borrower therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain the Register or any such account, or any error therein, shall not in any manner affect the obligation of any Borrower to repay (with applicable interest) the Loans made to it by such Lender in accordance with the terms of this Agreement.

(e) Each of the Borrowers agrees that, upon the request to the Administrative Agent by any Lender, it will execute and deliver to such Lender a promissory note of such Borrower evidencing any Revolving Credit Loans or Swing Line Loans, as the case may be, made by such Lender to such Borrower, substantially in the forms of Exhibit C-1 or C-2, respectively, with appropriate insertions as to date and principal amount. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(f) In addition to the accounts and records referred to herein above, each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

2.6. Facility Fee, etc. (a) Parent agrees to pay to the Administrative Agent for the account of each Lender in accordance with its Revolving Credit Percentage a facility fee for the period from and including the Closing Date to the last day of the Revolving Credit Commitment Period, computed at the Facility Fee Rate on the average daily amount of the Revolving Credit Commitment of such Lender during the period for which payment is made. The facility fee shall accrue at all times during the Revolving Credit Commitment Period, including at any time during which one or more of the conditions in Section 4.2 is not met, and

shall be payable quarterly in arrears on the first Business Day of each of January, April, July and October and on the last day of the Revolving Credit Commitment Period, commencing on the first of such dates to occur after the Closing Date. The facility fee shall be calculated quarterly in arrears, and if there is any change in the Facility Fee Rate during any quarter, the actual daily amount shall be computed and multiplied by the Facility Fee Rate separately for each period during such quarter that the Facility Fee Rate was in effect.

(b) The Borrowers agree to pay to the Arrangers for their own respective accounts the fees in the amounts and on the dates from time to time agreed to in the Arranger Fee Letter.

(c) The Borrowers agree to pay to the Administrative Agent the fees in the amounts and on the dates from time to time agreed to in the Agent Fee Letter.

2.7. Termination or Reduction of Revolving Credit Commitments. (a) Parent shall have the right, upon notice to the Administrative Agent, to terminate the Revolving Credit Commitments or, from time to time, to reduce the aggregate amount of the Revolving Credit Commitments; provided that (a) no such termination or reduction of Revolving Credit Commitments shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Credit Loans and Swing Line Loans made on the effective date thereof, the Total Revolving Extensions of Credit would exceed the Total Revolving Credit Commitments, (b) any such reduction shall be in an amount equal to $1,000,000, or a whole multiple thereof (or the remaining amount of the Revolving Credit Commitments), (c) any such notice shall be received by the Administrative Agent not later than 11:00 A.M. New York City time, three Business Days prior to the date of termination or reduction and (d) if, after giving effect to any reduction of the Revolving Credit Commitments, the L/C Commitment or the Swing Line Commitment exceeds the amount of the Revolving Credit Commitment, such Commitment shall be automatically reduced by the amount of such excess; provided, further, that a notice of termination of the Revolving Credit Commitments delivered by Parent may state that such notice is conditioned upon the effectiveness of other credit facilities, transactions or borrowings in general, in which case such notice may be revoked by Parent (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. The Administrative Agent will promptly notify the Lenders of any notice of termination or reduction of the Revolving Credit Commitments. Any reduction of the Revolving Credit Commitments shall be applied to the Revolving Credit Commitment of each Lender according to its Revolving Credit Percentage. All fees accrued until the effective date of any termination of the Revolving Credit Commitment shall be paid on the effective date of such termination. Any reduction shall reduce permanently the Revolving Credit Commitments then in effect.

(b) Reasonably contemporaneously with any Material Debt Offering by a Holding Company, the Parent shall provide the Administrative Agent with a Material Debt Offering Notice. The aggregate Revolving Credit Commitments shall be reduced in an amount equal to 50% of the Net Proceeds of such Material Debt Offering, with such reduction applying pro rata to the Revolving Credit Commitments of each Lender according to its Revolving Credit Percentage; provided, however, that if, pursuant to the Material Debt Offering Notice, the Parent notifies the Administrative Agent that it intends to (i) finance any Permitted Acquisitions that are anticipated to be consummated within six months after receipt of such Net Proceeds or (ii)

refinance any Permitted Acquisitions that have been consummated within six months prior to the Holding Company's receipt of such Net Proceeds (which notice shall specify the portion of such Net Proceeds to be so used, which may be up to 100% thereof), then such reduction of the Revolving Credit Commitments shall not be required to the extent of any amounts so used (x) in the case of clause (i) above, within six months of the date of the receipt of such proceeds and (y) in the case of a Permitted Acquisition under clause (ii) above and which was financed with Debt that is still outstanding at the time that such Holding Company receives such Net Proceeds, not later than three Business Days after the receipt of such proceeds; and provided further that, notwithstanding anything to the contrary contained herein, nothing in this subsection (b) shall require the Revolving Credit Commitments to be reduced to less than $300,000,000.

2.8. Prepayments. (a) A Borrower may at any time and from time to time prepay the Loans made to such Borrower, in whole or in part, without premium or penalty, upon notice delivered to the Administrative Agent at least three Business Days prior thereto in the case of Eurodollar Loans and on the date of prepayment in the case of Base Rate Loans, which notice shall specify the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or Base Rate Loans; provided, that (i) if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, such Borrower shall also pay any amounts owing pursuant to Section 2.17 and (ii) no prior notice is required for the prepayment of Swing Line Loans; provided, further, that, if a notice of prepayment is given in connection with a conditional notice of termination of the Revolving Credit Commitments as contemplated by Section 2.7, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.7. Upon receipt of any such notice the Administrative Agent shall promptly notify the Lenders thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with (except in the case of Base Rate Loans) accrued interest to such date on the amount prepaid. Partial prepayments of Revolving Credit Loans shall be in an aggregate principal amount of $1,000,000 or a whole multiple thereof. Partial prepayments of Swing Line Loans shall be in an aggregate principal amount of $100,000 or a whole multiple thereof.

(b) If for any reason the Total Revolving Extensions of Credit at any time exceed the Total Revolving Credit Commitments then in effect, the Borrowers shall immediately prepay the Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrowers shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.8(b) unless after the prepayment in full of the Loans the Total Revolving Extensions of Credit exceed the Total Revolving Credit Commitments then in effect.

2.9. Conversion and Continuation Options. (a) A Borrower may elect from time to time to convert Eurodollar Loans made to such Borrower to Base Rate Loans by giving the Administrative Agent at least two Business Days' prior irrevocable notice (which may be telephonic) of such election. A Borrower may elect from time to time to convert Base Rate Loans made to such Borrower to Eurodollar Loans by giving the Administrative Agent at least three Business Days' prior irrevocable notice (which may be telephonic) of such election (which notice shall specify the length of the initial Interest Period therefor); provided, however, that if a Borrower wishes to request Eurodollar Loans having an Interest Period of nine or twelve months in duration as provided in the definition of "Interest Period", the applicable notice must be

received by the Administrative Agent not later than 11:00 A.M. New York City time, four Business Days prior to the requested date of such conversion or continuation, whereupon the Administrative Agent shall give prompt notice to the Lenders of such request and determine whether the requested Interest Period is unavailable to any of them. Not later than 10:00 A.M. New York City time, three Business Days before the requested date of such conversion or continuation, the Administrative Agent shall notify such Borrower (which notice may be by telephone) whether or not the requested Interest Period is unavailable to any of the Lenders, provided, further that no Base Rate Loan may be converted to a Eurodollar Loan (i) when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Lenders have determined in its or their sole discretion not to permit such conversions or (ii) after the date that is one month prior to the Revolving Credit Termination Date. Each telephonic notice by a Borrower pursuant to this Section 2.9 must be confirmed promptly by delivery to the Administrative Agent of a written Borrowing Request appropriately completed and signed by a Responsible Officer of such Borrower. If any Borrower requests a conversion to a Eurodollar Loan in any Borrowing Request, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month. Upon receipt of any such notice the Administrative Agent shall promptly notify the Lenders thereof.

(b) A Borrower may elect to continue any Eurodollar Loan made to such Borrower as such upon the expiration of the then current Interest Period with respect thereto by giving irrevocable notice (which may be telephonic) to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in Section 1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan may be continued as such (i) when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Lenders have, determined in its or their sole discretion not to permit such continuations or (ii) after the date that is one month prior to the Revolving Credit Termination Date, and provided, further, that if such Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso, such Loans shall be converted automatically to Base Rate Loans on the last day of such then expiring Interest Period. Each telephonic notice by a Borrower pursuant to this Section 2.9 must be confirmed promptly by delivery to the Administrative Agent of a written Borrowing Request appropriately completed and signed by a Responsible Officer of such Borrower. Upon receipt of any such notice the Administrative Agent shall promptly notify the Lenders thereof.

2.10. Maximum Number of Eurodollar Loans. Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions, continuations and optional prepayments of Eurodollar Loans and all selections of Interest Periods shall be in such amounts and be made pursuant to such elections so that no more than ten Eurodollar Loans shall be outstanding at any one time.

2.11. Interest Rates and Payment Dates. (a) Subject to the provisions of paragraph (c) below, each Eurodollar Loan shall bear interest on the outstanding principal amount thereof for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each Base Rate Loan, including Swing Line Loans, shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate.

(c) (i) If all or a portion of the principal amount of any Loan or Reimbursement Obligation shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum that is equal to (x) in the case of the Loans, the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this Section 2.11 plus 2% or (y) in the case of Reimbursement Obligations, the rate applicable to Base Rate Loans plus 2%, and (ii) if all or a portion of any interest payable on any Loan or Reimbursement Obligation or any facility fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to Base Rate Loans plus 2%, in each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (each of the foregoing collectively, the "Default Rate").

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this Section 2.11 shall be payable from time to time on demand (after as well as before judgment and before and after the commencement of any proceeding under any Debtor Relief Law).

2.12. Computation of Interest and Fees. (a) Interest, fees and commissions payable pursuant hereto shall be calculated on the basis of a 365-day (or 366-day, as the case may be) year for the actual days elapsed, except that, with respect to Eurodollar Loans, the interest thereon shall be calculated on the basis of a 360-day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrowers and the Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the Base Rate shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrowers and the Lenders of the effective date and the amount of each such change in any interest rate. Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.14(d), bear interest for one day.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrowers and the Lenders in the absence of manifest error.

2.13. Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrowers) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Majority Lenders that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to the Borrowers and the relevant Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as Base Rate Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be continued as Base Rate Loans and (z) any outstanding Eurodollar Loans shall be converted, on the last day of the then current Interest Period with respect thereto, to Base Rate Loans. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Borrowers have the right to convert Loans to Eurodollar Loans.

2.14. Pro Rata Treatment and Payments. (a) Each borrowing, other than borrowings of Swing Line Loans, by the Borrowers from the Lenders hereunder, each payment by the Borrowers on account of any facility fee or Letter of Credit fee, and any reduction of the Revolving Credit Commitments of the Lenders, shall be made pro rata according to the respective Revolving Credit Percentages of the relevant Lenders.

(b) Each payment (including each prepayment) by the Borrowers on account of principal of and interest on the Revolving Credit Loans of the Borrowers shall be made pro rata according to the respective outstanding principal amounts of the Revolving Credit Loans of the Borrowers then held by the Lenders. Each payment in respect of Reimbursement Obligations in respect of any Letter of Credit shall be made to the relevant Issuing Lender.

(c) The application of any payment of Loans shall be made, first, to Base Rate Loans and, second, to Eurodollar Loans. Each payment of the Eurodollar Loans shall be accompanied by accrued interest to the date of such payment on the amount paid.

(d) All payments (including prepayments) to be made by the Borrowers hereunder, whether on account of principal, interest, fees or otherwise, shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff and shall be made prior to 12:00 Noon, New York City time, on the due date thereof to the Administrative Agent, for the account of the relevant Lenders, at the Administrative Agent's Office, in Dollars and in immediately available funds. Any payment made by the Borrowers after 12:00 Noon, New York City time, on any Business Day shall be deemed to have been made on the next following Business Day. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of

principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(e) Unless a Borrower or any Lender has notified the Administrative Agent, prior to the date any payment is required to be made by it to the Administrative Agent hereunder, that such Borrower or such Lender, as the case may be, will not make such payment, the Administrative Agent may assume that such Borrower or such Lender, as the case may be, has timely made such payment and may (but shall not be so required to), in reliance thereon, make available a corresponding amount to the Person entitled thereto. If and to the extent that such payment was not in fact made to the Administrative Agent in immediately available funds, then:

(i) if such Borrower failed to make such payment, each Lender shall forthwith on demand repay to the Administrative Agent the portion of such assumed payment that was made available to such Lender in immediately available funds, together with interest thereon in respect of each day from and including the date such amount was made available by the Administrative Agent to such Lender to the date such amount is repaid to the Administrative Agent in immediately available funds at the Federal Funds Rate from time to time in effect; and

(ii) if any Lender failed to make such payment, such Lender shall forthwith on demand pay to the Administrative Agent the amount thereof in immediately available funds, together with interest thereon for the period from the date such amount was made available by the Administrative Agent to such Borrower to the date such amount is recovered by the Administrative Agent (the "Compensation Period") at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Administrative Agent in connection with the foregoing. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Revolving Credit Percentage of the Loan included in the applicable borrowing. If such Lender does not pay such amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent may make a demand therefor upon such Borrower, and such Borrower shall pay such amount to the Administrative Agent, together with interest thereon for the Compensation Period at a rate per annum equal to the rate of interest applicable to the applicable borrowing. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Revolving Credit Commitment or to prejudice any rights which the Administrative Agent or the Borrowers may have against any Lender as a result of any default by such Lender hereunder.

A notice of the Administrative Agent to any Lender or such Borrower with respect to any amount owing under this subsection (e) shall be conclusive, absent manifest error.

(f) The obligations of the Lenders hereunder to make Loans, to fund participations in Letters of Credit and Swing Line Loans and to make payments under Section

10.6 are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment under Section 10.6 on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or make its payment under Section 10.6.

2.15. Requirements of Law. (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any Application or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Non-Excluded Taxes or Other Taxes covered by Section 2.16 and the imposition of, or any change in, the rate of any Excluded Tax payable by such Lender);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender that is not otherwise included in the determination of the Eurodollar Rate hereunder; or

(iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans to a Borrower or issuing or participating in Letters of Credit issued at the request of a Borrower, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, such Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this Section 2.15, it shall promptly notify the relevant Borrower (with a copy to the Administrative Agent) of the event by reason of which it has become so entitled.

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder or under or in respect of any Letter of Credit to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the relevant Borrower (with a copy to the Administrative Agent) of a written

request therefor, such Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such corporation for such reduction.

(c) In addition to, and without duplication of, amounts which may become payable from time to time pursuant to paragraphs (a) and (b) of this Section 2.15, each Borrower agrees to pay to each Lender which requests compensation under this paragraph (c) by notice to such Borrower, on the last day of each Interest Period with respect to any Eurodollar Loan made by such Lender to such Borrower, at any time when such Lender shall be required to maintain reserves against "Eurocurrency liabilities" under Regulation D of the Board of Governors of the Federal Reserve System (or, at any time when such Lender may be required by the Board of Governors of the Federal Reserve System or by any other Governmental Authority, whether within the United States or in another relevant jurisdiction, to maintain reserves against any other category of liabilities which includes deposits by reference to which the Eurodollar Rate is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Lender which includes any such Eurodollar Loans), an additional amount (determined by such Lender's calculation or, if an accurate calculation is impracticable, reasonable estimate using such reasonable means of allocation as such Lender shall determine) equal to the actual costs, if any, incurred by such Lender during such Interest Period as a result of the applicability of the foregoing reserves to such Eurodollar Loans.

(d) A certificate as to any additional amounts payable pursuant to this Section 2.15 submitted by any Lender to a Borrower (with a copy to the Administrative Agent) shall be conclusive in the absence of manifest error. No Lender shall be entitled to compensation under this Section 2.15 from a Borrower for any costs incurred or reductions suffered more than 180 days prior to the date that such Lender notifies such Borrower of the circumstances giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided that if a change of law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof. The obligations of the Borrowers pursuant to this Section 2.15 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.16. Taxes. (a) Except as required by Law, all payments made by the Borrowers under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise and doing business taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent or any Lender as a result of a present or former connection between the Administrative Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent's or such Lender's having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document) (such net income taxes and franchise or doing business taxes imposed in lieu of net income taxes being referred to hereinafter as "Excluded Taxes"). If any such taxes, levies, imposts, duties, charges, fees, deductions or withholdings other than Excluded Taxes ("Non-Excluded Taxes") or any Other Taxes are required to be withheld from

any amounts payable to the Administrative Agent or any Lender hereunder, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement; provided, however, that no Borrower shall be required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes (i) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) or (e) of this Section 2.16 or (ii) that are withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement or designates a new lending office, except to the extent that such Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office or assignment, to receive additional amounts from the relevant Borrower with respect to such Non-Excluded Taxes pursuant to this Section 2.16(a).

(b) In addition, the Borrowers shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable Law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by either of the Borrowers, as soon as practicable thereafter the relevant Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of an official receipt received by such Borrower showing payment thereof (or other evidence of such payment reasonably satisfactory to the Administrative Agent). If the relevant Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority, such Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure. The agreements in this Section 2.16 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

(d) Each Lender (or Transferee) that is not (i) a citizen or resident of the United States of America, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States of America (or any jurisdiction thereof), or (iii) an estate or trust that is subject to U.S. federal income taxation regardless of the source of its income (a "Non-U.S. Lender") that may lawfully do so shall deliver to the Borrowers and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI (or other applicable form), or, in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a statement substantially in the form of Exhibit D and a Form W-8BEN (or other applicable form), or to the extent such Lender may lawfully do so, it shall deliver any subsequent versions thereof or successors thereto properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrowers under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, to the extent it may lawfully do so, each Non-U.S.Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S.

Lender. Each Non-U.S. Lender shall, as soon as reasonably practicable, notify the Borrowers at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrowers (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non-U.S. Lender shall not be required to deliver any form pursuant to this paragraph that such Non-U.S. Lender is not legally able to deliver.

(e) A Lender that is entitled to an exemption from or reduction of non-U.S. withholding tax under the Law of the jurisdiction in which a Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to such Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable Law or reasonably requested by such Borrower, such properly completed and executed documentation prescribed by applicable Law or reasonably requested by the Borrowers as will permit such payments to be made without withholding or at a reduced rate, provided that such Lender is legally entitled to complete, execute and deliver such documentation.

2.17. Compensation for Losses. Each Borrower agrees to, upon demand of any Lender (with a copy to the Administrative Agent) from time to time, to indemnify each Lender for, and to hold each Lender harmless from, any loss or expense that such Lender sustains or incurs as a consequence of (a) default by such Borrower in making a borrowing of, conversion to or continuation of Eurodollar Loans after such Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by such Borrower in making any prepayment after such Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making by such Borrower of a prepayment or conversion of Eurodollar Loans on a day that is not the last day of an Interest Period with respect thereto; provided that any request for indemnification made by a Lender pursuant to this Section 2.17 shall be made within six months of the incurrence of the loss or expense requested to be indemnified. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) that would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank Eurodollar market. A certificate as to any amounts payable pursuant to this Section 2.17 submitted to a Borrower by any Lender shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.18. Illegality. Notwithstanding any other provision herein, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Lender hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Base Rate Loans to Eurodollar Loans shall forthwith be canceled and (b) such Lender's Loans then outstanding as Eurodollar Loans, if any, shall be

converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by Law. If any such conversion of a Eurodollar Loan to a Base Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, such Borrower shall pay to such Lender such amounts, if any, as may be required pursuant to Section 2.17.

2.19. Change of Office. Each Lender agrees that, upon the occurrence of any event that it knows to give rise to the operation of Sections 2.15, 2.16(a) or 2.18 with respect to such Lender, it will use all commercially reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office for any Loans affected by such event, or to assign its rights and obligations hereunder with respect to such Loans to another of its offices, branches or affiliates with the object of avoiding the consequences of such event; provided, that such designation is made on terms that, in the reasonable sole judgment of such Lender, cause such Lender and its lending office(s) to suffer no economic, legal or regulatory disadvantage, and provided, further, that nothing in this Section 2.19 shall affect or postpone any of the obligations of the Borrowers or the rights of any Lender pursuant to Sections 2.15, 2.16(a) or 2.18. The Borrowers hereby agree to pay all reasonable out-of-pocket costs and expenses incurred by any Lender in connection with any such designation or assignment.

2.20. Replacement of Lenders under Certain Circumstances. The Borrowers shall be permitted to replace any Lender (a) that requests reimbursement for amounts owing pursuant to Section 2.15, (b) with respect to which any Borrower is required to pay any amounts under Sections 2.16 or 2.18, (c) that defaults in its obligation to make Loans hereunder or (d) that fails to approve any amendment which, pursuant to Section 10.1, requires the approval of each Lender, provided, that such amendment is approved by at least the Majority Lenders, with a replacement financial institution or other entity; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) with respect to a condition described in clause (a) or (b) above, prior to any such replacement, such replaced Lender shall have taken no action under Section 2.19 so as to eliminate the continued need for payment of amounts owing pursuant to Sections 2.15, 2.16, or 2.18 (iii) the replacement financial institution or other entity shall purchase, at par, all Loans and other amounts owing to such replaced Lender on or prior to the date of replacement, (iv) each Borrower shall be liable to such replaced Lender under Section 2.17 (as though Section 2.17 were applicable) if any Eurodollar Loan to such Borrower owing to such replaced Lender shall be purchased other than on the last day of the Interest Period relating thereto, (v) the replacement financial institution or other entity, if not already a Lender, shall be reasonably satisfactory to the Administrative Agent and otherwise an Eligible Assignee, (vi) the replaced Lender and replacement Lender shall be obligated to make such replacement in accordance with the provisions of Section 10.7 (including, without limitation, obtaining the consents provided for therein) (provided that the Borrowers shall be obligated to pay the registration and processing fee referred to therein), (vii) the Borrowers shall pay all additional amounts (if any) required pursuant to Section 2.15, 2.16 or 2.18, as the case may be, in respect of any period prior to the date on which such replacement shall be consummated, and (viii) any such replacement shall not be deemed to be a waiver of any rights that the Borrowers, the Administrative Agent or any other Lender shall have against the replaced Lender.

2.21. Guaranty of Payment and Performance.

(a) Guaranty by Parent of White Mountains Re's Obligations. Parent (being referred to herein in its capacity as guarantor as a "Guarantor") hereby guarantees (such guaranty being hereinafter referred to as the "Parent Guaranty") to the Lenders and the Administrative Agent the full and punctual payment when due (whether at stated maturity, by required pre-payment, by acceleration or otherwise) of all of the obligations of White Mountains Re hereunder and under the other Loan Documents (including, but not limited to, the principal of the Loans advanced to White Mountains Re, all Reimbursement Obligations of White Mountains Re in respect of Letters of Credit, and all interest, fees, expenses, indemnities and other amounts payable by White Mountains Re hereunder), including all such which would become due but for the operation of the automatic stay pursuant to §362(a) of the Federal Bankruptcy Code and the operation of §502(b) of the Federal Bankruptcy Code. The Parent Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance of all such obligations of White Mountains Re hereunder and under the other Loan Documents, and not of their collectibility only and is in no way conditioned upon any requirement that the Administrative Agent or any Lender first attempt to collect any of White Mountains Re's obligations from White Mountains Re or resort to any other means of obtaining payment. Should an Event of Default occur with respect to the payment or performance of any such obligations of White Mountains Re, the obligations of Parent under the Parent Guaranty with respect to such obligations in default shall, upon demand by the Administrative Agent, become immediately due and payable to the Administrative Agent, for the benefit of the Lenders and the Administrative Agent, without demand or notice of any nature, all of which are expressly waived by Parent. Payments by Parent in respect of the Parent Guaranty may be required by the Administrative Agent on any number of occasions. All payments by Parent in respect of the Parent Guaranty shall be made to the Administrative Agent, in the manner and at the place of payment specified hereunder, for the account of the Lenders and the Administrative Agent.

(b) Guaranty by White Mountains Re of Parent's Obligations. White Mountains Re (being referred to herein in its capacity as guarantor as a "Guarantor" and together with Parent, in its capacity as a guarantor, as the "Guarantors") hereby guarantees (such guaranty being hereinafter referred to as the "White Mountains Re Guaranty" and together with the Parent Guaranty as the "Guaranties" and individually as a "Guaranty") to the Lenders and the Administrative Agent the full and punctual payment when due (whether at stated maturity, by required pre-payment, by acceleration or otherwise) of all of the principal of the Loans advanced to Parent, all Reimbursement Obligations of Parent in respect of Letters of Credit and all interest payable by Parent hereunder, including all such which would become due but for the operation of the automatic stay pursuant to §362(a) of the Federal Bankruptcy Code and the operation of §502(b) of the Federal Bankruptcy Code. The White Mountains Re Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance of all such obligations of Parent hereunder and under the other Loan Documents, and not of their collectibility only and is in no way conditioned upon any requirement that the Administrative Agent or any Lender first attempt to collect any of Parent's obligations from Parent or resort to any other means of obtaining payment. Should an Event of Default occur with respect to the payment or performance of any such obligations of Parent, the obligations of White Mountains Re under the White Mountains Re Guaranty with respect to such obligations in default shall, upon demand by the Administrative Agent, become immediately due and payable to the

Administrative Agent, for the benefit of the Lenders and the Administrative Agent, without demand or notice of any nature, all of which are expressly waived by White Mountains Re. Payments by White Mountains Re in respect of the White Mountains Re Guaranty may be required by the Administrative Agent on any number of occasions. All payments by White Mountains Re in respect of the White Mountains Re Guaranty shall be made to the Administrative Agent, in the manner and at the place of payment specified hereunder, for the account of the Lenders and the Administrative Agent.

(c) Agreement to Pay Enforcement Costs, etc. Each of the Guarantors further agrees, as the principal obligor and not as a guarantor only, to pay to the Administrative Agent, on demand, all costs and expenses (including court costs and legal expenses) incurred or expended by the Administrative Agent or any Lender in connection with its Guaranty and the enforcement thereof, together with interest on amounts recoverable under this Section 2.21(c) from the time when such amounts become due until payment, whether before or after judgment, at the rate of interest for overdue principal set forth in this Agreement, provided that if such interest would exceed the Maximum Rate, then such interest shall be reduced to such Maximum Rate.

(d) Waivers by Guarantors; Lenders' Freedom to Act. To the fullest extent permitted by applicable law, each of the Guarantors agrees that the obligations that it has guaranteed hereunder will be paid and performed strictly in accordance with their respective terms, regardless of any Law now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Administrative Agent or any Lender with respect thereto. To the fullest extent permitted by applicable Law, each of the Guarantors waives promptness, diligences, presentment, demand, protest, notice of acceptance, notice of any obligations incurred and all other notices of any kind, all defenses which may be available by virtue of any valuation, stay, moratorium law or other similar Law now or hereafter in effect, any right to require the marshalling of assets of either of the Borrowers or any other entity or other person primarily or secondarily liable with respect to any of the obligations, and all suretyship defenses generally. Without limiting the generality of the foregoing, each of the Guarantors agrees to the provisions of any instrument evidencing or otherwise executed in connection with any obligation and agrees, to the fullest extent permitted by applicable Law, that its obligations in respect of its Guaranty shall not be released or discharged, in whole or in part, or otherwise affected by (i) the failure of the Administrative Agent or any Lender to assert any claim or demand or to enforce any right or remedy against the Borrowers or any other entity or other person primarily or secondarily liable with respect to any of the obligations; (ii) any extensions, compromise, refinancing, consolidation or renewals of any obligation; (iii) any change in the time, place or manner of payment of any of the obligations or any rescissions, waivers, compromise, refinancing, consolidation or other amendments or modifications of any of the terms or provisions of this Agreement or the other Loan Documents or any other agreement evidencing or otherwise executed in connection with any of the obligations, (iv) the addition, substitution or release of any entity or other person primarily or secondarily liable for any obligation; (v) the adequacy of any rights which the Administrative Agent or any Lender may have against any means of obtaining repayment of any of the obligations; or (vi) any other act or omission which might in any manner or to any extent vary the risk of either of the Guarantors or otherwise operate as a release or discharge of either of the Guarantors, all of which may be done without notice to either of the Guarantors. To the fullest extent permitted by Law, each of the Guarantors

hereby expressly waives any and all rights or defenses arising by reason of (A) any "one action" or "anti-deficiency" Law which would otherwise prevent the Administrative Agent or any Lender from bringing any action, including any claim for a deficiency, or exercising any other right or remedy (including any right of set-off), against either of the Guarantors before or after the Administrative Agent's or such Lender's commencement or completion of any foreclosure action, whether judicially, by exercise of power of sale or otherwise, or (B) any other Law which in any other way would otherwise require any election of remedies by the Administrative Agent or any Lender.

(e) Unenforceability of Obligations Against the Borrowers. If for any reason either of the Borrowers has no legal existence or is under no legal obligation to discharge any of its obligations under this Agreement or under the other Loan Documents guaranteed by a Guarantor, or if any of such obligations have become irrecoverable from either of the Borrowers by reason of such Borrower's bankruptcy or reorganization or by other operation of Law or for any other reason, the Guarantees shall, to the fullest extent permitted by applicable Law, nevertheless be binding on each of the Guarantors to the same extent as if the affected Guarantor at all times had been the principal obligor on all such obligations. In the event that acceleration of the time for payment of any of the guaranteed obligations of the Borrowers under this Agreement or the other Loan Documents is stayed upon the insolvency, bankruptcy or reorganization of either of the Borrowers, or for any other reason, all such obligations otherwise subject to acceleration under the terms of this Agreement and the other Loan Documents or any other agreement evidencing or otherwise executed in connection with any such obligation shall be immediately due and payable by the applicable Guarantor

(f) Subrogation. Until the final payment and performance in full of all of the obligations of the Borrowers under this Agreement and the other Loan Documents, neither of the Guarantors shall exercise any rights against the Borrowers arising as a result of payment by such Guarantor in respect of its Guaranty, by way of subrogation, reimbursement, restitution, contribution or otherwise, and will not prove any claim in competition with the Administrative Agent or any Lender in respect of any payment hereunder in any bankruptcy, insolvency or reorganization case or proceedings of any nature and such Guarantor will not claim any setoff, recoupment or counterclaim against the applicable Borrower in respect of any liability of such Guarantor to the applicable Borrower.

(g) Provisions Supplemental. The provisions of this Section 2.21 shall be supplemental to and not in derogation of any other rights and remedies of the Lenders and the Administrative Agent under this Agreement, the other Loan Documents and any separate subordination agreement which the Administrative Agent may at any time and from time to time enter into with either of the Guarantors for the benefit of the Lenders and the Administrative Agent.

(h) Further Assurances. Each of the Guarantors agrees that it will from time to time, at the request of the Administrative Agent, do all such things and execute all such documents as the Administrative Agent may reasonably request to give full effect to the Guaranty of such Guarantor and to preserve the rights and powers of the Lenders and the Administrative Agent in respect of such Guaranty. Each of the Guarantors acknowledges and confirms that it has established its own adequate means of obtaining from the applicable

Borrower on a continuing basis all information desired by such Guarantor concerning the financial condition of the applicable Borrower and that such Guarantor will look to the applicable Borrower and not to the Administrative Agent or any Lender in order for such Guarantor to keep adequately informed of

changes in the applicable Borrower's financial condition.

(i) Successors and Assigns. The Guaranty of each Guarantor shall be binding upon such Guarantor, its successors and assigns, and shall inure to the benefit of the Administrative Agent and the Lenders and their respective permitted transferees and permitted assigns. Without limiting the generality of the foregoing sentence, each Lender may, to the extent permitted by Section 10.7, assign or otherwise transfer this Agreement, the other Loan Documents or any other agreement or Note held by it evidencing or otherwise executed in connection with the guaranteed obligations, or sell participations in any interest therein, to any other entity or other person, and such other entity or other person shall, to the extent provided by Section 10.7, thereupon become vested, to the extent set forth in the agreement evidencing such assignment, transfer or participation, with all the rights in respect thereof granted to such Lender herein, all in accordance with Section 10.7 of this Agreement.

2.22. Increase in Commitments.

(a) Request for Increase. Upon notice to the Administrative Agent (which shall promptly notify the Lenders), the Borrowers may from time to time, increase the Total Revolving Credit Commitments by an amount not to exceed $100,000,000 less the aggregate amount of all prior increases of the Total Revolving Credit Commitment pursuant to this Section 2.22. Such increase in the Total Revolving Credit Commitments may be provided by the Lenders or Eligible Assignees designated by the Borrowers to become Lenders (pursuant to an instrument of accession in the form of Exhibit I hereto) that are willing to provide such increase; provided that (i) any such increase shall be in a minimum amount of $10,000,000 and (ii) the aggregate amount of the Total Revolving Credit Commitments after giving effect to any such increase shall not at any time exceed $600,000,000 less the amount of any reduction of the Revolving Credit Commitments pursuant to Section 2.7(b). Nothing contained herein shall constitute, or otherwise be deemed to be, a commitment on the part of any Lender to increase its Revolving Credit Commitment hereunder.

(b) Effective Date and Allocations. If the Total Revolving Credit Commitments are increased in accordance with this Section 2.22, the Administrative Agent and the Borrowers shall determine the effective date (the "Increase Effective Date") and the Borrowers, in consultation with the Administrative Agent, shall determine the final allocation of such increase. The Administrative Agent shall promptly notify the Lenders of the final allocation of such increase and the Increase Effective Date.

(c) Conditions to Effectiveness of Increase. As a condition precedent to such increase, (i) no Default shall exist, (ii) the Borrowers shall (x) deliver to the Administrative Agent (1) an Instrument of Accession executed by the Borrowers and the applicable Lender(s), and (2) a certificate dated as of the Increase Effective Date (in sufficient copies for each Lender) signed by a Responsible Officer of each Borrower (A) certifying and attaching the resolutions adopted by the Borrowers approving or consenting to such increase, and (B) certifying that,

before and after giving effect to such increase no Default exists and (iii) pursuant to the terms of the Arranger Fee Letter, pay the fees to the applicable Persons. The Borrowers shall prepay any Revolving Credit Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to Section 2.15) to the extent necessary to keep the outstanding Revolving Credit Loans ratable with any revised Revolving Credit Percentages arising from any nonratable increase in the Total Revolving Credit Commitments under this Section 2.22.

(d) Conflicting Provisions. This Section 2.22 shall supersede any provisions in Section 2.14 or 10.1 to the contrary.

3. LETTERS OF CREDIT

3.1. L/C Commitment. (a) Subject to the terms and conditions hereof, each Issuing Lender, in reliance on the agreements of the other Lenders set forth in Section 3.3, agrees to issue Letters of Credit for the account of either of the Borrowers or any of their Subsidiaries and to amend or extend Letters of Credit previously issued by it, in accordance with Section 3.2(b), on any Business Day during the Revolving Credit Commitment Period in such form as may be approved from time to time by the Issuing Lender; provided, that the Issuing Lender shall not issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the aggregate amount of the Available Revolving Credit Commitments would be less than zero. Each Letter of Credit shall (i) be denominated in Dollars and (ii) expire no later than the earlier of (x) the first anniversary of its date of issuance and (y) the date which is five Business Days prior to the Revolving Credit Termination Date, provided that any Letter of Credit with a one-year term may provide for the renewal thereof for additional one-year periods (which shall in no event extend beyond the date referred to in clause (y) above). All Existing Letters of Credit shall be deemed to have been issued pursuant hereto, and from and after the Closing Date shall be subject to and governed by the terms and conditions hereof.

(b) No Issuing Lender shall at any time be obligated to issue any Letter of Credit hereunder if (i) such issuance would conflict with, or cause the Issuing Lender or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law, (ii) such issuance would violate one or more policies of the Issuing Lender applicable to letters of credit generally or (iii) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the Issuing Lender from issuing such Letter of Credit, or any Law applicable to the Issuing Lender or any request or directive (whether or not having the force of Law) from any Governmental Authority with jurisdiction over the Issuing Lender shall prohibit, or request that the Issuing Lender refrain from, the issuance of letters of credit generally, or such Letter of Credit in particular.

3.2. Procedure for Issuance and Amendment of Letter of Credit. (a) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of either of the Borrowers delivered to the Issuing Lender (with a copy to the Administrative Agent) in the form of an Application, completed and signed by a Responsible Officer of the relevant Borrower. Such Application must be received by the Issuing Lender and the Administrative Agent not later than 11:00 A.M., New York City time, at least two Business Days (or such later date and time as the Administrative Agent and the Issuing Lender may agree in a particular instance in their sole

discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Application shall specify in form and detail reasonably satisfactory to the Issuing Lender: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the Issuing Lender may reasonably require. In the case of a request for an amendment of any outstanding Letter of Credit, such Application shall specify in form and detail reasonably satisfactory to the Issuing Lender (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the Issuing Lender may reasonably require. Additionally, the relevant Borrower shall furnish to the Issuing Lender and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the Issuing Lender or the Administrative Agent may reasonably require.

(b) Promptly after receipt of any Application, the Issuing Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Application from the relevant Borrower and, if not, the Issuing Lender will provide the Administrative Agent with a copy thereof. Unless the Issuing Lender has received written notice from any Lender or the Administrative Agent, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Section 4 shall not then be satisfied, then, subject to the terms and conditions hereof, the Issuing Lender shall, on the requested date, issue a Letter of Credit for the account of the relevant Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the Issuing Lender's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Lender a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Revolving Credit Percentage times the amount of such Letter of Credit.

(c) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the Issuing Lender will also deliver to the relevant Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

3.3. Drawings and Reimbursements; Funding of Participations. (a) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the Issuing Lender shall notify the relevant Borrower and the Administrative Agent thereof. Such Borrower shall reimburse the Issuing Lender, through the Administrative Agent, for the amount of any drawing under a Letter of Credit not later than 1:00 P.M., New York City time, on the date that such drawing is made (if such Borrower has received notice from the Issuing Lender of such drawing prior to 10:00 A.M., New York City time, on such date) or, if such Borrower has not received notice of such drawing prior to such time on such date, then not later than 1:00 P.M., New York City time, on (i) the Business Day that such Borrower receives such notice, if such notice is received prior to 10:00 A.M., New York City time, on the day of

receipt, or (ii) the Business Day immediately following the day that such Borrower receives such notice, if such notice is not received prior to 10:00 A.M., New York City time, on the day of such receipt (the date on which such reimbursement by such Borrower is due pursuant to this sentence being referred to herein as the "Requested Reimbursement Date"). If such Borrower fails to so reimburse the Issuing Lender by such time, the Administrative Agent shall promptly notify each Lender of the Requested Reimbursement Date, the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such Lender's Revolving Credit Percentage thereof. In such event, such Borrower shall be deemed to have requested a borrowing of Base Rate Loans to be disbursed on the Requested Reimbursement Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples, and notice periods, specified in Section 2.2 for the principal amount of Base Rate Loans. Such Base Rate Loans may from time to time be converted to Eurodollar Loans, as determined by such Borrower and notified to the Administrative Agent in accordance with Section 2.9, provided that no Revolving Credit Loan shall be made as a Eurodollar Loan after the day that is one month prior to the Revolving Credit Termination Date. Any notice given by the Issuing Lender or the Administrative Agent pursuant to this Section 3.3(a) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(b) Each Lender (including the Lender acting as Issuing Lender) shall upon any notice pursuant to Section 3.3(a) make funds available to the Administrative Agent for the account of the Issuing Lender at the Administrative Agent's Office in an amount equal to its Revolving Credit Percentage of the Unreimbursed Amount not later than 1:00 P.M., New York City time, on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 3.3(a), each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to such Borrower in such amount. The Administrative Agent shall remit the funds so received to the Issuing Lender.

(c) If any drawing is made under a Letter of Credit and is not reimbursed or refinanced on the date such drawing is made, for any reason, such Borrower shall be deemed to have incurred from the Issuing Lender an L/C Borrowing in the amount of the Unreimbursed Amount that is not so reimbursed or refinanced, which L/C Borrowing (i) shall bear interest at the rate applicable to Base Rate Loans from and including the date that such drawing is paid by the Issuing Bank to but excluding the earlier of the date that such Unreimbursed Amount is so reimbursed or refinanced or the date that is the next Business Day following the Requested Reimbursement Date and, if not so reimbursed or refinanced on or prior to the date that is the next Business Day following the Requested Reimbursement Date, then, from and after the date that is the next Business Day following the Requested Reimbursement Date to but excluding the date so reimbursed or refinanced, the rate applicable to Base Rate Loans plus 2% and (ii) shall, on and after the date that is the next Business Day following the Requested Reimbursement Date, be due and payable on demand. In such event, each Lender's payment to the Administrative Agent for the account of the Issuing Lender pursuant to Section 3.3(b) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 3.3.

(d) Until each Lender funds its Loan or L/C Advance pursuant to this Section 3.3 to reimburse the Issuing Lender for any amount drawn under any Letter of Credit, interest in

respect of such Lender's Revolving Credit Percentage of such amount shall be solely for the account of the Issuing Lender.

(e) Each Lender's obligation to make Loans or L/C Advances to reimburse the Issuing Lender for amounts drawn under Letters of Credit, as contemplated by this Section 3.3, shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Issuing Lender, such Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Loans pursuant to this Section 3.3 is subject to the conditions set forth in Section 4.2 (other than delivery by the relevant Borrower of a Loan Notice). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the relevant Borrower to reimburse the Issuing Lender for the amount of any payment made by the Issuing Lender under any Letter of Credit, together with interest as provided herein.

(f) If any Lender fails to make available to the Administrative Agent for the account of the Issuing Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 3.3 by the time specified in Section 3.3(b), the Issuing Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Issuing Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Issuing Lender in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Issuing Lender in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Loan included in the relevant borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the Issuing Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this paragraph (f) shall be conclusive absent manifest error.

3.4. Repayment of Participations. (a) At any time after the Issuing Lender has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 3.3(b), if the Administrative Agent receives for the account of the Issuing Lender any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the relevant Borrower or otherwise, including proceeds of cash collateral applied thereto by the Administrative Agent), the Administrative Agent will distribute to such Lender its Revolving Credit Percentage thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by the Administrative Agent.

(b) If any payment received by the Administrative Agent for the account of the Issuing Lender pursuant to Section 3.3(b) is required to be returned under any of the circumstances described in Section 10.8 (including pursuant to any settlement entered into by the Issuing Lender in its discretion), each Lender shall pay to the Administrative Agent for the

account of the Issuing Lender its Revolving Credit Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect.

3.5. Obligations Absolute. The obligation of the relevant Borrower to reimburse the Issuing Lender for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, set-off, defense or other right that either of the Borrowers or any of their Subsidiaries may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Issuing Lender or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the Issuing Lender under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the Issuing Lender under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, either of the Borrowers or any of their Subsidiaries.

3.6. Role of Issuing Lender. Each Lender and the Borrowers agree that, in paying any drawing under a Letter of Credit, the Issuing Lender shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the Issuing Lender, any Agent-Related Person nor any of the respective correspondents, participants

or assignees of the Issuing Lender shall be liable to any Lender for (a) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Majority Lenders, as applicable; (b) any action taken or omitted in the absence of gross negligence or willful misconduct; or (c) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Application. The Borrowers hereby assume all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrowers' pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the Issuing Lender, any Agent-Related Person, nor any of the respective correspondents, participants or assignees of the Issuing Lender, shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 3.5; provided, however, that anything in such clauses (i) through (v) to the contrary notwithstanding, the Borrowers may have a claim against the Issuing Lender, and the Issuing Lender may be liable to the Borrowers, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrowers which the Borrowers prove were caused by the Issuing Lender's willful misconduct or gross negligence or the Issuing Lender's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the Issuing Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the Issuing Lender shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

3.7. Cash Collateral. Upon the request of the Administrative Agent, if, as of the Revolving Credit Termination Date, any Letter of Credit for any reason remains outstanding and partially or wholly undrawn, the relevant Borrower shall immediately Cash Collateralize the then outstanding amount of all L/C Obligations (in an amount equal to such outstanding amount determined as of the Revolving Credit Termination Date). Sections 2.8 and 8.2 set forth certain additional requirements to deliver Cash Collateral hereunder. To the extent that the Borrowers are required to Cash Collateralize L/C Obligations, each of the Borrowers hereby grants to the Administrative Agent, for the benefit of the Issuing Lender and the Lenders, a security interest in all cash, deposit accounts and all balances therein and all proceeds of the foregoing. Such cash collateral shall be maintained in blocked, interest bearing deposit accounts with the Administrative Agent.

3.8. Applicability of ISP98 and UCP. Unless otherwise expressly agreed by the Issuing Lender and the relevant Borrower when a Letter of Credit is issued including any such agreement as applicable to an Existing Letter of Credit, (i) the rules of the ISP shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce at the time of issuance shall apply to each commercial Letter of Credit.

3.9. Fees and Other Charges. (a) Each Borrower will pay to the Administrative Agent, for the account of the Lenders, a fee on the daily amount available to be drawn under all

outstanding Letters of Credit issued for its account at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar Loans, to be shared ratably among the Lenders in accordance with their respective Revolving Credit Percentages and payable quarterly in arrears on each L/C Fee Payment Date after the issuance date. In addition, each Borrower shall pay to the relevant Issuing Lender for its own account a fronting fee on the daily amount available to be drawn under all outstanding Letters of Credit issued by such Issuing Lender for such Borrower's account at a rate and at the times to be agreed upon by the Borrowers and such Issuing Lender. For purposes of computing the average daily amount available to be drawn under the Letters of Credit, the amount of such Letters of Credit shall be determined in accordance with Section 1.3.

(b) In addition to the foregoing fees, each Borrower shall pay or reimburse each Issuing Lender for such normal and customary costs and expenses as are incurred or charged by such Issuing Lender in issuing, negotiating, effecting payment under, amending or otherwise administering any Letter of Credit issued for the account of such Borrower.

3.10. Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

4. CONDITIONS PRECEDENT

4.1. Conditions to Closing. The occurrence of the Closing Date is subject to the satisfaction on such date of the following conditions precedent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or telecopies (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Borrower, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance reasonably satisfactory to the Administrative Agent:

(i) executed counterparts of this Agreement, sufficient in number for distribution to the Administrative Agent, each Lender party hereto on the date hereof and the Borrowers;

(ii) a Note executed by each Borrower in favor of each Lender requesting a Note so long as such request is made at least 3 Business Days prior to the Closing Date;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Borrower as the Administrative Agent may reasonably require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Borrower is a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Borrower is duly organized or

formed, and that each Borrower is validly existing, in good standing and qualified to engage in business in the jurisdiction where such Borrower is organized;

(v) a Closing Certificate of each of the Borrowers with appropriate insertions and attachments, if any;

(vi) a certificate signed by a Responsible Officer on behalf of each Borrower either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Borrower and the validity against such Borrower of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(vii) a certificate signed by a Responsible Officer on behalf of each Borrower certifying (A) that the conditions specified in Sections 4.2(a) and (b) have been satisfied, and (B) that there has been no event or circumstance since December 31, 2005 that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect.

(viii) a Borrowing Request appropriately completed and signed by a Responsible Officer on behalf of the Borrowers, in respect of the initial borrowing of Loans;

(ix) copies certified by a Responsible Officer on behalf of the Borrowers of each of the Fund American Loan Documents duly executed by the parties thereto;

(b) Fees. (i) The Administrative Agent and the Arrangers shall have received all fees required to be paid by the Borrowers on or prior to the Closing Date.

(ii) The Borrowers shall have paid all fees, charges and disbursements of Bingham McCutchen LLP, as counsel to the Administrative Agent (directly to such counsel if requested by the Administrative Agent), to the extent required to be paid by the Borrowers and invoiced prior to the Closing Date.

(c) Legal Opinions. The Administrative Agent shall have received (i) the legal opinion of Robert Seelig, Esquire, counsel to the Borrowers, substantially in the form of Exhibit F and (ii) the legal opinion of Conyers Dill & Pearman, Bermuda counsel to the Borrowers, substantially in the form of Exhibit G.

(d) Termination of Existing Credit Facility. The Administrative Agent shall have received evidence (including, without limitation, payoff letters), reasonably satisfactory to the Administrative Agent in its reasonable discretion, that the Existing Credit Agreement has been or concurrently with the Closing Date is being terminated.

(e) Initial Public Offering. OneBeacon Limited shall have consummated the IPO.

(f) Closing Date. The Closing Date shall occur on or before April 30, 2007.

(g) Economic Defeasance of Fund American Preferred Stock. Arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock.

(h) Material Adverse Effect. Up to and including the Closing Date, since December 31, 2005 there has been no development or event that has had or could reasonably be expected to have a Material Adverse Effect.

4.2. Conditions to Closing and Each Extension of Credit. The occurrence of the Closing Date and the agreement of each Lender to make any extension of credit requested to be made by it hereunder on any date (including, without limitation, its initial extension of credit but excluding conversions or continuations of Loans) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Borrowers in Section 5 (other than Section 5.5) or pursuant to any of the other Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date, except to the extent that they expressly relate to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the extensions of credit requested to be made on such date.

(c) Borrowing Request. Except as provided in Section 3.3, the Administrative Agent shall have received a Borrowing Request or, as applicable, an Application.

Each borrowing by and issuance of a Letter of Credit on behalf of a Borrower hereunder shall constitute a representation and warranty by such Borrower as of the date of such extension of credit that the conditions contained in this Section 4.2 (a) and (b) have been satisfied on and as of the date of the applicable extension of credit.

5. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into this Agreement and to make the Loans and issue or participate in the Letters of Credit, the Borrowers hereby jointly and severally represent and warrant to the Administrative Agent and each Lender that:

5.1. Financial Statements.

(a) The audited consolidated balance sheet of Parent and its consolidated Subsidiaries, as at December 31, 2005 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, reported on and accompanied by unqualified reports from PricewaterhouseCoopers LLP or another independent certified public accounting firm of nationally recognized standing, present fairly in all material respects the consolidated financial condition of Parent and its consolidated Subsidiaries, as at such date, and the

consolidated results of their operations and their consolidated cash flows for such fiscal year then ended in accordance with GAAP applied consistently throughout the periods involved (except as approved by the aforementioned firm of accountants and disclosed therein).

(b) The unaudited consolidated balance sheet of Parent and its consolidated Subsidiaries, as of and for the fiscal quarters ended June 30, 2006 and September 30, 2006, and the related unaudited consolidated statements of income and cash flows for such fiscal quarters ended on such dates, present fairly in all material respects the consolidated financial condition of Parent and its consolidated Subsidiaries as at such dates, and the consolidated results of their operations and their consolidated cash flows for the fiscal quarters then ended in accordance with GAAP applied consistently throughout the periods involved (except (x) as approved by the aforementioned firms of accountants and disclosed therein or (y) for normal year-end audit adjustments and the absence of footnotes).

5.2. Corporate Existence; Compliance with Law. Each of the Borrowers and their Subsidiaries (a) is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization, except to the extent that the failure of the Subsidiaries (other than White Mountains Re) to be so organized, validly existing and in good standing could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, (b) has the corporate or other power and authority, and the legal right, to own and operate its Property, to lease the Property it operates as lessee and to conduct the business in which it is currently engaged, except to the extent that the failure to have such power, authority and legal right could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, (c) is duly qualified as a foreign corporation and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of Property or the conduct of its business requires such qualification, except to the extent failure to so qualify or be in good standing could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, and (d) is in compliance with all Requirements of Law, including, without limitation, with respect to environmental laws, except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.3. Corporate Power; Authorization; Enforceable Obligations. Each of the Borrowers has the corporate or other power and authority, and the legal right, to make, deliver and perform the Loan Documents to which it is a party and to borrow hereunder. Each of the Borrowers has taken all necessary corporate or other action to authorize the execution, delivery and performance of the Loan Documents to which it is a party and to authorize the borrowings on the terms and conditions of this Agreement. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or the execution, delivery, performance, validity or enforceability of this Agreement or any of the other Loan Documents, except consents, authorizations, filings and notices described in Schedule 5.3, which consents, authorizations, filings and notices have been obtained or made and are in full force and effect and except to the extent failure to obtain any consents, authorizations, filings, and notices could not, in the aggregate, reasonably be expected to have a Material Adverse Effect. Each Loan Document has been duly executed and delivered on behalf of each Borrower that is a party thereto. This Agreement constitutes, and each other Loan Document upon execution will constitute, a legal, valid and binding obligation of each Borrower that is a party thereto,

enforceable against each such Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at Law).

5.4. No Legal Bar. The execution, delivery and performance of this Agreement and the other Loan Documents, the issuance of Letters of Credit, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or any Contractual Obligation of the Borrowers or any of their Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any Requirement of Law or any such Contractual Obligation, except to the extent such violation or Lien could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.5. No Material Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrowers, threatened by or against the Borrowers or any of their Subsidiaries or against any of their respective properties or assets that (a) purport to affect or pertain to this Agreement or any other Loan Document or any of the transactions contemplated hereby or thereby, or (b) could reasonably be expected to have a Material Adverse Effect.

5.6. Ownership of Property; Liens. Each of the Borrowers and their Subsidiaries has title in fee simple to, or a valid leasehold interest in, all its real property, and good title to, or a valid leasehold interest in, all its other Property, and none of such Property is subject to any Lien except as permitted by Section 7.3, except to the extent such defects in title could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.7. Intellectual Property. Each of the Borrowers and each of their Subsidiaries owns, or is licensed to use, all Intellectual Property material to the conduct of its business as currently conducted. No material claim has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor do the Borrowers know of any valid basis for any such claim, other than claims that could not, in the aggregate, reasonably be expected to have a Material Adverse Effect. The use of Intellectual Property by the

Borrowers and their Subsidiaries does not infringe on the rights of any Person in any material respect, except for infringements that could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.8. Taxes. Each of the Borrowers and their Subsidiaries has filed or caused to be filed all material Federal, state and other tax returns that are required to be filed (taking into account any applicable extensions) and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its Property and all other material taxes, fees or other charges imposed on it or any of its Property by any Governmental Authority and, to the knowledge of the Borrowers, no tax Lien has been filed, and no claim is being asserted, with respect to any such tax, fee or other charge, except (i) those in respect of which the amount or validity are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with SAP or GAAP, as applicable, have been provided on the books of the Borrowers or their Subsidiaries, as the case may be, and (ii) any amount the failure of which to pay could not reasonably be expected to result in a Material Adverse Effect.

5.9. Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect or for any purpose that violates the provisions of the Regulations of the Board. If requested by any Lender or the Administrative Agent, the Borrowers will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1 referred to in Regulation U.

5.10. ERISA. Except as could not reasonably be expected to result in a Material Adverse Effect, neither a Reportable Event nor an "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits by an amount which could reasonably be expected to result in a Material Adverse Effect. Neither the Borrowers nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect. Except as could not reasonably be expected to result in a Material Adverse Effect, no such Multiemployer Plan is in Reorganization or Insolvent.

5.11. Investment Company Act; Other Regulations. Neither of the Borrowers is an "investment company" within the meaning of the Investment Company Act of 1940, as amended. Neither of the Borrowers is subject to regulation under any Requirement of Law (other than Regulation X of the Board) which limits its ability to incur Indebtedness hereunder.

5.12. Use of Proceeds. The proceeds of the Loans and the Letters of Credit shall be used for working capital and general corporate purposes of the Borrowers and their respective Subsidiaries, including, without limitation, (a) acquisitions and the issuance of Letters of Credit, (b) refinancings of outstanding indebtedness, if any, of the Borrowers and their respective subsidiaries under the Existing Credit Agreement (and the Existing Letters of Credit), (c) to provide for the payment or redemption of obligations in respect of the Fund American Preferred Stock, and (d) payment of fees and expenses incurred in connection with this Agreement.

5.13. Accuracy of Information, etc. No statement or information contained in any document, certificate or statement furnished to the Administrative Agent or the Lenders or any of them, by or on behalf of either of the Borrowers for use in connection with the transactions contemplated by this Agreement or the other Loan Documents, taken as a whole contained, as of the date such statement, information, document or certificate was so furnished, any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statement, information, document or certificate was made or furnished. The projections and pro forma financial information contained in the materials referenced above were

prepared in good faith based on assumptions believed by management of the Borrowers to be reasonable at the time made, it being recognized by the Lenders that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount.

5.14. Insurance Regulatory Matters. No License of any Insurance Subsidiary, the loss of which could reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To the knowledge of the Borrowers, there is no sustainable basis for such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

5.15. Indebtedness and Liens. As of the Closing Date, (i) no Subsidiary (other than White Mountains Re) of either of the Borrowers had outstanding any Indebtedness that was created, incurred or assumed after September 30, 2006, except Indebtedness that would have been permitted by Section 7.2 (without giving effect to the Indebtedness permitted by Section 7.2(a)(i)) if created, incurred or assumed by such Subsidiary on the Closing Date and (ii) there does not exist (a) any Lien that was created, incurred or assumed after September 30, 2006, upon any stock or Indebtedness of any Subsidiary to secure any Debt of the Borrowers or any of their Subsidiaries or any other Person (other than the obligations hereunder) or (b) any Lien that was created, incurred or assumed after September 30, 2006, upon any other Property, to secure any Debt of the Borrowers or any of their Subsidiaries or any other Person (other than the obligations hereunder), except, in the case of (a) or (b), Liens that would have been permitted by Section 7.3 hereof (without giving effect to the Liens that would have been permitted by Section 7.3(i)(x)) if so created, incurred or assumed on the Closing Date.

5.16. Taxpayer Identification Number. As of the date hereof, each Borrower's true and correct U.S. taxpayer identification number is set forth on Schedule 10.02.

6. AFFIRMATIVE COVENANTS

The Borrowers hereby jointly and severally agree that, from and after the Closing Date and so long as, the Commitments remain in effect, any Letter of Credit remains outstanding, there exists any unpaid Reimbursement Obligations or any principal or interest on any Loan or any fee payable hereunder is owing to any Lender or the Administrative Agent hereunder, each of the Borrowers shall and shall cause each of their Subsidiaries to:

6.1. Financial Statements. Furnish to the Administrative Agent (either electronically or with sufficient copies for distribution by the Administrative Agent to each Lender):

(a) (i) not later than the date required to be filed pursuant to the Act of 1934 (after giving effect to any extension permitted or granted by the SEC), but in any event not later than 95 days after the end of each fiscal year of Parent ending subsequent to the Closing Date, a copy of the audited consolidated balance sheet of Parent and its consolidated Subsidiaries as at the end of such fiscal year, and the related audited consolidated statements of income and of cash flows for such fiscal year, setting forth in each case in comparative form the figures as of the end

of and for the previous fiscal year, accompanied by an opinion by PricewaterhouseCoopers LLP, or other independent certified public accounting firm of nationally recognized standing, which report shall be prepared in accordance with generally accepted auditing standards and applicable securities laws and shall not be subject to a "going concern" or like qualification or exception, or qualification as to the scope of the audit (for purposes hereof, delivery of Parent's Annual Report on Form 10-K (which shall be deemed delivered on the date when such document is posted on the SEC's website at www.sec.gov or any replacement website) will be sufficient in lieu of delivery of such financial statements); and (ii) not later than the date required to be filed pursuant to the Act of 1934 (after giving effect to any extension permitted or granted by the SEC), but in any event not later than 60 days after the end of each of the first three fiscal quarters of each fiscal year of Parent ending subsequent to the Closing Date, a copy of the unaudited consolidated balance sheet of Parent and its consolidated Subsidiaries as at the end of such fiscal quarter and the related unaudited consolidated statements of income and of cash flows for such fiscal quarter and the portion of the fiscal year through the end of such fiscal quarter, setting forth in each case in comparative form the figures as of the end of and for the corresponding period in the previous year, certified by a Responsible Officer on behalf of Parent as being fairly stated in all material respects in accordance with GAAP (subject to normal year-end audit adjustments and the absence of footnotes) (for purposes hereof, delivery of Parent's Quarterly Report on Form 10-Q (which shall be deemed delivered on the date when such document is posted on the SEC's website at www.sec.gov or any replacement website) will be sufficient in lieu of delivery of such financial statements and certifications); all such financial statements, together with notes to such financial statements, to fairly present in all material respects the financial condition and income and cash flows of the subject thereof as at the dates and for the periods covered thereby in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except (x) as approved by such accountants or officer, as the case may be, and disclosed therein or (y) in the case of unaudited financial statements, subject to normal year-end adjustments and the absence of footnotes);

(b) (i) not later than the date required to be filed pursuant to the Act of 1934 (after giving effect to any extension permitted or granted by the SEC), but in any event not later than 95 days after the end of each fiscal year of OneBeacon Limited ending subsequent to the Closing Date (so long as OneBeacon Limited is required to be consolidated on the balance sheet of Parent in accordance with GAAP), a copy of the audited consolidated balance sheet of OneBeacon Limited and its consolidated Subsidiaries as at the end of such fiscal year of OneBeacon Limited ending subsequent to the Closing Date, and the related audited consolidated statements of income and of cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, accompanied by an opinion by PricewaterhouseCoopers LLP, or other independent certified public accounting firm of nationally recognized standing, which report shall be prepared in accordance with generally accepted auditing standards and applicable securities laws and shall not be subject to a "going concern" or like qualification or exception, or qualification as to the scope of the audit (for purposes hereof, delivery of OneBeacon Limited's Annual Report on Form 10-K (which shall be deemed delivered on the date when such document is posted on the SEC's website at www.sec.gov or any replacement website) will be sufficient in lieu of delivery of such financial statements); and (ii) not later than the date required to be filed pursuant to the Act of 1934 (after giving effect to any extension permitted or granted by the SEC), but in any event not later than 60 days after the end of each of the first three fiscal quarters of each fiscal year of OneBeacon

Limited ending subsequent to the Closing Date (so long as OneBeacon Limited is required to be consolidated on the balance sheet of Parent in accordance with GAAP), a copy of the unaudited consolidated balance sheet of OneBeacon Limited and its consolidated Subsidiaries as at the end of such fiscal quarter and the related unaudited consolidated statements of income and of cash flows for such fiscal quarter and the portion of the fiscal year through the end of such fiscal quarter, setting forth in each case in comparative form the figures as of the end of and for the corresponding period in the previous fiscal year, certified by a Responsible Officer on behalf of OneBeacon Limited as being fairly stated in all material respects in accordance with GAAP (subject to normal year-end audit adjustments and the absence of footnotes) (for purposes hereof, delivery of OneBeacon Limited's Quarterly Report on Form 10-Q (which shall be deemed delivered on the date when such document is posted on the SEC's website at www.sec.gov or any replacement website) will be sufficient in lieu of delivery of such financial statements and certifications); all such financial statements, together with notes to such financial statements, to fairly present in all material respects the financial condition and income and cash flows of the subject thereof as at the dates and for the periods covered thereby in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except (x) as approved by such accountants or officer, as the case may be, and disclosed therein or (y) in the case of unaudited financial statements, subject to normal year-end adjustments and the absence of footnotes);

(c) not later than the date required by Law to be prepared (or such later date as may be allowed by the applicable Governmental Authority), but in any event not later than 95 days after the end of each fiscal year of (i) OneBeacon Insurance Group, copies of the unaudited combined Annual Statement of OneBeacon Insurance Group, certified by a Responsible Officer on behalf of OneBeacon Limited; provided, that any such combined Annual Statement shall only be required to be so furnished on any date if OneBeacon Limited is a Subsidiary of Parent on such date, and (ii) a Material Insurance Subsidiary (as of the date of delivery pursuant hereto), copies of the unaudited Annual Statement of such Material Insurance Subsidiary, certified by a Responsible Officer on behalf of such Material Insurance Subsidiary; all such statements to be prepared in accordance with SAP consistently applied throughout the periods reflected therein and, if required by the applicable Governmental Authority, audited and certified by independent certified public accounting firm of recognized national standing (it being understood that delivery of audited statements shall be made within 10 days following the delivery of such statements to the applicable Governmental Authority); provided, however, that in the case of Sirius, such Annual Statement shall be due not later than 150 days after the end of each fiscal year;

(d) not later than the date required by Law to be prepared (or such later date as may be allowed by the applicable Governmental Authority), but in any event not later than 70 days after the end of each of the first three fiscal quarters of each fiscal year of each Material Insurance Subsidiary (as of the date delivery of such Quarterly Statements or Interim Report is required), copies of the Quarterly Statement (or, in the case of Sirius, one Interim Report) of such Material Insurance Subsidiary for such fiscal quarter, all such statements to be prepared in accordance with SAP consistently applied throughout the period reflected herein; provided, that, in the case of Sirius, such Interim Report shall be due not later than 90 days after the end of such interim period;

(e) within 15 days after being delivered to any Material Insurance Subsidiary subsequent to the Closing Date, any final Report on Examination issued by the applicable Department or the NAIC that results in material adjustments to the financial statements referred to in paragraphs (c) or (d) above;

(f) to the extent such a statement is required by Law to be prepared, within 10 days following the delivery to the applicable Department, a copy of each "Statement of Actuarial Opinion" and "Management Discussion and Analysis" for a Material Insurance Subsidiary which is provided to the applicable Department as to the adequacy of loss reserves of such Material Insurance Subsidiary, such opinion to be in the format prescribed by the insurance code of the state of domicile of such Material Insurance Subsidiary; and

(g) promptly after Parent's receipt thereof, subject to any restrictions imposed by such independent accountants, copies of any management letters submitted to the board of directors (or the audit committee of the board of directors) of Parent by independent accountants in connection with the annual audit of Parent or any of its Subsidiaries.

6.2. Certificates; Other Information. Furnish to the Administrative Agent (either electronically or with sufficient copies for distribution by the Administrative Agent to each Lender) or, in the case of clause (d), to the relevant Lender:

(a) concurrently with the delivery of the audited financial statements referred to in Section 6.1(a)(i), a certificate of the independent certified public accounting firm reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default (it being understood that (i) such certificate shall only be required if delivery by such independent certified public accounting firm of such a certificate is not prohibited by its policies and (ii) any such certificate may be limited in scope and qualified in accordance with customary practices of the accounting profession), except as specified in such certificate;

(b) not later than the deadline for the delivery of any financial statements pursuant to Section 6.1(a), (i) a certificate of a Responsible Officer of Parent stating that such Responsible Officer has obtained no knowledge of any continuing Default or Event of Default except as specified in such certificate and (ii) a Compliance Certificate containing all information and calculations necessary for determining compliance by Parent with Section 7.1 and OneBeacon Limited with Section 7.2(b), if applicable, as of the last day of the fiscal quarter or fiscal year of Parent.

(c) within 10 days after the same are filed with the SEC (unless posted on the SEC's website at www.sec.gov or any replacement website), all reports and filings on Forms 10-K, 10-Q and 8-K that the Borrowers may make to, or file with, the SEC, including any request of an extension of time for the filing of any such reports; and

(d) promptly, such additional financial and other information as the Administrative Agent or any Lender may from time to time reasonably request.

(e) The Borrowers hereby acknowledge that (a) unless otherwise directed by a Borrower, the Administrative Agent and/or the Arrangers will make available to the Lenders and

the Issuing Bank materials and/or information provided by or on behalf of the Borrowers hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform"), subject to confidentiality undertakings reasonably acceptable to the Borrowers and the Arrangers, and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). Each of the Borrowers hereby agrees that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrowers shall be deemed to have authorized the Administrative Agent, the Arrangers, the Issuing Bank and the Lenders to treat such Borrower Materials as either publicly available information or not material information (although it may be sensitive and proprietary) with respect to the Borrowers or their securities for purposes of United States Federal and state securities laws; (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent and the Arrangers shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor." Notwithstanding any of the foregoing, if any Borrower also delivers any materials and/or information pursuant to this Section 6.2(e) in paper format to the Administrative Agent, such paper materials shall be deemed to be Borrower Materials for all purposes. Nothing in this Section 6.2(e) shall limit the obligations of the Administrative Agent and the Lenders under Section 10.16.

6.3. Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature (other than Indebtedness), except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrowers or their Subsidiaries, as the case may be; provided, that the Borrowers may, in the ordinary course of business, extend payments on those payables if beneficial to the operation of their businesses.

6.4. Conduct of Business and Maintenance of Existence, etc. (a)(i) With respect to each Subsidiary of Parent, preserve, renew and keep in full force and effect its corporate existence and (ii) with respect to Parent and each of its Subsidiaries, take all reasonable action to maintain all licenses, permits, rights, privileges and franchises necessary or desirable in the normal conduct of its business, except, in each case, as otherwise would not be a Fundamental Change and except, in the case of clause (i) above and clause (ii) above, to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (b) comply with all Contractual Obligations (other than in respect of Indebtedness) and Requirements of Law, except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.5. Maintenance of Property; Insurance. (a) Keep all Property and systems useful and necessary in its business in good working order and condition, ordinary wear and tear excepted and (b) maintain with financially sound and reputable insurance companies (other than with the Borrowers or their Subsidiaries) insurance on all its Property in at least such amounts and against at least such risks (but including in any event public liability, product liability and

business interruption) as are usually insured against in the same general area by companies engaged in the same or a similar business (it being understood that, to the extent consistent with prudent business practices of Persons carrying on a similar business in a similar location, a program of self-insurance for first and other loss layers may be utilized).

6.6. Inspection of Property; Books and Records; Discussions. (a) Keep proper books of records and account in which full, true and correct entries in conformity with GAAP (or SAP as applicable) and all Requirements of Law shall be made of all material dealings and transactions in relation to its business and activities and (b) upon reasonable prior notice, permit representatives of the Administrative Agent (who may be accompanied by representatives of other Lenders) and, during the continuance of an Event of Default, any Lender to (x) visit and inspect any of its properties, (y) during the continuance of an Event of Default, conduct reasonable examinations of (and, with the consent of the Borrowers, such consent not to be unreasonably withheld, make abstracts from) any of its books and records at any reasonable time and as often as may reasonably be requested and (z) discuss the business, operations, properties and financial and other condition of the Borrowers with officers and employees of the Borrowers. It is understood that (i) any information obtained by the Administrative Agent or any Lender in any visit or inspection pursuant to this Section 6.6 shall be subject to the confidentiality requirements of Section 10.16, (ii) the Borrowers may impose, with respect to any Lender or any Affiliate of any Lender reasonably deemed by the Borrowers to be engaged significantly in a business which is directly competitive with any material business of the Borrowers and their Subsidiaries, reasonable restrictions on access to proprietary information of the Borrowers and their Subsidiaries and (iii) the Lenders will coordinate their visits through the Administrative Agent with a view to preventing the visits provided for by this Section 6.6 from becoming unreasonably burdensome to the Borrowers and their Subsidiaries.

6.7. Notices. Give notice to the Administrative Agent (it being agreed that the Administrative Agent shall, upon receipt of such notice, notify each Lender thereof) of the following within the time periods specified:

(a) Promptly after any Responsible Officer of a Borrower obtains knowledge thereof, the occurrence of any Default or Event of Default;

(b) Within five days after any Responsible Officer of a Borrower obtains knowledge thereof, the occurrence of:

(i) any default or event of default under any Contractual Obligation (other than in respect of Indebtedness) of the Borrowers or any of their Subsidiaries or any litigation, investigation or proceeding which may exist at any time between the Borrowers or any of their Subsidiaries and any Governmental Authority, that in either case, if not cured or if adversely determined, as the case may be, could reasonably be expected to have a Material Adverse Effect; and

(ii) (A) any litigation or proceeding affecting the Borrowers or any of their Subsidiaries (other than claims-related litigation involving an Insurance Subsidiary) in which (x) the amount involved (and not covered by insurance) is $50,000,000 or more or (y) in which injunctive or similar relief is sought that

could reasonably be expected to have a Material Adverse Effect and (B) any claims-related litigation affecting any Insurance Subsidiary which could reasonably be expected to have a Material Adverse Effect; and

(c) As soon as possible and, in any event, within 30 days after a Responsible Officer of the Borrowers obtains knowledge thereof: (A) the occurrence of any Reportable Event with respect to any Plan, a failure to make any required contribution to a Plan, the creation of any Lien in favor of the PBGC or a Plan or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (B) the institution of proceedings or the taking of any other action by the PBGC or the Borrowers or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan.

Each notice pursuant to this Section 6.7 shall be accompanied by a statement of a Responsible Officer on behalf of Parent setting forth details of the occurrence or such default referred to therein and stating what action the Borrowers or the relevant Subsidiary proposes to take with respect thereto.

6.8. Taxes. Pay, discharge, or otherwise satisfy before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its real estate, sales and activities, or any part thereof, or upon the income or profits therefrom, other than where failure to pay such taxes could not reasonably be expected to result in a Material Adverse Effect; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and reserves in conformity with SAP or GAAP, as applicable, have been provided on the books of the Borrowers and their Subsidiaries, as the case may be.

6.9. Use of Proceeds. Use the proceeds of the Loans and the Letters of Credit solely for the purposes set forth in Section 5.12.

6.10. Further Assurances. Each of the Borrowers will, and will cause each of their Subsidiaries to, cooperate with the Lenders and the Administrative Agent and execute such further instruments and documents as the Lenders or the Administrative Agent shall reasonably request to give effect to the transactions contemplated by this Agreement and the other Loan Documents.

7. NEGATIVE COVENANTS

The Borrowers hereby jointly and severally agree that, from and after the Closing Date and so long as the Commitments remain in effect, any Letter of Credit remains outstanding, there exist any unpaid Reimbursement Obligations or any principal or interest on any Loan or any fee payable hereunder is owing to any Lender or the Administrative Agent hereunder:

7.1. Financial Condition Covenants.

(a) Maintenance of Consolidated Net Worth. Parent shall not permit its Consolidated Net Worth, as of the end of any fiscal quarter, commencing with the first fiscal quarter ending after the Closing Date, to be less than the sum of (i) sixty-five percent (65%) of

Consolidated Net Worth of Parent as at the fiscal quarter ended September 30, 2006 (if OneBeacon Limited is required to be consolidated on a balance sheet of Parent in accordance with GAAP as of the end of such fiscal quarter, adjusted to add sixty-five percent (65%) of the minority interests created pursuant to the IPO), plus (ii) fifty percent (50%) of positive Consolidated Net Income for each fiscal quarter ending after September 30, 2006.

(b) Maintenance of Total Consolidated Debt to Total Consolidated Capitalization Ratio. Parent shall not permit its Total Consolidated Debt to Total Consolidated Capitalization Ratio, as of the end of any fiscal quarter, commencing with the first fiscal quarter ending after the Closing Date, to exceed thirty-five percent (35%). Notwithstanding the foregoing, in the event there shall be a breach of this financial covenant, at any time that the (i) Fund American Notes are guaranteed by the Parent, (ii) the Parent no longer consolidates OneBeacon Limited in its consolidated financial statements in accordance with GAAP, and (iii) such breach would not have occurred if the Fund American Notes were no longer guaranteed by the Parent, then such breach shall not result in the occurrence of an Event of Default under Section 8.1(c) until a period of up to 180 days ("Cure Period") has passed since the occurrence of such breach; provided that, during such Cure Period, (x) the Total Consolidated Debt to Total Consolidated Capitalization Ratio shall not exceed thirty-five percent (35%) on a pro forma basis excluding the Indebtedness attributable to the guarantee of the Fund American Notes and (y) Fund American maintains investment grade senior unsecured credit ratings on the Fund American Notes from at least two of the following: Moody's, S&P and Fitch.

(c) Maintenance of Parent Only Interest Coverage Ratio. Parent shall not permit the Parent Only Interest Coverage Ratio, as of the end of any fiscal quarter (commencing with the first fiscal quarter ending after the Closing Date) for the Reference Period then ended, to be less than 2.50:1.

7.2. Limitation on Indebtedness and Issuance of Preferred Stock. (a) The Parent will not permit any of its Subsidiaries (other than White Mountains Re and OneBeacon Limited and its Subsidiaries) to create, incur or assume or suffer to exist any Indebtedness or issue any preferred stock, except:

(i) Indebtedness and preferred stock outstanding as of the Closing Date and any refinancings, refundings, renewals or extensions thereof (without any increase in the principal amount thereof, other than by the amount of any necessary pre-payment premiums, unpaid accrued interest and other costs of refinancing, or any shortening of the final maturity of any principal amount thereof to a date prior to the Revolving Credit Termination Date);

(ii) Indebtedness or preferred stock of any Insurance Subsidiary incurred or issued in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Indebtedness) of such Insurance Subsidiary and letters of credit, bank guarantees, surety bonds or similar instruments issued for the account of any Insurance Subsidiary in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Indebtedness) of such Insurance Subsidiary;

(iii) Indebtedness in respect of letters of credit, bank guarantees, surety and appeal bonds, or performance bonds or other obligations of a like nature arising in the ordinary course of business and not for capital raising purposes and issued for the account of any Non-Regulated Operating Subsidiary;

(iv) short-term Indebtedness (i.e. with a maturity of less than one year when issued, provided that such Indebtedness may include an option to extend for up to an additional one year period) of any Insurance Subsidiary incurred to provide short-term liquidity to facilitate claims payment in the event of catastrophe;

(v) Indebtedness or preferred stock of a Subsidiary acquired after the Closing Date or a corporation merged into or consolidated with a Subsidiary after the Closing Date and Indebtedness assumed in connection with the acquisition of assets, which Indebtedness, in each case, exists at the time of such acquisition, merger or consolidation and is not created in contemplation of such event, as well as any refinancings, refunds, renewals or extensions of such Indebtedness (without increase in the principal amount thereof other than by the amount of any necessary pre-payment premiums, unpaid accrued interest and other costs of refinancing);

(vi) Indebtedness or preferred stock owing or issued by a Subsidiary to any other Subsidiary or to any Borrower;

(vii) Guarantee Obligations made by a Subsidiary in respect of obligations of another Subsidiary (other than White Mountains Re);

(viii) Indebtedness under the Loan Documents;

(ix) other Indebtedness or preferred stock of Persons, provided that at the time such Indebtedness or preferred stock is incurred or issued, the aggregate principal amount or liquidation preference of such Indebtedness or preferred stock when added to all other Indebtedness and preferred stock incurred or issued pursuant to this clause (ix) and then outstanding, does not exceed 10% of the Consolidated Net Worth of Parent; provided that, in calculating Indebtedness and preferred stock incurred pursuant to this clause (ix), the Indebtedness and preferred stock of OneBeacon Limited and its Subsidiaries and White Mountains Re shall be excluded.

(b) At any time when OneBeacon Limited is required to be consolidated on the balance sheet of Parent in accordance with GAAP, Parent will not permit the OneBeacon Limited Debt to Capitalization Ratio (i) as of the end of any fiscal quarter ending after the Closing Date and prior to the second anniversary of the Closing Date to be greater than thirty-seven and one half of one percent (37.5%) and (ii) as of the end of any fiscal quarter ending on or after the second anniversary of the Closing Date to be greater than thirty-five percent (35%).

7.3. Limitation on Liens. The Borrowers will not, and will not permit any of their Subsidiaries to, create, incur, assume or suffer to exist (a) any Lien upon any stock or

indebtedness of any Subsidiary, whether owned on the date of this Agreement or hereafter acquired, to secure any Debt of the Borrowers or any of their Subsidiaries or any other person (other than the obligations hereunder) or (b) any Lien upon any other Property of the Borrowers or their respective Subsidiaries, whether owned or leased on the date of this Agreement, or thereafter acquired, to secure any Debt of the Borrowers or any of their Subsidiaries or any other person (other than the obligations hereunder), except:

(i) (x) any Lien existing on the date of this Agreement or (y) any Lien upon stock or Indebtedness or other Property of any Person existing at the time such Person becomes a Subsidiary or existing upon stock or Indebtedness of a Subsidiary or any other Property at the time of acquisition of such stock or Indebtedness or other Property (provided that such Lien was not created in connection with the acquisition of such Person or such Property), and any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any such Lien in clauses (x) or (y) above; provided, however, that the principal amount of Debt secured by such Lien shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement; and provided, further, that such Lien shall be limited to all or such part of the stock or Indebtedness or other Property which secured the Lien so extended, renewed or replaced;

(ii) any Permitted Liens; and

(iii) any Lien upon any Property if the aggregate amount of all Debt then outstanding secured by such Lien and all other Liens permitted pursuant to this clause (iii) does not exceed 10% of the total consolidated stockholders' equity (including preferred stock) of Parent as shown on the audited consolidated balance sheet contained in the latest annual report to stockholders of Parent; provided that Debt secured by Liens permitted by clauses (i) and (ii) shall not be included in the amount of such secured Debt.

7.4. Limitation on Changes in Fiscal Periods. Neither of the Borrowers shall permit its fiscal year to end on a day other than December 31 or change its method of determining fiscal quarters.

7.5. Limitation on Lines of Business. Neither of the Borrowers shall engage to any extent that is material for such Borrower and its Subsidiaries, taken as a whole, in any business, either directly or through any Subsidiary, other than a Principal Business.

8. EVENTS OF DEFAULT

8.1. Events of Default. If any of the following events shall occur and be continuing:

(a) The Borrowers shall fail to pay any principal of any Loan made to the Borrowers or Reimbursement Obligation owing by the Borrowers when due in accordance with the terms hereof; or the Borrowers shall fail to pay any interest on any Loan made to the Borrowers or Reimbursement Obligation owing to the Borrowers, or any other amount payable

by the Borrowers hereunder or under any other Loan Document, within three Business Days after any such interest or other amount becomes due in accordance with the terms hereof; or

(b) Either of the Borrowers shall default in the observance or performance of any agreement contained in Section 6.7(a) or Section 7; or

(c) (i) The Borrowers or any of their Material Insurance Subsidiaries shall voluntarily commence any case, proceeding or other action (A) under any Debtor Relief Law, (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Borrowers or any of their Material Insurance Subsidiaries shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrowers or any of their Material Insurance Subsidiaries any case, proceeding or other action under any Debtor Relief Law that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded

for a period of 60 days; or (iii) the Borrowers or any of their Material Insurance Subsidiaries shall take any corporate action to authorize or effect any of the acts set forth in clause (i), or (ii), above; or (iv) the Borrowers or any of their Material Insurance Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(d) A Change of Control; or

(e) A Fundamental Change; or

(f) Any representation or warranty made or deemed made by either of the Borrowers herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate in any material respect on or as of the date made or deemed made or furnished; or

(g) Either of the Borrowers shall default in the observance or performance of any other agreement, covenant, term or condition contained in this Agreement or any other Loan Document (not specified in Sections 8.1(a), 8.1(b) or 8.1(f)); or

(h) The Borrowers or any of their Subsidiaries shall (i) default in making any payment of any principal of any Indebtedness (including, without limitation, any Guarantee Obligation, but excluding the Loans and Reimbursement Obligations) on the scheduled or original due date with respect thereto (after giving effect to any applicable grace periods); or (ii) default in making any payment of any interest on any such Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; or (iii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, the effect of which default is to cause, or to permit the holder or beneficiary of such Indebtedness (or a trustee or agent on behalf of such holder or beneficiary) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or to become subject to a mandatory offer to purchase by the obligor thereunder as a result of the occurrence of such default thereunder or (in the case of any such Indebtedness

constituting a Guarantee Obligation) to become payable; provided, that a default described in clause (i), (ii) or (iii) of this paragraph (h) shall not at any time constitute an Event of Default unless, at such time, one or more defaults of the type described in clauses (i), (ii) and (iii) of this paragraph (h) shall have occurred and be continuing with respect to Indebtedness the outstanding principal amount of which exceeds in the aggregate $25,000,000; or

(i) (i) Any person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of the Borrowers or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Majority Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA or, (v) the Borrowers or any Commonly Controlled Entity shall, or in the reasonable opinion of the Majority Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan and in each case in clauses (i) through (v) above, such event or condition, together with all other such events or conditions for which liability to the Borrowers is reasonably expected to occur, if any, could, in the reasonable judgment of the Majority Lenders, reasonably be expected to have a Material Adverse Effect; or

(j) One or more judgments or decrees shall be entered against the Borrowers or any of their Subsidiaries involving for the Borrowers and their Subsidiaries taken as a whole a liability (to the extent not paid or fully covered by insurance above applicable deductions) of $25,000,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 45 days from the entry thereof; or

(k) The guarantees, set forth in Section 2.21 herein, shall cease, for any reason (other than as provided in Section 10.17) to be in full force and effect or either of the Borrowers or any Affiliate of either of the Borrowers shall so assert in writing; or

(l) Any License of any Insurance Subsidiary (i) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced against such Insurance Subsidiary and shall not have been dismissed within thirty days after the commencement thereof, (ii) shall be suspended by such Governmental Authority for a period in excess of thirty days or (iii) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which, in the case of each of clauses (i), (ii) and (iii) above, could reasonably be expected to have a Material Adverse Effect.

Notwithstanding the foregoing, in the case of each of paragraphs (f) through (l) of this Section 8.1, such event shall not constitute an Event of Default unless such event continues unremedied for a period of 30 days after the Borrowers shall have received written notice of such event from the Administrative Agent.

8.2. Remedies Upon Event of Default. If any Event of Default specified in Section 8.1 occurs and is continuing, then, and in any such event, (a) if such event is an Event of Default specified in clause (i) or (ii) of Section 8.1(c) above with respect to either of the Borrowers, automatically the commitment of each Lender to make Loans and any obligation of the Issuing Lender to make L/C Credit Extensions shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) shall immediately become due and payable, and (b) if such event is any other Event of Default specified in Section 8.1, either or both of the following actions may be taken: (i) with the consent of the Majority Lenders, the Administrative Agent may, or upon the request of the Majority Lenders, the Administrative Agent shall, by notice to the Borrowers declare the Revolving Credit Commitments and the obligation of the Issuing Lender to issue Letters of Credit to be terminated forthwith, whereupon the Revolving Credit Commitments and the L/C Commitment shall immediately terminate; and (ii) with the consent of the Majority Lenders, the Administrative Agent may, or upon the request of the Majority Lenders, the Administrative Agent shall, by notice to the Borrowers, declare the

Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) to be due and payable forthwith, whereupon the same shall immediately become due and payable. In the case of any Letter of Credit issued for the account of a Borrower with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to this paragraph, such Borrower shall at such time Cash Collateralize such L/C Obligations in an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Such cash collateral shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Borrowers hereunder and under the other Loan Documents. After (a) all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Borrowers hereunder and under the other Loan Documents shall have been paid in full or (b) all Defaults and Events of Default hereunder and under the other Loan Document shall have been cured or waived, the balance, if any, in such cash collateral account shall be returned to the applicable Borrower (or such other Person as may be lawfully entitled thereto).

9. THE ADMINISTRATIVE AGENT

9.1. Appointment. (a) Each Lender hereby irrevocably appoints, designates and authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere herein or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Administrative Agent have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or

liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" herein and in the other Loan Documents with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) The Issuing Lender shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the Issuing Lender shall have all of the benefits and immunities (i) provided to the Administrative Agent in this Section 9 with respect to any acts taken or omissions suffered by the Issuing Lender in connection with Letters of Credit issued by it or proposed to be issued by it and the Applications and agreements for letters of credit pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in this Section 9 and in the definition of "Agent-Related Person" included the Issuing Lender with respect to such acts or omissions, and (ii) as additionally provided herein with respect to the Issuing Lender; provided that nothing in this Agreement shall be construed to excuse the Issuing Lender from any liability to the Borrowers for damages caused by the gross negligence or willful misconduct of the Issuing Lender or any Agent-Related Person.

9.2. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

9.3. Liability of Administrative Agent. No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (b) be responsible in any manner to any Lender or participant for any recital, statement, representation or warranty made by either of the Borrowers or any officer thereof, contained herein or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of either of the Borrowers or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender or participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrowers or any Affiliate thereof.

9.4. Reliance by Administrative Agent. (a) The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, communication, signature, resolution, representation, notice, consent, certificate, affidavit, letter, telegram,

facsimile, telex or telephone message, electronic mail message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Borrowers), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless such Note shall have been transferred in accordance with Section 10.7 and all actions required by such Section 10.7 in connection with such transfer shall have been taken. The Administrative Agent shall be fully justified in failing or refusing to take any action under any Loan Document unless it shall first receive such advice or concurrence of the Majority Lenders (or, if so specified by this Agreement, all Lenders) as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Majority Lenders (or such greater number of Lenders as may be expressly required hereby in any instance) and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders; provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable Law.

(b) For purposes of determining compliance with the conditions specified in Section 4.1, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

9.5. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default unless the Administrative Agent shall have received written notice from a Lender or a Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default." The Administrative Agent will notify the Lenders of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Default as may be directed by the Majority Lenders in accordance with Section 8.2; provided, however, that unless and until the Administrative Agent has received any such direction, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable or in the best interest of the Lenders.

9.6. Credit Decision; Disclosure of Information by Administrative Agent. Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by the Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of the Borrowers or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such

documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrowers and their Subsidiaries, and all applicable bank or other regulatory Laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrowers hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrowers. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent herein, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Borrowers or any of their Affiliates which may come into the possession of any Agent-Related Person.

9.7. Indemnification of Administrative Agent. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand each Agent-Related Person (to the extent not reimbursed by or on behalf of the Borrowers and without limiting the obligation of the Borrowers), pro rata, and hold harmless each Agent-Related Person from and against any and all Indemnified Liabilities incurred by it; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities to the extent determined in a final, nonappealable judgment by a court of competent jurisdiction to have resulted from such Agent-Related Person's own gross negligence or willful misconduct, provided, however, that no action taken in accordance with the directions of the Majority Lenders (or such greater percentage of Lenders as may be required hereunder) shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section 9.7. Without limitation of the foregoing, each Lender shall reimburse the Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Administrative Agent is not reimbursed for such expenses by or on behalf of the Borrowers. The undertaking in this Section 9.7 shall survive termination of the Total Revolving Credit Commitments, the payment of all other obligations and the resignation of the Administrative Agent.

9.8. Administrative Agent in its Individual Capacity. Bank of America, N.A. and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Borrowers and their respective Affiliates as though Bank of America, N.A. were not the Administrative Agent or the Issuing Lender hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Bank of America, N.A. or its Affiliates may receive information regarding the Borrowers or their Affiliates (including information that may be subject to confidentiality

obligations in favor of the Borrowers or such Affiliate) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, Bank of America, N.A. shall have the same rights and powers under this Agreement as any other Lender and may exercise such rights and powers as though it were not the Administrative Agent or the Issuing Lender, and the terms "Lender" and "Lenders" include Bank of America, N.A. in its individual capacity.

9.9. Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders and the Borrowers; provided that any such resignation by Bank of America, N.A. shall also constitute its resignation as Issuing Lender and Swing Line Lender, so long as a successor Issuing Lender and a successor Swing Line Lender (each consented to by the Borrowers, such consent not to be unreasonably withheld or delayed) is appointed. If the Administrative Agent resigns under this Agreement, the Majority Lenders shall appoint from among the Lenders a successor administrative agent for the Lenders, which successor administrative agent shall be consented to by the Borrowers at all times other than during the continuance of a Specified Event of Default (which consent of the Borrowers shall not be unreasonably withheld or delayed). If no successor administrative agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and the Borrowers, a successor administrative agent from among the Lenders. Upon the acceptance of its appointment as successor administrative agent hereunder, the Person acting as such successor administrative agent shall succeed to all of the rights, powers and duties of the retiring Administrative Agent, Issuing Lender and Swing Line Lender and the respective terms "Administrative Agent," "Issuing Lender" and "Swing Line Lender" shall mean such successor administrative agent, Letter of Credit issuer and swing line lender, and the retiring Administrative Agent's appointment, powers and duties as

Administrative Agent shall be terminated and the retiring Issuing Lender's and Swing Line Lender's rights, powers and duties as such shall be terminated, without any other or further act or deed on the part of such retiring Issuing Lender or Swing Line Lender or any other Lender, other than the obligation of the successor Issuing Lender to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or to make other arrangements satisfactory to the retiring Issuing Lender to effectively assume the obligations of the retiring Issuing Lender with respect to such Letters of Credit. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 9 and Sections 10.5 and 10.6 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor administrative agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Majority Lenders appoint a successor agent as provided for above.

9.10. Administrative Agent May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to either of the Borrowers, the Administrative Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the

Administrative Agent shall have made any demand on either of the Borrowers) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.5, 3.9 and 10.5) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.5, 3.9 and 10.5.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the obligations of the Borrowers hereunder or under any of the other Loan Documents or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

9.11. Guarantee and Collateral Matters. The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon termination of the Total Revolving Credit Commitments and payment in full of all obligations of the Borrowers hereunder or under any of the other Loan Documents (other than contingent indemnification obligations) and the expiration or termination of all Letters of Credit, (ii) that is sold or to be sold as part of or in connection with any sale permitted hereunder or under any other Loan Document, or (iii) subject to Section 10.1, if approved, authorized or ratified in writing by the Majority Lenders; and

(b) to subordinate any Lien on any property granted to or held by the Administrative Agent under any Loan Document to the holder of any Lien on such property that is permitted by Section 7.3, and

(c) to effect any release of Guarantee Obligations contemplated by Section 10.17.

9.12. Other Agents; Arrangers and Managers. None of the Lenders or other Persons identified on the facing page or signature pages of this Agreement as a "syndication agent," "documentation agent," "co-agent," "book manager," "lead manager," "arranger," "lead arranger" or "co-arranger" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than, in the case of such Lenders, those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders or other Persons so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders or other Persons so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

10. MISCELLANEOUS

10.1. Amendments, Etc. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrowers therefrom, shall be effective unless in writing signed by the Majority Lenders and the Borrowers and delivered to the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(a) extend the expiration date of or increase the Revolving Credit Commitment of any Lender (or reinstate any Revolving Credit Commitment terminated pursuant to Section 8.2) without the written consent of such Lender;

(b) postpone any date fixed by this Agreement or any other Loan Document for any payment (excluding mandatory prepayments) of principal, interest or fees payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(c) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or, subject to clause (v) of the second proviso to this Section 10.1, any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Majority Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrowers to pay interest or Letter of Credit Fees at the Default Rate;

(d) change Section 2.14 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender directly affected thereby; or

(e) change any provision of this Section 10.1 or the percentage in the definition of "Majority Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(f) amend, modify or waive any provision of Section 2.3 or 2.4 without the written consent of the Swing Line Lender;

(g) amend, modify or waive any provision of Section 3 without the consent of the Issuing Lender;

(h) amend, modify or waive the provisions of the definition of Interest Period regarding nine or twelve month Interest Periods for Eurodollar Loans without the consent of each relevant Lender;

(i) consent to the assignment or transfer by either of the Borrowers of any of its rights and obligations under this Agreement and the other Loan Documents; or

(j) release either of the Borrowers from their Guarantee Obligations under the Guaranties except as provided in Section 10.17, without the consent of all Lenders;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Issuing Lender in addition to the Lenders required above, modify the rights or duties of the Issuing Lender under this Agreement or any Application relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, modify the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, modify the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (iv) Section 10.7(h) may not be amended, waived or otherwise modified without the consent of each Granting Lender all or any part of whose Loans are being funded by an SPC at the time of such amendment, waiver or other modification; and (v) the Fee Letters may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Revolving Credit Commitment of such Lender may not be increased or extended without the consent of such Lender.

Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Borrowers, the Lenders, the Administrative Agent and all future holders of the Loans. In the case of any waiver, the Borrowers, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon. Any such waiver, amendment, supplement or modification shall be effected by a written instrument signed by the parties required to sign pursuant to the foregoing provisions of this Section 10.1; provided, that delivery of an executed signature page of any such instrument by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

For the avoidance of doubt, this Agreement may be amended (or amended and restated) with the written consent of the Majority Lenders, the Administrative Agent and the Borrowers party to each relevant Loan Document (x) to add one or more additional credit facilities to this Agreement and to permit the extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement

and the other Loan Documents with the Loans, the L/C Obligations and the accrued interest and fees in respect thereof and (y) to include appropriately the Lenders holding such credit facilities in any determination of the Majority Lenders.

10.2. Notices; Effectiveness; Electronic Communication.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail, sent by telecopier or by electronic mail as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Borrowers, the Administrative Agent, the Issuing Lender or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 10.2; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders and the Issuing Lender hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to service of process or to notices to any Lender or the Issuing Lender pursuant to Section 2. The Administrative Agent or any Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication

is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT-RELATED PERSONS DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT-RELATED PERSONS OR BORROWER IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Agent-Related Persons or any Borrower have any liability to any Agent-Related Person, any Borrower, any Lender, or the Issuing Lender for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of any Borrower's or the Administrative Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent-Related Persons or Borrower; provided, however, that in no event shall any Agent-Related Persons or Borrower have any liability to any Agent-Related Person, any Borrower, any Lender, or the Issuing Lender for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages). Each Lender agrees that the Borrowers shall be responsible only for the Borrower Materials and shall not have any liability (unless otherwise agreed in writing by the Borrowers) for any other materials made available to the Lenders and shall not have any liability for any errors or omissions other than errors or omissions in the materials delivered to the Administrative Agent by any Borrower. Nothing in this Section 10.2(c) shall limit the obligation of the Administrative Agent and the Lenders under Section 10.16.

(d) Change of Address, Etc. Each of the Borrowers, the Administrative Agent, the Issuing Lender and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrowers, the Administrative Agent, the Issuing Lender and the Swing Line Lender. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Administrative Agent, Issuing Lender and Lenders. The Administrative Agent, the Issuing Lender and the Lenders shall be entitled to rely and act upon any notices (including telephonic and written Borrowing Requests and notices of Swing Line Loans) purportedly given by or on behalf of either of the Borrowers; provided that the foregoing shall not apply to losses, costs, expenses and liabilities caused by the gross negligence or willful misconduct of the relevant Lender or any Agent-Related Person even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any

other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. Each of the Borrowers shall indemnify the Administrative Agent, the Issuing Lender, each Lender and the Agent-Related Persons from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of either of the Borrowers; provided that the foregoing shall not apply to losses, costs, expenses and liabilities caused by the gross negligence or willful misconduct of the relevant Lender or any Agent-Related Person. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

(f) Effectiveness of Facsimile Documents and Signatures. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be

binding on the Borrowers, the Administrative Agent and the Lenders. The Administrative Agent may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

10.3. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

10.4. Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any extension of credit, and shall continue in full force and effect as long as any Loan or any other obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

10.5. Attorney Costs and Expenses. The Borrowers agree (a) to pay or reimburse the Administrative Agent and the Arrangers for all reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation and execution of this Agreement and the other Loan Documents and any amendment, waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all Attorney Costs, and (b) to pay or reimburse the Administrative Agent and each Lender for all reasonable out-of-pocket costs and expenses (which may include, to the extent reasonably incurred, all search, filing, recording, title insurance and appraisal charges and fees and taxes related thereto, and other out-of-pocket

expenses incurred by the Administrative Agent and the cost of independent public accountants and other outside experts) incurred in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Loan Documents (including all such costs and expenses incurred during any "workout" or restructuring in respect of the obligations of the Borrowers hereunder or under any of the other Loan Documents and during any legal proceeding, including any proceeding under any Debtor Relief Law), including all Attorney Costs. All amounts due under this Section 10.5 shall be payable not later than 30 days following written demand. The agreements in this Section 10.5 shall survive the termination of the Total Revolving Credit Commitments and repayment of all other obligations.

10.6. Indemnification. (a) Whether or not the transactions contemplated hereby are consummated, the Borrowers shall indemnify and hold harmless each Agent-Related Person, each Arranger, each Lender and their respective Affiliates, directors, officers, employees, counsel, agents, shareholders and attorneys-in-fact (collectively the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, settlement payments and causes of action of any kind or nature whatsoever and reasonable related out-of-pocket costs and expenses which may at any time be imposed on, incurred, suffered, sustained, required to be paid by or asserted against any such Indemnitee in any way relating to or arising out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Loan Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated thereby or the consummation of the transactions contemplated thereby, (b) any Revolving Credit Commitment, Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the Issuing Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (c) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by the Borrowers or any Subsidiary, or any Environmental Liability related in any way to the Borrowers or any of their Subsidiaries, or (d) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of, preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether any Indemnitee is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"), in all cases, whether or not caused by or arising, in whole or in part, out of the negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, settlement payments, causes of action or costs or expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. In all such litigation, or the preparation therefor, the Indemnitees shall be entitled to select counsel to the Indemnitees. To the extent reasonably practicable and not disadvantageous to any Indemnitee (as reasonably determined by the relevant Indemnitee), it is anticipated that a single counsel selected by the affected Lenders will be used. No Indemnitee shall be liable to the Borrowers for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby, and, to the fullest extent permitted by applicable Law, each Borrower shall not assert, and hereby

waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof (whether before or after the Closing Date); provided that this sentence shall not, as to any Indemnitee, apply to the extent such Indemnitee is found by a final non-appealable judgment of a court of competent jurisdiction to have acted with willful misconduct or gross negligence. All amounts due under this Section 10.6 shall be payable not later than 30 days following written demand. The agreements in this Section 10.6 shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Total Revolving Credit Commitments and the repayment, satisfaction or discharge of all the other obligations of the Borrowers hereunder.

(b) To the extent that the Borrowers for any reason fail to indefeasibly pay any amount required under Section 10.5 and Section 10.6(a) to be paid by them to the Administrative Agent (or any sub-agent thereof), the Issuing Lender or any Agent-Related Person of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), the Issuing Lender or such Agent-Related Person, as the case may be, such Lender's Revolving Credit Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the Issuing Lender in its capacity as such, or against any Agent-Related Person of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or Issuing Lender in connection with such capacity. The obligations of the Lenders under this Section 10.6(b) are subject to the provisions of Section 2.14(f).

10.7. Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrowers may not assign or otherwise transfer any of their rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of Section 10.7(b), (ii) by way of participation in accordance with the provisions of Section 10.7(d), (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 10.7(f), or (iv) to an SPC in accordance with the provisions of Section 10.7(h) (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in Section 10.7(d) and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and the Loans (including for

purposes of this subsection (b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Credit Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section 10.7, the aggregate amount of the Revolving Credit Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Revolving Credit Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than $5,000,000 unless each of the Administrative Agent and, so long as no Specified Event of Default has occurred and is continuing, the Borrowers otherwise consent (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single assignee (or to an assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met.

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Revolving Credit Commitment assigned, except that this clause (ii) shall not apply to the Swing Line Lender's rights and obligations in respect of Swing Line Loans;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section 10.7 and, provided that:

(A) the consent of the Borrowers (such consent not to be unreasonably withheld or delayed) shall be required unless (1) a Specified Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required if such

assignment is to a Person that is not a Lender or an Affiliate of the assigning Lender;

(C) the consent of the Issuing Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(D) the consent of the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment.

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of $3,500; provided, however, that the Administrative Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(v) No Assignment to Borrowers. No such assignment shall be made to either Borrower or any Affiliates or Subsidiaries of the Borrowers.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

(vii) No Assignment to Approved Funds Prior to Specified Event of Default. No such assignment shall be made to an Approved Fund prior to the occurrence of a Specified Event of Default. After the occurrence and during the continuance of any Specified Event of Default, an Approved Fund shall be an Eligible Assignee hereunder.

(viii) Creditworthiness of Affiliates and Approved Funds. Notwithstanding the foregoing, no such assignment shall be made to an Affiliate of a Lender or to an Approved Fund unless such Affiliate or Approved Fund shall be a financial institution having a senior unsecured debt rating of not less than "A-", or its equivalent, by S&P.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to Section 10.7(c), from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17, 2.18, 10.5 and 10.6 with respect to facts and circumstances occurring prior to the effective date of such

assignment. Upon request, the Borrowers (at their expense) shall execute and deliver a Note to the assignee Lender and a replacement Note, as applicable, to the assigning Lender.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrowers, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Credit Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrowers, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrowers and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrowers or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrowers or any Affiliates or Subsidiaries of the Borrowers) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrowers, the Administrative Agent, the Lenders and the Issuing Lender shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.1 that directly affects such Participant. Subject to Section 10.7(e), each Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 or 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 10.7(b). To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 10.8 as though it were a Lender, provided such Participant agrees to be subject to Section 2.14 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Sections 2.15, 2.16 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrowers' prior written consent. A Participant that would be a Non-U.S. Lender if it were a Lender shall not be entitled to the benefits of Section 2.16 unless the Borrowers are notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrowers, to comply with Section 2.16(d) and (e) as though it were a Lender.

(f) Certain Pledges. Notwithstanding anything to the contrary contained herein, any Lender may, with notice to, but without prior consent of the Borrowers and the Administrative Agent, at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank

(provided that notice to the Borrowers and the Administrative Agent shall not be required in the case of a pledge or assignment to secure obligations to a Federal Reserve Bank); provided further that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute, or permit the substitution of, any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) Special Purpose Funding Vehicles. Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may, with notice to, but without prior consent of the Borrowers and the Administrative Agent grant to a special purpose funding vehicle identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrowers (an "SPC") the option to provide all or any part of any Loan that such Granting Lender would otherwise be obligated to make pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to fund any Loan, and (ii) if an SPC elects not to exercise such option or otherwise fails to make all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof and, if it fails to do so, to make such payment to the Administrative Agent as is required under Section 2.14(e)(ii). Each party hereto hereby agrees that (i) neither the grant to any SPC nor the exercise by any SPC of such option shall increase the costs or expenses or otherwise increase or change the obligations of the Borrowers under this Agreement (including its obligations under Section 2.15), (ii) no SPC shall be liable for any indemnity or similar payment obligation under this Agreement for which a Lender would be liable, and (iii) the Granting Lender shall for all purposes, including the approval of any amendment, waiver or other modification of any provision of any Loan Document, remain the lender of record hereunder. The making of a Loan by an SPC hereunder shall utilize the Revolving Credit Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior debt of any SPC, it will not institute against, or join any other Person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency, or liquidation proceeding under any Debtor Relief Laws or any other Laws. Notwithstanding anything to the contrary contained herein, any SPC may (i) with notice to, but without prior consent of the Borrowers and the Administrative Agent and with the payment of a processing fee in the amount of $3,500 (which processing fee

may be waived by the Administrative Agent in its sole discretion), assign all or any portion of its right to receive payment with respect to any Loan to the Granting Lender and (ii) disclose on a confidential basis any non-public information relating to its funding of Loans to any rating agency, commercial paper dealer or provider of any surety or guarantee or credit or liquidity enhancement to such SPC.

(i) Resignation as Issuing Lender or Swing Line Lender after Assignment. Notwithstanding anything to the contrary contained herein, if at any time Bank of America, N.A. assigns all of its Revolving Credit Commitment and Loans pursuant to Section 10.7(b), Bank of America, N.A. may, (i) upon 30 days' notice to the Borrowers and the Lenders, resign as Issuing Lender, so long as a successor Issuing Lender (consented to by the Borrowers, such consent not to be unreasonably withheld or delayed) has been appointed and/or (ii) upon 30 days' notice to the Borrowers, resign as Swing Line Lender, so long as a successor Swing Line Lender (consented to by the Borrowers, such consent not to be unreasonably withheld or delayed) has been appointed. In the event of any such resignation as Issuing Lender or Swing Line Lender, the Borrowers shall be entitled to appoint from among the Lenders a successor Issuing Lender or Swing Line Lender hereunder; provided, however, that no failure by the Borrowers to appoint any such successor shall affect the resignation of Bank of America, N.A. as Issuing Lender or Swing Line Lender, as the case may be. If Bank of America, N.A. resigns as Issuing Lender, it shall retain all the rights and obligations of the Issuing Lender hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as Issuing Lender and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 3.3). If Bank of America, N.A. resigns as Swing Line Lender, it shall retain all the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to make Base Rate Loans or fund risk participations in outstanding Swing Line Loans pursuant to Section 2.4. Upon the appointment of a successor Issuing Lender and/or Swing Line Lender, (a) such successor shall succeed to and become vested with all of the rights and obligations of the retiring Issuing Lender or Swing Line Lender, as the case may be, and (b) the successor Issuing Lender shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Bank of America, N.A. to effectively assume the obligations of Bank of America, N.A. with respect to such Letters of Credit.

10.8. Adjustments; Set-off. (a) Except to the extent that this Agreement provides for a payment to be allocated to a particular Lender, if any Lender (a "Benefitted Lender") shall at any time receive any payment of all or part of the obligations under the Credit Agreement or the other Loan Documents, owing to it, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 8.1(c), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's obligations under the Credit Agreement or the other Loan Documents, such Benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of each such other Lender's obligations under the Credit Agreement or the other Loan Documents, or shall provide such other Lenders with the benefits of any such collateral, as shall be necessary to cause such Benefitted Lender to share the excess payment or benefits of such collateral ratably with each of

the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by Law, each Lender shall have the right, without prior notice to the Borrowers, any such notice being expressly waived by the Borrowers to the extent permitted by applicable Law, upon any amount becoming due and payable by a Borrower hereunder (whether at the stated maturity, by acceleration or otherwise), to set-off and appropriate and apply against such amount any

and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of such Borrower. Each Lender agrees promptly to notify the Borrowers, as the case may be, and the Administrative Agent after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

10.9. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrowers and the Administrative Agent.

10.10. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.11. Integration. This Agreement, the other Loan Documents and the Fee Letters represent the entire agreement of the Borrowers the Administrative Agent, the Arrangers, the Syndication Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Arrangers, the Administrative Agent, the Syndication Agent or any Lender relative to subject matter hereof not expressly set forth or referred to herein, in the other Loan Documents or in the Fee Letters. Each of the Borrowers agrees that its obligations under the Fee Letters shall survive the execution and delivery of this Agreement.

10.12. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY).

10.13. SUBMISSION TO JURISDICTION; WAIVERS. EACH OF THE BORROWERS HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(a) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK, AND APPELLATE COURTS FROM ANY THEREOF;

(b) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME;

(c) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO THE BORROWERS, AS THE CASE MAY BE, AT ITS ADDRESS SET FORTH IN SECTION 10.2 OR AT SUCH OTHER ADDRESS OF WHICH THE ADMINISTRATIVE AGENT SHALL HAVE BEEN NOTIFIED PURSUANT THERETO;

(d) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT TO SUE IN ANY OTHER JURISDICTION; AND

(e) WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LEGAL ACTION OR PROCEEDING REFERRED TO IN THIS SECTION 10.13 ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

10.14. WAIVERS OF JURY TRIAL. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 10.14 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

10.15. No Advisory or Fiduciary Responsibility. In connection with this Agreement, each of the Borrowers acknowledges and agrees that: (a) the credit facility provided for hereunder and any related arranging or other services in connection therewith (including in connection with any

amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Borrowers and their respective Affiliates, on the one hand, and the Administrative Agent and the Arrangers, on the other hand, and each of the Borrowers is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (b) in connection with the process leading to such transaction, the Administrative Agent and the Arrangers, each is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Borrowers or any of their respective Affiliates, stockholders, creditors or employees or any other Person; (c) neither the Administrative Agent nor the Arrangers have assumed or will assume an advisory, agency or fiduciary responsibility in favor of either Borrower with respect to this Agreement or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether the Administrative Agent or the Arrangers have advised or is currently advising the Borrowers or any of their respective Affiliates on other matters) and neither the Administrative Agent nor the Arrangers have any obligation to the Borrowers or any of their respective Affiliates with respect to this Agreement except those obligations expressly set forth herein and in the other Loan Documents; (d) the Administrative Agent and the Arrangers and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrowers and their respective Affiliates, and neither the Administrative Agent nor the Arrangers have any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (e) the Administrative Agent and the Arrangers have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to this Agreement (including any amendment, waiver or other modification hereof or of any other Loan Document) and each of the Borrowers has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate.

10.16. Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the NAIC), (c) to the extent required by applicable Laws or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section 10.16, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to either of the Borrowers and its obligations, (g) with the consent of the Borrowers or (h) to the extent

such Information (x) becomes publicly available other than as a result of a breach of this Section 10.16 or (y) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Borrowers. For purposes of this Section 10.16, "Information" means all information received from either of the Borrowers or any of its Subsidiaries relating to either of the Borrowers or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by a Borrower or any Subsidiary, provided that, in the case of information received from a Borrower or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section 10.16 shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent, the Lenders and the Issuing Lender acknowledges that (a) the Information may include material non-public information concerning each Borrower or a Subsidiary thereof, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including Federal and state securities Laws.

10.17. Release of Guarantee Obligations. Notwithstanding anything to the contrary contained herein or any other Loan Document, when all obligations of a Borrower hereunder and under the other Loan Documents that are guaranteed by a Guarantor have been paid in full, all Revolving Credit Commitments have terminated, there exist no unpaid Reimbursement Obligations and no Letter of Credit issued for the account of such Borrower shall be outstanding, upon request of the Borrowers, the Administrative Agent shall (without notice to, or vote or consent of, any Lender) take such actions as may be required to release all Guarantee Obligations of such Guarantor under any Loan Document, including, without limitation, its Guaranty. Any such release of Guarantee Obligations shall be deemed subject to the provision that such Guarantee Obligations shall be reinstated if after such release any portion of any payment in respect of the obligations guaranteed thereby shall be rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of such Borrower or such Guarantor, or upon or as a result of the appointment of a receiver, intervener or conservator of, or trustee or similar officer for, such Borrower or such Guarantor or any substantial part of its property, or otherwise, all as though such payment had not been made.

10.18. Accounting Changes. In the event that any "Accounting Change" (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants, standards or terms in this Agreement, then the Borrowers and the Administrative Agent agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the Borrowers' financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by the Borrowers, the Administrative Agent and the Majority Lenders, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred.

"Accounting Changes" refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants, applicable Insurance Regulators, the NAIC or, if applicable, the SEC.

10.19. USA PATRIOT Act Notice. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrowers that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrowers, which information includes the name and address of the Borrowers and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrowers in accordance with the Act.

10.20. Interest Rate Limitation.

(a) Notwithstanding anything to the contrary contained in any Loan Document, if at any time the rate of interest payable under any Loan Document (the "Stated Rate") would exceed the rate of interest permitted to be charged under any applicable Law (the "Maximum Rate"), then for so long as the Maximum Rate would be so exceeded, the rate of interest payable shall be equal to the Maximum Rate; provided that if at any time thereafter, the Stated Rate is less than the Maximum Rate, each Borrower shall, to the extent permitted by applicable Law, continue to pay interest at the Maximum Rate until such time as the total interest received is equal to the total interest which would have been received had the Stated Rate been (but for the operation of this provision) the interest rate payable. Thereafter, the interest rate payable shall be the Stated Rate unless and until the Stated Rate again would exceed the Maximum Rate, in which event this provision shall again apply.

(b) In no event shall the total interest received by a Lender exceed the amount which it could lawfully have received had the interest been calculated for the full term hereof at the Maximum Rate.

[*Remainder of Page Left Intentionally Blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

The Borrowers:

WHITE MOUNTAINS INSURANCE GROUP, LTD.

By: _____
Name:
Title:

WHITE MOUNTAINS RE GROUP, LTD.

By: _____
Name:
Title:

BANK OF AMERICA, N.A., as
Administrative Agent

By: _____
Name:
Title:

BANK OF AMERICA, N.A., as
a Lender, Issuing Lender and Swing Line Lender

By: _____
Name:
Title:

LEHMAN BROTHERS BANK, FSB, as
a Lender

By: _____
Name:
Title:

SCHEDULE 10.02

ADMINISTRATIVE AGENT'S OFFICE;
CERTAIN ADDRESSES FOR NOTICES

BORROWERS:
White Mountains Insurance Group, Ltd.
80 South Main Street
Hanover, NH 03755
Attention: Robert Seelig, Esq.
Telephone: 603-640-2202
Telecopier: 603-643-4592
Electronic Mail: rseelig@whitemountains.com
U.S. Taxpayer Identification Number (White Mountains Insurance Group, Ltd.): 94-2708455

U.S. Taxpayer Identification Number (White Mountains Re Group, Ltd.): 98-0422761

with a copy to:

Cravath, Swaine and Moore LLP
WorldWide Plaza
825 Eighth Avenue
New York, NY 10019-7475
Attention: Paul Michalski
Telecopier: 212-474-3700

ADMINISTRATIVE AGENT:

Administrative Agent's Office
(for payments and Requests for Credit Extensions):
Bank of America, N.A.
2001 Clayton Road
Mail Code" CA4-702-02-25
Concord, CA 94520
Attention: Tina Obcena
Telephone: 925-675-8768
Telecopier: 888-969-9246
Electronic Mail: tina.obcena@bankofamerica.com
Account No.: 3750836479
Ref: White Mountains Insurance Group
ABA# 026009593

Other Notices as Administrative Agent:
Bank of America, N.A.
Agency Management
1455 Market Street, 5th Floor
Mail Code: CA5-701-05-19
San Francisco, CA 94103
Attention: Aamir Saleem
Telephone: 415-436-2769
Telecopier: 415-503-5089
Electronic Mail: aamir.saleem@bankofamerica.com

ISSUING LENDER:

Bank of America, N.A.
Trade Operations
1000 W. Temple Street
Mail Code: CA9-705-07-05
Los Angeles, CA 90012-1514
Attention: Stella Rosales
Telephone: 213-481-7828
Telecopier: 213-580-8441
Electronic Mail: stella.rosales@bankofamerica.com

SWING LINE LENDER:

Bank of America, N.A.
2001 Clayton Road
Mail Code" CA4-702-02-25
Concord, CA 94520
Attention: Tina Obcena
Telephone: 925-675-8768
Telecopier: 888-969-9246
Electronic Mail: tina.obcena@bankofamerica.com
Account No.: 3750836479
Ref: White Mountains Insurance Group
ABA# 026009593

Exhibit 10.4

CREDIT AGREEMENT

Dated as of November 14, 2006

among

FUND AMERICAN COMPANIES, INC.
as the Borrower,

ONEBEACON INSURANCE GROUP, LTD.,
as Parent,

BANK OF AMERICA, N.A.,
as Administrative Agent, Swing Line Lender and
Issuing Lender,

and

THE OTHER LENDERS PARTY HERETO
LEHMAN BROTHERS INC.,
as Syndication Agent

and

JPMORGAN CHASE BANK, N.A.,

THE BANK OF NEW YORK,

THE BANK OF TOKYO-MITSUBISHI UFJ. LTD., NEW YORK BRANCH,

and

DEUTSCHE BANK AG NEW YORK BRANCH
as Co-Documentation Agents

and

BANC OF AMERICA SECURITIES LLC,

and

LEHMAN BROTHERS INC.
as Joint Lead Arrangers and Joint Book Runners

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CREDIT AGREEMENT

This **CREDIT AGREEMENT**, dated as of November 14, 2006, among (i) **FUND AMERICAN COMPANIES, INC.,** a Delaware corporation (the "Borrower"), (ii) **ONEBEACON INSURANCE GROUP, LTD.,** a company existing under the laws of Bermuda ("Parent" and, together with the Borrower, collectively, the "Loan Parties" and, individually, a "Loan Party"), (iii) each lender from time to time party hereto (collectively, the "Lenders"), (iv) **BANK OF AMERICA, N.A.**, as Administrative Agent, Swing Line Lender and the Issuing Lender and (v) **LEHMAN BROTHERS INC.**, as Syndication Agent.

PRELIMINARY STATEMENTS

The Borrower has requested that the Lenders provide a revolving credit facility, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

1. DEFINITIONS

1.1. Defined Terms. As used in this Agreement, the terms listed in this Section 1.1 shall have the respective meanings set forth in this Section 1.1.

"Act of 1934" means the Securities Exchange Act of 1934 and the regulations issued thereunder.

"Administrative Agent" means Bank of America, N.A., in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent appointed in accordance with Section 9.9.

"Administrative Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 10.2, or such other address or account as the Administrative Agent may from time to time notify the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Agent Fee Letter" means that certain letter agreement dated as of November 14, 2006 by and between Borrower, White Mountains, White Mountains Re, the Administrative Agent and Banc of America Securities LLC.

"Agent-Related Persons" means the Administrative Agent, together with its Affiliates (including, Bank of America, N.A. in its capacity as the Administrative Agent and Banc of America Securities LLC in its capacity as one of the Arrangers), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"Agreement" means this Credit Agreement, as amended, restated, extended, supplemented or otherwise modified from time to time.

"Annual Statement" means the annual statutory financial statement of any Insurance Subsidiary required to be filed with the Department of its jurisdiction of incorporation or organization, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or organization or, if no specific form is so required, in the form of financial statements permitted by such Department to be used for filing annual statutory financial statements and shall contain the type of information permitted or required by such Department to be disclosed therein, together with all exhibits or schedules filed therewith.

"Applicable Margin" means the applicable percentage per annum set forth below corresponding to the Debt Rating as set forth below.

Pricing Level	Debt Rating	Applicable Margin
I	≥A-/A3	0.280%
II	BBB+/Baa1	0.320%
III	BBB/Baa2	0.400%
IV	BBB-/Baa3	0.525%
V	<BBB-/Baa3	0.675%

"Debt Rating" means, as of any date of determination, the rating as determined by either S&P or Moody's (collectively, the "Debt Ratings") of the Borrower's non-credit enhanced (other than through an unsecured guarantee by Parent), senior unsecured debt; provided that (a) if the respective Debt Ratings issued by the foregoing rating agencies differ by one level, then the pricing level of the higher Debt Rating shall apply (with the Debt Rating of pricing level I being the highest and the Debt Rating for pricing level V being the lowest), (b) in the event that there is a split in Debt Rating of more than one level then the pricing level that is one level lower than the pricing level of the higher Debt Rating shall apply, (c) if the Borrower has only one Debt Rating, then the pricing level of that Debt Rating shall apply, and (d) if the Borrower does not have any Debt

Rating, the Applicable Margin shall be that corresponding to pricing level V; provided that, so long as the only rated senior unsecured debt of the Borrower is credit enhanced through a guarantee provided by White Mountains, the Applicable Margin shall be that corresponding to the pricing level that is one level below the pricing level corresponding to such Debt Rating, if there is a lower level. For the avoidance of doubt, if the only rated senior unsecured debt of the Borrower is guaranteed by White Mountains and has a Debt Rating of BBB/Baa2, the applicable pricing level shall be pricing level IV. Each change in the Applicable Margin resulting from a publicly announced change in the Debt Rating shall be effective during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change.

"Application" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time used by the Issuing Lender, which shall not be inconsistent with this Agreement or impose additional obligations on the Borrower.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Arranger Fee Letter" means that certain letter agreement dated as of November 14, 2006 by and among the Borrower, White Mountains, White Mountains Re, the Arrangers and LBB.

"Arrangers" means Banc of America Securities LLC and Lehman Brothers Inc., in their respective capacities as joint lead arrangers and joint book runners.

"Assignee Group" means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.7(b), and accepted by the Administrative Agent, in substantially in the form of Exhibit H or any other form approved by the Administrative Agent.

"Attorney Costs" means and includes all reasonable fees, expenses and disbursements of any law firm or other external counsel.

"Available Revolving Credit Commitment" means, with respect to any Lender at any time, an amount equal to the excess, if any, of (a) such Lender's Revolving Credit Commitment then in effect over (b) such Lender's Revolving Extensions of Credit then outstanding.

"Base Rate" means, for any day, a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect

for such day as publicly announced from time to time by Bank of America, N.A. as its "prime rate." The "prime rate" is a rate set by Bank of America, N.A. based upon various factors including Bank of America, N.A.'s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America, N.A. shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Loans" means Loans for which the applicable rate of interest is based upon the Base Rate.

"Benefitted Lender" has the meaning specified in Section 10.8.

"Berkshire Hathaway" means, Berkshire Hathaway Inc., or an Affiliate thereof.

"Berkshire Preferred Stock" means the $300,000,000 aggregate liquidation preference amount of non-voting preferred stock issued by the Borrower to Berkshire Hathaway pursuant to the Certificate of Designation of Series A Preferred Stock of TACK Acquisition Corp. (n/k/a Fund American Companies, Inc.) as amended, supplemented or otherwise modified from time to time.

"Board" means the Board of Governors of the Federal Reserve System of the United States (or any successor).

"Borrower Materials" has the meaning specified in Section 6.2(e).

"Borrower" has the meaning specified in the preamble hereto.

"Borrowing Date" means any Business Day specified by the Borrower as a date on which the Borrower requests the relevant Lenders to make Loans hereunder.

"Borrowing Request" means a notice of (a) a borrowing, (b) a conversion of Loans from one Type to the other, or (c) a continuation of Eurodollar Loans pursuant to Sections 2.2 or 2.9 which, if in writing, shall be substantially in the form of Exhibit B-1.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Loans, a day (other than a Saturday or Sunday) on which banks generally are open in New York City for the conduct of substantially all of their commercial lending activities, interbank wire transfers can be made on the Fedwire system and dealings in Dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in New York City for the conduct of substantially all of the commercial lending activities, and interbank wire transfers can be made on the Fedwire system.

"Capital Lease Obligations" means, with respect to any Person, the obligations of such Person to pay rent or other amounts under any lease of (or other

arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP; and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"Capital and Surplus" means, as of any date, (a) as to any Insurance Subsidiary domiciled in the United States, the total surplus as regards policyholders (or any successor line item description that contains the same information) as shown in its Annual Statement or Quarterly Statement, or an amount determined in a consistent manner for any date other than one as of which an Annual Statement or Quarterly Statement is prepared and (b) as to any other Insurance Subsidiary, the equivalent amount (determined in good faith by Parent).

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock or share capital of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

"Cash Collateralize" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Issuing Lender and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent and the Issuing Lender (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings.

(a) "Change of Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof), other than (i) White Mountains, (ii) Berkshire Hathaway, (iii) Franklin Mutual or (iv) John J. Byrne or any Related Person with respect to John J. Byrne (together with, in the case of clauses (i), (ii), (iii) and (iv), their Affiliates) of Capital Stock representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of Parent (or, if White Mountains and its Subsidiaries own 30% or more of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of Parent, a percentage greater than such percentage of ownership), (b) the occupation, within a period of two years commencing after the IPO, of a majority of the seats (other than vacant seats) on the board of directors of Parent by Persons who were neither (i) nominated by the board of directors of Parent nor (ii) appointed by directors so nominated or (c) neither the Borrower nor, if applicable, its successors shall be a Subsidiary of Parent. For the avoidance of doubt, none of the Capital Stock held by the entities listed in clauses (a)(i), (a)(ii), (a)(iii) and (a)(iv), nor the Capital Stock held by any of their Affiliates, shall be included as being owned by a Person or group when determining whether such Person or group has met the 30% threshold set forth in clause (a).

"Closing Certificate" means a certificate substantially in the form of Exhibit E.

"Closing Date" means the first date on which all the conditions precedent in Section 4.1 are satisfied or waived in accordance with Section 10.1.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Commitments" means, collectively the Revolving Credit Commitments, the Swing Line Commitment, the L/C Commitment or as the context may require, any such Commitment.

"Commonly Controlled Entity" means an entity, whether or not incorporated, that is under common control with the Loan Parties within the meaning of Section 4001 (a) (14) of ERISA or that is treated as a single employer with the Loan Parties under Section 414 of the Code.

"Compensation Period" has the meaning specified in Section 2.14(e)(ii).

"Compliance Certificate" means a certificate duly executed by a Responsible Officer on behalf of Parent substantially in the form of Exhibit A.

"Conditional Common Equity" means convertible preferred stock which will convert to common equity upon shareholder approval (provided that such shareholder approval is obtained within the period required by the terms thereof).

"Consolidated Net Income" means, for any period, the consolidated net income (or loss) of Parent and its consolidated Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; provided, that in calculating Consolidated Net Income for any period, there shall be excluded for purposes of the calculation of Consolidated Net Income (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of Parent or is merged into or consolidated with Parent or any of its Subsidiaries and (b) any effects resulting from SFAS158.

"Consolidated Net Worth" means, as at any date, the sum of all amounts that would, in conformity with GAAP be included on a consolidated balance sheet of Parent and its consolidated Subsidiaries under stockholders' equity at such date, plus minority interests in Subsidiaries, as determined in accordance with GAAP; provided, however, that any effects resulting from (a) SFAS 115 or (b) SFAS 158 shall be excluded for purposes of the calculation of Consolidated Net Worth.

"Cure Period" has the meaning specified in Section 7.1(b).

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its Property is bound.

"Debt" means indebtedness for borrowed money.

"Debtor Relief Laws" the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions, domestic or foreign, from time to time in effect and affecting the rights of creditors generally.

"Default" means any of the events specified in Section 8.1, whether or not any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Defaulting Lender" means any Lender that (a) has failed to fund any portion of the Loans or participations in the L/C Obligations required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder unless such failure has been cured, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute or unless such failure has been cured or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

"Default Rate" has the meaning specified in Section 2.11(c).

"Department" means, with respect to any Insurance Subsidiary, the insurance commissioner or other Governmental Authority of such Insurance Subsidiary's jurisdiction of domicile with which such Insurance Subsidiary is required to file its Annual Statement.

"Dollars" and "$" means lawful currency of the United States of America.

"Eligible Assignee" means any Person that meets the requirements to be an assignee under Section 10.7(b)(iii), (v), (vi), (vii) and (viii) (subject to such consents, if any, as may be required under Section 10.7(b)(iii)).

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, injunctive or equitable relief, fines, penalties or indemnities), of a Loan Party or any of its Subsidiaries resulting from or based upon (a) a violation of any environmental law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) human exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Loans" means Loans for which the applicable rate of interest is based upon the Eurodollar Rate.

"Eurodollar Rate" means, for any Interest Period with respect to a Eurodollar Loan, the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 A.M., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such

Interest Period. If such rate is not available at such time for any reason, then the "Eurodollar Rate" for such Interest Period shall be the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Loan being made, continued or converted by Bank of America, N.A. and with a term equivalent to such Interest Period would be offered by Bank of America, N.A.'s London branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 A.M. (London time) two Business Days prior to the commencement of such Interest Period. "Excluded Taxes" has the meaning specified in Section 2.16(a).

"Existing Credit Agreement" means that certain Credit Agreement, dated as of August 26, 2004, among the Borrower, White Mountains, the several banks and other financial institutions or entities from time to time parties thereto, JP Morgan Chase Bank, as syndication agent, and Bank of America, N.A., as administrative agent.

"Existing Letters of Credit" means those letters of credit set forth on Schedule 1A.

"Event of Default" means any of the events specified in Section 8.1, provided that any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Facility Fee Rate" means the applicable percentage per annum set forth below corresponding to the most current non-credit enhanced senior unsecured debt ratings issued by S&P and by Moody's with respect to Fund American.

Pricing Level	Debt Rating	Facility Fee Rate
I	≥ A-/A3	0.070%
II	BBB+/Baa1	0.080%
III	BBB/Baa2	0.100%
IV	BBB-/Baa3	0.125%
V	< BBB-/Baa3	0.175%

"Debt Rating" means, as of any date of determination, the rating as determined by either S&P or Moody's (collectively, the "Debt Ratings") of the Borrower's non-credit

enhanced (other than through an unsecured guarantee of Parent), senior unsecured debt; provided that (a) if the respective Debt Ratings issued by the foregoing rating agencies differ by one level, then the pricing level of the higher Debt Rating shall apply (with the Debt Rating of pricing level I being the highest and the Debt Rating for pricing level V being the lowest), (b) in the event that there is a split in Debt Rating of more than one level then the pricing level that is one level lower than the pricing level of the higher Debt Rating shall apply, (c) if the Borrower has only one Debt Rating, then the pricing level of that Debt Rating shall apply, and (d) if the Borrower does not have any Debt Rating, the Facility Fee Rate shall be that corresponding to pricing level V; provided that, so long as the only rated senior unsecured debt of the Borrower is credit enhanced through a guarantee provided by White Mountains, the Facility Fee Rate shall be that corresponding to the pricing level that is one level below the pricing level corresponding to such Debt Rating, if there is a lower level. For the avoidance of doubt, if the only rated senior unsecured debt of the Borrower is guaranteed by White Mountains and has a Debt Rating of BBB/Baa2, the applicable pricing level shall be pricing level IV. Each change in the Facility Fee Rate resulting from a publicly announced change in the Debt Rating shall be effective during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change.

"Federal Funds Rate" means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America, N.A. on such day on such transactions as reasonably determined by the Administrative Agent.

"Fee Letters" means, collectively, the Agent Fee Letter and the Arranger Fee Letter.

"Fitch" means Fitch, Inc. (or any successor thereto).

"Franklin Mutual" means any investment fund managed by Franklin Mutual Advisers LLC (or any successor thereto) or any of its Affiliates.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in revolving credit facilities and similar extensions of credit in the ordinary course of its business.

"Fund American Enterprises" means Fund American Enterprises Holdings, Inc., a Delaware corporation.

"Fund American Notes" means those certain 5.875% Senior Notes issued pursuant to the Senior Indenture, dated as of May 19, 2003, between the Borrower, White Mountains and Bank One, National Association, as trustee, in the aggregate principal amount of $700,000,000 due May 15, 2013.

"Fund American Preferred Stock" means collectively, the Berkshire Preferred Stock and the Zenith Preferred Stock.

"Fundamental Change" means any of (a) Parent consolidating or amalgamating with or merging into any other Person, (b) Parent failing to preserve, renew and keep, in full force and effect, its corporate existence, (c) Parent, directly or indirectly through one or more of its Subsidiaries, conveying or transferring the properties and assets of Parent and its Subsidiaries (taken as a whole for Parent and its Subsidiaries) substantially as an entirety (other than to Parent or one or more of its Subsidiaries), or (d) Parent liquidating, winding up or dissolving itself, other than, in the case of clauses (a) through (d), any such transaction or transactions the sole purpose of which is to change the domicile of Parent (in any such redomiciliation (x) the surviving**,** amalgamated or transferee entity shall expressly assume, by an agreement reasonably satisfactory to the Administrative Agent, the obligations of Parent to be performed or observed hereunder and deliver to the Administrative Agent such corporate authority documents and legal opinions as the Administrative Agent shall reasonably request, (y) the surviving**,** amalgamated or transferee entity shall succeed to, and be substituted for, and may exercise every right and power of, Parent under this Agreement with the same effect as if such surviving, amalgamated or transferee entity had been named as Parent herein and (z) the surviving**,** amalgamated or transferee entity shall be organized under the laws of the United States of America, any state thereof, the District of Columbia or Bermuda).

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time and set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, except that for purposes of Section 7.1, GAAP shall be determined on the basis of such principles in effect on the date hereof.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof whether state or local and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing, including any board of insurance, insurance department or insurance commissioner.

"Granting Lender" has the meaning specified in Section 10.7(h).

"Guarantee Obligation" means as to any Person (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any Property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase Property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by Parent in good faith.

"Guarantor" has the meaning specified in Section 2.21 hereto.

"Hazardous Materials" means all explosive or radioactive substances or wastes, hazardous or toxic substances or wastes, pollutants, solid, liquid or gaseous wastes, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls ("PCBs") or PCB-containing materials or equipment, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any environmental law.

"Hedge Agreements" means all interest rate swaps, caps or collar agreements or similar arrangements entered into by the Loan Parties or their Subsidiaries providing for protection against fluctuations in interest rates or currency exchange rates or otherwise providing for the exchange of nominal interest obligations, either generally or under specific contingencies.

"Increase Effective Date" has the meaning specified in Section 2.22(b).

"Indebtedness" means, as to any Person at any date, without duplication, all of the following, whether or not included as Indebtedness or liabilities in accordance with GAAP (a) all Debt of such Person, (b) all obligations of such Person for the deferred

purchase price of Property or services (other than trade payables incurred in the ordinary course of such Person's business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or

other title retention agreement with respect to Property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such Property), (e) all Capital Lease Obligations of such Person, (f) all obligations of such Person, contingent or otherwise, as an account party or applicant under acceptance, letter of credit, bank guarantees, surety bonds or similar facilities, (g) all obligations of such Person, contingent or otherwise, to purchase, redeem, retire, defease or otherwise acquire for value any Capital Stock of such Person, (h) all Guarantee Obligations of such Person in respect of any of the foregoing, (i) all obligations of the kind referred to in clauses (a) through (h) above secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on Property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation and (j) for the purposes of Section 8.1(i) only, all obligations of such Person in respect of Hedge Agreements entered into in the ordinary course of business and not for speculative purposes. For the avoidance of doubt, Indebtedness shall include Surplus Debentures and shall in any event not include any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided, that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on the Closing Date are reasonably satisfactory to the Administrative Agent.

"Indemnified Liabilities" has the meaning specified in Section 10.6.

"Indemnitees" has the meaning specified in Section 10.6.

"Insolvency" means with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent" means pertaining to a condition of Insolvency.

"Insurance Regulations" means any Law, directive or order applicable to an insurance company.

"Insurance Regulator" means any Person charged with the administration, oversight or enforcement of any Insurance Regulation.

"Insurance Subsidiary" means any Subsidiary which is required to be licensed by any Department as an insurer or reinsurer and each direct or indirect Subsidiary of such Subsidiary.

"Intellectual Property" means the collective reference to all rights, priorities and privileges relating to intellectual property, arising under Laws, including, without limitation, copyrights, copyright licenses, patents, patent licenses, trademarks,

trademark licenses, technology, know-how and processes, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

"Interest Payment Date" means (a) as to any Base Rate Loan, the first Business Day of each of January, April, July and October and the last day of the Revolving Credit Commitment Period, (b) as to any Eurodollar Loan, the last day of each Interest Period applicable to such Loan and the last day of the Revolving Credit Commitment Period; provided, however, that if any Interest Period for a Eurodollar Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates, and (c) as to any Loan (other than a Base Rate Loan), the date of any repayment or prepayment made in respect thereof.

"Interest Period" means, as to any Eurodollar Loan, (a) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months (or, unless unavailable to any Lender, nine or twelve months) thereafter, as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months (or, unless unavailable to any Lender, nine or twelve months) thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto; provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) any Interest Period in respect of the Loans that would otherwise extend beyond the Revolving Credit Termination Date shall end on the Revolving Credit Termination Date, and

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period.

"IPO" means an initial public offering by Parent of its common stock pursuant to an effective S-1 Registration Statement under the Securities Act of 1933, as amended.

"ISP" means, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

"Issuer Documents" means with respect to any Letter of Credit, the Application, and any other document, agreement and instrument entered into by the Issuing Lender and the Borrower (or any Subsidiary) or by the Borrower (or any Subsidiary) in favor of the Issuing Lender and relating to any such Letter of Credit.

"Issuing Lender" means Bank of America, N.A. and any other Lender from time to time designated by the Borrower as an Issuing Lender, with the consent of such Lender and the Administrative Agent.

"Laws" means any law, treaty, rule, regulation or order of an arbitrator or a court or other Governmental Authority.

"LBB" means Lehman Brothers Bank, FSB.

"L/C Advance" means, with respect to each Lender, such Lender's funding of its participation in any L/C Borrowing in accordance with its Revolving Credit Percentage.

"L/C Borrowing" means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a borrowing.

"L/C Commitment" means $20,000,000, as the same may be reduced from time to time pursuant to Section 2.7.

"L/C Credit Extension" means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof or the increase of the amount thereof.

"L/C Fee Payment Date" means the first Business Day of each of January, April, July and October and the last day of the Revolving Credit Commitment Period.

"L/C Obligations" means, at any time, an amount equal to the sum of (a) the aggregate amount available to be drawn under all outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 3.3. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.3. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"L/C Participants" means, with respect to any Letter of Credit, the collective reference to all of the Lenders, other than the Issuing Lender that issued such Letter of Credit.

"Lenders" has the meaning specified in the preamble hereto.

"Letters of Credit" means any letters of credit issued hereunder and shall include the Existing Letters of Credit.

"License" means any license, certificate of authority, permit or other authorization which is required to be obtained from any Governmental Authority in connection with the operation, ownership or transaction of insurance or reinsurance business.

"Lien" means any mortgage, pledge, security interest, encumbrance, charge or security interest of any kind.

"Loan" means any loan made by any Lender to the Borrower pursuant to this Agreement, including any Revolving Credit Loan and any Swing Line Loan made by the Swing Line Lender.

"Loan Documents" means this Agreement, the Applications, the Notes and any Instrument of Accession executed hereunder pursuant to Section 2.22.

"Loan Parties" has the meaning specified in the preamble hereto.

"Majority Lenders" means the holders of more than 50% of the Total Revolving Extensions of Credit (or, if no such Revolving Extensions of Credit are outstanding, prior to any termination of the Revolving Credit Commitments, the holders of more than 50% of the Total Revolving Credit Commitments). The Revolving Credit Commitment in effect (or, when applicable, Revolving Extensions of Credit outstanding) of any Defaulting Lender shall be excluded for purposes of any vote of Majority Lenders.

"Mandatory Convertible Securities" means equity securities or subordinated debt securities (which debt securities, if issued by a Loan Party, will include subordination to the obligations of such Loan Party hereunder), issued by Parent or one of its Subsidiaries which (i) are not (w) Mandatory Redeemable Securities or (x) Conditional Common Equity and (ii) provide, pursuant to the terms thereof, that the issuer of such securities (or an affiliate of such issuer) may cause (without the payment of additional cash consideration by the issuer thereof) the conversion of such securities to equity securities of Parent or one of its Subsidiaries upon the occurrence of a certain date or of certain events.

"Mandatory Redeemable Securities" means debt or equity securities (other than Conditional Common Equity, so long as such Conditional Common Equity may not be required, by the holder thereof, to be repurchased or redeemed during the period provided for shareholder approval of conversion pursuant to the terms of such Conditional Common Equity) issued by Parent or one of its Subsidiaries which provide,

pursuant to the terms thereof, that such securities must be repurchased or redeemed, or the holder of such securities may require the issuer of such securities to repurchase or redeem such securities, upon the occurrence of a certain date or of certain events.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, property or financial condition of the Borrower and its Subsidiaries taken as a whole, or (b) the validity or enforceability of this Agreement or any of the other Loan Documents or the rights and remedies of the Administrative Agent and the Lenders hereunder or thereunder.

"Material Insurance Subsidiary" means any Insurance Subsidiary (whether existing on or acquired or formed after the Closing Date) having Capital and Surplus equal to 10% or more of the Consolidated Net Worth of Parent as of the most recent Annual Statement or Quarterly Statement of such Insurance Subsidiary.

"Maximum Rate" has the meaning specified in Section 10.20(a).

"Moody's" means Moody's Investors Service, Inc. (or any successor thereto).

"Multiemployer Plan" means a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in the absence of the National Association of Insurance Commissioners or such successor, any other association, agency or other organization performing advisory, coordination or other like functions among insurance departments, insurance commissioners and similar Governmental Authorities of the various states of the United States towards the promotion of uniformity in the practices of such Governmental Authorities.

"Non-Excluded Taxes" has the meaning specified in Section 2.16(a).

"Non-Regulated Operating Subsidiary" means each Subsidiary of the Loan Parties engaged directly (as opposed to indirectly through the ownership of Capital Stock of a Person engaged in a Principal Business) in a Principal Business, whether now owned or hereafter acquired, which is not an Insurance Subsidiary.

"Non-U.S. Lender" has the meaning specified in Section 2.16(d).

"Note" means any promissory note, including any revolving credit note or swing line note, made by the Borrower in favor of a Lender evidencing any Loan, substantially in the forms of Exhibit C-1 and C-2, as the case may be and as any such Note may be amended, restated, supplemented, modified or replaced from time to time.

"OneBeacon Insurance Group" means OneBeacon Insurance Group, LLC, a Delaware limited liability company, and, for purposes of Section 6.1(b), the grouping of

Subsidiaries of OneBeacon Insurance Group identified by NAIC Group Code 1129 (or any successor grouping equivalent thereto).

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Parent" has the meaning specified in the preamble hereto.

"Parent Guaranty" has the meaning specified in Section 2.21(a).

"Participant" has the meaning specified in Section 10.7(d).

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

"Permitted Liens" means (a) any Lien upon Property to secure any part of the cost of development, construction, alteration, repair or improvement of such Property, or Debt incurred to finance such cost; (b) any extension, renewal or replacement, in whole or in part, of any Lien referred to in the foregoing clause (a); (c) any Lien relating to a sale and leaseback transaction; (d) any Lien in favor of a Loan Party or any Subsidiary granted by a Loan Party or any Subsidiary in order to secure any intercompany obligations; (e) mechanic's, materialmen's, carriers' or other like Liens arising in the ordinary course of business (including construction of facilities) in respect of obligations which are not due or which are being contested in good faith: (f) any Lien arising in connection with any legal proceeding which is being contested in good faith; (g) Liens for taxes not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; (h) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not incurred in connection with Debt and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person; (i) pledges or

deposits under workers' compensation Laws, unemployment insurance Laws or similar social security legislation; (j) any deposit to secure performance of letters of credit, bank guarantees, bids, leases, statutory obligations, surety and appeal bonds, performance bonds or other obligations of a like nature in the ordinary course of business; (k) any interest or title of a lessor under any lease entered into in the ordinary course of business; (l) Liens on assets of any Insurance Subsidiary securing (i) short-term Debt (i.e. with a maturity of less than one year when issued, provided that such Debt may include an option to extend for up to an additional one year period) incurred to provide short-term liquidity to facilitate claims payments in the event of catastrophe, (ii) Debt incurred in the ordinary course of its business or in

securing insurance-related obligations (that do not constitute Debt) and letters of credit issued for the account of any such Subsidiary in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Debt) or (iii) insurance-related obligations (that do not constitute Debt); and (m) Liens securing the obligations hereunder.

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan" means at a particular time, any employee pension benefit plan that is subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which either of the Loan Parties or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Platform" has the meaning specified in Section 6.2(e).

"Principal Business" means (a) a business of the type engaged in by the Loan Parties and their Subsidiaries on the date of this Agreement, (b) any other insurance, insurance services, insurance related or risk management related business and (c) any business reasonably incident to any of the foregoing.

"Property" means any property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Qualified Mandatory Redeemable Securities" means Mandatory Redeemable Securities that, pursuant to the terms thereof, must be redeemed or repurchased, or may be required to be redeemed or repurchased at the option of the holder of such securities (other than upon the occurrence of one or more events or conditions other than the occurrence of a certain date), not sooner than the Revolving Credit Termination Date.

"Quarterly Statement" means the quarterly statutory financial statement of any Insurance Subsidiary required to be filed with the Department of its jurisdiction of incorporation, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such Department to be used for filing quarterly statutory financial statements and shall contain the type of information permitted or required by such Department to be disclosed therein, together with all exhibits or schedules filed therewith.

"Refunded Swing Line Loans" has the meaning specified in Section 2.4(b).

"Refunding Date" has the meaning specified in Section 2.4(c).

"Register" has the meaning specified in Section 10.7(c).

"Regulation U" means Regulation U of the Board as in effect from time to time.

"Reimbursement Obligation" means the obligation of the Borrower to reimburse an Issuing Lender pursuant to Section 3.3(a) for amounts drawn under Letters of Credit issued by such Issuing Lender for the account of the Borrower.

"Related Person" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

"Reorganization" means, with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the thirty day notice period is waived.

"Requested Reimbursement Date" has the meaning specified in Section 3.3(a).

"Requirement of Law" means, as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person (excluding, in the case of Section 2.15(a)(i), any of the foregoing relating to the Administrative Agent or any Lender), and any Law, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"Responsible Officer" means, as to any Loan Party or Subsidiary, the chief executive officer, president, chief financial officer, treasurer, chief accounting officer, any vice president or any managing director of such Loan Party or any Subsidiary, as the context requires. Any document delivered hereunder that is signed by a Responsible Officer on behalf of a Loan Party or Subsidiary shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party or Subsidiary and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party or Subsidiary.

"Revolving Credit Commitment" means, as to any Lender, the obligation of such Lender, if any, to make Revolving Credit Loans and participate in Swing Line Loans and Letters of Credit, in an aggregate principal or face amount not to exceed the amount set forth under the heading "Revolving Credit Commitment" opposite such Lender's name on Schedule 1 to this Agreement, or, as the case may be, in the Assignment and Assumption pursuant to which such Lender became a party hereto, as the same may be adjusted from time to time pursuant to the terms hereof.

"Revolving Credit Commitment Period" means the period from and including the Closing Date to the earliest of (a) the Revolving Credit Termination Date, (b) the date of termination of the Revolving Credit Commitments pursuant to Section 2.7,

and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of the Issuing Lender to make L/C Credit Extensions pursuant to Section 8.2.

"Revolving Credit Loans" has the meaning specified in Section 2.1.

"Revolving Credit Percentage" means, as to any Lender at any time, the percentage (carried out to the ninth decimal place) which such Lender's Revolving Credit Commitment then constitutes of the Total Revolving Credit Commitments (or, at any time after the commitment of each Lender to make Loans and the obligation of the Issuing Lender to make L/C Credit Extensions shall have terminated pursuant to Section 8.2 or if the Revolving Credit Commitments shall have expired, then the percentage which the aggregate amount of such Lender's Revolving Extensions of Credit then outstanding constitutes of the amount of the Total Revolving Extensions of Credit then outstanding).

"Revolving Credit Termination Date" means November 14, 2011; provided, however, that, if such date is not a Business Day, the Revolving Credit Termination Date shall be the next succeeding Business Day.

"Revolving Extensions of Credit" means, as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Credit Loans made by such Lender then outstanding, (b) the principal amount equal to such Lender's Revolving Credit Percentage of the L/C Obligations then outstanding and (c) the principal amount equal to such Lender's Revolving Credit Percentage of the aggregate principal amount of Swing Line Loans then outstanding.

"S&P" means Standard & Poor's Rating Services (or any successor thereto).

"SAP" means with respect to any Insurance Subsidiary, the statutory accounting practices prescribed or permitted by the Department in the jurisdiction of such Insurance Subsidiary for the preparation of annual statements and other financial reports by insurance companies of the same type as such Insurance Subsidiary, which are applicable to the circumstances as of the date of determination.

"SEC" means the Securities and Exchange Commission (or successors thereto or an analogous Governmental Authority).

"SFAS" means the Statements of Financial Accounting Standards adopted by the Financial Accounting Standards Board.

"Single Employer Plan" means any Plan that is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"SPC" has the meaning specified in Section 10.7(h).

"Specified Event of Default" means an Event of Default pursuant to Sections 8.1(a), 8.1(b) (with respect to Section 7.1 only) or 8.1(c).

"Stated Rate" has the meaning specified in Section 10.20(a).

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, limited liability company, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of Parent.

"Surplus Debentures" means as to any Insurance Subsidiary, debt securities of such Insurance Subsidiary the proceeds of which are permitted to be included, in whole or in part, as Capital and Surplus of such Insurance Subsidiary as approved and permitted by the applicable

Department.

"Swing Line Commitment" means the obligation of the Swing Line Lender to make Swing Line Loans pursuant to Section 2.3 in an aggregate principal amount at any one time outstanding not to exceed $5,000,000.

"Swing Line Lender" means Bank of America, N.A., in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

"Swing Line Loans" has the meaning specified in Section 2.3(a).

"Swing Line Participation Amount" has the meaning specified in Section 2.4(c).

"Syndication Agent" means Lehman Brothers Inc., and any other Lender as may be designated from time to time by the Borrower as a syndication agent, with the consent of such Lender and the Arrangers.

"Total Consolidated Capitalization" means, as at any date, the sum, without duplication, of (a) Consolidated Net Worth plus (b) Total Consolidated Debt plus, (c) the amounts in respect of Trust Preferred Securities, Mandatory Convertible Securities, Mandatory Redeemable Securities, Conditional Common Equity and any other preferred stock that would, in conformity with GAAP, be reflected on a consolidated balance sheet of Parent and its consolidated Subsidiaries prepared as of such date and which are not already included in clause (a) or (b) above. Total Consolidated Capitalization shall in any event not include (x) any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on

the Closing Date are reasonably satisfactory to the Administrative Agent or (y) any effects resulting from SFAS 158.

"Total Consolidated Debt" means, at any date, the sum, without duplication, of (a) all amounts that would, in conformity with GAAP, be reflected and classified as debt on a consolidated balance sheet of Parent and its consolidated Subsidiaries prepared as of such date, (b) Indebtedness represented by (i) Trust Preferred Securities or Qualified Mandatory Redeemable Securities (in each case, owned by Persons other than Parent or any of its consolidated Subsidiaries) but only to the extent that such securities (other than Mandatory Convertible Securities) exceed 15% of Total Consolidated Capitalization or (ii) Mandatory Redeemable Securities (owned by Persons other than Parent or any of its consolidated Subsidiaries) other than Qualified Mandatory Redeemable Securities, and (c) Indebtedness represented by Mandatory Convertible Securities (owned by Persons other than Parent or any of its consolidated Subsidiaries) but only to the extent that such Mandatory Convertible Securities plus Trust Preferred Securities and Qualified Mandatory Redeemable Securities (in each case, owned by Persons other than Parent or any of its consolidated Subsidiaries) exceed 25% of Total Consolidated Capitalization; provided, that in the event that the notes related to the Mandatory Convertible Securities remain outstanding following the exercise of forward purchase contracts related to such Mandatory Convertible Securities, then such outstanding notes will be included in Total Consolidated Debt thereafter. Total Consolidated Debt shall, in any event, not include (1) Hedge Agreements entered into in the ordinary course of business for non-speculative purposes, (2) Indebtedness of the type described in Sections 7.2(b), (c), (d), (f) and (g), (3) Conditional Common Equity, (4) any obligations (including Guarantee Obligations) in respect of the Fund American Preferred Stock, provided that, arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock, it being understood that such arrangements in effect on the Closing Date are reasonably satisfactory to the Administrative Agent, (5) any other amounts in respect of Trust Preferred Securities, Mandatory Redeemable Securities or Mandatory Convertible Securities, or (6) any effects resulting from SFAS 158.

"Total Consolidated Debt to Total Consolidated Capitalization Ratio" means, as at the end of any fiscal quarter of Parent, the ratio of (a) Total Consolidated Debt to (b) Total Consolidated Capitalization.

"Total Revolving Credit Commitments" means, at any time, the aggregate amount of the Revolving Credit Commitments then in effect. The aggregate amount of the Total Revolving Credit Commitments on the Closing Date is $75,000,000.

"Total Revolving Extensions of Credit" means, at any time, the aggregate amount of the Revolving Extensions of Credit of the Lenders outstanding at such time.

"Transferee" means a Participant or an assignee of any Lender's rights and obligations under this Agreement pursuant to an Assignment and Assumption.

"Trust Preferred Securities" means preferred securities issued by a special purpose entity, the proceeds of which are used to purchase subordinated debt securities of Parent or one of its Subsidiaries having terms that substantially mirror those of such preferred securities issued by the special purpose entity such that the debt securities constitute credit support for obligations in respect of such preferred securities and such preferred securities are reflected on a consolidated balance sheet of Parent and its consolidated Subsidiaries in accordance with GAAP.

"Type" means, as to any Loan, its nature as a Base Rate Loan or a Eurodollar Loan.

"Unreimbursed Amount" has the meaning specified in Section 3.3(a).

"White Mountains" means White Mountains Insurance Group, Ltd., a company existing under the laws of Bermuda.

"White Mountains Administrative Agent" means Bank of America, N.A., in its capacity as administrative agent under any of the White Mountains Loan Documents, or any successor administrative agent appointed in accordance with the terms contained in the White Mountains Credit Agreement.

"White Mountains Arrangers" means Banc of America Securities LLC and Lehman Brothers Inc., in their respective capacities as joint lead arrangers and joint book runners under the White Mountains Credit Agreement**.**

"White Mountains Credit Agreement" means that certain Credit Agreement, dated as of the date hereof, among White Mountains, White Mountains Re, the White Mountains Lenders, the White Mountains Administrative Agent, the White Mountains Arrangers and the White Mountains Syndication Agent, as such agreement may be amended, restated, extended, supplemented or otherwise modified in writing from time to time.

"White Mountains Lenders" means the financial institutions from time to time party to the White Mountains Credit Agreement.

"White Mountains Loan Documents" means the "Loan Documents" as defined in the White Mountains Credit Agreement.

"White Mountains Re" means White Mountains Re Group, Ltd., a company existing under the laws of Bermuda.

"White Mountains Syndication Agent" means Lehman Brothers Inc., and any other White Mountains Lender as may be designated from time to time by White Mountains and White Mountains Re as a syndication agent under the White Mountains Credit Agreement, with the consent of such White Mountains Lender and the White Mountains Arrangers.

"Zenith Preferred Stock" means the $20,000,000 aggregate liquidation preference amount of non-voting preferred stock issued by Fund American Enterprises to Zenith Insurance Company pursuant to the Certificate of Designation of Series A Preferred Stock of TACK Holding Corp. (n/k/a Fund American Enterprises), as amended, supplemented or otherwise modified from time to time.

1.2. Other Definitional Provisions. Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(a) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, accounting terms relating to the Loan Parties or their Subsidiaries not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP or SAP, as the case may be.

(b) References herein to particular pages, columns, lines or sections of any Person's Annual Statement shall be deemed, where appropriate, to be references to the corresponding page, column, line or section of such Person's Quarterly Statement, or if no such corresponding page, column, line or section exists or if any report form changes, then to the corresponding item referenced thereby.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(e) The word "or" is not exclusive and the words "include", "includes" or "including" shall be deemed to be followed by the phrase "without limitation".

(f) References to "preferred stock" includes Capital Stock designated as preferred stock, preference shares, preferred shares or any similar term.

1.3. Letter of Credit Amounts. Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, other than with respect to the calculation of L/C Fees, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

1.4. Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the

other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.5. Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

2. AMOUNT AND TERMS OF COMMITMENTS

2.1. Revolving Credit Commitments. (a) Subject to the terms and conditions hereof, the Lenders severally agree to make revolving credit loans ("Revolving Credit Loans") to the Borrower from time to time on any Business Day during the Revolving Credit Commitment Period in an aggregate principal amount at any one time outstanding for each Lender which, when added to such Lender's Revolving Credit Percentage of the sum of (i) the L/C Obligations then outstanding and (ii) the aggregate principal amount of the Swing Line Loans then outstanding, does not exceed the amount of such Lender's Revolving Credit Commitment. During the Revolving Credit Commitment Period the Borrower may use the Revolving Credit Commitments by borrowing, prepaying the Revolving Credit Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Revolving Credit Loans may from time to time be Eurodollar Loans or Base Rate Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 2.9, provided that no Revolving Credit Loan shall be made as a Eurodollar Loan after the day that is one month prior to the Revolving Credit Termination Date.

(b) The Borrower shall repay to the Lenders all outstanding Revolving Credit Loans made to the Borrower on the Revolving Credit Termination Date.

2.2. Procedure for Revolving Credit Borrowing. The Borrower may borrow under the Revolving Credit Commitments on any Business Day during the Revolving Credit Commitment Period, provided that the Borrower shall give the Administrative Agent a borrowing request in the form of Exhibit B-1 hereto (hereinafter, a "Borrowing Request") (which Borrowing Request must be received by the Administrative Agent prior to 11:00 A.M., New York City time, (a) three Business Days prior to the requested Borrowing Date, in the case of Eurodollar Loans, or (b) on the requested Borrowing Date, in the case of Base Rate Loans, provided that requests for Base Rate Loans not received prior to 11:00 A.M., New York City time on the requested Borrowing Date shall be deemed received on the following Business Day), and must specify (i) the amount and Type of Revolving Credit Loans to be borrowed, (ii) the requested Borrowing Date and (iii) in the case of Eurodollar Loans, the length of the initial Interest Period therefor; provided, however, that if the Borrower wishes to request Eurodollar Loans having an Interest Period of nine or twelve months in duration as provided in the definition of "Interest Period," the applicable notice must be received by the Administrative Agent not later than 11:00 A.M. New York City time, four Business Days prior to the requested date of such borrowing, whereupon the Administrative Agent shall give prompt notice to the Lenders of such request and determine whether the requested Interest Period is unavailable to any of them. Not later than 10:00 A.M. New York City time, three Business Days before the requested date of such borrowing, the Administrative Agent shall notify the Borrower (which

notice may be by telephone) whether or not the requested Interest Period is unavailable to any Lender. If the Borrower requests a borrowing of Eurodollar Loans in any Borrowing Request, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month. Each borrowing of Revolving Credit Loans under the Revolving Credit Commitments shall be in an amount equal to (x) in the case of Base Rate Loans, $500,000 or a whole multiple thereof (or, if the then aggregate Available Revolving Credit Commitments are less than $500,000, such lesser amount) and (y) in the case of Eurodollar Loans, $1,000,000 or a whole multiple of $500,000 in excess thereof; provided, that the Swing Line Lender may request, on behalf of the Borrower, borrowings of Base Rate Loans under the Revolving Credit Commitments in other amounts pursuant to Section 2.4. Upon receipt of any such notice from the Borrower, the Administrative Agent shall promptly notify each Lender thereof. Each Lender will make its Revolving Credit Percentage of the amount of each borrowing of Revolving Credit Loans available to the Administrative Agent for the account of the Borrower at the Administrative Agent's Office prior to 12:00 Noon, New York City time, on the Borrowing Date requested by the Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent in like funds as received by the Administrative Agent.

2.3. Swing Line Commitment. (a) Subject to the terms and conditions hereof, the Swing Line Lender agrees, in reliance on the agreements of the other Lenders set forth in Section 2.4, that during the Revolving Credit Commitment Period, it will make available to the Borrower in the form of swing line loans ("Swing Line Loans") a portion of the credit otherwise available to the Borrower under the Revolving Credit Commitments; provided that (i) the aggregate principal amount of Swing Line Loans outstanding at any time shall not exceed the Swing Line Commitment then in effect (notwithstanding that the Swing Line Loans outstanding at any time, when aggregated with the Swing Line Lender's other outstanding Revolving Credit Loans hereunder, may exceed the Swing Line Commitment then in effect or such Swing Line Lender's Revolving Credit Commitment then in effect) and (ii) the Borrower shall not request, and the Swing Line Lender shall not make, any Swing Line Loan if, after giving effect to the making of such Swing Line Loan, the aggregate amount of the Available Revolving Credit Commitments would be less than zero. During the Revolving Credit Commitment Period, the Borrower may use the Swing Line Commitment by borrowing, repaying and reborrowing, all in accordance with the terms and conditions hereof. Swing Line Loans shall be Base Rate Loans only.

(b) The Borrower shall repay all outstanding Swing Line Loans on the Revolving Credit Termination Date. Each payment in respect of Swing Line Loans shall be made to the Swing Line Lender.

2.4. Procedure for Swing Line Borrowing; Refunding of Swing Line Loans. (a) The Borrower may borrow under the Swing Line Commitment on any Business Day during the Revolving Credit Commitment Period, provided, the Borrower shall give the Swing Line Lender irrevocable telephonic notice confirmed promptly in writing in the form of Exhibit B-2 (which telephonic notice must be received by the Swing Line Lender not later than 1:00 P.M., New York City time, on the proposed Borrowing Date), specifying (i) the amount to be borrowed and (ii) the requested Borrowing Date. Each borrowing under the Swing Line Commitment shall be in an amount equal to $250,000 or a whole multiple of $50,000 in excess thereof. Not later than 3:00 P.M., New York City time, on the Borrowing Date specified in the borrowing notice in

respect of any Swing Line Loan, the Swing Line Lender shall make available to the Administrative Agent at the Administrative Agent's Office an amount in immediately available funds equal to the amount of such Swing Line Loan. The Administrative Agent shall make the proceeds of such Swing Line Loan available to the Borrower on such Borrowing Date in like funds as received by the Administrative Agent.

(b) The Swing Line Lender, not less frequently than once each week shall, and at any other time, from time to time, as the Swing Line Lender elects in its sole and absolute discretion, may, on behalf of the Borrower (which hereby irrevocably directs the Swing Line Lender to act on its behalf), on one Business Day's notice given by the Swing Line Lender no later than 12:00 Noon, New York City time, request each Lender to make, and each Lender hereby agrees to make, a Revolving Credit Loan, in an amount equal to such Lender's Revolving Credit Percentage of the aggregate amount of the Swing Line Loans (the "Refunded Swing Line Loans") outstanding on the date of such notice, to repay the Swing Line Lender. Each Lender shall make the amount of such Revolving Credit Loan available to the Administrative Agent at the Administrative Agent's Office in immediately available funds, not later than 10:00 A.M., New York City time, one Business Day after the date of such notice. The proceeds of such Revolving Credit Loans shall be made immediately available by the Administrative Agent to the Swing Line Lender for application by the Swing Line Lender to the repayment of the Refunded Swing Line Loans. Upon the written request of any Lender, the Administrative Agent will, within three Business Days of such request, inform such Lender of the aggregate amount of Swing Line Loans outstanding on the date of such request.

(c) If prior to the time a Revolving Credit Loan would have otherwise been made pursuant to Section 2.4(b), one of the events described in Section 8.1(c) shall have occurred and be continuing with respect to either Loan Party, or if for any other reason, as determined by the Swing Line Lender in its sole discretion, Revolving Credit Loans may not be made as contemplated by Section 2.4(b), each Lender shall, on the date such Revolving Credit Loan was to have been made pursuant to the notice referred to in Section 2.4(b) (the "Refunding Date"), purchase for cash an undivided participating interest in the then outstanding Swing Line Loans by paying to the Swing Line Lender an amount (the "Swing Line Participation Amount") equal to (i) such Lender's Revolving Credit Percentage times (ii) the sum of the aggregate principal amount of Swing Line Loans then outstanding which were to have been repaid with such Revolving Credit Loans.

(d) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.4(b) by the time specified in Section 2.4(b), the Swing Line Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Swing Line Lender in accordance with banking industry rules on interbank

compensation, plus any administrative, processing or similar fees customarily charged by the Swing Line Lender in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Loan included in the relevant borrowing or funded participation in the relevant Swing Line Loan, as the case may be. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this paragraph (d) shall be conclusive absent manifest error.

(e) Each Lender's obligation to make the Loans referred to in Section 2.4(b) and to purchase participating interests pursuant to Section 2.4(c) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against the Swing Line Lender, any Loan Party or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 4; (iii) any adverse change in the condition (financial or otherwise) of any Loan Party; (iv) any breach of this Agreement or any other Loan Document by any Loan Party or any Lender; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. No such funding of risk participations shall relieve or otherwise impair the obligation of the Borrower to repay Swing Line Loans, together with interest as provided herein.

(f) Whenever, at any time after the Swing Line Lender has received from any Lender such Lender's Swing Line Participation Amount, the Swing Line Lender receives any payment on account of the Swing Line Loans, the Swing Line Lender will distribute to such Lender its Swing Line Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Lender's pro rata portion of such payment if such payment is not sufficient to pay the principal of and interest on all Swing Line Loans then due); provided, however, that in the event that such payment received by the Swing Line Lender is required to be returned, such Lender will return to the Swing Line Lender any portion thereof previously distributed to it by the Swing Line Lender. The obligation of the Lenders under this paragraph (f) shall survive the payment in full of the Obligations and the termination of this Agreement.

(g) The Swing Line Lender shall be responsible for invoicing the Borrower for interest on the Swing Line Loans. Until each Lender funds its Refunded Swing Line Loan or risk participation pursuant to this Section 2.4 to refinance such Lender's Revolving Credit Percentage of any Swing Line Loan, interest in respect of such Revolving Credit Percentage shall be solely for the account of the Swing Line Lender.

(h) The Borrower shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Administrative Agent for the account of the Swing Line Lender.

2.5. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of the appropriate Lender (i) the then unpaid principal amount on the Revolving Credit Termination Date (or on such earlier date on which the Loans become due and payable pursuant to Section 8.2) of each Revolving Credit Loan of such Lender made to the Borrower and (ii) the then unpaid principal amount on the Revolving Credit Termination Date (or on such earlier date on which the Loans become due and payable pursuant to Section 8.2) of each Swing Line Loan of such Swing Line Lender made to the Borrower. The Borrower hereby further agrees to pay interest to the Administrative Agent for the account of the appropriate Lender on the unpaid principal amount of the Loans made to it from time to time outstanding from the date hereof until payment in full thereof at the rates per annum, and on the dates, set forth in Section 2.11.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing indebtedness of the Borrower to such Lender resulting from each Loan of such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement.

(c) The Administrative Agent, on behalf of the Borrower, shall maintain the Register pursuant to Section 10.7(c), and a subaccount therein for each Lender, in which shall be recorded (i) the amount of each Loan to the Borrower made hereunder and any Note evidencing such Loan, the Type of such Loan and each Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) both the amount of any sum received by the Administrative Agent hereunder from or for the account of the Borrower and each Lender's share thereof. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

(d) The entries made in the Register and the accounts of each Lender maintained pursuant to Section 2.5(b) shall, to the extent permitted by applicable Law, be prima facie evidence of the existence and amounts of the obligations of the Borrower therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain the Register or any such account, or any error therein, shall not in any manner affect the obligation of the Borrower to repay (with applicable interest) the Loans made to it by such Lender in accordance with the terms of this Agreement.

(e) The Borrower agrees that, upon the request to the Administrative Agent by any Lender, it will execute and deliver to such Lender a promissory note of the Borrower evidencing any Revolving Credit Loans or Swing

Line Loans, as the case may be, made by such Lender to the Borrower, substantially in the forms of Exhibit C-1 or C-2, respectively, with appropriate insertions as to date and principal amount. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(f) In addition to the accounts and records referred to herein above, each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

2.6. Facility Fee, etc. (a) Parent agrees to pay to the Administrative Agent for the account of each Lender in accordance with its Revolving Credit Percentage a facility fee for the period from and including the Closing Date to the last day of the Revolving Credit Commitment Period, computed at the Facility Fee Rate on the average daily amount of the Revolving Credit Commitment of such Lender during the period for which payment is made. The facility fee shall accrue at all times during the Revolving Credit Commitment Period, including at any time during which one or more of the conditions in Section 4.2 is not met, and shall be payable quarterly in arrears on the first Business Day of each of January, April, July and October and on the last day of the Revolving Credit Commitment Period, commencing on the first of such dates to occur after the Closing Date. The facility fee shall be calculated quarterly in arrears, and if there is any change in the Facility Fee Rate during any quarter, the actual daily amount shall be computed and multiplied by the Facility Fee Rate separately for each period during such quarter that the Facility Fee Rate was in effect.

(b) The Borrower agrees to pay to the Arrangers for their own respective accounts the fees in the amounts and on the dates from time to time agreed to in the Arranger Fee Letter.

(c) The Borrower agrees to pay to the Administrative Agent the fees in the amounts and on the dates from time to time agreed to in the Agent Fee Letter.

2.7. Termination or Reduction of Revolving Credit Commitments. The Borrower shall have the right, upon notice to the Administrative Agent, to terminate the Revolving Credit Commitments or, from time to time, to reduce the aggregate amount of the Revolving Credit Commitments; provided that (a) no such termination or reduction of Revolving Credit Commitments shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Credit Loans and Swing Line Loans made on the effective date thereof, the Total Revolving Extensions of Credit would exceed the Total Revolving Credit Commitments, (b) any such reduction shall be in an amount equal to $1,000,000, or a whole multiple thereof (or the remaining amount of

the Revolving Credit Commitments), (c) any such notice shall be received by the Administrative Agent not later than 11:00 A.M. New York City time, three Business Days

prior to the date of termination or reduction and (d) if, after giving effect to any reduction of the Revolving Credit Commitments, the L/C Commitment or the Swing Line Commitment exceeds the amount of the Revolving Credit Commitment, such Commitment shall be automatically reduced by the amount of such excess; provided, further, that a notice of termination of the Revolving Credit Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, transactions or borrowings in general, in which case such notice may be revoked the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. The Administrative Agent will promptly notify the Lenders of any notice of termination or reduction of the Revolving Credit Commitments. Any reduction of the Revolving Credit Commitments shall be applied to the Revolving Credit Commitment of each Lender according to its Revolving Credit Percentage. All fees accrued until the effective date of any termination of the Revolving Credit Commitment shall be paid on the effective date of such termination. Any reduction shall reduce permanently the Revolving Credit Commitments then in effect.

2.8. Prepayments. (a) The Borrower may at any time and from time to time prepay the Loans made to the Borrower, in whole or in part, without premium or penalty, upon notice delivered to the Administrative Agent at least three Business Days prior thereto in the case of Eurodollar Loans and on the date of prepayment in the case of Base Rate Loans, which notice shall specify the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or Base Rate Loans; provided, that (i) if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Borrower shall also pay any amounts owing pursuant to Section 2.17 and (ii) no prior notice is required for the prepayment of Swing Line Loans; provided, further, that, if a notice of prepayment is given in connection with a conditional notice of termination of the Revolving Credit Commitments as contemplated by Section 2.7, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.7. Upon receipt of any such notice the Administrative Agent shall promptly notify the Lenders thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with (except in the case of Base Rate Loans) accrued interest to such date on the amount prepaid. Partial prepayments of Revolving Credit Loans shall be in an aggregate principal amount of $500,000 or a whole multiple thereof. Partial prepayments of Swing Line Loans shall be in an aggregate principal amount of $50,000 or a whole multiple thereof.

(b) If for any reason the Total Revolving Extensions of Credit at any time exceed the Total Revolving Credit Commitments then in effect, the Borrower shall immediately prepay the Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.8(b) unless after the prepayment in full of the Loans the Total Revolving Extensions of Credit exceed the Total Revolving Credit Commitments then in effect.

2.9. Conversion and Continuation Options. (a) The Borrower may elect from time to time to convert Eurodollar Loans made to the Borrower to Base Rate Loans by giving the Administrative Agent at least two Business Days' prior irrevocable notice (which may be telephonic) of such election. The Borrower may elect from time to time to convert Base Rate

Loans made to the Borrower to Eurodollar Loans by giving the Administrative Agent at least three Business Days' prior irrevocable notice (which may be telephonic) of such election (which notice shall specify the length of the initial Interest Period therefor); provided, however, that if the Borrower wishes to request Eurodollar Loans having an Interest Period of nine or twelve months in duration as provided in the definition of "Interest Period", the applicable notice must be received by the Administrative Agent not later than 11:00 A.M. New York City time, four Business Days prior to the requested date of such conversion or continuation, whereupon the Administrative Agent shall give prompt notice to the Lenders of such request and determine whether the requested Interest Period is unavailable to any of them. Not later than 10:00 A.M. New York City time, three Business Days before the requested date of such conversion or continuation, the Administrative Agent shall notify the Borrower (which notice may be by telephone) whether or not the requested Interest Period is unavailable to any of the Lenders, provided, further that no Base Rate Loan may be converted to a Eurodollar Loan (i) when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Lenders have determined in its or their sole discretion not to permit such conversions or (ii) after the date that is one month prior to the Revolving Credit Termination Date. Each telephonic notice by the Borrower pursuant to this Section 2.9 must be confirmed promptly by delivery to the Administrative Agent of a written Borrowing Request appropriately completed and signed by a Responsible Officer of the Borrower. If the Borrower requests a conversion to a Eurodollar Loan in any Borrowing Request, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month. Upon receipt of any such notice the Administrative Agent shall promptly notify the Lenders thereof.

(b) The Borrower may elect to continue any Eurodollar Loan made to the Borrower as such upon the expiration of the then current Interest Period with respect thereto by giving irrevocable notice (which may be telephonic) to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in Section 1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan may be continued as such (i) when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Lenders have, determined in its or their sole discretion not to permit such continuations or (ii) after the date that is one month prior to the Revolving Credit Termination Date, and provided, further, that if the Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso, such Loans shall be converted automatically to Base Rate Loans on the last day of such then expiring Interest Period. Each telephonic notice by the Borrower pursuant to this Section 2.9 must be confirmed promptly by delivery to the Administrative Agent of a written Borrowing Request appropriately completed and signed by a Responsible Officer of the Borrower. Upon receipt of any such notice the Administrative Agent shall promptly notify the Lenders thereof.

2.10. Maximum Number of Eurodollar Loans. Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions, continuations and optional prepayments of Eurodollar Loans and all selections of Interest Periods shall be in such amounts and be made pursuant to such elections so that no more than ten Eurodollar Loans shall be outstanding at any one time.

2.11. Interest Rates and Payment Dates. (a) Subject to the provisions of paragraph (c) below, each Eurodollar Loan shall bear interest on the outstanding principal amount thereof for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each Base Rate Loan, including Swing Line Loans, shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate.

(c) (i) If all or a portion of the principal amount of any Loan or Reimbursement Obligation shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum that is equal to (x) in the case of the Loans, the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this Section 2.11 plus 2% or (y) in the case of Reimbursement Obligations, the rate applicable to Base Rate Loans plus 2%, and (ii) if all or a portion of any interest payable on any Loan or Reimbursement Obligation or any facility fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to Base Rate Loans plus 2%, in each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (each of the foregoing collectively, the "Default Rate").

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this Section 2.11 shall be payable from time to time on demand (after as well as before judgment and before and after the commencement of any proceeding under any Debtor Relief Law).

2.12. Computation of Interest and Fees. (a) Interest, fees and commissions payable pursuant hereto shall be calculated on the basis of a 365-day (or 366-day, as the case may be) year for the actual days elapsed, except that, with respect to Eurodollar Loans, the interest thereon shall be calculated on the basis of a 360-day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the Base Rate shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of the effective date and the amount of each such change in any interest rate. Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.14(d), bear interest for one day.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error.

2.13. Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Majority Lenders that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to the Borrower and the relevant Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as Base Rate Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be continued as Base Rate Loans and (z) any outstanding Eurodollar Loans shall be converted, on the last day of the then current Interest Period with respect thereto, to Base Rate Loans. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Borrower have the right to convert Loans to Eurodollar Loans.

2.14. Pro Rata Treatment and Payments. (a) Each borrowing, other than borrowings of Swing Line Loans, by the Borrower from the Lenders hereunder, each payment by the Borrower on account of any facility fee or Letter of Credit fee, and any reduction of the Revolving Credit Commitments of the Lenders, shall be made pro rata according to the respective Revolving Credit Percentages of the relevant Lenders.

(b) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Revolving Credit Loans of the Borrower shall be made pro rata according to the respective outstanding principal amounts of the Revolving Credit Loans of

the Borrower then held by the Lenders. Each payment in respect of Reimbursement Obligations in respect of any Letter of Credit shall be made to the relevant Issuing Lender.

(c) The application of any payment of Loans shall be made, first, to Base Rate Loans and, second, to Eurodollar Loans. Each payment of the Eurodollar Loans shall be accompanied by accrued interest to the date of such payment on the amount paid.

(d) All payments (including prepayments) to be made by the Borrower hereunder, whether on account of principal, interest, fees or otherwise, shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff and shall be made prior to 12:00 Noon, New York City time, on the due date thereof to the Administrative Agent, for the account of the relevant Lenders, at the

Administrative Agent's Office, in Dollars and in immediately available funds. Any payment made by the Borrower after 12:00 Noon, New York City time, on any Business Day shall be deemed to have been made on the next following Business Day. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(e) Unless the Borrower or any Lender has notified the Administrative Agent, prior to the date any payment is required to be made by it to the Administrative Agent hereunder, that the Borrower or such Lender, as the case may be, will not make such payment, the Administrative Agent may assume that the Borrower or such Lender, as the case may be, has timely made such payment and may (but shall not be so required to), in reliance thereon, make available a corresponding amount to the Person entitled thereto. If and to the extent that such payment was not in fact made to the Administrative Agent in immediately available funds, then:

(i) if the Borrower failed to make such payment, each Lender shall forthwith on demand repay to the Administrative Agent the portion of such assumed payment that was made available to such Lender in immediately available funds, together with interest thereon in respect of each day from and including the date such amount was made available by the Administrative Agent to such Lender to the date such amount is repaid to the Administrative Agent in immediately available funds at the Federal Funds Rate from time to time in effect; and

(ii) if any Lender failed to make such payment, such Lender shall forthwith on demand pay to the Administrative Agent the amount thereof in immediately available funds, together with interest thereon for the period from the date such amount was made available by the Administrative Agent to the Borrower to the date such amount is recovered by the Administrative Agent (the "Compensation Period") at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Administrative Agent in connection with the foregoing. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Revolving Credit Percentage of the Loan included in the applicable borrowing. If such Lender does not pay such amount forthwith upon the Administrative Agent's

demand therefor, the Administrative Agent may make a demand therefor upon the Borrower, and the Borrower shall pay such amount to the Administrative Agent, together with interest thereon for the Compensation Period at a rate per annum equal to the rate of interest applicable to the applicable borrowing. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Revolving Credit Commitment or to prejudice any rights which the Administrative Agent or the Borrower may have against any Lender as a result of any default by such Lender hereunder.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (e) shall be conclusive, absent manifest error.

(f) The obligations of the Lenders hereunder to make Loans, to fund participations in Letters of Credit and Swing Line Loans and to make payments under Section 10.6 are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment under Section 10.6 on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or make its payment under Section 10.6.

2.15. Requirements of Law. (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any Application or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for

Non-Excluded Taxes or Other Taxes covered by Section 2.16 and the imposition of, or any change in, the rate of any Excluded Tax payable by such Lender);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender that is not otherwise included in the determination of the Eurodollar Rate hereunder; or

(iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans to the Borrower or issuing or participating in Letters of Credit issued at the request of the Borrower, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount

receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this Section 2.15, it shall promptly notify the Borrower (with a copy to the Administrative Agent) of the event by reason of which it has become so entitled.

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder or under or in respect of any Letter of Credit to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrower (with a copy to the Administrative Agent) of a written request therefor, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such corporation for such reduction.

(c) In addition to, and without duplication of, amounts which may become payable from time to time pursuant to paragraphs (a) and (b) of this Section 2.15, the Borrower agrees to pay to each Lender which requests compensation under this paragraph (c) by notice to the Borrower, on the last day of each Interest Period with respect to any Eurodollar Loan made by such Lender to the Borrower, at any time when such Lender shall be required to maintain reserves against "Eurocurrency liabilities" under Regulation D of the Board of Governors of the Federal Reserve System (or, at any time when such Lender may be required by the Board of Governors of the Federal Reserve System or by any other Governmental Authority, whether within the United States or in another relevant jurisdiction, to maintain reserves against any other category of liabilities which includes deposits by reference to which the Eurodollar Rate is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Lender which includes any such Eurodollar Loans), an additional amount (determined by such Lender's calculation or, if an accurate calculation is impracticable, reasonable estimate using such reasonable means of allocation as such Lender shall determine) equal to the actual costs, if any, incurred by such Lender during such Interest Period as a result of the applicability of the foregoing reserves to such Eurodollar Loans.

(d) A certificate as to any additional amounts payable pursuant to this Section 2.15 submitted by any Lender to the Borrower (with a copy to the Administrative Agent) shall be conclusive in the absence of manifest error. No Lender shall be entitled to compensation under this Section 2.15 from the Borrower for any costs incurred or reductions suffered more than 180 days prior to the date that such Lender notifies the Borrower of the circumstances giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided that if a change of law giving rise to such increased

costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof. The obligations of the Borrower pursuant to this Section 2.15 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.16. Taxes. (a) Except as required by Law, all payments made by the Borrower under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise and doing business taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent or any Lender as a result of a present or former connection between the Administrative Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent's or such Lender's having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document) (such net income taxes and franchise or doing business taxes imposed in lieu of net income taxes being referred to hereinafter as "Excluded Taxes"). If any such taxes, levies, imposts, duties, charges, fees, deductions or withholdings other than Excluded Taxes ("Non-Excluded Taxes") or any Other Taxes are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement; provided, however, that the Borrower shall not be

required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes (i) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) or (e) of this Section 2.16 or (ii) that are withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement or designates a new lending office, except to the extent that such Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office or assignment, to receive additional amounts from the Borrower with respect to such Non-Excluded Taxes pursuant to this Section 2.16(a).

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable Law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Borrower, as soon as practicable thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of an official receipt received by the Borrower showing payment thereof (or other evidence of such payment reasonably satisfactory to the Administrative Agent). If the Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority, such the Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure. The agreements

in this Section 2.16 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

(d) Each Lender (or Transferee) that is not (i) a citizen or resident of the United States of America, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States of America (or any jurisdiction thereof), or (iii) an estate or trust that is subject to U.S. federal income taxation regardless of the source of its income (a "Non-U.S. Lender") that may lawfully do so shall deliver to the Borrower and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI (or other applicable form), or, in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a statement substantially in the form of Exhibit D and a Form W-8BEN (or other applicable form), or to the extent such Lender may lawfully do so, it shall deliver any subsequent versions thereof or successors thereto properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrower under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, to the extent it may lawfully do so, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Each Non-U.S. Lender shall, as soon as reasonably practicable, notify the Borrower at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrower (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non-U.S. Lender shall not be required to deliver any form pursuant to this paragraph that such Non-U.S. Lender is not legally able to deliver.

(e) A Lender that is entitled to an exemption from or reduction of non-U.S. withholding tax under the Law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable Law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable Law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate, provided that such Lender is legally entitled to complete, execute and deliver such documentation.

2.17. Compensation for Losses. The Borrower agrees to, upon demand of any Lender (with a copy to the Administrative Agent) from time to time, to indemnify each Lender for, and to hold each Lender harmless from, any loss or expense that such Lender sustains or incurs as a consequence of (a) default by the Borrower in making a borrowing of, conversion to or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in

accordance with the provisions of this Agreement, (b) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making by the Borrower of a prepayment or conversion of Eurodollar Loans on a day that is not the last day of an Interest Period with respect thereto; provided that any request for indemnification made by a Lender pursuant to this Section 2.17 shall be made within six months of the incurrence of the loss or expense requested to be indemnified. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) that would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank Eurodollar market. A certificate as to any amounts payable pursuant to this Section 2.17 submitted to the Borrower by any Lender shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.18. Illegality. Notwithstanding any other provision herein, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Lender hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Base Rate Loans to Eurodollar Loans shall forthwith be canceled and (b) such Lender's Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by Law. If any such conversion of a Eurodollar Loan to a Base Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Lender such amounts, if any, as may be required pursuant to Section 2.17.

2.19. Change of Office. Each Lender agrees that, upon the occurrence of any event that it knows to give rise to the operation of Sections 2.15, 2.16(a) or 2.18 with respect to such Lender, it will use all commercially reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office for any Loans affected by such event, or to assign its rights and obligations hereunder with respect to such Loans to another of its offices, branches or affiliates with the object of avoiding the consequences of such event, provided, that such designation is made on terms that, in the reasonable sole judgment of such Lender, cause such Lender and its lending office(s) to suffer no economic, legal or regulatory disadvantage, and provided, further, that nothing in this Section 2.19 shall affect or postpone any of the obligations of the Borrower or the rights of any Lender pursuant to Sections 2.15, 2.16(a) or 2.18. The Borrower hereby agrees to pay all reasonable out-of-pocket costs and expenses incurred by any Lender in connection with any such designation or assignment.

2.20. Replacement of Lenders under Certain Circumstances. The Borrower shall be permitted to replace any Lender (a) that requests reimbursement for amounts owing pursuant

to Section 2.15, (b) with respect to which the Borrower is required to pay any amounts under Sections 2.16 or 2.18, (c) that defaults in its obligation to make Loans hereunder or (d) that fails to approve any amendment which, pursuant to Section 10.1, requires the approval of each Lender, provided, that such amendment is approved by at least the Majority Lenders, with a replacement financial institution or other entity; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) with respect to a condition described in clause (a) or (b) above, prior to any such replacement, such replaced Lender shall have taken no action under Section 2.19 so as to eliminate the continued need for payment of amounts owing pursuant to Sections 2.15, 2.16, or 2.18 (iii) the replacement financial institution or other entity shall purchase, at par, all Loans and other amounts owing to such replaced Lender on or prior to the date of replacement, (iv) the Borrower shall be liable to such replaced Lender under Section 2.17 (as though Section 2.17 were applicable) if any Eurodollar Loan to the Borrower owing to such replaced Lender shall be purchased other than on the last day of the Interest Period relating thereto, (v) the replacement financial institution or other entity, if not already a Lender, shall be reasonably satisfactory to the Administrative Agent and otherwise an Eligible Assignee, (vi) the replaced Lender and replacement Lender shall be obligated to make such replacement in accordance with the provisions of Section 10.7 (including, without limitation, obtaining the consents provided for therein) (provided that the Borrower shall be obligated to pay the registration and processing fee referred to therein), (vii) the Borrower shall pay all additional amounts (if any) required pursuant to Section 2.15, 2.16 or 2.18, as the case may be, in respect of any period prior to the date on which such replacement shall be consummated, and (viii) any such replacement shall not be deemed to be a waiver of any rights that the Borrower, the Administrative Agent or any other Lender shall have against the replaced Lender.

2.21. Guaranty of Payment and Performance.

(a) Guaranty by Parent of the Borrower's Obligations. Parent (being referred to herein in its capacity as guarantor as a "Guarantor") hereby guarantees (such guaranty being hereinafter referred to as the "Parent Guaranty") to the Lenders and the Administrative Agent the full and punctual payment when due (whether at stated maturity, by required pre-payment, by acceleration or otherwise) of all of the obligations of the Borrower hereunder and under the other Loan Documents (including, but not limited to, the principal of the Loans advanced to the Borrower, all Reimbursement Obligations of the Borrower in respect of Letters of Credit, and all interest, fees, expenses, indemnities and other amounts payable by the Borrower hereunder), including all such which would become due but for the operation of the automatic stay pursuant to §362(a) of the Federal Bankruptcy Code and the operation of §502(b) of the Federal Bankruptcy Code. The Parent Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance of all such obligations of the Borrower hereunder and under the other Loan Documents, and not of their collectibility only and is in no way conditioned upon any requirement that the Administrative Agent or any Lender first attempt to collect any of the Borrower's obligations from the Borrower or resort to any other means of obtaining payment. Should an Event of Default occur with respect to the payment or performance of any such obligations of the Borrower, the obligations of Parent under the Parent Guaranty with respect to such obligations in default shall, upon demand by the Administrative Agent, become immediately due and payable to the Administrative Agent, for the benefit of the Lenders and the Administrative Agent, without demand or notice of any nature, all of which are expressly waived by Parent. Payments by Parent in respect of the Parent Guaranty may be

required by the Administrative Agent on any number of occasions. All payments by Parent in respect of the Parent Guaranty shall be made to the Administrative Agent, in the manner and at the place of payment specified hereunder, for the account of the Lenders and the Administrative Agent.

(b) Agreement to Pay Enforcement Costs, etc. The Guarantor further agrees, as the principal obligor and not as a guarantor only, to pay to the Administrative Agent, on demand, all costs and expenses (including court costs and legal expenses) incurred or expended by the Administrative Agent or any Lender in connection with the Parent Guaranty and the enforcement thereof, together with interest on amounts recoverable under this Section 2.21(b) from the time when such amounts become due until payment, whether before or after judgment, at the rate of interest for overdue principal set forth in this Agreement, provided that if such interest would exceed the Maximum Rate, then such interest shall be reduced to such Maximum Rate.

(c) Waivers by the Guarantor; Lenders' Freedom to Act. To the fullest extent permitted by applicable law, the Guarantor agrees that the obligations that it has guaranteed hereunder will be paid and performed strictly in accordance with their respective terms, regardless of any Law now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Administrative Agent or any Lender with respect thereto. To the fullest extent permitted by applicable Law, the Guarantor waives promptness, diligences, presentment, demand, protest, notice of acceptance, notice of any obligations incurred and all other notices of any kind, all defenses which may be available by virtue of any valuation, stay, moratorium law or other similar Law now or hereafter in effect, any right to require the marshalling of assets of the Borrower or any other entity or other person primarily or secondarily liable with respect to any of the obligations, and all suretyship defenses generally. Without limiting the generality of the foregoing, the Guarantor agrees to the provisions of any instrument evidencing or otherwise executed in connection with any obligation and agrees, to the fullest extent permitted by applicable Law, that its obligations in respect of the Parent Guaranty shall not be released or discharged, in whole or in part, or otherwise affected by (i) the failure of the Administrative Agent or any Lender to assert any claim or demand or to enforce any right or remedy against the Borrower or any other entity or other person primarily or secondarily liable with respect to any of the obligations; (ii) any extensions, compromise, refinancing, consolidation or renewals of any obligation; (iii) any change in the time, place or manner of payment of any of the obligations or any rescissions, waivers, compromise, refinancing, consolidation or other amendments or modifications of any of the terms or provisions of this Agreement or the other Loan Documents or any other agreement evidencing or otherwise executed in connection with any of the obligations, (iv) the addition, substitution or release of any entity or other person primarily or secondarily liable for any obligation; (v) the adequacy of any rights which the Administrative Agent or any Lender may have against any means of obtaining repayment of any of the obligations; or (vi) any other act or omission which might in any manner or to any extent vary the risk of the Guarantor or otherwise operate as a release or discharge of the Guarantor, all of which may be done without notice to the Guarantor. To the fullest extent permitted by Law, the Guarantor hereby expressly waives any and all rights or defenses arising by reason of (A) any "one action" or "anti-deficiency" Law which would otherwise prevent the Administrative Agent or any Lender from bringing any action, including any claim for a deficiency, or exercising any other right or remedy (including any right of set-off), against the Guarantor before or after the

Administrative Agent's or such Lender's commencement or completion of any foreclosure action, whether judicially, by exercise of power of sale or otherwise, or (B) any other Law which in any other way would otherwise require any election of remedies by the Administrative Agent or any Lender.

(d) Unenforceability of Obligations Against the Borrower. If for any reason the Borrower has no legal existence or is under no legal obligation to discharge any of its obligations under this Agreement or under the other Loan Documents guaranteed by the Guarantor, or if any of such obligations have become irrecoverable from the Borrower by reason of the Borrower's bankruptcy or reorganization or by other operation of Law or for any other reason, the Guarantee shall, to the fullest extent permitted by applicable Law, nevertheless be binding on the Guarantor to the same extent as if the Guarantor at all times had been the principal obligor on all such obligations. In the event that acceleration of the time for payment of any of the guaranteed obligations of the Borrower under this Agreement or the other Loan Documents is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, or for any other reason, all such obligations otherwise subject to acceleration under the terms of this Agreement and the other Loan Documents or any other agreement evidencing or otherwise executed in connection with any such obligation shall be immediately due and payable by the Guarantor.

(e) Subrogation. Until the final payment and performance in full of all of the obligations of the Borrower under this Agreement and the other Loan Documents, the Guarantor shall not exercise any rights against the Borrower arising as a result of payment by the Guarantor in respect of the Parent Guaranty, by way of subrogation, reimbursement, restitution, contribution or otherwise, and will not prove any claim in competition with the Administrative Agent or any Lender in respect of any payment hereunder in any bankruptcy, insolvency or reorganization case or proceedings of any nature and the Guarantor will not claim any setoff, recoupment or counterclaim against the Borrower in respect of any liability of the Guarantor to the Borrower.

(f) Provisions Supplemental. The provisions of this Section 2.21 shall be supplemental to and not in derogation of any other rights and remedies of the Lenders and the Administrative Agent under this Agreement, the other Loan Documents and any separate subordination agreement which the Administrative Agent may at any time and from time to time enter into with the Guarantor for the benefit of the Lenders and the Administrative Agent.

(g) Further Assurances. The Guarantor agrees that it will from time to time, at the request of the Administrative Agent, do all such things and execute all such documents as the Administrative Agent may reasonably request to give full effect to the Parent Guaranty and to preserve the rights and powers of the Lenders and the Administrative Agent in respect of the Parent Guaranty. The Guarantor acknowledges and confirms that it has established its own adequate means of obtaining from the Borrower on a continuing basis all information desired by the Guarantor concerning the financial condition of the Borrower and that the Guarantor will look to the Borrower and not to the Administrative Agent or any Lender in order for the Guarantor to keep adequately informed of changes in the Borrower's financial condition.

(h) Successors and Assigns. The Parent Guaranty shall be binding upon the Guarantor, its successors and assigns, and shall inure to the benefit of the Administrative Agent and the Lenders and their respective permitted transferees and permitted assigns. Without limiting the generality of the foregoing sentence, each Lender may, to the extent permitted by Section 10.7, assign or otherwise transfer this Agreement, the other Loan Documents or any other agreement or Note held by it evidencing or otherwise executed in connection with the guaranteed obligations, or sell participations in any interest therein, to any other entity or other person, and such other entity or other person shall, to the extent provided by Section 10.7, thereupon become vested, to the extent set forth in the agreement evidencing such assignment, transfer or participation, with all the rights in respect thereof granted to such Lender herein, all in accordance with Section 10.7 of this Agreement.

2.22. Increase in Commitments.

(a) Request for Increase. Upon notice to the Administrative Agent (which shall promptly notify the Lenders), the Borrower may from time to time, increase the Total Revolving Credit Commitments by an amount not to exceed $25,000,000 less the aggregate amount of all prior increases of the Total Revolving Credit Commitment pursuant to this Section 2.22. Such increase in the Total Revolving Credit Commitments may be provided by the Lenders or Eligible Assignees designated by the Borrower to become Lenders (pursuant to an instrument of accession in the form of Exhibit I hereto) that are willing to provide such increase; provided that (i) any such increase shall be in a minimum amount of $5,000,000 and (ii) the aggregate amount of the Total Revolving Credit Commitments after giving effect to any such increase shall not at any time exceed $100,000,000. Nothing contained herein shall constitute, or otherwise be deemed to be, a commitment on the part of any Lender to increase its Revolving Credit Commitment hereunder.

(b) Effective Date and Allocations. If the Total Revolving Credit Commitments are increased in accordance with this Section 2.22, the Administrative Agent and the Borrower shall determine the effective date (the "Increase Effective Date") and the Borrower, in consultation with the Administrative Agent, shall determine the final allocation of such increase. The Administrative Agent shall promptly notify the Lenders of the final allocation of such increase and the Increase Effective Date.

(c) Conditions to Effectiveness of Increase. As a condition precedent to such increase, (i) no Default shall exist, (ii) the Borrower shall (x) deliver to the Administrative Agent (1) an Instrument of Accession executed by the Borrower and the applicable Lender(s), and (2) a certificate dated as of the Increase Effective Date (in sufficient copies for each Lender) signed by a Responsible Officer of each Loan Party (A) certifying and attaching the resolutions adopted by the Loan Parties approving or consenting to such increase, and (B) certifying that, before and after giving effect to such increase no Default exists and (iii pursuant to the terms of the Arranger Fee Letter, pay the fees to the applicable Persons. The Borrower shall prepay any Revolving Credit Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to Section 2.15) to the extent necessary

to keep the outstanding Revolving Credit Loans ratable with any revised Revolving Credit Percentages arising from any nonratable increase in the Total Revolving Credit Commitments under this Section 2.22.

(d) Conflicting Provisions. This Section 2.22 shall supersede any provisions in Section 2.14 or 10.1 to the contrary.

3. LETTERS OF CREDIT

3.1. L/C Commitment. (a) Subject to the terms and conditions hereof, each Issuing Lender, in reliance on the agreements of the other Lenders set forth in Section 3.3, agrees to issue Letters of Credit for the account of the Borrower or any of its Subsidiaries and to amend or extend Letters of Credit previously issued by it, in accordance with Section 3.2(b), on any Business Day during the Revolving Credit Commitment Period in such form as may be approved from time to time by the Issuing Lender; provided, that the Issuing Lender shall not issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the aggregate amount of the Available Revolving Credit Commitments would be less than zero. Each Letter of Credit shall (i) be denominated in Dollars and (ii) expire no later than the earlier of (x) the first anniversary of its date of issuance and (y) the date which is five Business Days prior to the Revolving Credit Termination Date, provided that any Letter of Credit with a one-year term may provide for the renewal thereof for additional one-year periods (which shall in no event extend beyond the date referred to in clause (y) above). All Existing Letters of Credit shall be deemed to have been issued pursuant hereto, and from and after the Closing Date shall be subject to and governed by the terms and conditions hereof.

(b) No Issuing Lender shall at any time be obligated to issue any Letter of Credit hereunder if (i) such issuance would conflict with, or cause the Issuing Lender or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law, (ii) such issuance would violate one or more policies of the Issuing Lender applicable to letters of credit generally or (iii) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the Issuing Lender from issuing such Letter of Credit, or any Law applicable to the Issuing Lender or any request or directive (whether or not having the force of Law) from any Governmental Authority with jurisdiction over the Issuing Lender shall prohibit, or request that the Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular.

3.2. Procedure for Issuance and Amendment of Letter of Credit. (a) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the Issuing Lender (with a copy to the Administrative Agent) in the form of an Application, completed and signed by a Responsible Officer of the Borrower. Such Application must be received by the Issuing Lender and the Administrative Agent not later than 11:00 A.M., New York City time, at least two Business Days (or such later date and time as the Administrative Agent and the Issuing Lender may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the

case of a request for an initial issuance of a Letter of Credit, such Application shall specify in form and detail reasonably satisfactory to the Issuing Lender: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the Issuing Lender may reasonably require. In the case of a request for an amendment of any outstanding Letter of Credit, such Application shall specify in form and detail reasonably satisfactory to the Issuing Lender (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the Issuing Lender may reasonably require. Additionally, the Borrower shall furnish to the Issuing Lender and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the Issuing Lender or the Administrative Agent may reasonably require.

(b) Promptly after receipt of any Application, the Issuing Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Application from the Borrower and, if not, the Issuing Lender will provide the Administrative Agent with a copy thereof. Unless the Issuing Lender has received written notice from any Lender or the Administrative Agent, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Section 4 shall not then be satisfied, then, subject to the terms and conditions hereof, the Issuing Lender shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the Issuing Lender's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Lender a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Revolving Credit Percentage times the amount of such Letter of Credit.

(c) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the Issuing Lender will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

3.3. Drawings and Reimbursements; Funding of Participations. (a) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the Issuing Lender shall notify the Borrower and the Administrative Agent thereof. The Borrower shall reimburse the Issuing Lender, through the Administrative Agent, for the amount of any drawing under a Letter of Credit not later than 1:00 P.M., New York City time, on the date that such drawing is made (if the Borrower has received notice from the Issuing Lender of such drawing prior to 10:00 A.M., New York City time, on such date) or, if the Borrower has not received notice of such drawing prior to such time on such date, then not later than 1:00 P.M.,

New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 A.M., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to 10:00 A.M., New York City time, on the day of such receipt (the date on which such reimbursement by the Borrower is due pursuant to this sentence being referred to herein as the "Requested Reimbursement Date"). If the Borrower fails to so reimburse the Issuing Lender by such time, the Administrative Agent shall promptly notify each Lender of the Requested Reimbursement Date, the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such Lender's Revolving Credit Percentage thereof. In such event, the Borrower shall be deemed to have requested a borrowing of Base Rate Loans to be disbursed on the Requested Reimbursement Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples, and notice periods, specified in Section 2.2 for the principal amount of Base Rate Loans. Such Base Rate Loans may from time to time be converted to Eurodollar Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Section 2.9, provided that no Revolving Credit Loan shall be made as a Eurodollar Loan after the day that is one month prior to the Revolving Credit Termination Date. Any notice given by the Issuing Lender or the Administrative Agent pursuant to this Section 3.3(a) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(b) Each Lender (including the Lender acting as Issuing Lender) shall upon any notice pursuant to Section 3.3(a) make funds available to the Administrative Agent for the account of the Issuing Lender at the Administrative Agent's Office in an amount equal to its Revolving Credit Percentage of the Unreimbursed Amount not later than 1:00 P.M., New York City time, on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 3.3(a), each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the Issuing Lender.

(c) If any drawing is made under a Letter of Credit and is not reimbursed or refinanced on the date such drawing is made, for any reason, the Borrower shall be deemed to have incurred from the Issuing Lender an L/C Borrowing in the amount of the Unreimbursed Amount that is not so reimbursed or refinanced, which L/C Borrowing (i) shall bear interest at the rate applicable to Base Rate Loans from and including the date that such drawing is paid by the Issuing Bank to but excluding the earlier of the date that such Unreimbursed Amount is so reimbursed or refinanced or the date that is the next Business Day following the Requested Reimbursement Date and, if not so reimbursed or refinanced on or prior to the date that is the next Business Day following the Requested Reimbursement Date, then, from and after the date that is the next Business Day following the Requested Reimbursement Date to but excluding the date so reimbursed or refinanced, the rate applicable to Base Rate Loans plus 2% and (ii) shall, on and after the date that is the next Business Day following the Requested Reimbursement Date, be due and payable on demand. In such event, each Lender's payment to the Administrative Agent for the account of the Issuing Lender pursuant to Section 3.3(b) shall be

deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 3.3.

(d) Until each Lender funds its Loan or L/C Advance pursuant to this Section 3.3 to reimburse the Issuing Lender for any amount drawn under any Letter of Credit, interest in respect of such Lender's Revolving Credit Percentage of such amount shall be solely for the account of the Issuing Lender.

(e) Each Lender's obligation to make Loans or L/C Advances to reimburse the Issuing Lender for amounts drawn under Letters of Credit, as contemplated by this Section 3.3, shall be absolute and unconditional and shall not be affected by any circumstance,

including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Issuing Lender, any Loan Party or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Loans pursuant to this Section 3.3 is subject to the conditions set forth in Section 4.2 (other than delivery by the Borrower of a Loan Notice). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the Issuing Lender for the amount of any payment made by the Issuing Lender under any Letter of Credit, together with interest as provided herein.

(f) If any Lender fails to make available to the Administrative Agent for the account of the Issuing Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 3.3 by the time specified in Section 3.3(b), the Issuing Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Issuing Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Issuing Lender in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Issuing Lender in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Loan included in the relevant borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the Issuing Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this paragraph (f) shall be conclusive absent manifest error.

3.4. Repayment of Participations. (a) At any time after the Issuing Lender has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 3.3(b), if the Administrative Agent receives for the account of the Issuing Lender any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of cash collateral applied thereto by the Administrative Agent), the Administrative Agent will distribute to such Lender its Revolving Credit Percentage thereof

(appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by the Administrative Agent.

(b) If any payment received by the Administrative Agent for the account of the Issuing Lender pursuant to Section 3.3(b) is required to be returned under any of the circumstances described in Section 10.8 (including pursuant to any settlement entered into by the Issuing Lender in its discretion), each Lender shall pay to the Administrative Agent for the account of the Issuing Lender its Revolving Credit Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect.

3.5. Obligations Absolute. The obligation of the Borrower to reimburse the Issuing Lender for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, set-off, defense or other right that the Borrower or any of its Subsidiaries may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Issuing Lender or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the Issuing Lender under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the Issuing Lender under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might

otherwise constitute a defense available to, or a discharge of, the Borrower or any of its Subsidiaries.

3.6. Role of Issuing Lender. Each Lender and the Borrower agrees that, in paying any drawing under a Letter of Credit, the Issuing Lender shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or

to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the Issuing Lender, any Agent-Related Person nor any of the respective correspondents, participants or assignees of the Issuing Lender shall be liable to any Lender for (a) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Majority Lenders, as applicable; (b) any action taken or omitted in the absence of gross negligence or willful misconduct; or (c) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Application. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the Issuing Lender, any Agent-Related Person, nor any of the respective correspondents, participants or assignees of the Issuing Lender, shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 3.5; provided, however, that anything in such clauses (i) through (v) to the contrary notwithstanding, the Borrower may have a claim against the Issuing Lender, and the Issuing Lender may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the Issuing Lender's willful misconduct or gross negligence or the Issuing Lender's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the Issuing Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the Issuing Lender shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

3.7. Cash Collateral. Upon the request of the Administrative Agent, if, as of the Revolving Credit Termination Date, any Letter of Credit for any reason remains outstanding and partially or wholly undrawn, the Borrower shall immediately Cash Collateralize the then outstanding amount of all L/C Obligations (in an amount equal to such outstanding amount determined as of the Revolving Credit Termination Date). Sections 2.8 and 8.2 set forth certain additional requirements to deliver Cash Collateral hereunder. To the extent that the Borrower is required to Cash Collateralize L/C Obligations, the Borrower hereby grants to the Administrative Agent, for the benefit of the Issuing Lender and the Lenders, a security interest in all cash, deposit accounts and all balances therein and all proceeds of the foregoing. Such cash collateral shall be maintained in blocked, interest bearing deposit accounts with the Administrative Agent.

3.8. Applicability of ISP98 and UCP. Unless otherwise expressly agreed by the Issuing Lender and the Borrower when a Letter of Credit is issued including any such agreement as applicable to an Existing Letter of Credit, (i) the rules of the ISP shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce at the time of issuance shall apply to each commercial Letter of Credit.

3.9. Fees and Other Charges. (a) The Borrower will pay to the Administrative Agent, for the account of the Lenders, a fee on the daily amount available to be drawn under all outstanding Letters of Credit issued for its account at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar Loans, to be shared ratably among the Lenders in accordance with their respective Revolving Credit Percentages and payable quarterly in arrears on each L/C Fee Payment Date after the issuance date. In addition, the Borrower shall pay to the relevant Issuing Lender for its own account a fronting fee on the daily amount available to be drawn under all outstanding Letters of Credit issued by such Issuing Lender for the Borrower's account at a rate and at the times to be agreed upon by the Borrower and such Issuing Lender. For purposes of computing the average daily amount available to be drawn under the Letters of Credit, the amount of such Letters of Credit shall be determined in accordance with Section 1.3.

(b) In addition to the foregoing fees, the Borrower shall pay or reimburse each Issuing Lender for such normal and customary costs and expenses as are incurred or charged by such Issuing Lender in issuing, negotiating, effecting payment under, amending or otherwise administering any Letter of Credit issued for the account of the Borrower.

3.10. Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

4. CONDITIONS PRECEDENT

4.1. Conditions to Closing. The occurrence of the Closing Date is subject to the satisfaction on such date of the following conditions precedent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or telecopies (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance reasonably satisfactory to the Administrative Agent:

(i) executed counterparts of this Agreement, sufficient in number for distribution to the Administrative Agent, each Lender party hereto on the date hereof, the Borrower and the Parent;

(ii) a Note executed by the Borrower in favor of each Lender requesting a Note so long as such request is made at least 3 Business Days prior to the Closing Date;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may reasonably require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing and qualified to engage in business in the jurisdiction where such Loan Party is organized;

(v) a Closing Certificate of each Loan Party with appropriate insertions and attachments, if any;

(vi) a certificate signed by a Responsible Officer on behalf of each Loan Party either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(vii) a certificate signed by a Responsible Officer on behalf of each Loan Party certifying (A) that the conditions specified in Sections 4.2(a) and (b) have been satisfied, and (B) that there has been no event or circumstance since December 31, 2005 that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect.

(viii) a Borrowing Request appropriately completed and signed by a Responsible Officer on behalf of the Borrower, in respect of the initial borrowing of Loans;

(ix) copies certified by a Responsible Officer on behalf of the Borrower of the White Mountains Loan Documents duly executed by the parties thereto;

(b) Fees. (i) The Administrative Agent and the Arrangers shall have received all fees required to be paid by the Borrower on or prior to the Closing Date.

(ii) The Borrower shall have paid all fees, charges and disbursements of Bingham McCutchen LLP, as counsel to the Administrative Agent (directly to such counsel if requested by the Administrative Agent), to the extent required to be paid by the Borrower and invoiced prior to the Closing Date.

(c) Legal Opinions. The Administrative Agent shall have received (i) the legal opinions of Thomas Forsyth, Esquire and Robert Seelig, Esquire, each as

counsel to the Loan Parties, substantially in the form of Exhibit F-1 and F-2, respectively and (ii) the legal opinion of Conyers Dill & Pearman, Bermuda counsel to the Parent, substantially in the form of Exhibit G.

(d) Termination of Existing Credit Facility. The Administrative Agent shall have received evidence (including, without limitation, payoff letters), reasonably satisfactory to the Administrative Agent in its reasonable discretion, that the Existing Credit Agreement has been or concurrently with the Closing Date is being terminated.

(e) Initial Public Offering. Parent shall have consummated the IPO.

(f) Closing Date. The Closing Date shall occur on or before April 30, 2007.

(g) Economic Defeasance of Fund American Preferred Stock. Arrangements reasonably satisfactory to the Administrative Agent shall have been made for the establishment of grantor trusts to provide for the payment or redemption of the Fund American Preferred Stock.

(h) Material Adverse Effect. Up to and including the Closing Date, since December 31, 2005 there has been no development or event that has had or could reasonably be expected to have a Material Adverse Effect.

4.2. Conditions to Closing and Each Extension of Credit. The occurrence of the Closing Date and the agreement of each Lender to make any extension of credit requested to be made by it hereunder on any date (including, without limitation, its initial extension of credit but excluding conversions or continuations of Loans) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Loan Parties in Section 5 (other than Section 5.5) or pursuant to any of the other Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date, except to the extent that they expressly relate to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the extensions of credit requested to be made on such date.

(c) Borrowing Request. Except as provided in Section 3.3, the Administrative Agent shall have received a Borrowing Request or, as applicable, an Application.

Each borrowing by and issuance of a Letter of Credit on behalf of the Borrower hereunder shall constitute a representation and warranty by the Loan Parties as of the date of such extension of

credit that the conditions contained in this Section 4.2 (a) and (b) have been satisfied on and as of the date of the applicable extension of credit.

5. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into this Agreement and to make the Loans and issue or participate in the Letters of Credit, the Loan Parties hereby jointly and severally represent and warrant to the Administrative Agent and each Lender that:

5.1. Financial Statements.

(a) The audited consolidated balance sheet of Parent and its consolidated Subsidiaries, as at December 31, 2005 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, reported on and accompanied by unqualified reports from PricewaterhouseCoopers LLP or another independent certified public accounting firm of nationally recognized standing, present fairly in all material respects the consolidated financial condition of Parent and its consolidated Subsidiaries, as at such date, and the consolidated results of their operations and their consolidated cash flows for such fiscal year then ended in accordance with GAAP applied consistently throughout the periods involved (except as approved by the aforementioned firm of accountants and disclosed therein).

(b) The unaudited consolidated balance sheet of Parent and its consolidated Subsidiaries, as of and for the fiscal quarters ended June 30, 2006 and September 30, 2006, and the related unaudited consolidated statements of income and cash flows for such fiscal quarters ended on such dates, present fairly in all material respects the consolidated financial condition of Parent and its consolidated Subsidiaries as at such dates, and the consolidated results of their operations and their consolidated cash flows for the fiscal quarters then ended in accordance with GAAP applied consistently throughout the periods involved (except (x) as approved by the aforementioned firms of accountants and disclosed therein or (y) for normal year-end audit adjustments and the absence of footnotes).

5.2. Corporate Existence; Compliance with Law. Each of the Loan Parties and their Subsidiaries (a) is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization, except to the extent that the failure of the Subsidiaries (other than the Borrower) to be so organized, validly existing and in good standing could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, (b) has the corporate or other power and authority, and the legal right, to own and operate its Property, to lease the Property it operates as lessee and to conduct the business in which it is currently engaged, except to the extent that the failure to have such power, authority and legal right could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, (c) is duly qualified as a foreign corporation and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of Property or the conduct of its business requires such qualification, except to the extent failure to so qualify or be in good standing could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, and (d) is in compliance with all Requirements of Law, including, without limitation, with respect to environmental laws,

except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.3. Corporate Power; Authorization; Enforceable Obligations. Each of the Loan Parties has the corporate or other power and authority, and the legal right, to make, deliver and perform the Loan Documents to which it is a party and, in the case of the Borrower, to borrow hereunder. Each of the Loan Parties has taken all necessary corporate or other action to authorize the execution, delivery and performance of the Loan Documents to which it is a party and, in the case of the Borrower, to authorize the borrowings on the terms and conditions of this Agreement. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or the execution, delivery, performance, validity or enforceability of this Agreement or any of the other Loan Documents, except consents, authorizations, filings and notices described in Schedule 5.3, which consents, authorizations, filings and notices have been obtained or made and are in full force and effect and except to the extent failure to obtain any consents, authorizations, filings, and notices could not, in the aggregate, reasonably be expected to have a Material Adverse Effect. Each Loan Document has been duly executed and delivered on behalf of each Loan Party that is a party thereto. This Agreement constitutes, and each other Loan Document upon execution will constitute, a legal, valid and binding obligation of each Loan Party that is a party thereto, enforceable against each such Loan Party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at Law).

5.4. No Legal Bar. The execution, delivery and performance of this Agreement and the other Loan Documents, the issuance of Letters of Credit, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or any Contractual Obligation of the Loan Parties or any of their Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any Requirement of Law or any such Contractual Obligation, except to the extent such violation or Lien could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.5. No Material Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Loan Parties, threatened by or against the Loan Parties or any of their Subsidiaries or against any of their respective properties or

assets that (a) purport to affect or pertain to this Agreement or any other Loan Document or any of the transactions contemplated hereby or thereby, or (b) could reasonably be expected to have a Material Adverse Effect.

5.6. Ownership of Property; Liens. Each of the Loan Parties and their Subsidiaries has title in fee simple to, or a valid leasehold interest in, all its real property, and good title to, or a valid leasehold interest in, all its other Property, and none of such Property is subject to any Lien except as permitted by Section 7.3, except to the extent such defects in title could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.7. Intellectual Property. Each of the Loan Parties and each of their Subsidiaries owns, or is licensed to use, all Intellectual Property material to the conduct of its business as currently conducted. No material claim has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor do the Loan Parties know of any valid basis for any such claim, other than claims that could not, in the aggregate, reasonably be expected to have a Material Adverse Effect. The use of Intellectual Property by the Loan Parties and their Subsidiaries does not infringe on the rights of any Person in any material respect, except for infringements that could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.8. Taxes. Each of the Loan Parties and their Subsidiaries has filed or caused to be filed all material Federal, state and other tax returns that are required to be filed (taking into account any applicable extensions) and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its Property and all other material taxes, fees or other charges imposed on it or any of its Property by any Governmental Authority and, to the knowledge of the Loan Parties, no tax Lien has been filed, and no claim is being asserted, with respect to any such tax, fee or other charge, except (i) those in respect of which the amount or validity are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with SAP or GAAP, as applicable, have been provided on the books of the Loan Parties or their Subsidiaries, as the case may be, and (ii) any amount the failure of which to pay could not reasonably be expected to result in a Material Adverse Effect.

5.9. Federal Regulations. No part of the proceeds of any Loans will be used for “purchasing” or “carrying” any “margin stock” within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect or for any purpose that violates the provisions of the Regulations of the Board. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1 referred to in Regulation U.

5.10. ERISA. Except as could not reasonably be expected to result in a Material Adverse Effect, neither a Reportable Event nor an “accumulated funding deficiency” (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits by an amount which could reasonably be expected to result in a Material Adverse Effect. Neither the Loan Parties nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect. Except as could not reasonably be expected to result in a Material Adverse Effect, no such Multiemployer Plan is in Reorganization or Insolvent.

5.11. Investment Company Act; Other Regulations. The Borrower is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended. The Borrower is not subject to regulation under any Requirement of Law (other than Regulation X of the Board) which limits its ability to incur Indebtedness hereunder.

5.12. Use of Proceeds. The proceeds of the Loans and the Letters of Credit shall be used for working capital and general corporate purposes of Parent and its Subsidiaries, including, without limitation, (a) acquisitions and the issuance of Letters of Credit, (b) refinancings of outstanding indebtedness, if any, of Parent and its Subsidiaries under the Existing Credit Agreement (and the Existing Letters of Credit), (c) to provide for the payment or redemption of obligations in respect of the Fund American Preferred Stock, and (d) payment of fees and expenses incurred in connection with this Agreement.

5.13. Accuracy of Information, etc. No statement or information contained in any document, certificate or statement furnished to the Administrative Agent or the Lenders or any of them, by or on behalf of either of the Loan Parties for use in connection with the transactions contemplated by this Agreement or the other Loan Documents, taken as a whole contained, as of the date such statement, information, document or certificate was so furnished, any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statement, information, document or certificate was made or furnished. The projections and pro forma financial information contained in the materials referenced above were prepared in good faith based on assumptions believed by management of the Loan Parties to be reasonable at the time made, it being recognized by the Lenders that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount.

5.14. Insurance Regulatory Matters. No License of any Insurance Subsidiary, the loss of which could reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To the knowledge of the Loan Parties, there is no sustainable basis for

such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

5.15. Indebtedness and Liens. As of the Closing Date, (i) no Subsidiary (other than the Borrower) of either of the Loan Parties had outstanding any Indebtedness that was created, incurred or assumed after September 30, 2006, except Indebtedness that would have been permitted by Section 7.2 (without giving effect to the Indebtedness permitted by Section 7.2(a)) if created, incurred or assumed by such Subsidiary on the Closing Date and (ii) there does not exist (a) any Lien that was created, incurred or assumed after September 30, 2006, upon any stock or Indebtedness of any Subsidiary to secure any Debt of any Loan Party or any of their Subsidiaries or any other Person (other than the obligations hereunder) or (b) any Lien that was created, incurred or assumed after September 30, 2006, upon any other Property, to secure any Debt of any Loan Party or any of their Subsidiaries or any other Person (other than the obligations hereunder), except, in the case of (a) or (b), Liens that would have been permitted by Section 7.3 hereof (without giving effect to the Liens that would have been permitted by Section 7.3(i)(x)) if so created, incurred or assumed on the Closing Date.

5.16. Taxpayer Identification Number. As of the date hereof, each Loan Party's true and correct U.S. taxpayer identification number is set forth on Schedule 10.02.

6. AFFIRMATIVE COVENANTS

The Loan Parties hereby jointly and severally agree that, from and after the Closing Date and so long as, the Commitments remain in effect, any Letter of Credit remains outstanding, there exists any unpaid Reimbursement Obligations or any principal or interest on any Loan or any fee payable hereunder is owing to any Lender or the Administrative Agent hereunder, each of the Loan Parties shall and shall cause each of their Subsidiaries to:

6.1. Financial Statements. Furnish to the Administrative Agent (either electronically or with sufficient copies for distribution by the Administrative Agent to each Lender):

(a) (i) not later than the date required to be filed pursuant to the Act of 1934 (after giving effect to any extension permitted or granted by the SEC), but in any event not later than 95 days after the end of each fiscal year of Parent ending subsequent to the Closing Date, a copy of the audited consolidated balance sheet of Parent and its consolidated Subsidiaries as at the end of such fiscal year, and the related audited consolidated statements of income and of cash flows for such fiscal year, setting forth in each case in comparative form the figures as of the end of and for the previous fiscal year, accompanied by an opinion by PricewaterhouseCoopers LLP, or other independent certified public accounting firm of nationally recognized standing, which report shall be prepared in accordance with generally accepted auditing standards and applicable securities laws and shall not be subject to a "going concern" or like qualification or exception, or qualification as to the scope of the audit (for purposes hereof, delivery of Parent's Annual Report on Form 10-K (which shall be deemed delivered on the date when such document is posted on the SEC's website at www.sec.gov or any replacement website) will be sufficient in lieu of delivery of such financial statements); and (ii) not later than the date required to be filed pursuant to the Act of 1934 (after giving effect to any extension permitted or granted by the SEC), but in any event not later than 60 days after the end of each of the first three fiscal quarters of each fiscal year of Parent ending subsequent to the Closing Date, a copy of the unaudited consolidated balance sheet of Parent and its consolidated Subsidiaries as at the end of such fiscal quarter and the related unaudited consolidated statements of income and of cash flows for such fiscal quarter and the portion of the fiscal year through the end of such fiscal quarter, setting forth in each case in comparative form the figures as of the end of and for the corresponding period in the previous year, certified by a Responsible Officer on behalf of Parent as being fairly stated in all material respects in accordance with GAAP (subject to normal year-end audit adjustments and the absence of footnotes) (for purposes hereof, delivery of Parent's Quarterly Report on Form 10-Q (which shall be deemed delivered on the date when such document is posted on the SEC's website at www.sec.gov or any replacement website) will be sufficient in lieu of delivery of such financial statements and certifications); all such financial statements, together with notes to such financial statements, to fairly present in all material

respects the financial condition and income and cash flows of the subject thereof as at the dates and for the periods covered thereby in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except (x) as approved by such accountants or officer, as the case may be, and disclosed therein or (y) in the case of unaudited financial statements, subject to normal year-end adjustments and the absence of footnotes);

(b) not later than the date required by Law to be prepared (or such later date as may be allowed by the applicable Governmental Authority), but in any event not later than 95 days after the end of each fiscal year of (i) OneBeacon Insurance Group, copies of the unaudited combined Annual Statement of OneBeacon Insurance Group, certified by a Responsible Officer on behalf of Parent, and (ii) a Material Insurance Subsidiary (as of the date of delivery pursuant hereto), copies of the unaudited Annual Statement of such Material Insurance Subsidiary, certified by a Responsible Officer on behalf of such Material Insurance Subsidiary; all such statements to be prepared in accordance with SAP consistently applied throughout the periods reflected therein and, if required by the applicable Governmental Authority, audited and certified by independent certified public accounting firm of recognized national standing (it being understood that delivery of audited statements shall be made within 10 days following the delivery of such statements to the applicable Governmental Authority);

(c) not later than the date required by Law to be prepared (or such later date as may be allowed by the applicable Governmental Authority), but in any event not later than 70 days after the end of each of the first three fiscal quarters of each fiscal year of each Material Insurance Subsidiary (as of the date delivery of such Quarterly Statements is required), copies of the Quarterly Statement of such

Material Insurance Subsidiary for such fiscal quarter, all such statements to be prepared in accordance with SAP consistently applied throughout the period reflected herein;

(d) within 15 days after being delivered to any Material Insurance Subsidiary subsequent to the Closing Date, any final Report on Examination issued by the applicable Department or the NAIC that results in material adjustments to the financial statements referred to in paragraphs (b) or (c) above;

(e) to the extent such a statement is required by Law to be prepared, within 10 days following the delivery to the applicable Department, a copy of each "Statement of Actuarial Opinion" and "Management Discussion and Analysis" for a Material Insurance Subsidiary which is provided to the applicable Department as to the adequacy of loss reserves of such Material Insurance Subsidiary, such opinion to be in the format prescribed by the insurance code of the state of domicile of such Material Insurance Subsidiary; and

(f) promptly after Parent's receipt thereof, subject to any restrictions imposed by such independent accountants, copies of any management letters submitted to the board of directors (or the audit committee of the board of

directors) of Parent by independent accountants in connection with the annual audit of Parent or any of its Subsidiaries.

6.2. Certificates; Other Information. Furnish to the Administrative Agent (either electronically or with sufficient copies for distribution by the Administrative Agent to each Lender) or, in the case of clause (d), to the relevant Lender:

(a) concurrently with the delivery of the audited financial statements referred to in Section 6.1(a)(i), a certificate of the independent certified public accounting firm reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default (it being understood that (i) such certificate shall only be required if delivery by such independent certified public accounting firm of such a certificate is not prohibited by its policies and (ii) any such certificate may be limited in scope and qualified in accordance with customary practices of the accounting profession), except as specified in such certificate;

(b) not later than the deadline for the delivery of any financial statements pursuant to Section 6.1(a), (i) a certificate of a Responsible Officer of Parent stating that such Responsible Officer has obtained no knowledge of any continuing Default or Event of Default except as specified in such certificate and (ii) a Compliance Certificate containing all information and calculations necessary for determining compliance by Parent with Section 7.1 as of the last day of the fiscal quarter or fiscal year of Parent.

(c) within 10 days after the same are filed with the SEC (unless posted on the SEC's website at www.sec.gov or any replacement website), all reports and filings on Forms 10-K, 10-Q and 8-K that the Loan Parties may make to, or file with, the SEC, including any request of an extension of time for the filing of any such reports; and

(d) promptly, such additional financial and other information as the Administrative Agent or any Lender may from time to time reasonably request.

(e) The Loan Parties hereby acknowledge that (a) unless otherwise directed by a Loan Party, the Administrative Agent and/or the Arrangers will make available to the Lenders and the Issuing Bank materials and/or information provided by or on behalf of the Loan Parties hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform"), subject to confidentiality undertakings reasonably acceptable to the Loan Parties and the Arrangers, and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Loan Parties or their securities) (each, a "Public Lender"). Each of the Loan Parties hereby agrees that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Loan

Parties shall be deemed to have authorized the Administrative Agent, the Arrangers, the Issuing Bank and the Lenders to treat such Borrower Materials as either publicly available information or not material information (although it may be sensitive and proprietary) with respect to the Loan Parties or their securities for purposes of United States Federal and state securities laws; (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent and the Arrangers shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor." Notwithstanding any of the foregoing, if any Loan Party also delivers any materials and/or information pursuant to this Section 6.2(e) in paper format to the Administrative Agent, such paper materials shall be deemed to be Borrower Materials for all purposes. Nothing in this Section 6.2(e) shall limit the obligations of the Administrative Agent and the Lenders under Section 10.16.

6.3. Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature (other than Indebtedness), except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Loan Parties or their

Subsidiaries, as the case may be; provided, that the Loan Parties may, in the ordinary course of business, extend payments on those payables if beneficial to the operation of their businesses.

6.4. Conduct of Business and Maintenance of Existence, etc. (a)(i) With respect to each Subsidiary of Parent, preserve, renew and keep in full force and effect its corporate existence and (ii) with respect to Parent and each of its Subsidiaries, take all reasonable action to maintain all licenses, permits, rights, privileges and franchises necessary or desirable in the normal conduct of its business, except, in each case, as otherwise would not be a Fundamental Change and except, in the case of clause (i) above and clause (ii) above, to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (b) comply with all Contractual Obligations (other than in respect of Indebtedness) and Requirements of Law, except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.5. Maintenance of Property; Insurance. (a) Keep all Property and systems useful and necessary in its business in good working order and condition, ordinary wear and tear excepted and (b) maintain with financially sound and reputable insurance companies (other than with Parent or its Subsidiaries) insurance on all its Property in at least such amounts and against at least such risks (but including in any event public liability, product liability and business interruption) as are usually insured against in the same general area by companies engaged in the same or a similar business (it being understood that, to the extent consistent with prudent business practices of Persons carrying on a similar business in a similar location, a program of self-insurance for first and other loss layers may be utilized).

6.6. Inspection of Property; Books and Records; Discussions. (a) Keep proper books of records and account in which full, true and correct entries in conformity with GAAP (or SAP as applicable) and all Requirements of Law shall be made of all material dealings and

transactions in relation to its business and activities and (b) upon reasonable prior notice, permit representatives of the Administrative Agent (who may be accompanied by representatives of other Lenders) and, during the continuance of an Event of Default, any Lender to (x) visit and inspect any of its properties, (y) during the continuance of an Event of Default, conduct reasonable examinations of (and, with the consent of the Loan Parties, such consent not to be unreasonably withheld, make abstracts from) any of its books and records at any reasonable time and as often as may reasonably be requested and (z) discuss the business, operations, properties and financial and other condition of the Loan Parties with officers and employees of the Loan Parties. It is understood that (i) any information obtained by the Administrative Agent or any Lender in any visit or inspection pursuant to this Section 6.6 shall be subject to the confidentiality requirements of Section 10.16, (ii) the Loan Parties may impose, with respect to any Lender or any Affiliate of any Lender reasonably deemed by the Loan Parties to be engaged significantly in a business which is directly competitive with any material business of the Loan Parties and their respective Subsidiaries, reasonable restrictions on access to proprietary information of the Loan Parties and their respective Subsidiaries and (iii) the Lenders will coordinate their visits through the Administrative Agent with a view to preventing the visits provided for by this Section 6.6 from becoming unreasonably burdensome to the Loan Parties and their Subsidiaries.

6.7. Notices. Give notice to the Administrative Agent (it being agreed that the Administrative Agent shall, upon receipt of such notice, notify each Lender thereof) of the following within the time periods specified:

(a) Promptly after any Responsible Officer of the Borrower obtains knowledge thereof, the occurrence of any Default or Event of Default;

(b) Within five days after any Responsible Officer of the Borrower obtains knowledge thereof, the occurrence of:

(i) any default or event of default under any Contractual Obligation (other than in respect of Indebtedness) of a Loan Party or any of its Subsidiaries or any litigation, investigation or proceeding which may exist at any time between a Loan Party or any of its Subsidiaries and any Governmental Authority, that in either case, if not cured or if adversely determined, as the case may be, could reasonably be expected to have a Material Adverse Effect; and

(ii) (A) any litigation or proceeding affecting a Loan Party or any of its Subsidiaries (other than claims-related litigation involving an Insurance Subsidiary) in which (x) the amount involved (and not covered by insurance) is $50,000,000 or more or (y) in which injunctive or similar relief is sought that could reasonably be expected to have a Material Adverse Effect and (B) any claims-related litigation affecting any Insurance Subsidiary which could reasonably be expected to have a Material Adverse Effect; and

(c) As soon as possible and, in any event, within 30 days after a Responsible Officer of the Borrower obtains knowledge thereof: (A) the occurrence of any Reportable Event with respect to any Plan, a failure to make any required

contribution to a Plan, the creation of any Lien in favor of the PBGC or a Plan or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (B) the institution of proceedings or the taking of any other action by the PBGC or a Loan Party or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan.

Each notice pursuant to this Section 6.7 shall be accompanied by a statement of a Responsible Officer on behalf of Parent setting forth details of the occurrence or such default referred to therein and stating what action the Loan Parties or the relevant Subsidiary proposes to take with respect thereto.

6.8. Taxes. Pay, discharge, or otherwise satisfy before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its real estate, sales and activities, or any part thereof, or upon the income or profits therefrom, other than where failure to pay such taxes could not reasonably be expected to result in a Material Adverse Effect; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and reserves in conformity with SAP or GAAP, as applicable, have been provided on the books of the Loan Parties and their Subsidiaries, as the case may be.

6.9. Use of Proceeds. Use the proceeds of the Loans and the Letters of Credit solely for the purposes set forth in Section 5.12.

6.10. Further Assurances. Each of the Loan Parties will, and will cause each of their Subsidiaries to, cooperate with the Lenders and the Administrative Agent and execute such further instruments and documents as the Lenders or the Administrative Agent shall reasonably request to give effect to the transactions contemplated by this Agreement and the other Loan Documents.

7. NEGATIVE COVENANTS

The Loan Parties hereby jointly and severally agree that, from and after the Closing Date and so long as the Commitments remain in effect, any Letter of Credit remains outstanding, there exist any unpaid Reimbursement Obligations or any principal or interest on any Loan or any fee payable hereunder is owing to any Lender or the Administrative Agent hereunder:

7.1. Financial Condition Covenants.

(a) Maintenance of Consolidated Net Worth. Parent shall not permit its Consolidated Net Worth, as of the end of any fiscal quarter, commencing with the first fiscal quarter ending after the Closing Date, to be less than the sum of (i) sixty-five percent (65%) of the pro forma Consolidated Net Worth of Parent as disclosed in the Form S-1 Registration Statement filed in connection with the IPO, plus (ii) fifty percent (50%) of positive Consolidated Net Income for each fiscal quarter ending after September 30, 2006.

(b) Maintenance of Total Consolidated Debt to Total Consolidated Capitalization Ratio. Parent shall not permit its Total Consolidated Debt to Total Consolidated Capitalization Ratio, (i) as of the end of any fiscal quarter ending after the Closing Date and prior to the second anniversary of the Closing Date to be greater than thirty-seven and one half of one percent (37.5%) and (ii) as of the end of any fiscal quarter ending on or after the second anniversary of the Closing Date to be greater than thirty-five percent (35%).

7.2. Limitation on Indebtedness and Issuance of Preferred Stock. The Loan Parties will not permit any of their Subsidiaries (other than the Borrower) to create, incur or assume or suffer to exist any Indebtedness or issue any preferred stock, except:

(a) Indebtedness and preferred stock outstanding as of the Closing Date and any refinancings, refundings, renewals or extensions thereof (without any increase in the principal amount thereof, other than by the amount of any necessary pre-payment premiums, unpaid accrued interest and other costs of refinancing, or any shortening of the final maturity of any principal amount thereof to a date prior to the Revolving Credit Termination Date);

(b) Indebtedness or preferred stock of any Insurance Subsidiary incurred or issued in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Indebtedness) of such Insurance Subsidiary and letters of credit, bank guarantees, surety bonds or similar instruments issued for the account of any Insurance Subsidiary in the ordinary course of its business or in securing insurance-related obligations (that do not constitute Indebtedness) of such Insurance Subsidiary;

(c) Indebtedness in respect of letters of credit, bank guarantees, surety and appeal bonds, or performance bonds or other obligations of a like nature arising in the ordinary course of business and not for capital raising purposes and issued for the account of any Non-Regulated Operating Subsidiary;

(d) short-term Indebtedness (i.e. with a maturity of less than one year when issued, provided that such Indebtedness may include an option to extend for up to an additional one year period) of any Insurance Subsidiary incurred to provide short-term liquidity to facilitate claims payment in the event of catastrophe;

(e) Indebtedness or preferred stock of a Subsidiary acquired after the Closing Date or a corporation merged into or consolidated with a Subsidiary after the Closing Date and Indebtedness assumed in connection with the acquisition of assets, which Indebtedness, in each case, exists at the time of such acquisition, merger or consolidation and is not created in contemplation of such event, as well as any refinancings, refunds, renewals or extensions of such Indebtedness (without increase in the principal amount thereof other than by the amount of any necessary pre-payment premiums, unpaid accrued interest and other costs of refinancing);

(f) Indebtedness or preferred stock owing or issued by a Subsidiary to any other Subsidiary or to any Loan Party;

(g) Guarantee Obligations made by a Subsidiary in respect of obligations of another Subsidiary (other than the Borrower);

(h) Indebtedness under the Loan Documents;

(i) other Indebtedness or preferred stock of Persons, provided that at the time such Indebtedness or preferred stock is incurred or issued, the aggregate principal amount or liquidation preference of such Indebtedness or preferred stock when added to all other Indebtedness and preferred stock incurred or issued pursuant to this clause (i) and then outstanding, does not exceed 15% of the Consolidated Net Worth of Parent; provided that, in calculating Indebtedness and preferred stock incurred pursuant to this clause (i), the Indebtedness and preferred stock of the Borrower shall be excluded.

7.3. Limitation on Liens. The Loan Parties will not, and will not permit any of their Subsidiaries to, create, incur, assume or suffer to exist (a) any Lien upon any stock or indebtedness of any Subsidiary, whether owned on the date of this Agreement or hereafter acquired, to secure any Debt of the Loan Parties or any of their Subsidiaries or any other person (other than the obligations hereunder) or (b) any Lien upon any other Property of the Loan Parties or their respective Subsidiaries, whether owned or leased on the date of this Agreement, or thereafter acquired, to secure any Debt of the Loan Parties or any of their Subsidiaries or any other person (other than the obligations hereunder), except:

(i) (x) any Lien existing on the date of this Agreement or (y) any Lien upon stock or Indebtedness or other Property of any Person existing at the time such Person becomes a Subsidiary or existing upon stock or Indebtedness of a Subsidiary or any other Property at the time of acquisition of such stock or Indebtedness or other Property (provided that such Lien was not created in connection with the acquisition of such Person or such Property), and any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any such Lien in clauses (x) or (y) above; provided, however, that the principal amount of Debt secured by such Lien shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement; and provided, further, that such Lien shall be limited to all or such part of the stock or Indebtedness or other Property which secured the Lien so extended, renewed or replaced;

(ii) any Permitted Liens; and

(iii) any Lien upon any Property if the aggregate amount of all Debt then outstanding secured by such Lien and all other Liens permitted pursuant to this clause (iii) does not exceed 10% of the total consolidated stockholders' equity (including preferred stock) of Parent as shown on the audited consolidated balance sheet contained in the latest annual report to stockholders of Parent;

provided that Debt secured by Liens permitted by clauses (i) and (ii) shall not be included in the amount of such secured Debt.

7.4. Limitation on Changes in Fiscal Periods. Neither of the Loan Parties shall permit its fiscal year to end on a day other than December 31 or change its method of determining fiscal quarters.

7.5. Limitation on Lines of Business. Neither of the Loan Parties shall engage to any extent that is material for such Loan Party and its Subsidiaries, taken as a whole, in any business, either directly or through any Subsidiary, other than a Principal Business.

8. EVENTS OF DEFAULT

8.1. Events of Default. If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay any principal of any Loan made to the Borrower or Reimbursement Obligation owing by the Borrower when due in accordance with the terms hereof; or the Borrower shall fail to pay any interest on any Loan made to the Borrower or Reimbursement Obligation owing to the Borrower, or any other amount payable by the Borrower hereunder or under any other Loan Document, within three Business Days after any such interest or other amount becomes due in accordance with the terms hereof; or

(b) Either of the Loan Parties shall default in the observance or performance of any agreement contained in Section 6.7(a) or Section 7; or

(c) (i) The Loan Parties or any of their Material Insurance Subsidiaries shall voluntarily commence any case, proceeding or other action (A) under any Debtor Relief Law, (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Loan Parties or any of their Material Insurance Subsidiaries shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Loan Parties or any of their Material Insurance Subsidiaries any case, proceeding or other action under any Debtor Relief Law that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) the Loan Parties or any of their Material Insurance Subsidiaries shall take any corporate action to authorize or effect any of the acts set forth in clause (i), or (ii), above; or (iv) the Loan Parties or any of their Material Insurance Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(d) A Change of Control; or

(e) A Fundamental Change; or

(f) (i) White Mountains shall (x) default in making any payment of any principal of any Indebtedness (including, without limitation, any Guarantee Obligation) on the scheduled or original due date with respect thereto (after giving effect to any applicable grace periods); or (y) default in making any payment of any interest on any such Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; or (z) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto (after giving effect to any applicable notice requirements and grace periods), and (ii) the effect of such default by White Mountains (excluding the Loans and Reimbursement Obligations) is to cause Indebtedness of the Borrower, or to permit the holder or beneficiary (or a trustee or agent on behalf of such holder or beneficiary) of Indebtedness of the Borrower (excluding the Loans and Reimbursement Obligations) to cause such Indebtedness of the Borrower (in each case after giving effect to any applicable notice requirements and grace periods in respect of such Indebtedness of the Borrower), to become due prior to its stated maturity or to become subject to a mandatory offer to purchase by the obligor thereunder as a result of the occurrence of such default by White Mountains, provided, that the events described in this paragraph (d) shall not at any time constitute an Event of Default unless, at such time, the events described in clause (ii) shall have occurred and be continuing with respect to Indebtedness of the Borrower (excluding the Loans and Reimbursement Obligations) the outstanding principal amount of which exceeds in the aggregate $25,000,000;

(g) Any representation or warranty made or deemed made by either of the Loan Parties herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate in any material respect on or as of the date made or deemed made or furnished; or

(h) Either of the Loan Parties shall default in the observance or performance of any other agreement, covenant, term or condition contained in this Agreement or any other Loan Document (not specified in Sections 8.1(a), 8.1(b) or 8.1(g); or

(i) The Loan Parties or any of their Subsidiaries shall (i) default in making any payment of any principal of any Indebtedness (including, without limitation, any Guarantee Obligation, but excluding the Loans and Reimbursement Obligations) on the scheduled or original due date with respect thereto (after giving effect to any applicable grace periods); or (ii) default in making any payment of any interest on any such Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; or (iii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, the effect of which default is to cause, or to permit the holder or beneficiary of such Indebtedness (or a trustee or agent on behalf of such holder or

beneficiary) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or to become subject to a mandatory offer to purchase by the obligor thereunder as a result of the occurrence of such default thereunder or (in the case of any such Indebtedness constituting a Guarantee Obligation) to become payable; provided, that a default described in clause (i), (ii) or (iii) of this paragraph (i) shall not at any time constitute an Event of Default unless, at such time, one or more defaults of the type described in clauses (i), (ii) and (iii) of this paragraph (i) shall have occurred and be continuing with respect to Indebtedness the outstanding principal amount of which exceeds in the aggregate $25,000,000; or

(j) (i) Any person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of a Loan Party or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Majority Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA or, (v) any Loan Party or any Commonly Controlled Entity shall, or in the reasonable opinion of the Majority Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan and in each case in clauses (i) through (v) above, such event or condition, together with all other such events or conditions for which liability to a Loan Party is reasonably expected to occur, if any, could, in the reasonable judgment of the Majority Lenders, reasonably be expected to have a Material Adverse Effect; or

(k) One or more judgments or decrees shall be entered against the Loan Parties or any of their Subsidiaries involving for the Loan Parties and their Subsidiaries taken as a whole a liability (to the extent not paid or fully covered by insurance above applicable deductions) of $25,000,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 45 days from the entry thereof; or

(l) The guarantee, set forth in Section 2.21 herein, shall cease, for any reason (other than as provided in Section 10.17) to be in full force and effect or either of the Loan Parties or any Affiliate of either of the Loan Parties shall so assert in writing; or

(m) Any License of any Insurance Subsidiary (i) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced against such Insurance Subsidiary and shall not have been dismissed within thirty days after the commencement thereof, (ii) shall be suspended by such Governmental

Authority for a period in excess of thirty days or (iii) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which, in the case of each of clauses (i), (ii) and (iii) above, could reasonably be expected to have a Material Adverse Effect.

Notwithstanding the foregoing, in the case of each of paragraphs (g) through (m) of this Section 8.1, such event shall not constitute an Event of Default unless such event continues unremedied for a period of 30 days after the Borrower shall have received written notice of such event from the Administrative Agent.

8.2. Remedies Upon Event of Default. If any Event of Default specified in Section 8.1 occurs and is continuing, then, and in any such event, (a) if such event is an Event of Default specified in clause (i) or (ii) of Section 8.1(c) above with respect to the Borrower, automatically the commitment of each Lender to make Loans and any obligation of the Issuing Lender to make L/C Credit Extensions shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) shall immediately become due and payable, and (b) if such event is any other Event of Default specified in Section 8.1, either or both of the following actions may be taken: (i) with the consent of the Majority Lenders, the Administrative Agent may, or upon the request of the Majority Lenders, the Administrative Agent shall, by notice to the Borrower declare the Revolving Credit Commitments and the obligation of the Issuing Lender to issue Letters of Credit to be terminated forthwith, whereupon the Revolving Credit Commitments and the L/C Commitment shall immediately terminate; and (ii) with the consent of the Majority Lenders, the Administrative Agent may, or upon the request of the Majority Lenders, the Administrative Agent shall, by notice to the Borrower, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) to be due and payable forthwith, whereupon the same shall immediately become due and payable. In the case of any Letter of Credit issued for the account of the Borrower with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to this paragraph, the Borrower shall at such time Cash Collateralize such L/C Obligations in an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Such cash collateral shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Loan Parties hereunder and under the other Loan Documents. After (a) all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Loan Parties hereunder and under the other Loan Documents shall have been paid in full or (b) all Defaults and Events of Default hereunder and under the other Loan Document shall have been cured or waived, the balance, if any, in such cash collateral account shall be returned to the applicable Loan Party (or such other Person as may be lawfully entitled thereto).

9. THE ADMINISTRATIVE AGENT

9.1. Appointment. (a) Each Lender hereby irrevocably appoints, designates and authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere herein or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Administrative Agent have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" herein and in the other Loan Documents with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) The Issuing Lender shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the Issuing Lender shall have all of the benefits and immunities (i) provided to the Administrative Agent in this Section 9 with respect to any acts taken or omissions suffered by the Issuing Lender in connection with Letters of Credit issued by it or proposed to be issued by it and the Applications and agreements for letters of credit pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in this Section 9 and in the definition of "Agent-Related Person" included the Issuing Lender with respect to such acts or omissions, and (ii) as additionally provided herein with respect to the Issuing Lender; provided that nothing in this Agreement shall be construed to excuse the Issuing Lender from any liability to the Borrower for damages caused by the gross negligence or willful misconduct of the Issuing Lender or any Agent-Related Person.

9.2. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

9.3. Liability of Administrative Agent. No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (b) be responsible in any manner to any Lender or participant for any recital, statement, representation or warranty made by either of the Loan Parties or any officer thereof, contained herein or in any other Loan Document, or in any certificate, report, statement or other

document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of either of the Loan Parties or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender or participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Loan Parties or any Affiliate thereof.

9.4. Reliance by Administrative Agent. (a) The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, communication, signature, resolution, representation, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, electronic mail message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Loan Parties), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless such Note shall have been transferred in accordance with Section 10.7 and all actions required by such Section 10.7 in connection with such transfer shall have been taken. The Administrative Agent shall be fully justified in failing or refusing to take any action under any Loan Document unless it shall first receive such advice or concurrence of the Majority Lenders (or, if so specified by this Agreement, all Lenders) as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Majority Lenders (or such greater number of Lenders as may be expressly required hereby in any instance) and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders; provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable Law.

(b) For purposes of determining compliance with the conditions specified in Section 4.1, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

9.5. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default unless the Administrative Agent shall have received written notice from a Lender or a Loan Party referring to this Agreement, describing such Default and stating that such notice is a "notice of default." The Administrative Agent will notify the Lenders of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Default as may be directed by the Majority Lenders in accordance with Section 8.2; provided, however, that unless and until the Administrative Agent has received

any such direction, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable or in the best interest of the Lenders.

9.6. Credit Decision; Disclosure of Information by Administrative Agent. Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by the Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of the Loan Parties or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Loan Parties and their Subsidiaries, and all applicable bank or other regulatory Laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrower hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Loan Parties. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent herein, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Loan Parties or any of their Affiliates which may come into the possession of any Agent-Related Person.

9.7. Indemnification of Administrative Agent. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand each Agent-Related Person (to the extent not reimbursed by or on behalf of the Borrower and without limiting the obligation of the Borrower), pro rata, and hold harmless each Agent-Related Person from and against any and all Indemnified Liabilities incurred by it; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities to the extent determined in a final, nonappealable judgment by a court of competent jurisdiction to have resulted from such Agent-Related Person's own gross negligence or willful misconduct, provided, however, that no action taken in accordance with the directions of the Majority Lenders (or such greater percentage of Lenders as may be required hereunder) shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section 9.7. Without limitation of the foregoing, each Lender shall reimburse the Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Administrative Agent is not

reimbursed for such expenses by or on behalf of the Borrower. The undertaking in this Section 9.7 shall survive termination of the Total Revolving Credit Commitments, the payment of all other obligations and the resignation of the Administrative Agent.

9.8. Administrative Agent in its Individual Capacity. Bank of America, N.A. and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Loan Parties and their respective Affiliates as though Bank of America, N.A. were not the Administrative Agent or the Issuing Lender hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Bank of America, N.A. or its Affiliates may receive information regarding the Loan Parties or their Affiliates (including information that may be subject to confidentiality obligations in favor of the Loan Parties or such Affiliate) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, Bank of America, N.A. shall have the same rights and powers under this Agreement as any other Lender and may exercise such rights and powers as though it were not the Administrative Agent or the Issuing Lender, and the terms "Lender" and "Lenders" include Bank of America, N.A. in its individual capacity.

9.9. Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders and the Borrower; provided that any such resignation by Bank of America, N.A. shall also constitute its resignation as Issuing Lender and Swing Line Lender, so long as a successor Issuing Lender and a successor Swing Line Lender (each consented to by the Borrower, such consent not to be unreasonably withheld or delayed) is appointed. If the Administrative Agent resigns under this Agreement, the Majority Lenders shall appoint from among the Lenders a successor administrative agent for the Lenders, which successor administrative agent shall be consented to by the Borrower at all times other than during the continuance of a Specified Event of Default (which consent of the Borrower shall not be unreasonably withheld or delayed). If no successor administrative agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and the Borrower, a successor administrative agent from among the Lenders. Upon the acceptance of its appointment as successor administrative agent hereunder, the Person acting as such successor administrative agent shall succeed to all of the rights, powers and duties of the retiring Administrative Agent, Issuing Lender and Swing Line Lender and the respective terms "Administrative Agent," "Issuing Lender" and "Swing Line Lender" shall mean such successor administrative agent, Letter of Credit issuer and swing line lender, and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated and the retiring Issuing Lender's and Swing Line Lender's rights, powers and duties as such shall be terminated, without any other or further act or deed on the part of such retiring Issuing Lender or Swing Line Lender or any other Lender, other than the obligation of the successor Issuing Lender to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or to make other arrangements satisfactory to the retiring Issuing Lender to effectively assume the obligations of the retiring Issuing Lender with respect to such Letters of Credit. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 9 and Sections 10.5 and 10.6 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this

Agreement. If no successor administrative agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Majority Lenders appoint a successor agent as provided for above.

9.10. Administrative Agent May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to either of the Loan Parties, the Administrative Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on either of the Loan Parties) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.5, 3.9 and 10.5) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.5, 3.9 and 10.5.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the obligations of the Loan Parties hereunder or under any of the other Loan Documents or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

9.11. Guarantee and Collateral Matters. The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon termination of the Total Revolving Credit Commitments and payment in full of all obligations of the Loan

Parties hereunder or under any of the other Loan Documents (other than contingent indemnification obligations) and the expiration or termination of all Letters of Credit, (ii) that is sold or to be sold as part of or in connection with any sale permitted hereunder or under any other Loan Document, or (iii) subject to Section 10.1, if approved, authorized or ratified in writing by the Majority Lenders; and

(b) to subordinate any Lien on any property granted to or held by the Administrative Agent under any Loan Document to the holder of any Lien on such property that is permitted by Section 7.3, and

(c) to effect any release of Guarantee Obligations contemplated by Section 10.17.

9.12. Other Agents; Arrangers and Managers. None of the Lenders or other Persons identified on the facing page or signature pages of this Agreement as a "syndication agent," "documentation agent," "co-agent," "book manager," "lead manager," "arranger," "lead arranger" or "co-arranger" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than, in the case of such Lenders, those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders or other Persons so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders or other Persons so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

10. MISCELLANEOUS

10.1. Amendments, Etc. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Loan Parties therefrom, shall be effective unless in writing signed by the Majority Lenders and the Loan Parties, as applicable, and delivered to the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(a) extend the expiration date of or increase the Revolving Credit Commitment of any Lender (or reinstate any Revolving Credit Commitment terminated pursuant to Section 8.2) without the written consent of such Lender;

(b) postpone any date fixed by this Agreement or any other Loan Document for any payment (excluding mandatory prepayments) of principal, interest or fees payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(c) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or, subject to clause (v) of the second proviso to this Section 10.1, any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Majority Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrower to pay interest or Letter of Credit Fees at the Default Rate;

(d) change Section 2.14 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender directly affected thereby; or

(e) change any provision of this Section 10.1 or the percentage in the definition of "Majority Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(f) amend, modify or waive any provision of Section 2.3 or 2.4 without the written consent of the Swing Line Lender;

(g) amend, modify or waive any provision of Section 3 without the consent of the Issuing Lender;

(h) amend, modify or waive the provisions of the definition of Interest Period regarding nine or twelve month Interest Periods for Eurodollar Loans without the consent of each relevant Lender;

(i) consent to the assignment or transfer by either of the Loan Parties of any of its rights and obligations under this Agreement and the other Loan Documents; or

(j) release the Parent from its Guarantee Obligations under the Parent Guaranty except as provided in Section 10.17, without the consent of all Lenders;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Issuing Lender in addition to the Lenders required above, modify the rights or duties of the Issuing Lender under this Agreement or any Application relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, modify the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, modify the rights or duties of the Administrative Agent under this Agreement or any other

Loan Document; and (iv) Section 10.7(h) may not be amended, waived or otherwise modified without the consent of each Granting Lender all or any part of whose Loans are being funded by an SPC at the time of such amendment, waiver or other modification; and (v) the Fee Letters may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Revolving Credit Commitment of such Lender may not be increased or extended without the consent of such Lender.

Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Loan Parties, the Lenders, the Administrative Agent and all future holders of the Loans. In the case of any waiver, the Loan

Parties, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon. Any such waiver, amendment, supplement or modification shall be effected by a written instrument signed by the parties required to sign pursuant to the foregoing provisions of this Section 10.1; provided, that delivery of an executed signature page of any such instrument by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

For the avoidance of doubt, this Agreement may be amended (or amended and restated) with the written consent of the Majority Lenders, the Administrative Agent and the Loan Parties party to each relevant Loan Document (x) to add one or more additional credit facilities to this Agreement and to permit the extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement and the other Loan Documents with the Loans, the L/C Obligations and the accrued interest and fees in respect thereof and (y) to include appropriately the Lenders holding such credit facilities in any determination of the Majority Lenders.

10.2. Notices; Effectiveness; Electronic Communication.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail, sent by telecopier or by electronic mail as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to either Loan Party, the Administrative Agent, the Issuing Lender or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 10.2; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders and the Issuing Lender hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to service of process or to notices to any Lender or the Issuing Lender pursuant to Section 2. The Administrative Agent or any Loan Party may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided

that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT-RELATED PERSONS DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT-RELATED PERSONS OR LOAN PARTY IN CONNECTION

WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Agent-Related Persons or any Loan Party have any liability to any Agent-Related Person, any Loan Party, any Lender, or the Issuing Lender for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of any Loan Party's or the Administrative Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent-Related Persons or Loan Party; provided, however, that in no event shall any Agent-Related Persons or Loan Party have any liability to any Agent-Related Person, any Loan Party, any Lender, or the Issuing Lender for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages). Each Lender agrees that the Loan Parties shall be responsible only for the Borrower Materials and shall not have any liability (unless otherwise agreed in writing by the Loan Parties) for any other materials made available to the Lenders and shall not have any liability for any errors or omissions other than errors or omissions in the materials delivered to the Administrative Agent by any Loan Party. Nothing in this Section

10.2(c) shall limit the obligation of the Administrative Agent and the Lenders under Section 10.16.

(d) Change of Address, Etc. Each of the Loan Parties, the Administrative Agent, the Issuing Lender and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Loan Parties, the Administrative Agent, the Issuing Lender and the Swing Line Lender. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Administrative Agent, Issuing Lender and Lenders. The Administrative Agent, the Issuing Lender and the Lenders shall be entitled to rely and act upon any notices (including telephonic and written Borrowing Requests and notices of Swing Line Loans) purportedly given by or on behalf of the Borrower; provided that the foregoing shall not apply to losses, costs, expenses and liabilities caused by the gross negligence or willful misconduct of the relevant Lender or any Agent-Related Person even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. Each of the Loan Parties shall indemnify the Administrative Agent, the Issuing Lender, each Lender and the Agent-Related Persons from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower; provided that the foregoing shall not apply to losses, costs, expenses and liabilities caused by the gross negligence or willful misconduct of the relevant Lender or any Agent-Related Person. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

(f) Effectiveness of Facsimile Documents and Signatures. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be binding on the Loan Parties, the Administrative Agent and the Lenders. The Administrative Agent may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

10.3. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor

shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

10.4. Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any extension of credit, and shall continue in full force and effect as long as any Loan or any other obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

10.5. Attorney Costs and Expenses. The Borrower agrees (a) to pay or reimburse the Administrative Agent and the Arrangers for all reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation and execution of this Agreement and the other Loan Documents and any amendment, waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all Attorney Costs, and (b) to pay or reimburse the Administrative Agent and each Lender for all reasonable out-of-pocket costs and expenses (which may include, to the extent reasonably incurred, all search, filing, recording, title insurance and appraisal charges and fees and taxes related thereto, and other out-of-pocket expenses incurred by the Administrative Agent and the cost of independent public accountants and other outside experts) incurred in connection

with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Loan Documents (including all such costs and expenses incurred during any "workout" or restructuring in respect of the obligations of the Loan Parties hereunder or under any of the other Loan Documents and during any legal proceeding, including any proceeding under any Debtor Relief Law), including all Attorney Costs. All amounts due under this Section 10.5 shall be payable not later than 30 days following written demand. The agreements in this Section 10.5 shall survive the termination of the Total Revolving Credit Commitments and repayment of all other obligations.

10.6. Indemnification. (a) Whether or not the transactions contemplated hereby are consummated, the Borrower shall indemnify and hold harmless each Agent-Related Person, each Arranger, each Lender and their respective Affiliates, directors, officers, employees, counsel, agents, shareholders and attorneys-in-fact (collectively the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, settlement payments and causes of action of any kind or nature whatsoever and reasonable related out-of-pocket costs and expenses which may at any time be imposed on, incurred, suffered, sustained, required to be paid by or asserted against any such Indemnitee in any way relating to or arising out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Loan Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated thereby or the

consummation of the transactions contemplated thereby, (b) any Revolving Credit Commitment, Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the Issuing Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (c) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by the Loan Parties or any Subsidiary, or any Environmental Liability related in any way to the Loan Parties or any of their Subsidiaries, or (d) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of, preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether any Indemnitee is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"), in all cases, whether or not caused by or arising, in whole or in part, out of the negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, settlement payments, causes of action or costs or expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. In all such litigation, or the preparation therefor, the Indemnitees shall be entitled to select counsel to the Indemnitees. To the extent reasonably practicable and not disadvantageous to any Indemnitee (as reasonably determined by the relevant Indemnitee), it is anticipated that a single counsel selected by the affected Lenders will be used. No Indemnitee shall be liable to the Loan Parties for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby, and, to the fullest extent permitted by applicable Law, each Loan Party shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof (whether before or after the Closing Date); provided that this sentence shall not, as to any Indemnitee, apply to the extent such Indemnitee is found by a final non-appealable judgment of a court of competent jurisdiction to have acted with willful misconduct or gross negligence. All amounts due under this Section 10.6 shall be payable not later than 30 days following written demand. The agreements in this Section 10.6 shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Total Revolving Credit Commitments and the repayment, satisfaction or discharge of all the other obligations of the Loan Parties hereunder.

(b) To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Section 10.5 and Section 10.6(a) to be paid by them to the Administrative Agent (or any sub-agent thereof), the Issuing Lender or any Agent-Related Person of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), the Issuing Lender or such Agent-Related Person, as the case may be, such Lender's Revolving Credit Percentage (determined as of the time that the applicable unreimbursed expense or

indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the Issuing Lender in its capacity as such, or against any Agent-Related Person of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or Issuing Lender in connection with such capacity. The obligations of the Lenders under this Section 10.6(b) are subject to the provisions of Section 2.14(f).

10.7. Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Loan Parties may not assign or otherwise transfer any of their rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of Section 10.7(b), (ii) by way of participation in accordance with the provisions of Section 10.7(d), (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 10.7(f), or (iv) to an SPC in accordance with the provisions of Section 10.7(h) (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby,

Participants to the extent provided in Section 10.7(d) and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and the Loans (including for purposes of this subsection (b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Credit Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section 10.7, the aggregate amount of the Revolving Credit Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Revolving Credit Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each

such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than $5,000,000 unless each of the Administrative Agent and, so long as no Specified Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single assignee (or to an assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met.

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Revolving Credit Commitment assigned, except that this clause (ii) shall not apply to the Swing Line Lender's rights and obligations in respect of Swing Line Loans;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section 10.7 and, provided that:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (1) a Specified Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender or an Affiliate of the assigning Lender;

(C) the consent of the Issuing Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(D) the consent of the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment.

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of $3,500; provided, however, that the Administrative Agent may, in its sole discretion, elect to waive

such processing and recordation fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(v) No Assignment to Borrower. No such assignment shall be made to the Borrower or any Affiliates or Subsidiaries of the Borrower.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

(vii) No Assignment to Approved Funds Prior to Specified Event of Default. No such assignment shall be made to an Approved Fund prior to the occurrence of a Specified Event of Default. After the occurrence and during the continuance of any Specified

Event of Default, an Approved Fund shall be an Eligible Assignee hereunder.

(viii) Creditworthiness of Affiliates and Approved Funds. Notwithstanding the foregoing, no such assignment shall be made to an Affiliate of a Lender or to an Approved Fund unless such Affiliate or Approved Fund shall be a financial institution having a senior unsecured debt rating of not less than "A-", or its equivalent, by S&P.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to Section 10.7(c), from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17, 2.18, 10.5 and 10.6 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender and a replacement Note, as applicable, to the assigning Lender.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Credit Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any Affiliates or Subsidiaries of the Borrower) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the Issuing Lender shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.1 that directly affects such Participant. Subject to Section 10.7(e), the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 or 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 10.7(b). To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 10.8 as though it were a Lender, provided such Participant agrees to be subject to Section 2.14 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Sections 2.15, 2.16 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Non-U.S. Lender if it were a Lender shall not be entitled to the benefits of Section 2.16 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.16(d) and (e) as though it were a Lender.

(f) Certain Pledges. Notwithstanding anything to the contrary contained herein, any Lender may, with notice to, but without prior consent of the Borrower and the Administrative Agent, at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank (provided that notice to the Borrower and the Administrative Agent shall not be required in the case of a pledge or assignment to secure obligations to a Federal Reserve Bank); provided further that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute, or permit the substitution of, any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) Special Purpose Funding Vehicles. Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may, with notice to, but without prior consent of the Borrower and the Administrative Agent grant to a special purpose funding vehicle identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower (an "SPC") the option to provide all or any part of any Loan that such Granting Lender would otherwise be obligated to make pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to fund any Loan, and (ii) if an SPC elects not to exercise such option or otherwise fails to make all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof and, if it fails to do so, to make such payment to the Administrative Agent as is required under Section 2.14(e)(ii). Each party hereto hereby agrees that (i) neither the grant to any SPC nor the exercise by any SPC of such option shall increase the costs or expenses or otherwise increase or change the obligations of the Borrower under this Agreement (including its obligations under Section 2.15), (ii) no SPC shall be liable for any indemnity or similar payment obligation under this Agreement for which a Lender would be liable, and (iii) the Granting Lender shall for all purposes, including the approval of any amendment, waiver or other modification of any provision of any Loan Document, remain the lender of record hereunder. The making of a Loan by an SPC hereunder shall utilize the Revolving Credit Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior debt of any SPC, it will not institute against, or join any other Person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency, or liquidation proceeding under any Debtor Relief Laws or any other Laws. Notwithstanding anything to the contrary contained herein, any SPC may (i) with notice to, but without prior consent of the Borrower and the Administrative Agent and with the payment of a processing fee in the amount of $3,500 (which processing fee may be waived by the Administrative Agent in its sole discretion), assign all or any portion of its right to receive payment with respect to any Loan to the Granting Lender and (ii) disclose on a confidential basis any non-public information relating to its funding of Loans to any rating agency, commercial paper dealer or provider of any surety or guarantee or credit or liquidity enhancement to such SPC.

(i) Resignation as Issuing Lender or Swing Line Lender after Assignment. Notwithstanding anything to the contrary contained herein, if at any time Bank of America, N.A. assigns all of its Revolving Credit Commitment and Loans pursuant to Section 10.7(b), Bank of America, N.A. may, (i) upon 30 days' notice to the Borrower and the Lenders, resign as Issuing Lender, so long as a successor Issuing Lender (consented to by the Borrower, such consent not to be unreasonably withheld or delayed) has been appointed and/or (ii) upon 30 days' notice to the Borrower, resign as Swing Line Lender, so long as a successor Swing Line Lender (consented to by the Borrower, such consent not to be unreasonably withheld or delayed) has been appointed. In the event of any such resignation as Issuing Lender or Swing Line Lender, the Borrower shall be entitled to appoint from among the Lenders a successor Issuing Lender or Swing Line Lender hereunder; provided, however, that no failure by the Borrower to appoint any such successor shall affect the resignation of Bank of America, N.A. as Issuing Lender or Swing Line Lender, as the case may be. If Bank of America, N.A. resigns as Issuing Lender, it shall retain all the rights and obligations of the Issuing Lender hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as Issuing Lender and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 3.3). If Bank of America, N.A. resigns as Swing Line Lender, it shall retain all the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to make Base Rate Loans or fund risk participations in outstanding Swing Line Loans pursuant to Section 2.4. Upon the appointment of a successor Issuing Lender and/or Swing Line Lender, (a) such successor shall succeed to and become vested with all of the rights and obligations of the retiring Issuing Lender or Swing Line Lender, as the case may be, and (b) the successor Issuing Lender shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Bank of America, N.A. to effectively assume the obligations of Bank of America, N.A. with respect to such Letters of Credit.

10.8. Adjustments; Set-off. (a) Except to the extent that this Agreement provides for a payment to be allocated to a particular Lender, if any Lender (a "Benefitted Lender") shall at any time receive any payment of all or part of the obligations under the Credit Agreement or the other Loan Documents, owing to it, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 8.1(c), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's obligations under the Credit Agreement or the other Loan Documents, such Benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of each such other Lender's obligations under the Credit Agreement or the other Loan Documents, or shall provide such other Lenders with the benefits of any such collateral, as shall be necessary to cause such Benefitted Lender to share the excess payment or benefits of such collateral ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is

thereafter recovered from such Benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by Law, each Lender shall have the right, without prior notice to the Loan Parties, any such notice being expressly waived by the Loan Parties to the extent permitted by applicable Law, upon any amount becoming due and payable by a Loan Party hereunder (whether at the stated maturity, by acceleration or otherwise), to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of such Loan Party. Each Lender agrees promptly to notify the Loan Parties, as the case may be, and the Administrative Agent after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

10.9. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

10.10. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.11. Integration. This Agreement, the other Loan Documents and the Fee Letters represent the entire agreement of the Loan Parties the Administrative Agent, the Arrangers, the Syndication Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Arrangers, the Administrative Agent, the Syndication Agent or any Lender relative to subject matter hereof not expressly set forth or referred to herein, in the other Loan Documents or in the Fee Letters. The Borrower agrees that its obligations under the Fee Letters shall survive the execution and delivery of this Agreement.

10.12. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY).

10.13. SUBMISSION TO JURISDICTION; WAIVERS. EACH OF THE LOAN PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(a) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK, AND APPELLATE COURTS FROM ANY THEREOF;

(b) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME;

(c) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO THE LOAN PARTIES, AS THE CASE MAY BE, AT ITS ADDRESS SET FORTH IN SECTION 10.2 OR AT SUCH OTHER ADDRESS OF WHICH THE ADMINISTRATIVE AGENT SHALL HAVE BEEN NOTIFIED PURSUANT THERETO;

(d) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT TO SUE IN ANY OTHER JURISDICTION; AND

(e) WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LEGAL ACTION OR PROCEEDING REFERRED TO IN THIS SECTION 10.13 ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

10.14. WAIVERS OF JURY TRIAL. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND

CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS *SECTION 10.14* WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

10.15. No Advisory or Fiduciary Responsibility. In connection with this Agreement, each of the Loan Parties acknowledges and agrees that: (a) the credit facility provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Loan Parties and their respective Affiliates, on the one hand, and the Administrative Agent and the Arrangers, on the other hand, and each of the Loan Parties is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (b) in connection with the process leading to such transaction, the Administrative Agent and the Arrangers, each is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Loan Parties or any of their respective Affiliates, stockholders, creditors or employees or any other Person; (c) neither the Administrative Agent nor the Arrangers have assumed or will assume an advisory, agency or fiduciary responsibility in favor of either Loan Party with respect to this Agreement or the process

leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether the Administrative Agent or the Arrangers have advised or is currently advising the Loan Parties or any of their respective Affiliates on other matters) and neither the Administrative Agent nor the Arrangers have any obligation to the Loan Parties or any of their respective Affiliates with respect to this Agreement except those obligations expressly set forth herein and in the other Loan Documents; (d) the Administrative Agent and the Arrangers and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Loan Parties and their respective Affiliates, and neither the Administrative Agent nor the Arrangers have any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (e) the Administrative Agent and the Arrangers have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to this Agreement (including any amendment, waiver or other modification hereof or of any other Loan Document) and each of the Loan Parties has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate.

10.16. Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the NAIC), (c) to the extent required by applicable Laws or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to

this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this *Section 10.16*, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Loan Parties or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this *Section 10.16* or (y) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Loan Parties. For purposes of this *Section 10.16*, "*Information*" means all information received from either of the Loan Parties or any of its Subsidiaries relating to either of the Loan Parties or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by a Loan Party or any Subsidiary, *provided* that, in the case of information received from a Loan Party or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this *Section 10.16* shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent, the Lenders and the Issuing Lender acknowledges that (a) the Information may include material non-public information concerning each Loan Party or a Subsidiary thereof, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including Federal and state securities Laws.

10.17. Release of Guarantee Obligations. Notwithstanding anything to the contrary contained herein or any other Loan Document, when all obligations of the Borrower hereunder and under the other Loan Documents that are guaranteed under the Parent Guaranty have been paid in full, all Revolving Credit Commitments have terminated, there exist no unpaid Reimbursement Obligations and no Letter of Credit issued for the account of the Borrower shall be outstanding, upon request of the Loan Parties, the Administrative Agent shall (without notice to, or vote or consent of, any Lender) take such actions as may be required to release all Guarantee Obligations of the Parent under the Parent Guaranty. Any such release of Guarantee Obligations under the Parent Guaranty shall be deemed subject to the provision that such Guarantee Obligations under the Parent Guaranty shall be reinstated if after such release any portion of any payment in respect of the obligations guaranteed thereby shall be rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or the Parent, or upon or as a result of the appointment of a receiver, intervener or conservator of, or trustee or similar officer for, the Borrower or the Parent or any substantial part of its respective property, or otherwise, all as though such payment had not been made.

10.18. Accounting Changes. In the event that any "Accounting Change" (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants, standards or terms in this Agreement, then the Loan Parties and the Administrative Agent agree to enter into negotiations in order to amend such provisions of this

Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the Loan Parties' financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by the Loan Parties, the Administrative Agent and the Majority Lenders, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred. "Accounting Changes" refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants, applicable Insurance Regulators, the NAIC or, if applicable, the SEC.

10.19. USA PATRIOT Act Notice. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Loan Parties that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Loan Parties, which information includes the name and address of the Loan Parties and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Loan Parties in accordance with the Act.

10.20. Interest Rate Limitation.

(a) Notwithstanding anything to the contrary contained in any Loan Document, if at any time the rate of interest payable under any Loan Document (the "Stated Rate") would exceed the rate of interest permitted to be charged under any applicable Law (the "Maximum Rate"), then for so long as the Maximum Rate would be so exceeded, the rate of interest payable shall be equal to the Maximum Rate; provided that if at any time thereafter, the Stated Rate is less than the Maximum Rate, the Borrower shall, to the extent permitted by applicable Law, continue to pay interest at the Maximum Rate until such time as the total interest received is equal to the total interest which would have been received had the Stated Rate been (but for the operation of this provision) the interest rate payable. Thereafter, the interest rate payable shall be the Stated Rate unless and until the Stated Rate again would exceed the Maximum Rate, in which event this provision shall again apply.

(b) In no event shall the total interest received by a Lender exceed the amount which it could lawfully have received had the interest been calculated for the full term hereof at the Maximum Rate.

[*Remainder of Page Left Intentionally Blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

The Borrower:

FUND AMERICAN COMPANIES, INC.

By: _____
Name:
Title:

Parent:

ONEBEACON INSURANCE GROUP, LTD.

By: _____
Name:
Title:

BANK OF AMERICA, N.A., as
Administrative Agent

By: _____
Name:
Title:

BANK OF AMERICA, N.A., as
a Lender, Issuing Lender and Swing Line Lender

By: _____
Name:
Title:

LEHMAN BROTHERS BANK, FSB, as
a Lender

By: _____
Name:
Title:

SCHEDULE 10.02

ADMINISTRATIVE AGENT'S OFFICE;
CERTAIN ADDRESSES FOR NOTICES

LOAN PARTIES:
OneBeacon Insurance Company
One Beacon Street
Boston, MA 02108-3100
Attention: Thomas Forsyth
Telephone: 617-725-7169
Telecopier: 617-725-7177
Electronic Mail: tforsyth@onebeacon.com
U.S. Taxpayer Identification Number (Fund American Companies, Inc.): 52-2272489
U.S. Taxpayer Identification Number (OneBeacon Insurance Group, Ltd.): 98-0503315

with a copy to:

Cravath, Swaine and Moore LLP
WorldWide Plaza
825 Eighth Avenue
New York, NY 10019-7475
Attention: Paul Michalski
Telecopier: 212-474-3700

ADMINISTRATIVE AGENT:

Administrative Agent's Office
(for payments and Requests for Credit Extensions):
Bank of America, N.A.
2001 Clayton Road
Mail Code" CA4-702-02-25
Concord, CA 94520
Attention: Tina Obcena
Telephone: 925-675-8768
Telecopier: 888-969-9246
Electronic Mail: tina.obcena@bankofamerica.com
Account No.: 3750836479
Ref: White Mountains Insurance Group
ABA# 026009593

Other Notices as Administrative Agent:
Bank of America, N.A.
Agency Management
1455 Market Street, 5th Floor
Mail Code: CA5-701-05-19
San Francisco, CA 94103
Attention: Aamir Saleem
Telephone: 415-436-2769
Telecopier: 415-503-5089
Electronic Mail: aamir.saleem@bankofamerica.com

ISSUING LENDER:

Bank of America, N.A.
Trade Operations
1000 W. Temple Street
Mail Code: CA9-705-07-05
Los Angeles, CA 90012-1514
Attention: Stella Rosales
Telephone: 213-481-7828
Telecopier: 213-580-8441
Electronic Mail: stella.rosales@bankofamerica.com

SWING LINE LENDER:

Bank of America, N.A.
2001 Clayton Road
Mail Code” CA4-702-02-25
Concord, CA 94520
Attention: Tina Obcena
Telephone: 925-675-8768
Telecopier: 888-969-9246
Electronic Mail: tina.obcena@bankofamerica.com
Account No.: 3750836479
Ref: White Mountains Insurance Group
ABA# 026009593

PROSPECTOR PARTNERS, LLC

INVESTMENT MANAGEMENT AGREEMENT

PROSPECTOR PARTNERS, LLC, a Delaware limited liability company (the " Adviser "), having an address at 370 Church Street, Guilford, Connecticut 06437, and OneBeacon Insurance Group, Ltd., a Bermuda Corporation ("OneBeacon"), having an address at Bank of Butterfield Building, 42 Reid Street, Hamilton HM 12, Bermuda, hereby enter into this Investment Management Agreement, dated as of November 14, 2006 (this " Agreement "), and hereby agree that the Adviser shall act as discretionary adviser with respect to the specified assets of each subsidiary of OneBeacon identified on Schedule A (each, a "Client") to this Agreement as such schedule may be amended from time to time to add new subsidiaries as Clients on the following terms and conditions:

1. Investment Accounts The investment account of each of the entities identified in Schedule A to this Agreement (each an "Investment Account") shall consist of cash and securities in an amount equal to at least $30,000,000 (the "Minimum Account Amount"), or such other amount as may be agreed to by the Adviser, initially furnished by the Client for investment pursuant to this Agreement, as well as all other assets which become part of each Investment Account as a result of trading therein or additions thereto, except for amounts withdrawn there from and paid to the Client. Each Client may make additions to the Investment Account in amounts exceeding $100,000, or in such other amount as may be agreed to by the Adviser, provided that the Adviser shall have received prompt written notice of such additions. Each Client may make withdrawals from its' Investment Account in such amounts as it shall determine upon not less than 30 days prior written notice thereof to the Adviser and provided that the withdrawal shall not cause the assets in the Investment Account to fall below the Minimum Account Amount, unless otherwise agreed to by the Adviser.

2. Services of Adviser By execution of this Agreement the Adviser accepts appointment as adviser for each Investment Account with full discretion and agrees to supervise and direct the investments of each Investment Account in accordance with the investment objective, policies and restrictions described in the investment guidelines attached hereto as Schedule B (the "Investment Guidelines"). In the performance of its services, the Adviser will not be liable for any error in judgment or any acts or omissions to act except those resulting from the Adviser's gross negligence, willful misconduct or malfeasance. Nothing herein shall in any way constitute a waiver or limitation of any right of any person under the federal securities laws. The Adviser shall have no responsibility whatsoever for the management of any assets of the entities identified in Schedule A to this Agreement other than such entities' Investment Account.

3. Discretionary Authority Subject to the Investment Guidelines, the Adviser shall have full discretion and authority, without obtaining any prior approval, as the Client's agent and attorney-in-fact: (a) to make all investment decisions in respect of each Investment Account on the Client's behalf and at the sole risk of the Client; (b) to buy, sell, exchange, convert, liquidate or otherwise trade in any stock, bond and other securities or financial instruments in respect of each Investment Account; (c) to place orders with respect to, and to arrange for, any of the foregoing; and (d) in furtherance of the foregoing, to do anything which the Adviser shall deem requisite, appropriate or advisable in connection therewith, including, without limitation, the selection of such brokers, dealers, and others as the Adviser shall determine in its absolute discretion.

4. Custody The assets of each Investment Account shall be held in one or more separately identified accounts in the custody of one or more banks, trust companies, brokerage firms or other entities designated by the Client and acceptable to the Adviser. The Adviser will communicate its investment purchase, sale and delivery instructions directly with the party identified by the Client or other qualified depositories. The Client shall be responsible for all custodial arrangements and the payment of all custodial charges and fees, and the Adviser shall have no responsibility or liability with respect to custody arrangements or the acts, omissions or other conduct of the custodians.

5. Brokerage When placing orders for the execution of transactions for an Investment

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Account, the Adviser may allocate all transactions to such brokers or dealers, for execution on such markets, at such prices and commission rates, as are selected by the Adviser in its sole discretion. In selecting brokers or dealers to execute transactions, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, and, in negotiating commission rates, the Adviser shall take into account the financial stability and reputation of brokerage firms and brokerage and research services provided by such brokers. An Investment Account may be deemed to be paying for research provided or paid for by the broker which is included in the commission rate although the Investment Account may not, in any particular instance, be the direct or indirect beneficiary of the research services provided. Research furnished by brokers may include, but is not limited to, written information and analyses concerning specific securities, companies or sectors; market, finance and economic studies and forecasts; financial publications; statistics and pricing services; discussions with research personnel; and software and data bases utilized in the investment management process. OneBeacon acknowledges on behalf of each Client that since commission rates are generally negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable. The Adviser is hereby authorized to, and OneBeacon acknowledges on behalf of each Client that the Adviser may aggregate orders on behalf of each Investment Account with orders on behalf of other clients of the Adviser. In such event, allocation of the securities purchased or sold, as well as expenses incurred in the transaction, shall be made in a manner which the Adviser considers to be the most fair and equitable to all of its clients, including the Clients.

6. Representations and Warranties

(a) OneBeacon represents, warrants and agrees that:

(i) it has full legal power and authority to enter into this Agreement; and

(ii) the appointment of the Adviser hereunder is permitted by each Client's governing documents and any investment management agreement between OneBeacon and the Clients to this Agreement and has been duly authorized by all necessary corporate or other action;

(iii) it will indemnify the Adviser and hold it harmless against any and all losses, costs, claims and liabilities which the Adviser may suffer or incur arising out of any material breach of these representations and warranties of OneBeacon.

(b) The Adviser represents, warrants and agrees that:

(i) it has full legal power and authority to enter into this Agreement;

(ii) it is registered as an investment adviser with the Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940, as amended (the "Advisers Act"); and

(iii) entering into this Agreement has been duly authorized by all necessary action.

(iv) it will indemnify OneBeacon and hold it harmless against any and all losses, costs, claims and liabilities which OneBeacon may suffer or the Client may suffer or incur arising out of any material breach of any representations and warranties of the Adviser.

7. Reports The Adviser shall provide OneBeacon with reports containing the status of the Investment Account at least monthly (i.e. "Flash Report"), and will provide written advisory report letters on a quarterly basis. All records maintained pursuant to this Agreement shall be subject to examination by OneBeacon and by persons authorized by it, or by appropriate governmental authorities, at all times upon reasonable notice. The Adviser shall provide copies of trade tickets, custodial reports and other records OneBeacon reasonably requires for accounting or tax purposes.

8. Management Fee and Expenses The Adviser will be paid a quarterly management fee (the "Management Fee") for its investment advisory services provided hereunder, determined in accordance with Schedule C to this Agreement. During the term of this Agreement, the Management Fee shall be billed and payable in arrears on a quarterly basis within 10 days after the last day of each calendar quarter based upon the value of the Investment Accounts as of the last day of the immediately preceding calendar quarter. The Management Fee shall be pro-rated for any partial quarter. It is understood that, in the event that the Management Fee is to be paid by the custodian out of the Investment Accounts, OneBeacon or the Clients will provide written authorization to the custodian to pay the Management Fee directly from the Investment Accounts.

(a) Each Investment Account shall be responsible for all expenses incurred directly in connection with transactions effected on behalf of the Investment Account pursuant to this Agreement and shall include: custodial fees; PAM accounting service fees, investment expenses such as commissions; and other expenses reasonably related to the purchase, sale or transmittal of Investment Account assets (other than research fees and expenses with respect to the Investment Account).

9. Confidential Relationship All information and advice furnished by either party to the other party pursuant to this Agreement shall be treated by the receiving party as confidential and shall not be disclosed to third parties except as required by law; provided, however, that the OneBeacon consents to the disclosure by the Adviser that OneBeacon (and each of the Clients) is a client of the Adviser and to the inclusion of OneBeacon on a list of representative clients of the Adviser or in other marketing materials. OneBeacon acknowledges that the Adviser shall own and be permitted to use its investment track record with respect to the Investment Accounts, and shall be permitted to retain copies of all documentation necessary under the Advisers Act to support the track record or otherwise required to be retained under the Advisers Act and related rules. The Adviser acknowledges that OneBeacon shall be permitted to report the investment track record (on a stand-alone basis, as part of its total portfolio return or otherwise) with respect to the Investment Accounts in any internal or external reports of it or its affiliates.

10. Non-Assignability No "assignment", as that term is defined in the Advisers Act, of this Agreement shall be made by the Adviser or OneBeacon without the written consent of the other party.

11. Directions to the Adviser All directions by OneBeacon by or on behalf of the Clients to the Adviser shall be in writing signed by or on behalf of OneBeacon. The Adviser shall be fully protected in relying upon any such writing which the Adviser believes to be genuine and signed or presented by the proper person or persons, shall be under no duty to make any investigation or inquiry as to any statement contained therein and may accept the same as conclusive evidence of the truth and accuracy of the statements therein contained.

12. Consultation with Counsel The Adviser may consult with legal counsel (who may be counsel to OneBeacon) concerning any question that may arise with reference to its duties under this Agreement, and the opinion of such counsel shall be full and complete protection in respect of any action taken or omitted by the Adviser hereunder in good faith and in accordance with such opinion.

13. Services to Other Clients It is understood that the Adviser acts as investment adviser to other clients and may give advice and take action with respect to such clients that differs from the

advice given or the action taken with respect to the Investment Accounts. Nothing in this Agreement shall restrict the right of the Adviser, its members, managers, officers, employees or affiliates to perform investment management or advisory services for any other person or entity, and the performance of such service for others shall not be deemed to violate or give rise to any duty or obligation to the Client.

14. Investment by the Adviser for Its Own Account Nothing in this Agreement shall limit or restrict the Adviser or any of its members, managers, officers, employees or affiliates from buying, selling or trading any securities for its or their own account or accounts. OneBeacon on behalf of each Client acknowledges that the Adviser and its members, managers, officers, employees, affiliates and other clients may at any time have, acquire, increase, decrease or dispose of securities which are at or about the same time acquired or disposed of for the account of a Client. The Adviser shall have no obligation to purchase or sell for the Investment Accounts or to recommend for purchase or sale by the Investment Accounts any security that the Adviser or its members, managers, officers, employees or affiliates may purchase or sell for itself or themselves or for any other client.

15. Proxies Subject to any other written instructions of OneBeacon, the Adviser is hereby appointed OneBeacon's agent and attorney-in-fact in its discretion to vote, convert or tender in an exchange or tender offer any securities in the Investment Accounts, to execute proxies, waivers, consents and other instruments with respect to such securities, to endorse, transfer or deliver such securities and to participate in or consent to any plan of reorganization, merger, combination, consolidation, liquidation or similar plan with reference to such securities.

16. Notices All notices and instructions with respect to securities transactions or any other matters contemplated by this Agreement shall be deemed duly given when delivered in writing or deposited by first-class mail to the following addresses: (a) if to the Adviser, at its address set forth above, Attention: Peter N Perugini, CFO, or (b) if to OneBeacon, at its address set forth above, Attention Paul McDonough, CFO. The Adviser or the Client may change its address or specify a different manner of addressing itself by giving notice of such change in writing to the other party.

17. Entire Agreement; Amendment This Agreement sets forth the entire agreement of the parties with respect to management of the Investment Account and shall not be amended except by an instrument in writing signed by the parties hereto.

18. Termination This Agreement shall continue in force from the date hereof for an initial term until the third anniversary of the date hereof and then may be renewed by OneBeacon for up to two additional one-year terms, in each case by providing written notice of its intention to renew the Agreement not less than 30 days prior to the relevant anniversary date. Notwithstanding the foregoing, this Agreement shall be terminable by OneBeacon upon written notice to the Adviser at least thirty (30) days prior to the date upon which such termination is to become effective (i) for cause (including material non-performance by the Adviser), (ii) if either John Gillespie or Richard Howard are no-longer affiliated with the Adviser, (iii) if there is a change in control of the Adviser (change in control in this case shall mean a more than 50% change in the voting interest of the Adviser), or (iv) if White Mountains' voting interest in OneBeacon falls below 50%. Each Client shall honor any trades executed but not settled before the date of any termination under this Agreement. The fee for the calendar quarter during which any termination of this Agreement shall occur shall be paid as of the date of termination and prorated if the effective date does not coincide with the end of the quarter.

19. Governing Law To the extent that the interpretation or effect of this Agreement shall depend on state law, this Agreement shall be governed by and construed in accordance with the laws of the State of New York.

20. Effective Date This Agreement shall become effective on the date first written above.

21. Receipt of Disclosure Statement OneBeacon acknowledges receipt of a copy of Part II of the Adviser's Form ADV in compliance with Rule 204-3(b) under the Advisers Act more than 48 hours prior to the date of execution of this Agreement. The Adviser shall annually and without charge,

upon request by OneBeacon, deliver to OneBeacon the current version of such form or a written document containing at least the information then required to be contained in such form.

22. Counterparts This Agreement may be executed in two counterparts, each one of which shall be deemed to be an original.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective duly authorized representatives as of the date first written above.

ADVISER:	**ONEBEACON:**
PROSPECTOR PARTNERS, LLC	**ONEBEACON INSURANCE GROUP, LTD.**
By: _____	By: _____
Title: _____	Title: _____

SCHEDULE A

SUBSIDIARIES OF ONEBEACON INSURANCE GROUP, LTD. SUBJECT TO THIS INVESTMENT MANAGEMENT AGREEMENT

Fund American Companies, Inc.

The Employers' Fire Insurance Company

Homeland Insurance Company of New York

The Northern Assurance Company of America

OneBeacon America Insurance Company

OneBeacon Insurance Company

Pennsylvania General Insurance Company

SCHEDULE B

INVESTMENT GUIDELINES

Investment Objective

The Adviser's objective is to achieve consistent positive returns and to maximize long-term total returns within prudent levels of risk through capital appreciation on a diversified portfolio of equity investments.

Performance Objectives

The Adviser will report to OneBeacon Insurance Group, Ltd. on a quarterly basis to review the Adviser's total investment performance. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on performance comparisons with investment managers employing similar styles. The overall performance of the Adviser's Investment Accounts will be measured by referencing broad equity market indices over a 3-year rolling period.

Guidelines

The Adviser must remain a registered adviser under the Investment Advisors Act of 1940. Wherever these guidelines contain a limitation expressed as a percentage of the portfolio assets, that percentage shall be measured solely with reference to the assets that are under the Adviser's control. Subject to these guidelines, the Adviser shall have full discretion to manage the Investment Account's assets.

- The Adviser may not purchase securities on margin, sell short, or enter into derivative transactions in the Investment Account without the written consent of OneBeacon Insurance Group, Ltd.

- The Adviser may purchase Rule 144A securities provided such securities are judged by the Adviser to be liquid and do not in the aggregate exceed 20% of the market value of the Account. The Adviser shall also be able to purchase securities if such securities are convertible into publicly traded securities.

- At least 95% of the Investment Account will consist of securities of companies having a market capitalization of $100 million or greater.

- The Investment Account may include domestic and non-domestic securities (common stocks, securities that are convertible into common stocks, preferred stocks, warrants and rights to subscribe to common stocks) that are listed on registered exchanges or actively traded in the over-the-counter market.

- Issuers of securities located in countries other than the United States, including emerging market countries, shall not exceed 40% of the market value of the Investment Account.

- In terms of diversification, investments shall be allocated with the intent to minimize the risk of large losses to the Investment Account. The maximum total investment of any one equity shall be limited to 10% of the Investment Account at the time of purchase, and 25% of the market value of the Investment Account.

- If the aggregate investment in the equity securities in the Investment Account of any one company exceeds 5% of that company's outstanding shares of all classes of stock of that issuer, the Adviser will notify OneBeacon Insurance Group, Ltd.

- Notwithstanding the foregoing, in no event shall the Adviser acquire securities of White Mountains Insurance Group, Ltd. or any of its affiliated companies.

Exceptions

Any exceptions taken to this Investment Guideline Statement must be submitted in writing to OneBeacon Insurance Group, Ltd.

SCHEDULE C

FEE SCHEDULE TO THE INVESTMENT MANAGEMENT AGREEMENT, DATED November 14, 2006 , BETWEEN PROSPECTOR PARTNERS, L.L.C. AND ONEBEACON INSURANCE GROUP, LTD.

Each term used in this Schedule C but not defined herein shall have the meaning assigned to that term in the Investment Management Agreement, dated November 14, 2006 (the "Agreement"), between OneBeacon Insurance Group, Ltd. and Prospector Partners, L.L.C., the adviser (the "Adviser").

1. The Adviser shall be paid a Management Fee (pro rated for periods less than a full calendar quarter) computed in accordance with the table below based on the value of the aggregate net assets (including cash and cash equivalents) of each Investment Account and the net assets of each other

client of the Adviser identified on Schedule D to this Agreement (such collective aggregate net assets shall be referred to as the "Aggregate Net Assets"), determined in accordance with paragraph Section 2 below. Each entity identified in Schedule A and each other client of the Adviser identified in Schedule D will bear its proportionate share of the Management Fee.

Aggregate Net Assets	Annual Fee	Quarterly Fee
Up to $200 million	100 basis points (1.00% or 0.0100)	25 basis points (0.25% or 0.00250)
Next $200 million (From $200 million to $400 million)	50 basis points	12.50 basis points
Amounts over $400 million	25 basis points	6.25 basis points

2. For all purposes under the Agreement, including the determination of the Management Fee, the market value of securities shall be as follows: securities that are listed on a national securities exchange shall be valued at their last sales price on the date of determination and securities that are not so listed shall be valued at their last sales price on the date of determination, or if no sales of such securities occurred on the date of determination, such securities shall be valued at the last "bid" price at the close of business on such day (or if sold short at the last "asked" price at the close of business on such day) quoted by the National Association of Securities Dealers, Inc.'s Automatic Quotation System or, if not quoted on such system, by one of the principal market makers in such securities selected by the Adviser. Notwithstanding the foregoing, if the securities to be valued constitute a block which, in the judgment of the Adviser, could not be liquidated in a reasonable time without depressing the market, such block shall then be valued by the Adviser but not at a unit value in excess of the quoted market price for such security. All other assets of the Investment Accounts shall be assigned such value as the Adviser may reasonably determine.

SCHEDULE D

CLIENTS OF PROSPECTOR PARTNERS, LLC SUBJECT TO FEE SCHEDULE SET FORTH IN SCHEDULE C

Fund American Companies, Inc.

The Employers' Fire Insurance Company

Homeland Insurance Company of New York

The Northern Assurance Company of America

OneBeacon America Insurance Company

OneBeacon Insurance Company

Pennsylvania General Insurance Company

OneBeacon Insurance Pension Plan

OneBeacon Insurance Savings Plan- Equity 401k

OneBeacon Insurance Savings Plan- Fully Managed

White Mountains Long-Term Incentive Plan

(as amended)

1. PURPOSE

The purpose of the White Mountains Long-Term Incentive Plan (the "Plan") is to advance the interests of White Mountains Insurance Group, Ltd. (the "Company") and its stockholders by providing long-term incentives to certain executives, consultants and directors of the Company and of its subsidiaries.

2. ADMINISTRATION

The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of the Company; provided that each member of the Committee qualifies as (a) a "non-employee director" under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and (b) an "outside director" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). In the event that any member of the Committee does not so qualify, the Plan shall be administered by a sub-committee of Committee members who do so qualify. If it is later determined that one or more members of the Committee do not so qualify, actions taken by the Committee prior to such determination shall be valid despite such failure to qualify.

The Committee shall have exclusive authority to select the employees, directors and consultants to be granted awards under the Plan ("Awards"), to determine the type, size and terms of the Awards and to prescribe the form of the instruments embodying Awards. With respect to Awards made to directors and consultants, the Committee shall, and with respect to employees may, specify the terms and conditions applicable to such Awards in an Award agreement. The Committee shall be authorized to interpret the Plan and the Awards granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make any other determinations which it believes necessary or advisable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent the Committee deems desirable to carry it into effect. Any decision of the Committee in the administration of the Plan, as described herein, shall be final and conclusive. The Committee may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Committee. No member of the Company shall be liable for anything done or omitted to be done by him or by any other

member of the Committee in connection with the Plan, except for his own willful misconduct or as expressly provided by statute.

3. PARTICIPATING SUBSIDIARIES

If a subsidiary of the Company wishes to participate in the Plan and its participation shall have been approved by the Board, the Board of Directors of the subsidiary shall adopt a resolution in form and substance satisfactory to the Committee authorizing participation by the subsidiary in the Plan. As used herein, "subsidiary" shall mean a "subsidiary corporation" as defined in Section 424 (f) of the Code.

A subsidiary may cease to participate in the Plan at any time by action of the Board or by action of the Board of Directors of such subsidiary, which latter action shall be effective not earlier than the date of delivery to the Secretary of the Company of a certified copy of a resolution of the subsidiary's Board of Directors taking such action. Termination of participation in the Plan shall not relieve a subsidiary of any obligations theretofore incurred by it under the Plan.

4. AWARDS

(a) **Eligible Participants**. Any employee, director or consultant of the Company or any of its subsidiaries is eligible to receive an Award hereunder. The Committee shall select which eligible employees, directors or consultants shall be granted Awards hereunder. No employee, director or consultant shall have a right to receive an Award hereunder and the grant of an Award to an employee, director or consultant shall not obligate the Committee to continue to grant Awards to such employee, director or consultant in subsequent periods.

(b) **Type of Awards.** Awards shall be limited to the following five types: (i) "Stock Options," (ii) "Stock Appreciation Rights," (iii) "Restricted Stock," (iv) "Performance Shares" and (v) "Performance Units." Stock Options, which include "Incentive Stock Options" and other stock options or combinations thereof, are rights to purchase shares of Common Stock of the Company having a par value of $1.00 per shares ("Shares"). A Stock Appreciation Right is a right to receive, without payment to the Company, cash and/or Shares in lieu of the purchase of Shares under the Stock Option to which the Stock Appreciation Right relates.

(c) **Maximum Number of Shares That May Be Issued.** A maximum of 400,000 Shares (subject to adjustment as provided in Section 15) may be granted at target pursuant to Awards made under the Plan and, accordingly, up to 800,000 Shares (subject to adjustment as provided in Section 15) may be issued by the Company in satisfaction of its obligations with respect to such Award grants. For purposes of the

foregoing, the exercise of a Stock Appreciation Right shall constitute the issuance of Shares equal to the Shares covered by the related Stock Option. If any Shares issued as Restricted Stock shall be repurchased pursuant to the Company's option described in Section 6 below, or if any Shares issued under the Plan shall be reacquired pursuant to restrictions imposed at the time of issuance, such Shares may again be issued under the Plan.

(d) **Rights With Respect to Shares.**

(i) A participant to whom Restricted Stock has been issued shall have prior to the expiration of the Restricted Period or the earlier repurchase of such Shares as herein provided, ownership of such Shares, including the right to vote the same and to receive dividends thereon, subject, however, to the options, restrictions and limitations imposed thereon pursuant hereto.

(ii) A participant to whom Stock Options, Stock Appreciation Rights or Performance Shares are granted (and any person succeeding to such employee's rights pursuant to the Plan) shall have no rights as a shareholder with respect to any Shares issuable pursuant thereto until the date of the issuance of a stock certificate (whether or not delivered) therefor. Except as provided in Section 15, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities or other property) the record date for which is prior to the date such stock certificate is issued.

(iii) The Company, in its discretion, may hold custody during the Restricted Period of any Shares of Restricted Stock

5. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

The Committee may grant Stock Options (including, in its discretion, Stock Appreciation Rights) either alone or, as provided in Section 7, in conjunction with Performance Shares. A maximum of 10,000 Stock Options and Stock Appreciation Rights (not including Stock Appreciation Rights attached to Stock Options) may be issued in one year to a participant. Each Stock Option shall comply with the following terms and conditions:

(a) The per share exercise price shall not be less than the greater of (i) the fair market value per Share at the time of grant, as determined in good faith by the Committee, or (ii) the par value per Share. However, the exercise price of an Incentive Stock Option granted to a participant who owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or of a subsidiary (a "Ten Percent

Employee") shall not be less than the greater of 110% of such fair market value, or the par value per Share.

(b) The Committee shall initially determine the number of Shares to be subject to each Stock Option. The number of Shares subject to a Stock Option will subsequently be reduced (i) on a Share-for-Share basis to the extent that Shares under such Stock Option are used to calculate the cash and/or Shares received pursuant to exercise of a Stock Appreciation Right attached to such Stock Option, and (ii) on a one-for-one basis to the extent that any Performance Shares granted in conjunction with such Stock Option pursuant to Section 7(a) are paid, such reduction to be made in accordance with the provisions of Section 7(g)(ii).

(c) The Stock Option shall not be transferable by the optionee otherwise than by will or the laws of descent and distribution, and shall be exercisable during his lifetime only by him.

(d) The Stock Option shall not be exercisable:

(i) after the expiration of ten years from the date it is granted and may be exercised during such period only at such time or times as the Committee may establish;

(ii) unless payment in full is made for the Shares being acquired thereunder at the time of exercise (including any federal, state or local income or other taxes which the Committee determines are required to be withheld in respect of such shares); such payment shall be made (A) in United States dollars by cash or check, (B) by tendering to the Company Shares owned by the person exercising the Stock Option and having a fair market value equal to the cash exercise price thereof, such fair market value to be determined in such reasonable manner as may be provided for from time to time by the Committee or as may be required in order to comply with or to conform to the requirements of any applicable or relevant laws or regulations, or (C) by a combination of United States dollars and Shares pursuant to (A) and (B) above;

(iii) by participants who were employees of the Company or one of its subsidiaries at the time of the grant of the Stock Option unless such participant has been, at all times during the period beginning with the date of grant of the Stock Option and ending on the date three months prior to such exercise, an officer or employee of the Company or a subsidiary, or of a corporation, or a parent or subsidiary of a corporation, issuing or assuming the Stock Option in a transaction to which Section 424(a) of the Code is applicable, except that:

(A) if such person shall cease to be an officer or employee of the Company or one of its subsidiary corporations solely by reason of a period of Related Employment as defined in Section 10, he may, during such period of Related Employment (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), exercise such Stock Option as if he continued to be such an officer or employee; or

(B) if an optionee shall become disabled as defined in Section 9 he may, at any time within three years of the date he becomes disabled (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), exercise the Stock Option with respect to (i) any Shares as to which he could have exercised the Stock Option on the date he became disabled and (ii) if the Stock Option is not fully exercisable on the date he becomes disabled, the number of additional Shares as to which the Stock Option would have become exercisable had he remained an employee through the next two dates on which additional Shares were scheduled to become exercisable under the Stock Option; or

(C) if an optionee shall die while holding a Stock Option, his executors, administrators, heirs or distributees, as the case may be, at any time within one year after the date of such death (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), may exercise the Stock Option with respect to (i) any Shares as to which the decedent could have exercised the Stock Option at the time of his death, and if the Stock Option is not fully exercisable on the date of his death, the number of additional Shares as to which the Stock Option would have become exercisable had he remained an employee through the next two dates on which additional Shares were scheduled to become exercisable under the Stock Option provided, however, that if death occurs during the three-year period following a disability as described in Section 5(d)(iii)(B) hereof, the three-year period following a retirement as described in Section 5(d)(iii)(D) hereof or any period following a voluntary termination in respect of which death, the number of additional Shares as to which the Stock Option would have become exercisable had he remained an employee through the next date or, if applicable, two dates on which additional Shares were scheduled to become exercisable under the Stock Option provided, however, that if death occurs during the three-

year period following a disability as described in Section 5(d)(iii)(B) hereof, the three-year period following a retirement as described in Section 5(d)(iii)(D) hereof or any period following a voluntary termination in respect of which the Board has exercised its discretion to grant continuing exercise rights as provided in Section 5(d)(iii)(E) hereof, the Stock Option shall not become exercisable as to any Shares in addition to those as to which the decedent could have exercised the Stock Option at the time of his death; or

(D) if such person shall retire with the approval of the Committee in its sole discretion while holding a Stock Option which has not expired and has not been fully exercised, such person, at any time within three years after his retirement (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), may exercise the Stock Option with respect to any Shares as to which he could have exercised the Stock Option on the date he retired; or

(E) if such person shall voluntarily terminate his employment with the Company, the Board may determine that the optionee may exercise the Stock Option with respect to some or all of the Shares subject to the Stock Option as to which it would not otherwise be exercisable on the date of his voluntary termination provided, however, that in no event may such exercise take place after the Stock Option has expired under the provisions of Section 5(d)(i) hereof.

(e) The aggregate market value of Shares (determined at the time of grant of the Stock Option pursuant to Section 5(a) of the Plan) with respect to which Incentive Stock Options granted to any participant under the Plan are exercisable for the first time by such participant during any calendar year may not exceed the maximum amount permitted under Section 422(d) of the Code at the time of the Award grant. In the event this limitation would be exceeded in any year, the optionee may elect either (i) to defer to a succeeding year the date on which some or all of such Incentive Stock Options would first become exercisable or (ii) convert some or all of such Incentive Stock Options into non-qualified Stock Options.

(f) If the Committee, in its discretion, so determines, there may be related to the Stock Option, either at the time of grant or by amendment, a Stock Appreciation Right which shall be subject to such terms and conditions, not inconsistent with the Plan, as the Committee shall impose, including the following:

(i) A Stock Appreciation Right may be exercised only:

(A) to the extent that the Stock Option to which it relates is at the time exercisable, and

(B) if

(1) in the case of a Stock Option other than an Incentive Stock Option only, such Stock Option will expire by its terms within 30 days (90 days if the optionee is at the time an officer of the Company who is required to file reports pursuant to Section 16(a) of the Exchange Act;

(2) the optionee has become disabled or ceased to be an officer or employee by reason of his retirement with the approval of the Committee in its sole discretion; or

(3) the optionee has died.

However, if the Stock Option to which the Stock Appreciation Right relates is exercisable and if the optionee is at the time an officer of the Company who is required to file reports pursuant to Section 16(a) of the Exchange Act, the Stock Appreciation Right may, subject to the approval of the Committee, be exercised during such periods, as may be specified by the Committee;

(ii) A Stock Appreciation Right shall entitle the optionee (or any person entitled to act under the provisions of Section 5(d)(iii)(C) hereof) to surrender unexercised the related Stock Option (or any portion of such Option) to the Company and to receive from the Company in exchange therefor that number of Shares having an aggregate market value equal to the excess of the market value of one Share (provided that, if such value exceeds 150% of the per share exercise price specified in such Stock Option, such value shall be deemed to be 150% of such Stock Option price) over the exercise price of such Stock Option price per share, times the number of Shares subject to the Stock Option, or portion thereof, which is so surrendered. The Committee shall be entitled to elect to settle the obligation arising out of the exercise of a Stock Appreciation Right by the payment of cash equal to the aggregate value of the Shares it would otherwise be obligated to deliver or partly by the payment of cash and partly by the delivery of Shares. Any such election shall be made within 15 business days after the

receipt by the Committee of written notice of the exercise of the Stock Appreciation Right. The market value of a Share for this purpose shall be the market value thereof on the last business day preceding the date of the election to exercise the Stock Appreciation Right, provided that if notice of such election is received by the Committee more than three business days after the date of such election (as such date of election is stated in the notice of election), the Committee may, but need not, determine the market value of a Share as of the day preceding the date on which the notice of election is received;

(iii) No fractional Shares shall be delivered under this Section 5(f), but in lieu thereof a cash adjustment shall be made; and

(iv) In the case of a Stock Appreciation Right attached to an Incentive Stock Option, such Stock Appreciation Right shall only be transferable when such Incentive Stock Option is transferable pursuant to Section 5 (c) hereof,

(g) Notwithstanding anything herein to the contrary:

(i) in the event an Unfriendly Change in Control, as defined in Section 11(b), occurs, then as of the Acceleration Date, as defined in Section 11(b), each Stock Option granted hereunder shall be exercisable in full; and

(ii) in the event a Change in Control as defined in Section 11(a) occurs and within 24 months thereafter: (A) there is a Termination Without Cause, as defined in Section 12, of an optionee's employment; or (B) there is a Constructive Termination as defined in Section 13, of an optionee's employment; or (C) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of an optionee affecting any Award held by such optionee and if the optionee then holds a Stock Option,

(A) in the case of a Termination Without Cause or a Constructive Termination, the optionee may exercise the entire Stock Option, at any time within 30 days of such Termination Without Cause or such Constructive Termination (but in no event after the option has expired under the provisions of Sections (5)(d)(i)), and

(B) in the case of an Adverse Change in the Plan, the optionee may exercise the entire Stock Option at any time after such Adverse Change in the Plan in respect of him and prior to the date 30 days following his termination of employment as a result of a Termination Without Cause or a

Constructive Termination (but in no event after the option has expired under the provisions of Section 5(d) (i)).

6. RESTRICTED STOCK

Each Award of Restricted Stock shall comply with the following terms and conditions:

(a) The Committee shall determine the number of Shares to be issued to a participant pursuant to the Award.

(b) Shares issued may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution, for such period from the date on which the Award is granted (the "Restricted Period") as the Committee shall determine. The Company shall have the option to repurchase the Shares subject to the Award at such price as the Committee shall have fixed, in its sole discretion, when the Award was made, which option will be exercisable if the participant's continuous employment with the Company or a subsidiary shall terminate for any reason, except solely by reason of an event described in Section 6(c), prior to the expiration of the Restricted Period or the earlier lapse of the option. Such option shall be exercisable on such terms, in such manner and during such period as shall be determined by the Committee when the Award is made. Certificates for Shares issued pursuant to Restricted Stock Awards shall bear an appropriate legend referring to the foregoing option and other restrictions. Any attempt to dispose of any such Shares in contravention of the foregoing option and other restrictions shall be null and void and without effect. If Shares issued pursuant to a Restricted Stock Award shall be repurchased pursuant to the option described above, the participant to whom the Award was granted, or in the event of his death after such option become exercisable, his executor or administrator, shall forthwith deliver to the Secretary of the Company any certificates for the Shares awarded to the participant, accompanied by such instruments of transfer, if any, as may reasonably be required by the Secretary of the Company. If the option described above is not exercised by the Company, such option and the restriction imposed pursuant to the first sentence of this Section 6(b) shall terminate and be of no further force and effect. Notwithstanding anything to the contrary in this Section 6(b), neither any Restricted Period nor any option shall lapse to the extent the Company or any subsidiary would be unable to take a deduction with respect to such lapse by reason of Section 162(m) of the Code.

(c) If a participant who has been in the continuous employment of the Company or of a subsidiary shall:

(i) die or become disabled (as defined in Section 9) during the Restricted Period, the option of the Company to repurchase (and any and all other restrictions on) all Shares awarded to him under such Award shall lapse and cease to be effective as of the date on which his death or disability occurs, or

(ii) voluntarily terminate his employment with the Company or retire during the Restricted Period, the Board may determine that the option to repurchase and any and all other restrictions on some or all of the Shares awarded to him under such Award, if such option and other restrictions are still in effect, shall lapse and cease to be effective as the date on which such voluntary termination or retirement occurs.

(d) In the event within 24 months after a Change in Control as defined in Section 11(a) and during the Restricted Period

(i) there is a Termination Without Cause, as defined in Section 12, of the employment of a participant;

(ii) there is a Constructive Termination, as defined in Section 13, of the employment of a participant; or

(iii) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of a participant, then

the option to repurchase (and any and all other restrictions on) all Shares awarded to him under his Award shall lapse and cease to be effective as of the date on which such event occurs.

7. PERFORMANCE SHARES

The grant of a Performance Share Award to a participant will entitle him to receive, without payment to the Company, all or part of a specified amount (the "Actual Value") determined by the Committee, if the terms and conditions specified herein and in the Award are satisfied. Payment in respect of an Award shall be made as provided in Section 7(h). Each Performance Share Award shall be subject to the following terms and conditions:

(a) The Committee shall determine the target number of Performance Shares to be granted to a participant and whether or not such Performance Shares are granted in conjunction with a Stock Option (the "Associated Stock Option"). The maximum number of Performance Shares that may be earned by a participant for any single Award Period of one year or longer shall not exceed 50,000. Performance Share Awards may be granted in different classes or series having different terms and conditions. In the case of any Performance Shares granted in conjunction with an Associated

Stock Option, the number of Performance Shares shall initially be equal to the number of Shares which are subject to the Associated Stock Option, but the number of such Performance Shares shall be reduced on a one for one basis to the extent that (A) Shares are purchased upon exercise of the Associated Stock Option, or (B) Shares may no longer be purchased under the Associated Stock Option because the Associated Stock Option or a part thereof has been surrendered unexercised pursuant to exercise of a Stock Appreciation Right attached to such Associated Stock Option.

(b) The Actual Value of a Performance Share Award shall be the product of (i) the target number of Performance Shares subject to the Performance Share Award, (ii) the Performance Percentage (as determined below) applicable to the Performance Share Award and (iii) the market value of a Share on the date the Award is paid or becomes payable to the employee. The "Performance Percentage" applicable to a Performance Share Award shall be a percentage of no less than 0% and no more than 200%, which percentage shall be determined by the Committee based upon the extent to which the Performance Objectives (as determined below) established for such Award are achieved during the Award Period. The method for determining the applicable Performance Percentage shall also be established by the Committee.

(c) At the time each Performance Share Award is granted, the Committee shall establish performance objectives ("Performance Objectives") to be attained within the Award Period as the means of determining the Performance Percentage applicable to such Award. The Performance Objectives shall be approved by the Committee (i) while the outcome for that Award Period is substantially uncertain and (ii) no more than 90 days after the commencement of the Award Period to which the Performance Objective relates or, if less than 90 days, the number of days which is equal to 25 percent of the relevant Award Period. The Performance Objectives established with respect to a Performance Share Award shall be specific performance targets established by the Committee with respect to one or more of the following criteria selected by the Committee: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) stock price; (xi) combined ratio; (xii) operating ratio; (xiii) profitability of an identifiable business unit or product; (xiv) maintenance or improvement of profit margins; (xv) market share; (xvi) revenues or sales; (xvii) costs; (xviii) cash flow; (xix) working capital; (xx) return on assets; (xxi) customer satisfaction; (xxii) employee satisfaction; and (xxiii) economic value per Share (computed based on book value per Share determined in accordance with generally accepted accounting principles ("GAAP") adjusted for changes in the intrinsic value of assets and liabilities whose value differs

from their GAAP carrying value). The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Performance Objectives may be calculated without regard to extraordinary items.

(d) The award period (the "Award Period") in respect of any grant of a Performance Share Award shall be such period as the Committee shall determine commencing as of the beginning of the fiscal year of the Company in which such grant is made. An Award Period may contain a number of performance periods; each performance period shall commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period. If the Committee does not specify in a Performance Share Award agreement or elsewhere the performance periods contained in an Award Period, each 12-month period beginning with the first day of such Award Period shall be deemed to be a performance period.

(e) Except as otherwise determined by the Committee, Performance Shares shall be canceled if the participant's continuous employment with the Company or any of its subsidiaries shall terminate for any reason prior to the end of the Award Period (in which event the Associated Stock Option, if any, shall continue in effect in accordance with its terms), except by reason of a period of Related Employment as defined in Section 10, and except as otherwise specified in this Section 7(e) or in Section 7(f). Notwithstanding the foregoing and without regard to Section 7(g), if an employee participant shall:

(i) while in such employment, die or become disabled as described in Section 9 prior to the end of an Award Period, the Performance Shares for such Award Period shall be immediately canceled and he, or his legal representative, as the case may be, shall receive as soon as administratively feasible a payment in respect of such canceled Performance Shares equal to the product of (1) the target number of Performance Shares for such Award, (2) the market value of a Share at the time of the death or disability and (3) a fraction, the numerator of which is equal to the number of performance periods within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the performance period in which the death or disability occurs), and the denominator of which is equal to the total number of performance periods within such Award Period; provided, however, that no such continuation

shall be deemed to have occurred for purposes of applying Section 7(f) in the event of an Adverse Change in the Plan in respect of the participant following a Change in Control; or

(ii) retire prior to the end of the Award Period, the Performance Shares shall be immediately canceled and any payments made to the participant in respect of such canceled Performance Shares shall be in the sole discretion of the Committee, and

(f) If within 24 months after a Change in Control as defined in Section 11(a):

(i) there is a Termination Without Cause, as defined in Section 12, of the employment of a participant;

(ii) there is a Constructive Termination, as defined in Section 13, of the employment of a participant; or

(iii) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of a participant (any such occurrence under the above clauses (i), (ii) or (iii), a "Trigger Event"), then

with respect to Performance Share Awards that were outstanding on the date of the Change of Control (each, an "Applicable Award"), each such Award, to the extent still outstanding at the time of the Trigger Event, shall be canceled and, in respect of each Applicable Award (including those not still outstanding), such participant shall be entitled to receive a cash payment equal to the sum of the amounts calculated under (A) and (B) below, less any amounts, if any, previously paid in respect of such Applicable Award (i.e., payments in respect of Awards outstanding as of the Change of Control and subsequently paid out by the Company prior to the applicable Trigger Event):

(A) An employee shall be entitled to receive the following with respect to each Applicable Award: the product of (i) the Applicable Performance Shares (as determined below), (ii) 200% (representing the applicable Performance Percentage) and (iii) the Applicable Share Value (as determined below). For this purpose, (i) "Applicable Performance Shares" is equal to the number of target Performance Shares for each Applicable Award multiplied by a fraction, the numerator of which is the number of full months elapsed since the first day of the applicable Award Period to the end of the first month in which the applicable Trigger Event occurs and the denominator of which is the total number of months in the Award Period (but which fraction shall not in any event be greater than 1), and (ii)

the "Applicable Share Value" is equal to the greater of the market value of a Share immediately prior to the Change in Control and the market value, if any, of a Share on the date the applicable Trigger Event occurs; and

(B) For Awards outstanding on the date of the Trigger Event, the Company shall, in addition to the amounts payable under (A) above, pay to the employee an amount equal to the product of (i) (x) the total number of target Performance Shares in the Award less (y) the Applicable Performance Shares in the Award (as determined above), (ii) the Applicable Share Value (as determined above) and (iii) the applicable Performance Percentage determined as follows:

(1) Prior to the consummation of any Change in Control, the Committee shall determine a Performance Percentage for each then outstanding Award Period based on the extent to which the applicable Performance Objectives were being achieved for each such Award Period to the date of the Change in Control,

(2) If the Performance Percentage for an Award Period was determined by the Committee (pursuant to subsection (1) above) to be greater than 100%, then the Performance Percentage applicable to the remaining Performance Shares of such Award Period shall be such determined Performance Percentage, and

(3) If the Performance Percentage for an Award Period was determined by the Committee (pursuant to subsection (1) above) to be less than or equal to 100%, then the Performance Percentage applicable to the remaining Performance Shares of such Award Period shall be the greater of (x) such other Performance Percentage which may be specified by the Committee (or any sub-committee of the Board which performs duties comparable to the Committee) for such Award Period at the time of the Trigger Event and (y) 100%.

(g) Except as otherwise provided in Section 7(f), as soon as practicable after the end of the Award Period or such earlier date as the Committee in its sole discretion may designate, the Committee shall (i) determine, based on the extent to which the applicable Performance Objectives have been achieved, the Performance Percentage applicable to an Award of

Performance Shares, (ii) calculate the Actual Value of the Performance Share Award and (iii) shall certify the foregoing to the Board of Directors. If the Performance Shares:

(i) were not awarded in conjunction with an Associated Stock Option, the Committee shall cause an amount equal to the Actual Value of the Performance Shares earned by the participant to be paid to him or his beneficiary; or

(ii) were awarded in conjunction with an Associated Stock Option, the Committee shall determine, in accordance with criteria specified by the Committee when the Award was made, (A) to cancel the Performance Shares, in which event no amount in respect thereof shall be paid to the participant or his beneficiary, and the Associated Stock Option shall continue in effect in accordance with its terms, (B) to pay the Actual Value of the Performance Shares to the participant or his beneficiary, in which event the Associated Stock Option shall be cancelled, or (C) to pay to the participant or his beneficiary the Actual Value of only a portion of the Performance Shares, in which event (1) all such Performance Shares shall be cancelled and (2) the Associated Stock Option shall be cancelled only as to a number of Shares equal to the number of Performance Shares so paid. Such determination by the Committee shall, if practicable, be made during the three-month period following the end of the performance period, or during such earlier period as shall be designated by the Committee and shall be made pursuant to criteria, specified by the Committee, which shall be uniform for all Awards having the same performance period.

(h) Unless payment is deferred in accordance with an election made by the participant in accordance with procedures adopted by the Company, payment of any amount in respect of the Performance Shares shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such Performance Shares are earned, and may be made in cash, in Shares or partly in cash and partly in Shares as determined by the Committee.

8. PERFORMANCE UNITS

The grant of a Performance Unit Award to a participant will entitle him to receive, without payment to the Company, all or part of a specified amount (the "Earned Value") determined by the Committee, if the terms and conditions specified herein and in the Award are satisfied. Payment in respect of a Performance Unit Award shall be made as provided in Section 8(h). Each Performance Unit Award shall be subject to the following terms and conditions:

(a) The Committee shall determine the target number of Performance Units to be granted to a participant. The maximum number of Performance Units that may be earned by a participant for any single Award Period of one year or longer shall not exceed 50,000. Performance Unit Awards may be granted in different classes or series having different terms and conditions.

(b) The Earned Value of an Award of Performance Units shall be the product of (i) the target number of Performance Units subject to the Performance Unit Award, (ii) the Performance Percentage (as determined below) applicable to the Performance Unit Award and (iii) the Value (as determined below) of a Unit on the date the Award is paid or becomes payable to the employee. The "Performance Percentage" applicable to a Performance Unit Award shall be a percentage of no less than 0% and no more than 200%, which percentage shall be determined by the Committee based upon the extent to which the Performance Objectives (as determined below) established for such Award are achieved during the Award Period. The method for determining the applicable Performance Percentage shall also be established by the Committee. The "Value" of a Unit shall be determined by multiplying $100 by the sum of (i) 100% and (ii) the aggregate standard pre-tax insurance return-on-equity of the Company, any of its subsidiaries or any combination thereof as set forth in the Award Agreement over the Award Period (or such earlier date as required by the Plan), as determined in good faith by the Committee.

(c) At the time each Performance Unit Award is granted the Committee shall establish performance objectives ("Performance Objectives") to be attained within the Award Period as the means of determining the Performance Percentage applicable to such Award. The Performance Objectives shall be approved by the Committee (i) while the outcome for that Award Period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance objective relates or, if less than 90 days, the number of days which is equal to 25 percent of the relevant performance period. The Performance Objectives established with respect to a Performance Unit Awards shall be specific performance targets established by the Committee with respect to one or more of the following criteria selected by the Committee: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) stock price; (xi) combined ratio; (xii) operating ratio; (xiii) profitability of an identifiable business unit or product; (xiv) maintenance or improvement of profit margins; (xv) market share; (xvi) revenues or sales; (xvii) costs; (xviii) cash flow; (xix) working capital; (xx) return on assets; (xxi) customer satisfaction; (xxii) employee satisfaction; and (xxiii) economic value per share (computed based on book value per share

determined in accordance with generally accepted accounting principles ("GAAP") adjusted for changes in the intrinsic value of assets and liabilities whose value differs from their GAAP carrying value). The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Performance Objectives may be calculated without regard to extraordinary items.

(d) The award period (the "Award Period") in respect of any grant of a Performance Unit Award shall be such period as the Committee shall determine commencing as of the beginning of the fiscal year of the Company in which such grant is made. An Award Period may contain a number of performance periods; each performance period shall commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period. If the Committee does not specify in a Performance Unit Award agreement or elsewhere the performance periods contained in an Award Period, each 12-month period beginning with the first day of such Award Period shall be deemed to be a performance period.

(e) Except as otherwise determined by the Committee, Performance Units shall be cancelled if the participant's continuous employment with the Company or any of its subsidiaries shall terminate for any reason prior to the end of the Award Period, except solely by reason of a period of Related Employment as defined in Section 10, and except as otherwise specified in this Section 8(e) or in Section 8(f). Notwithstanding the foregoing and without regard to Section 8(f), if an employee participant shall:

(i) while in such employment, die or become disabled as described in Section 9 prior to the end of an Award Period, the Performance Units for such Award Period shall be immediately canceled and he, or his legal representative, as the case may be, shall receive as soon as administratively feasible a payment in respect of such canceled Performance Units equal to the product of (1) the target number of Performance Units for such Award, (2) the Value of a Unit at the time of the death or disability and (3) a fraction, the numerator of which is equal to the number of performance periods within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the performance period in which the death or disability occurs), and the denominator of which is equal to the total number of

performance periods within such Award Period; provided, however, that no such continuation shall be deemed to have occurred for purposes of applying Section 8(f) in the event of an Adverse Change in the Plan in respect of the participant following a Change in Control; or

(ii) retire prior to the end of the Award Period, the Performance Units shall be immediately canceled and any payments made to the participant in respect of such canceled Performance Units shall be in the sole discretion of the Committee, and

(f) If within 24 months after a Change in Control as defined in Section 11(a), a Trigger Event occurs, then with respect to Performance Unit Awards that were outstanding on the date of the Change of Control (each, an "Applicable Award"), each such Award, to the extent still outstanding at the time of the Trigger Event, shall be canceled and, in respect of each Applicable Award (including those not still outstanding), such participant shall be entitled to receive a cash payment equal to the sum of the amounts calculated under (A) and (B) below, less any amounts, if any, previously paid in respect of the Applicable Award (i.e., payments in respect of Awards outstanding as of the Change of Control and subsequently paid out by the Company prior to the applicable Trigger Event):

(A) An employee shall be entitled to receive the following with respect to each Award canceled under this Section 8(f): the product of (i) the Applicable Performance Units (as determined below), (ii) 200% (representing the applicable Performance Percentage) and (ii) the Applicable Unit Value. For this purpose, (i) "Applicable Performance Units" is equal to the number of target Performance Units for each Applicable Award multiplied by a fraction, the numerator of which is the number of full months elapsed since the first day of the applicable Award Period to the end of the first month in which the applicable Trigger Event occurs and the denominator of which is the total number of months in the Award Period (but which fraction shall not in any event be greater than 1), and (ii) the "Applicable Unit Value" is equal to the greater of the Value of a Unit immediately prior to the Change in Control and the Value of a Unit on the date of the applicable Trigger Event occurs; and

(B) For Awards outstanding on the date of the Trigger Event, the Company shall, in addition to the amounts payable under (A) above, pay to the employee an amount equal to the product of (i) (x) the total number of target Performance Units in the Award less (y) the Applicable Performance

Units in the Award (as determined above), (ii) the Applicable Unit Value (as determined above) and (iii) the applicable Performance Percentage determined as follows:

(1) Prior to the consummation of any Change in Control, the Committee shall determine a Performance Percentage for each then outstanding Award Period based on the extent to which the applicable Performance Objectives were being achieved for each such Award Period to the date of the Change in Control,

(2) If the Performance Percentage for an Award Period was determined by the Committee (pursuant to subsection (1) above) to be greater than 100%, then the Performance Percentage applicable to the remaining Performance Units of such Award Period shall be such determined Performance Percentage, and

(3) If the Performance Percentage for an Award Period was determined by the Committee (pursuant to subsection (1) above) to be less than or equal to 100%, then the Performance Percentage applicable to the remaining Performance Units of such Award Period shall be the greater of (x) such other Performance Percentage which may be specified by the Committee (or any sub-committee of the Board which performs duties comparable to the Committee) for such Award Period at the time of the Trigger Event and (y) 100%.

(g) Except as otherwise provided in Section 8(f), as soon as practicable after the end of the Award Period or such earlier date as the Committee in its sole discretion may designate, the Committee shall (i) determine, based on the extent to which the applicable Performance Objectives have been achieved, the Performance Percentage applicable to an Award of Performance Units, (ii) calculate the Earned Value of the Performance Unit Award and (iii) shall certify all of the foregoing to the Board of Directors. The Committee shall cause an amount equal to the Earned Value of the Performance Units earned by the participant to be paid to him or his beneficiary.

(h) Unless payment is deferred in accordance with an election made by the participant in accordance with procedures adopted by the Company, payment of any amount in respect of the Performance Units shall be made by the Company no later than 2 1/2 months after the end of the Company's

fiscal year in which such Performance Units are earned, and may be made in cash, in Shares or partly in cash and partly in Shares as determined by the Committee.

9. DISABILITY

For the purposes of this Plan, a participant shall be deemed to be disabled if the Committee shall determine that the physical or mental condition of the participant is such as would entitle him to payment of long-term disability benefits under any disability plan of the Company or a subsidiary in which he is a participant.

10. RELATED EMPLOYMENT

For the purposes of this Plan, Related Employment shall mean the employment of a participant by an employer which is neither the Company nor a subsidiary provided: (i) such employment is undertaken by the participant and continued at the request of the Company or a subsidiary; (ii) immediately prior to undertaking such employment, the participant was an officer or employee of the Company or a subsidiary, or was engaged in Related Employment as herein defined; and (iii) such employment is recognized by the Committee, in its sole discretion, as Related Employment for the purposes of this Section 10. The death or disability of a participant during a period of Related Employment as herein defined shall be treated, for purposes of this Plan, as if the death or onset of disability had occurred while the participant was an officer or employee of the Company.

11. CHANGE IN CONTROL

(a) For purposes of this Plan, a "Change in Control" within the meaning of this Section 11(a) shall occur if:

(i) Any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Exchange Act), other than John J. Byrne, Berkshire Hathaway, Inc. or one of its wholly owned subsidiaries, or an underwriter temporarily holding Shares in connection with a public issuance thereof or an employee benefit plan of the Company or its affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of thirty-five percent (35%) or more of the Company's then outstanding Shares;

(ii) the Continuing Directors, as defined in Section 11(c), cease for any reason to constitute a majority of the Board of the Company; or

(iii) the business of the Company for which the participant's services are principally performed is disposed of by the Company pursuant to a sale or other disposition of all or substantially all of the

business or business related assets of the Company (including stock of a subsidiary of the Company). A Change in Control within the meaning of this Section 11(a) also may constitute an Unfriendly Change in Control within the meaning of this Section 11(b).

(b) A Change in Control shall be deemed an "Unfriendly Change in Control" if:

(i) any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Exchange Act) becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of thirty-five percent (35%) or more of the Company's then outstanding Shares through a transaction that is opposed by the Company's Chairman and Chief Executive Officer, and

(ii) a majority of the Company's Continuing Directors, as defined in Section 11(c), by resolution adopted within 30 days following the date the Company becomes aware that Section 11(b)(i) has been satisfied, determines that a Change in Control has occurred.

For purposes of Section 5(g), "Acceleration Date" shall mean the date on which a majority of the Company's Continuing Directors adopts a resolution (or takes other action) making the determination that a Change in Control has occurred.

(c) For the purposes of this Plan, "Continuing Director" shall mean a member of the Board (A) who is not an employee of the Company or its subsidiaries or of a holder of, or an employee or an affiliate of an entity or group that holds, thirty-five percent (35%) or more of the Company's Shares and (B) who either was a member of the Board on December 31, 2004, or who subsequently became a director of the Company and whose election, or nomination for election, by the Company's shareholders was approved by a vote of a majority of the Continuing Directors then on the Board (which term, for purposes of this definition, shall mean the whole Board and not any committee thereof). Any action, approval of which shall require the approval of a majority of the Continuing Directors, may be authorized by one Continuing Director, if he is the only Continuing Director on the Board, but no such action may be taken if there are not Continuing Directors on the Board.

(d) In the event of a Change in Control, the Committee as constituted immediately prior to the Change in Control shall determine the manner in which "market value" of Shares will be determined following the Change in Control.

12. TERMINATION WITHOUT CAUSE

For purposes of this Plan, "Termination Without Cause" shall mean a termination of the participant's employment with the Company or a subsidiary by the Company or the subsidiary other than (i) for death or disability as described in Section 9 or (ii) for Cause. "Cause" shall mean (a) an act or omission by the participant that constitutes a felony or any crime involving moral turpitude; or (b) willful gross negligence or willful gross misconduct by the participant in connection with his employment by the Company or by a subsidiary which causes, or is likely to cause, material loss or damage to the Company. Notwithstanding anything herein to the contrary, if the participant's employment with the Company or one of its subsidiaries shall terminate due to a Change in Control as described in Subsection 11(a)(iii), where the purchaser, as described in such subsection, formally assumes the Company's obligations under this Plan or places the participant in a similar or like plan with no diminution of the value of the awards, such termination shall not be deemed to be a "Termination Without Cause."

13. CONSTRUCTIVE TERMINATION

"Constructive Termination" shall mean a termination of employment with the Company or a subsidiary at the initiative of the participant that the participant declares by prior written notice delivered to the Secretary of the Company to be a Constructive Termination by the Company or a subsidiary and which follows (a) a material decrease in his total compensation opportunity or (b) a material diminution in the authority, duties or responsibilities of his position with the result that the participant makes a determination in good faith that he cannot continue to carry out his job in substantially the same manner as it was intended to be carried out immediately before such diminution. Notwithstanding anything herein to the contrary, Constructive Termination shall not occur within the meaning of this Section 13 until and unless 30 days have elapsed from the date the Company receives such written notice without the Company curing or causing to be cured the circumstance or circumstances described in this Section 13 on the basis of which the declaration of Constructive Termination is given.

14. ADVERSE CHANGE IN THE PLAN

An "Adverse Change in the Plan" shall mean

(a) termination of the Plan pursuant to Section 19(a);

(b) amendment of the Plan pursuant to Section 18 that materially diminishes the value of Awards that may be granted under the Plan, either to individual participants or in the aggregate, unless there is substituted

concurrently authority to grant long-term incentive awards of comparable value to individual participants in the Plan or in the aggregate, as the case may be; or ,

(c) in respect of any holder of an Award a material diminution in his rights held under such Award (except as may occur under the terms of the Award as originally granted) unless there is substituted concurrently a long-term incentive award with a value at least comparable to the loss in value attributable to such diminution in rights.

15. DILUTION AND OTHER ADJUSTMENTS

In the event of any change in the Outstanding Shares of the Company by reason of any stock split, stock or extraordinary cash dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of Shares or other similar event, or in the event of an extraordinary cash dividend or other similar event, and if the Committee shall determine, in its sole discretion, that such change equitably requires an adjustment in the number or kind of Shares that may be issued under the Plan pursuant to Section 4 in the number or kind of Shares subject to, or the Stock Option price per share under, any outstanding Stock Option, in the number or kind of Shares which have been awarded as Restricted Stock or in the repurchase option price per share relating thereto, in the target number of Performance Shares which have been awarded to any participant, or in any measure of performance, then such adjustment shall be made by the Committee and shall be conclusive and binding for all purposes of the Plan.

16. DESIGNATION OF BENEFICIARY BY PARTICIPANT

A participant may name a beneficiary to receive any payment to which he may be entitled in respect of Performance Shares or Performance Units under the Plan in the event of his death, on a form to be provided by the Committee. A participant may change his beneficiary from time to time in the same manner. If no designated beneficiary is living on the date on which any amount becomes payable to a participant's executors or administrators, the term "beneficiary" as used in the Plan shall include such person or persons.

17. MISCELLANEOUS PROVISIONS

(a) No employee or other person shall have any claim or right to be granted an Award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving an employee any right to be retained in the employ of the Company or any subsidiary.

(b) A participant's rights and interest under the Plan may not be assigned or transferred in whole or in part either directly or by operation of law or

otherwise (except in the event of a participant's death), including but not limited to, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner and no such right or interest of any participant in the Plan shall be subject to any obligation or liability or such participant.

(c) No Shares shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable Federal and state securities laws and Bermuda law.

(d) The Company and its subsidiaries shall have the right to deduct from any payment made under the Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Company to issue Shares upon exercise of a Stock Option, upon settlement of a Stock Appreciation Right, or upon payment of a Performance Share or a Performance Unit that the participant (or any beneficiary or person entitled to payment under Section 5(d)(iii)(C) hereof) pay to the Company, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold Federal, state or local income or other taxes. If the amount requested is not paid, the Company may refuse to issue Shares.

(e) The expenses of the Plan shall be borne by the Company. However, if an Award is made to an employee of a subsidiary:

(i) if such Award results in payment of cash to the participant, such subsidiary shall pay to the Company an amount equal to such cash payment; and

(ii) if the Award results in the issuance to the participant of Shares, such subsidiary shall pay to the Company an amount equal to fair market value thereof, as determined by the Committee, on the date such Shares are issued (or, in the case of issuance of Restricted Stock or of Shares subject to transfer and forfeiture conditions, equal to the fair market value thereof on the date on which such Shares are no longer subject to applicable restriction), minus the amount, if any received by the Company in exchange for such Shares.

(f) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under the Plan.

(g) By accepting any Award or other benefit under the Plan, each participant and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

18. AMENDMENT

The Plan may be amended at any time and from time to time by the Board, but no amendment which increases the aggregate number of Shares which may be issued pursuant to the Plan or the class of employees eligible to participate shall be effective unless and until the same is approved by the shareholders of the Company. No amendment of the Plan shall adversely affect any right of any participant with respect to any Award previously granted without such participant's written consent.

19. TERMINATION

This Plan shall terminate upon the earlier of the following dates or events to occur:

(a) the adoption of a resolution of the Board terminating the Plan; or

(b) ten years from the date the Plan is initially or subsequently approved and adopted by the shareholders of the Company in accordance with Section 19 hereof.

No termination of the Plan shall alter or impair any of the rights or obligations of any person, without his consent, under any Award previously granted under the Plan.

20. SHAREHOLDER ADOPTION

The Plan shall be submitted to the shareholders of the Company for their approval or adoption. The Plan shall not be effective and no Award shall be made hereunder unless and until the Plan has been so approved and adopted by the shareholders in the manner required by the laws of Bermuda and the State of Delaware.

As originally approved by the Board of Directors, September 4, 1985 and adopted by the sole shareholder September 23, 1985. The Plan was amended by the Board of Directors on August 13, 1986. The Plan was further amended on February 15,1995 and subsequently approved by shareholders on May 24, 1995. The Plan was further amended on May 21, 2001 and subsequently adopted by shareholders on August 23, 2001. The Plan was further amended on May 18, 2003 and subsequently adopted by Shareholders on May 19, 2003. The Plan was further amended on February 23, 2005.

ONEBEACON PERFORMANCE UNIT PLAN
(as amended)

1. Purpose of the Plan. The purpose of the Plan is to advance the interests of the Company and its members by providing incentives in the form of Performance Units to certain selected executives and key employees of the Company and its Subsidiaries.

2. Definitions. The following capitalized terms used in the Plan have the respective meanings set forth in this Section.

(a) Actual Units. The number of Target Units multiplied by the applicable Performance Percentage.

(b) Actual Value. The method for calculating the Actual Value of each Actual Unit shall be defined within the award agreement.

(c) Adverse Change in the Plan. The occurrence of any of the following events:

(i) termination of the Plan;

(ii) amendment of the Plan that materially diminishes the value of Awards that may be granted under the Plan, either to individual Participants or in the aggregate, unless there is substituted concurrently a plan or arrangement providing for the grant of long-term incentive awards of comparable value to individual Participants in the Plan or in the aggregate, as the case may be; or

(iii) in respect of any holder of an Award, a material diminution in his rights held under an Award (except as may occur under the terms of the Award as originally granted) unless there is substituted concurrently a long-term incentive award with a value at least comparable to the loss in value attributable to such diminution in rights.

(d) Affiliate. In respect of an entity or person, any entity under the control of, in control of, or under common control with, such entity or person.

(e) Award. An award of Performance Units granted pursuant to the Plan.

(f) Award Agreement. The agreement between the Participant and the Company specifying the applicable terms of an Award.

(g) Award Period. A period in respect of any Award, commencing as of the beginning of the fiscal year of the Company in which such Award is made. An Award Period may contain any number of Performance Periods.

(h) Board. The Board of Managers of the Company.

(i) Change in Control. The occurrence of any of the following events:

(i) Any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Exchange Act), other than John J. Byrne, Berkshire Hathaway, Inc. or one of its wholly owned subsidiaries, an underwriter temporarily holding Parent Shares in connection with a public issuance thereof or an employee benefit plan of Parent or its Affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of thirty-five percent (35%) or more of the then outstanding Parent Shares;

(ii) the Continuing Directors cease for any reason to constitute a majority of the Board of Directors of Parent; or

(iii) Parent or the Company disposes of the business for which the Participant's services are principally performed pursuant to a sale or other disposition of all or substantially all of that business or assets of Parent or the Company relating to that business (including stock of a subsidiary of Parent or the Company).

(j) Code. The Internal Revenue Code of 1986, as amended, or any successor thereto.

(k) Committee. The Human Resources Committee of the Board.

(l) Company. OneBeacon Insurance Group LLC.

(m) Constructive Termination. A termination of employment with the Company and its Affiliates at the initiative of the Participant that the Participant declares, by prior written notice delivered to the Secretary of the Company, to be a Constructive Termination by the Company or an Affiliate and which follows (i) a material decrease in his salary or (ii) a material diminution in the authority, duties or responsibilities of his position as a result of which the Participant determines in good faith that he cannot continue to carry out his job in substantially the same manner as it was intended to be carried out immediately before such diminution. Notwithstanding anything herein to the contrary, a Constructive Termination shall not occur until and unless 30 days have elapsed from the date the Company receives such written notice from the Participant and, during that period, the Company fails to cure, or cause to be cured, the circumstance serving as the basis on which the declaration of Constructive Termination is given.

(n) Continuing Director. A member of the Board of Directors of Parent (i) who is not an employee of Parent or its subsidiaries or of a holder of, or an employee or an Affiliate of an entity or group that holds, thirty-five (35%) or more of the Parent Shares and (ii) who either was a member of

the Board of Directors of Parent on December 31, 2002, or who subsequently became a director of the Parent and whose election, or nomination for election, by Parent's shareholders was approved by a vote of a majority of the Continuing Directors then on Board of Directors of Parent (which term, for purposes of this definition, shall mean the whole Board of Directors of Parent and not any committee thereof).

(o) Earned Payment. With respect to each Award, the amount determined pursuant to Section 5(c) or Section 7, as applicable.

(p) Employee. Any employee of the Company or of any Subsidiary.

(q) Exchange Act. The Securities Exchange Act of 1934, as amended.

(r) Initial Value. The initial value of each Actual Unit, which shall be $100 unless otherwise specified in the applicable Award Agreement.

(s) Officer. An Employee who is considered an officer of Parent under Rule 16a-1(f) (or any successor rule) promulgated under the Exchange Act.

(t) Parent. White Mountains Insurance Group, Ltd. or any successor thereto.

(u) Parent Shares. Common Shares, par value of $1.00, of Parent.

(v) Participant. An Employee who is selected by the Committee pursuant to Section 4 to participate in the Plan.

(w) Performance Goal(s). The applicable performance measure(s) selected by the Committee to determine the applicable Performance Percentage.

(x) Performance Percentage. The percentage of Target Units earned by a Participant, which shall be from 0% to 200%, based upon the level of fulfillment of the Performance Goals(s) established with respect to an Award for an Award Period. The method of determining the applicable Performance Percentage shall be determined by the Committee and shall be specified in the applicable Award Agreement.

(y) Performance Period. The calendar year or any other period that the Committee, in its sole discretion, may determine, provided that each Performance Period must commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period.

(z) Performance Units. Notional units which represent the right to receive cash if specified Performance Goals established by the Committee are satisfied with respect to an Award.

(aa) Plan. This OneBeacon Performance Unit Plan, as amended from time to time.

(bb) Qualifying Event. With respect to a Participant, the occurrence of either (i) a Termination Without Cause; (ii) a Constructive Termination; or (iii) an Adverse Change in the Plan.

(cc) Subsidiary. A subsidiary of the Company, as defined in Section 242(f) of the Code (or any successor section thereto), or as determined by the Committee, that in either case adopts the Plan in accordance with Section 12.

(dd) Target Units. The number of Performance Units initially awarded to a Participant on the date of grant with respect to an Award Period.

(ee) Termination Without Cause. A termination of the Participant's employment with the Company or a subsidiary by the Company or the subsidiary other than (i) due to the Participant's death or total permanent disability or (ii) for Cause. A transfer of a Participant's employment to an Affiliate of the Company shall not, by itself, be considered a Termination without Cause hereunder. For this purpose, "Cause" shall mean (a) an act or omission by the Participant that constitutes a felony or any crime involving moral turpitude; or (b) wilful gross negligence or wilful gross misconduct by the Participant in connection with his employment by the Company or by a subsidiary which causes, or is likely to cause, material loss or damage to the Company. Notwithstanding anything herein to the contrary, a termination of a Participant's employment with the Company or one of its subsidiaries due solely to the consummation of a corporate transaction described in clause (iii) of the definition of Change in Control shall not be deemed to be a "Termination Without Cause" if the purchaser formally assumes the Company's obligations under this Plan or places the Participant in a similar or like plan with no diminution of the value of the awards granted.

3. Administration. The Plan shall be administered by the Committee or such other persons or entities designated by the Board. The Committee may delegate its duties and powers in whole or in part to any subcommittee thereof or to the Board of Directors of any Subsidiary. All references to the Committee hereafter shall be deemed to be references to the Committee and/or the applicable other persons, entities or subcommittee(s) to whom administrative duties and/or powers hereunder have been so delegated. The Committee shall have the authority to select the Employees who shall be Participants, to determine the size and terms of an Award (subject to the limitations imposed on Awards in Section 5), to modify the terms of any Award that has been granted, to determine the time when Awards will be made, to determine the Award Periods and Performance Periods applicable to an Award to determine the Performance Percentages applicable to an Award, to determine the terms of a Participant's Award Agreement (which need not be identical or uniform), to establish Performance Goals in respect of such Performance Periods, to certify whether such Performance Goals were attained and to make such other

determinations that are not prohibited by this Plan. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among Participants, regardless of whether such Participants are similarly situated. The Committee shall have the right to deduct from any payment made under the Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment.

4. Eligibility and Participation. The Committee shall designate those Employees who shall be Participants. Participants shall be selected from among the Employees who are in a position to have a material impact on the results of the operations of the Company or of one or more of its subsidiaries. The designation of the Participants may be made individually or by groups or classifications of Employees, as the Committee deems appropriate. Employees shall not have a right to be designated as Participants and the designation of an Employee as a Participant shall not obligate the Committee to continue such Employee as a Participant in subsequent periods.

5. Awards.

(a) Grant. In each Award Agreement, the Committee shall specify (i) the number of Target Units, (ii) the Performance Goal(s) to be attained within specified Performance Periods and/or Award Period, (iii) the Award Period, and (iv) the method for determining the applicable Performance Percentage based upon the level of achievement of the applicable Performance Goal(s).

(b) Performance Goals. The performance goals for any Award shall be based upon one or more of the following criteria: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) book value; (v) return on stockholders' equity; (vi) expense management; (vii) return on investment; (viii) improvements in capital structure; (ix) combined ratios (GAAP or SAP); (x) operating ratios; (xi) profitability of an identifiable business unit or product; (xii) maintenance or improvement of profit margins; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) return on assets; (xix) customer satisfaction; (xx) employee satisfaction or (xxi) any other performance measure selected by the Committee in its sole discretion. The foregoing criteria, as applicable, may relate to the Company, one or more of its Affiliates, one or more of its divisions, units, partnerships, joint venturers, minority investments, product lines or products, or to any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, the Performance Goals may be calculated without regard to extraordinary items.

(c) Payment. As soon as practicable after the end of the Award Period or such earlier date as the Committee in its sole discretion may designate, the Committee shall determine and certify to the Board (i) whether the applicable Performance Goal(s) have been attained in whole or in part with respect to a given Participant's Award and (ii) the Performance Percentage applicable to a given Participant's Award. At the end of the Award Period, the Committee shall ascertain the Actual Value and the number of Actual Units. Unless otherwise determined by the Committee, a Participant's Earned Payment with respect to an Award shall be equal to the Actual Value multiplied by the number of Actual Units. A Participant's Earned Payment shall be settled through a cash payment to the Participant. Unless payment is deferred in accordance with an election made by a participant in accordance with procedures adopted by the Company, payment of any amount in respect for the Performance Units shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such Performance Units are earned, and may be made in cash, in shares, or partly in cash and partly in shares as determined by the Committee.

6. Termination of Employment. Except as set forth in Section 7 or otherwise set forth in an Award Agreement, a Participant shall immediately forfeit all outstanding Awards upon any termination of employment prior to the end of the applicable Award Period. The Committee may, at its discretion, provide that if a Participant dies, retires, is assigned to a different position, or is granted a leave of absence, or if the Participant's employment is otherwise terminated, during an Award Period, then all or a portion of the Participant's Award, as determined by the Committee, may be paid to the Participant (or his or her beneficiary) after the end of the Performance Period in which the such event occurs.

7. Change in Control.

(a) If a Qualifying Event occurs with respect to a Participant after a Change in Control, then each Award held by such Participant that was granted prior to the Change in Control shall be canceled and such Participant shall be entitled to receive in respect of each such canceled Award a payment equal to the product of (i) the Applicable Target Units, (ii) the Applicable Performance Percentage and (iii) the Applicable Actual Value. For this purpose, (A) the "Applicable Target Units" is equal to the number of Target Units for each canceled Award multiplied by a fraction, the numerator of which is the number of full months that has elapsed since the first day of the applicable Award Period to the date of the applicable Qualifying Event and the denominator of which is the total number of months in the Award Period, (B) the "Applicable Performance Percentage" is equal to 100% and (C) the "Applicable Actual Value" is equal to the greater of the Actual Value determined as of the last day of the calendar quarter ending prior to the date of the applicable Qualifying Event or the Actual Value determined by the Board in connection with the Change in Control. Payment of any amount in respect of an Award as described above in this Section 7(a) shall be made as promptly as possible after the occurrence of the Qualifying Event.

(b) Notwithstanding anything herein to the contrary, if, following a Change in Control, a Participant's employment remains continuous through the end of an Award Period, then the Participant shall be paid with respect to those Awards for which he would have been paid had there not been a Change in Control and the Earned Payment shall be determined in accordance with Section 5(c).

8. Amendments or Termination. The Board may amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would impair any of the accrued rights or obligations under any Award theretofore granted to a Participant without such Participant's consent; provided, however, that the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws.

9. No Right to Employment. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant or other person any right to continue to be employed by, or to continue to perform services for, the Company or any subsidiary, and the right to terminate the employment of or performance of services by any Participant at any time and for any reason is specifically reserved to the Company and its subsidiaries.

10. Nontransferability of Awards. An Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution.

11. Reduction of Awards. Notwithstanding anything to the contrary herein, the Committee, in its sole discretion (but subject to applicable law), may reduce any amounts payable to any Participant hereunder in order to satisfy any liabilities owed to the Company or any of its Subsidiaries by the Participant.

12. Participation of Subsidiaries. If a subsidiary wishes to participate in the Plan and its participation shall have been approved by the Board, the Board of Directors of the Subsidiary shall adopt a resolution in form and substance satisfactory to the Committee authorizing participation by the subsidiary in the Plan. A Subsidiary that adopts the Plan in accordance with the Section shall be permitted to rename

the Plan under the name of such Subsidiary. A Subsidiary may cease to participate in the Plan at any time by action of the Board or by action of the Board of Directors of such Subsidiary, which latter action shall be effective not earlier than the date of delivery to the Secretary of the Company of a certified copy of a resolution of the Subsidiary's Board of Directors taking such action. Termination of participation in the Plan shall not relieve a Subsidiary of any obligations theretofore incurred by it under the Plan. The Board in its discretion may waive compliance with any provisions in this section.

13. Claims Procedure. In general, any claim for benefits under the Plan shall be filed by a Participant or beneficiary ("claimant") on the form prescribed for such purpose with the Committee. If a claim for benefits under the Plan is wholly or partially denied, notice of the decision shall be furnished to the claimant by the Committee within a reasonable period of time after receipt of the claim by the Committee. The claims procedure shall be as follows:

(a) Any claimant who is denied a claim for benefits shall be furnished written notice setting forth:

(i) the specific reason or reasons for the denial;

(ii) specific reference to the pertinent provision of the Plan upon which the denial is based;

(iii) a description of any additional material or information necessary for the claimant to perfect the claim; and

(iv) an explanation of the claim review procedure under the Plan.

(b) In order that a claimant may appeal a denial of a claim, the claimant's duly authorized representative may:

(i) request a review by written application to the Committee, or its designate, no later than sixty (60) days after receipt by the claimant of written notification of denial of a claim;

(ii) review pertinent documents; and

(iii) submit issues and comments in writing.

(c) A decision on review of a denied claim shall be made not later than sixty (60) days after receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered within a reasonable period of time, but not later than one hundred and twenty (120) days after receipt of a request for review. The decision on a review shall be in writing and shall include the specific reason(s) for the decision and the specific reference(s) to the pertinent provisions of the Plan on which the decision is based.

14. Miscellaneous Provisions. The Company is the sponsor and legal obligor under the Plan and shall make all payments hereunder, other than any payments to be made by any of the Subsidiaries, as described below (in which case such payments shall be made by such Subsidiary, as appropriate). If a Subsidiary adopts the Plan in accordance with Section 12, the Subsidiary shall be responsible for all payments made under the Plan for Awards granted by the Board of Directors of the Subsidiary including expenses involved in administering the Plan at the Subsidiary level. The Plan is unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to ensure the payment of any amounts under the Plan, and the Participant's rights to any payment hereunder shall be no greater than the rights of the Company's (or the applicable Subsidiary's) unsecured creditors. All references to Sections herein shall be deemed to be references to the specified sections of this Plan.

15. Taxes. The Company and its Subsidiaries shall have the right to deduct from any payment made under the Plan any federal, state or local income, payroll or other taxes required by law to be withheld with respect to such payment.

16. Choice of Law. The Plan shall be governed by and construed in accordance with the laws of the Delaware applicable to contracts made and to be performed in the State of New York.

17. Designation of Beneficiary by Participant. A Participant may name a beneficiary to receive any payment to which he may be entitled in respect of Performance Units or in the event of his death, on a form to be provided by the Committee. A Participant may change his beneficiary from time to time in the same manner. If no designated beneficiary is living on the date on which any amount becomes payable to a Participant's executors or administrators, the term "beneficiary" as used in the Plan shall include such person or persons.

18. Effectiveness of the Plan. The Plan shall be effective as of February 12, 2003, and was amended February 9, 2005, and February 8, 2006.

OneBeacon Insurance

2006 Management Incentive Plan

Performance Goals

1. Achieve economic combined ratio of 96% or better

2. Be opportunistic on new business / keep our best renewal business / price it right

3. Conform to changing demands to maintain Claims Loss Triangle at 25.8%

4. Integrate reciprocals and other new business opportunities into OneBeacon including: Lawyers Liability, Community Banking, Middle Market MGA initiative, AIE conversion and HGIE expansion

5. Continue to manage aggregate catastrophic exposures for wind, earthquake, flood, and terrorism

6. Complete transactions that build long term economic value for OneBeacon

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ONEBEACON'S 2006 MANAGEMENT INCENTIVE PLAN

Purpose
The Management Incentive Plan (MIP) is an integral part of the total compensation program for senior Home Office and Field Office management. Its primary purpose is to focus attention on 2006 profitability goals and to reward eligible participants for the achievement of those goals.

Eligibility
The Plan is limited to home office and field office senior staff who have a significant impact on OneBeacon's operating results.

Target Awards
Target awards for all participants, expressed as a percent of salary, will be set and approved by the Board of OneBeacon Insurance Group LLC.

Performance Measure
The Corporate MIP pool will be established based upon achievement of a 96% economic combined ratio for total OneBeacon operations, computed on an adjusted calendar year basis. This measurement will be used to establish a pool of money to be allocated to business units and Home Office departments. At a corporate combined ratio of 96%, the plan will fund an amount equal the sum of each of the plan's participant's potential award at their target bonus percentage. The OneBeacon Board of Managers may adjust the size of the pool based on under or over achievement of the company's target combined ratio and other objectives that will be communicated during first quarter, 2006.

Individual Awards
Each business unit will be judged against a number of metrics including, where appropriate, a combined ratio result target, agreed to in advance with the President of OneBeacon. Generally these targets will relate to the aggregate financial plan rolled up by branch and line of business, but the targets will not always match the plan (in many cases, the targets are more aggressive). If the combined ratio target is achieved, in conjunction with other business metrics, the business may be awarded 100% of its indicated share of the corporate pool. Businesses failing to reach target may or may not, at the discretion of the President, receive a reduced, partial allocation of the pool. Businesses exceeding objectives may receive greater than 100% of indicated allocation. In no event will the sum of the performance adjusted business unit pools be greater than the performance adjusted company pool.

Within each business, it will be the prerogative of the business leader, with guidance from and after consultation with the company President, to further allocate the business's pool amount to the constituent branches, lines of business and individuals, based upon performance against targets established within the business. It will be the responsibility of the business leader, with guidance from the President, to establish appropriate targets for the constituent branches, lines of business, departments, or individuals at the outset of the MIP year.

For corporate or administrative functions that support all or multiple regions or businesses, MIP individuals will receive allocations from the corporate pool based upon attainment of their department and individual MIP goals for 2006.

Review and evaluation of performance will be conducted during the first quarter following the end of the plan year. Incentive payments will be paid once plan year results have been produced and evaluated.

The salary used to determine the amount of the individual awards will be that in effect at the end of the plan year (12/31/06).

Plan Participation for New Hires
Employees hired during the plan year are eligible to participate in the MIP. Awards will be pro-rated specifically based on date of hire.

Special Circumstances
The OneBeacon Board of Managers may, in its sole discretion, also recognize extraordinary conditions or circumstances in determining payment levels.

In the event of termination prior to the payment of awards, no incentive payments will be made. However, in the event of retirement or reduction in force after the end of the plan year, but before payment is made, incentive payments may be made if approved by the senior business leader. These exceptions will be made on a case by case basis. In the event of death or disability, the plan participant or beneficiary may be considered for a partial award payment.

Effect on Benefit Plans

Amounts paid under the terms of this plan will not be counted for purposes of determining compensation under any employee benefit plan sponsored by OneBeacon.

Plan Continuation

Notwithstanding any of the aforementioned, the plan may be amended or terminated, in whole or in part, at any time, by the Board of Managers.

OneBeacon Phantom WTM Share Plan
June 1, 2006

1. THE PLAN

This is the OneBeacon Phantom WTM Share Plan (the " **Plan** ") of OneBeacon Insurance Group LLC (the " **Company** ").

2. ADMINISTRATION

The Plan shall be administered by the board of managers of the Company or a committee of managers of the Company (references to the " **Board** " herein shall refer to the board of managers of the Company or such committee, if any).

The Board shall have exclusive authority to select the employees to be granted awards under the Plan (" **Awards** "), **to** determine the type, size and terms of the Awards and to prescribe the form of the instruments embodying Awards. The Board may specify the terms and conditions applicable to such Awards in an Award agreement, but at minimum will provide a written grant letter or certificate setting forth the terms of the Award. The Board shall be authorized to interpret the Plan and the Awards granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make any other determinations which it believes necessary or advisable for the administration of the Plan. The Board may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent the Board deems desirable to carry it into effect. Any decision of the Board in the administration of the Plan, as described herein, shall be final and conclusive. The Board may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Board. No member of the Company shall be liable for anything done or omitted to be done by him or by any other member of the Board in connection with the Plan, except for his own willful misconduct or as expressly provided by statute.

3. AWARDS

(a) **Eligible Participants** . Any employee of the Company or any of its subsidiaries is eligible to receive an Award hereunder. The Board shall select which eligible employees shall be granted Awards hereunder. No employee shall have a right to receive an Award hereunder and the grant of an Award to an employee in one period shall not obligate the Board to continue to grant Awards to such employee in subsequent periods.

(b) **Type of Award.** All Awards under this Plan shall be " **Phantom Share Awards** ".

4. PHANTOM SHARES

The grant of a Phantom Share Award to a participant will entitle the participant to receive, without payment to the Company, all or part of a specified amount (the " **Actual Value** ") determined by the Board, if the terms and conditions specified herein and in the Award are satisfied. Payment in respect of an Award shall be made as provided in Section 4(h). Each Award shall be subject to the following terms and conditions:

(a) Each Phantom Share Award shall consist of a target number of Phantom Shares as determined by the Board. Phantom Share Awards may be granted in different classes or series having different terms and conditions.

(b) The Actual Value of a Phantom Share Award shall be the product of (i) the target number of Phantom Shares subject to the Phantom Share Award, (ii) the Performance Percentage (as defined below) applicable to the Phantom Share Award and (iii) the market value of a share (a " **Share** ") of Common Stock of White Mountains Insurance Group, Ltd. (" **White Mountains** "), par value of $1.00 per share, on the date the Award is paid or becomes payable to the participant. The " **Performance Percentage** " applicable to a Phantom Share Award shall be a percentage of no less than 0% and no more than 200%, which percentage shall be determined by the Board based on the extent to which the Performance Objectives (as defined below) established for such Award are achieved during the Award Period. The method for determining the applicable Performance Percentage shall also be established by the Board.

(c) At the time each Phantom Share Award is granted to a participant, the Board shall establish performance objectives (" **Performance Objectives** ") to be attained within the Award Period (as defined below) as the means of determining the Performance Percentage applicable to such Award.

(d) The award period (the " **Award Period** ") in respect of any grant of a Phantom Share Award shall be such period as the Board shall determine. An Award Period may contain a number of performance periods; each performance period shall commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period. If the Board does not specify in a Phantom Share Award agreement or elsewhere the performance periods contained in an Award Period, each 12-month period beginning with the first day of such Award Period shall be deemed to be a performance period.

(e) Except as otherwise determined by the Board, Phantom Shares shall be canceled without any payment to the participant if the participant's continuous employment with the Company or any of its subsidiaries shall terminate for any reason prior to the end of the Award Period, except by reason of a period of Related Employment as defined in Section 6, and except as otherwise specified in this Section 4(e) or in Section 4(f). Notwithstanding the foregoing and without regard to Section 4(g), if an employee participant shall:

(i) while in such employment, die or become disabled as described in Section 5 prior to the end of an Award Period, the Phantom Shares for such Award Period shall be immediately canceled and the participant, or the participant's legal representative, as the case may be, shall receive as soon as administratively feasible a payment in respect of such canceled Phantom Shares equal to the product of (A) (i) the target number of Phantom Shares for such Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full or partial months within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the month in which the death or disability occurs), and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the market value of a Share on the last day of the performance period in which the death or disability occurred, multiplied by (C) the Performance Percentage determined by the Board to have been achieved through the end of the performance period in which the death or disability occurred (but which in no event shall be less than 50%); or

(ii) while in such employment, retire on or after the participant's 60 th birthday by mutual agreement with the Company prior to the end of the Award Period, the Phantom Shares shall be immediately canceled and the participant shall receive as soon as administratively feasible a payment in respect of such canceled Phantom Shares equal to the product of (A) (i) the target number of Phantom Shares for such Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full or partial months within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the month in which the mutually agreed retirement occurs), and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the market value of a Share on the last day of the performance period in which the retirement occurred, multiplied by (C) the Performance Percentage determined by the Board to have been achieved through the end of the performance period in which the retirement occurred.

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(f) If after a Change in Control as defined in Section 7(a):

(i) there is a Termination Without Cause, as defined in Section 8, of the employment of a participant;

(ii) there is a Constructive Termination, as defined in Section 9, of the employment of a participant; or

(iii) there occurs an Adverse Change in the Plan, as defined in Section 10, in respect of a participant (any such occurrence under the above clauses (i), (ii) or (iii), a " **Trigger Event** "), then:

with respect to Phantom Share Awards that were granted prior to the Change in Control for which the Award Period was still outstanding on the date of the Trigger Event (each, an " **Applicable Award** "), each such Applicable Award shall be immediately canceled and, in respect of each Applicable Award, such participant shall be entitled to receive a cash payment equal to the product of (A) (i) the target number of Phantom Shares for such Applicable Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full months within the Award Period during which the participant was continuously employed by the Company or its subsidiaries, and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the greater of (i) the market value of a Share immediately prior to the Change in Control and (ii) the market value of a Share on the date the applicable Trigger Event occurs, multiplied by (C) the greater of (i) the Performance Percentage that would have been calculated immediately prior to the Trigger Event and (ii) a Performance Percentage equal to 100%. If following a Change in Control, a Participant's employment remains continuous through the end of an Award Period, then the Participant shall be paid with respect to such Awards for which the participant would have been paid had there not been a Change in Control and the Actual Value shall be determined in accordance with Section 4(g) below.

(g) Except as otherwise provided in Section 4(f), as soon as practicable after the end of the Award Period or such earlier date as the Board in its sole discretion may designate, the Board shall (i) determine, based on the extent to which the applicable Performance Objectives have been achieved, the Performance Percentage applicable to an Award of Phantom Shares, (ii) calculate the Actual Value of the Phantom Share Award and (iii) cause the Company to cause an amount equal to the Actual Value of the Phantom Shares earned by the participant to be paid to the participant or the participant's beneficiary.

(h) Unless payment is deferred in accordance with an election made by the participant in accordance with procedures adopted by the Company,

payment of any amount in respect of the Phantom Shares shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such Phantom Shares are earned and shall be made in cash.

5. DISABILITY

For the purposes of this Plan, a participant shall be deemed to be disabled if the participant has been approved for the payment of benefits under the long-term disability plan of the Company or its subsidiary.

6. RELATED EMPLOYMENT

For the purposes of this Plan, Related Employment shall mean the employment of a participant by an employer which is neither the Company nor a subsidiary provided: (i) such employment is undertaken by the participant and continued at the request of the Company or a subsidiary; (ii) immediately prior to undertaking such employment, the participant was an officer or employee of the Company or a subsidiary, or was engaged in Related Employment as herein defined; and (iii) such employment is recognized by the Board, in its sole discretion, as Related Employment for the purposes of this Section 6. The death or disability of a participant during a period of Related Employment as herein defined shall be treated, for purposes of this Plan, as if the death or onset of disability had occurred while the participant was an officer or employee of the Company.

7. CHANGE IN CONTROL

(a) For purposes of this Plan, a " **Change in Control** " within the meaning of this Plan shall occur if:

(i) Any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Exchange Act), other than John J. Byrne, Berkshire Hathaway, Inc. or one of its wholly owned subsidiaries, or an underwriter temporarily holding Shares in connection with a public issuance thereof or an employee benefit plan of White Mountains or its affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of thirty-five percent (35%) or more of the then outstanding White Mountains Shares;

(ii) the Continuing Directors, as defined in Section 7(b), cease for any reason to constitute a majority of the board of directors of White Mountains; or

(iii) the business of the Company or the subsidiary for which the participant's services are principally performed is disposed of by White Mountains or the Company pursuant to a sale or other

disposition of all or substantially all of the business or business-related assets of the Company or such subsidiary (including the disposition of the stock of the Company or a subsidiary of the Company).

(b) For the purposes of this Plan, " **Continuing Director** " shall mean a member of the board of directors of White Mountains (the " **White Mountains Board** ") (i) who is not an employee of White Mountains or its subsidiaries or of a holder of, or an employee or an affiliate of an entity or group that holds, thirty-five percent (35%) or more of White Mountains' Shares and (ii) who either was a member of the White Mountains Board on March 31, 2006, or who subsequently became a director of White Mountains and whose election, or nomination for election, by White Mountains' shareholders was approved by a vote of a majority of the Continuing Directors then on the White Mountains Board (which term, for purposes of this definition, shall mean the whole board and not any committee thereof).

(c) In the event of a Change in Control, the Board as constituted immediately prior to the Change in Control shall determine the manner in which "market value" of Shares will be determined following the Change in Control.

(d) In the event of a Change in Control of a type described in Section 7(a)(iii), the Board may determine, in its sole discretion, to amend the definition of "Shares" under any or all then outstanding Phantom Share Awards in order that "Shares" would instead refer to the shares of the acquiring company. In any such case, the Board would make such adjustments as it deems appropriate in its sole discretion to affected Phantom Share Awards so that the Award immediately after the alteration shall be of comparable value to the Award immediately prior thereto. Such an amendment by the Board will not under any circumstances constitute an Adverse Change to the Plan or a basis for Constructive Termination.

8. TERMINATION WITHOUT CAUSE

For purposes of this Plan, " **Termination Without Cause** " shall mean a termination of the participant's employment with the Company or a subsidiary by the Company or the subsidiary other than (i) for death or total permanent disability or (ii) for Cause. " **Cause** " shall mean (a) an act or omission by the participant that constitutes a felony or any crime involving moral turpitude; or (b) willful gross negligence or willful gross misconduct by the participant in connection with his employment by the Company or by a subsidiary which causes, or is likely to cause, material loss or damage to the Company. Notwithstanding anything herein to the contrary, if the participant's employment with the Company or one of its subsidiaries shall terminate due to a Change in Control as described in

Subsection 7(a)(iii), where the purchaser, as described in such subsection, formally assumes the Company's obligations under this Plan or places the participant in a similar or like plan with no diminution of the value of the awards, such termination shall not be deemed to be a "Termination Without Cause."

9. CONSTRUCTIVE TERMINATION

" **Constructive Termination** " shall mean a termination of employment with the Company or a subsidiary at the initiative of the participant that the participant declares by prior written notice delivered to the Secretary of the Company to be a Constructive Termination by the Company or a subsidiary and which follows (a) a material decrease in the participant's salary or (b) a material diminution in the authority, duties or responsibilities of the participant's position as a result of which the participant determines in good faith that the he/she cannot continue to carry out his/her job in substantially the same manner as it was intended to be carried out immediately before such diminution. Notwithstanding anything herein to the contrary, Constructive Termination shall not occur within the meaning of this Section 9 until and unless 30 days have elapsed from the date the Company receives such written notice from the participant and, during that period, the Company fails to cure, or cause to be cured, the circumstance serving as the basis on which the declaration of Constructive Termination is given.

10. ADVERSE CHANGE IN THE PLAN

An " **Adverse Change in the Plan** " shall mean

(a) termination of the Plan;

(b) amendment of the Plan pursuant to Section 14 that materially diminishes the value of Awards that may be granted under the Plan, either to individual participants or in the aggregate, unless there is substituted concurrently authority to grant long-term incentive awards of comparable value to individual participants in the Plan or in the aggregate, as the case may be, or

(c) in respect of any holder of an Award a material diminution in the participant's rights held under such Award (except as may occur under the terms of the Award as originally granted) unless there is substituted concurrently a long-term incentive award with a value at least comparable to the loss in value attributable to such diminution in rights

In no event shall any amendment of the Plan or any Award contemplated by Section 7(d) or Section 11 be deemed an Adverse Change in the Plan.

11. DILUTION AND OTHER ADJUSTMENTS

In the event of any change in the outstanding Shares of White Mountains by reason of any stock split, stock or extraordinary cash dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of Shares or other similar event, and if the Board shall determine, in its sole discretion, that such change equitably requires an adjustment in the number or kind of Phantom Shares that may be issued under the Plan pursuant to Section 4, in the target number of Phantom Shares which have been awarded to any participant, or in any measure of performance, then such adjustment shall be made by the Board and shall be conclusive and binding for all purposes of the Plan.

In the event that the Company or one of its subsidiaries were to publicly offer shares for which a regular and liquid public market existed (the " **Liquid Shares** "), the Board may determine, in its sole discretion, to amend the definition of "Shares" under the Plan, or any or all then outstanding Phantom Share Awards, in order that "Shares" would instead refer to the Liquid Shares. In any such case, the Board would make such adjustments as it deems necessary and appropriate in its sole discretion to affected Phantom Share Awards so that the Award immediately following the alteration shall be of comparable value to the Award immediately prior thereto. Such an amendment by the Board will not under any circumstances constitute an Adverse Change to the Plan or a basis for Constructive Termination.

12. DESIGNATION OF BENEFICIARY BY PARTICIPANT

A participant may name a beneficiary to receive any payment to which the participant may be entitled in respect of Phantom Shares under the Plan in the event of his/her death, on a form to be provided by the Board. A participant may change his/her beneficiary from time to time in the same manner. If no designated beneficiary is living on the date on which any amount becomes payable to a participant's executors or administrators, the term "beneficiary" as used in the Plan shall include such person or persons.

13. MISCELLANEOUS PROVISIONS

(a) No employee or other person shall have any claim or right to be granted an Award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving an employee any right to be retained in the employ of the Company or any subsidiary.

(b) A participant's rights and interest under the Plan may not be assigned or transferred in whole or in part either directly or by operation of law or otherwise (except in the event of a participant's death), including but not

limited to, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner and no such right or interest of any participant in the Plan shall be subject to any obligation or liability or such participant.

(c) The Company and its subsidiaries shall have the right to deduct from any payment made under the Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment.

(d) The expenses of the Plan shall be borne by the Company. However, if an Award is made to an employee of a subsidiary, if such Award results in payment of cash to the participant, such subsidiary shall pay to the Company an amount equal to such cash payment.

(e) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under the Plan.

(f) By accepting any Award or other benefit under the Plan, each participant and each person claiming under or through him shall be conclusively deemed to have indicated his/her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or any committee designated by the Board.

(g) The Plan shall be governed by and construed in accordance with the laws of New York applicable to contracts made and to be performed in the State of New York.

(h) It is the intent of the Board that the Plan will govern the outstanding Phantom Share awards that were previously made to OneBeacon employees in 2004, 2005 and 2006.

14. AMENDMENT OR TERMINATION

The Plan may be amended, altered, discontinued or terminated at any time and from time to time by resolution of the Board but no amendment, alteration, discontinuation or termination shall be made which would impair any of the accrued rights or obligations under any Award theretofore granted to a participant without such Participant’s consent; provided, however, that Board may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws.

OneBeacon Long- Term Incentive Plan

1. PURPOSE

The purpose of the OneBeacon Long-Term Incentive Plan (the "Plan") is to advance the interests of OneBeacon Insurance Group, Ltd. (the "Company") and its stockholders by providing long-term incentives to certain executives, consultants and directors of the Company and of its subsidiaries.

2. ADMINISTRATION

Prior to the initial public offering of the Company's common shares (the "IPO"), the Plan shall be administered by the compensation committee of the board of directors of White Mountains Insurance Group, Ltd. After the IPO, the Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of the Company; provided that each member of the Committee qualifies as (a) a "non-employee director" under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and (b) an "outside director" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). In the event that any member of the Committee does not so qualify, the Plan shall be administered by a sub-committee of Committee members who do so qualify. If it is later determined that one or more members of the Committee do not so qualify, actions taken by the Committee prior to such determination shall be valid despite such failure to qualify.

The Committee shall have exclusive authority to select the employees, directors and consultants to be granted awards under the Plan ("Awards"), to determine the type, size and terms of the Awards and to prescribe the form of the instruments embodying Awards. With respect to Awards made to directors and consultants, the Committee shall, and with respect to employees may, specify the terms and conditions applicable to such Awards in an Award agreement. The Committee shall be authorized to interpret the Plan and the Awards granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make any other determinations which it believes necessary or advisable for the administration of the Plan. In connection with any Award, the Committee in its sole discretion may provide for vesting provisions that are different from the default vesting provisions that are contained in the Plan and such alternative provisions shall not be deemed to conflict with the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner

and to the extent the Committee deems desirable to carry it into effect. Any decision of the Committee in the administration of the Plan, as described herein, shall be final and conclusive. The Committee may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Committee. No member of the Company shall be liable for anything done or omitted to be done by him or by any other member of the Committee in connection with the Plan, except for his own willful misconduct or as expressly provided by statute.

3. PARTICIPATING SUBSIDIARIES

If a subsidiary of the Company wishes to participate in the Plan and its participation shall have been approved by the Board, the Board of Directors of the subsidiary shall adopt a resolution in form and substance satisfactory to the Committee authorizing participation by the subsidiary in the Plan. As used herein, "subsidiary" shall mean a "subsidiary corporation" as defined in Section 424 (f) of the Code.

A subsidiary may cease to participate in the Plan at any time by action of the Board or by action of the Board of Directors of such subsidiary, which latter action shall be effective not earlier than the date of delivery to the Secretary of the Company of a certified copy of a resolution of the subsidiary's Board of Directors taking such action. Termination of participation in the Plan shall not relieve a subsidiary of any obligations theretofore incurred by it under the Plan.

4. AWARDS

(a) **Eligible Participants** . Any employee, director or consultant of the Company or any of its subsidiaries is eligible to receive an Award hereunder. The Committee shall select which eligible employees, directors or consultants shall be granted Awards hereunder. No employee, director or consultant shall have a right to receive an Award hereunder and the grant of an Award to an employee, director or consultant shall not obligate the Committee to continue to grant Awards to such employee, director or consultant in subsequent periods.

(b) **Type of Awards.** Awards shall be limited to the following five types: (i) "Stock Options," (ii) "Stock Appreciation Rights," (iii) "Restricted Stock," (iv) "Performance Shares" and (v) "Performance Units." Stock Options, which include "Incentive Stock Options" and other stock options or combinations thereof, are rights to purchase shares of Common Stock of the Company ("Shares"). A Stock Appreciation Right is a right to receive, without payment to the Company, cash and/or Shares in lieu of

the purchase of Shares under the Stock Option to which the Stock Appreciation Right relates.

(c) **Maximum Number of Shares That May Be Issued.** A maximum of 3,750,000(1) Shares (subject to adjustment as provided in Section 15) may be granted at target pursuant to Awards made under the Plan and, accordingly, up to 7,500,000 Shares (subject to adjustment as provided in Section 15) may be issued by the Company in satisfaction of its obligations with respect to such Award grants. For purposes of the foregoing, the exercise of a Stock Appreciation Right shall constitute the issuance of Shares equal to the Shares covered by the related Stock Option. If any Shares issued as Restricted Stock shall be repurchased pursuant to the Company's option described in Section 6 below, or if any Shares issued under the Plan shall be reacquired pursuant to restrictions imposed at the time of issuance, such Shares may again be issued under the Plan.

(d) **Rights With Respect to Shares.**

(i) A participant to whom Restricted Stock has been issued shall have prior to the expiration of the Restricted Period or the earlier repurchase of such Shares as herein provided, ownership of such Shares, including the right to vote the same and to receive dividends thereon, subject, however, to the options, restrictions and limitations imposed thereon pursuant hereto.

(ii) A participant to whom Stock Options, Stock Appreciation Rights or Performance Shares are granted (and any person succeeding to such participant's rights pursuant to the Plan) shall have no rights as a shareholder with respect to any Shares issuable pursuant thereto until the date of the issuance of a stock certificate (whether or not delivered) therefor. Except as provided in Section 15, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities or other property) the record date for which is prior to the date such stock certificate is issued.

(iii) The Company, in its discretion, may hold custody during the Restricted Period of any Shares of Restricted Stock

5. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

The Committee may grant to participants Stock Options (including, in its discretion, Stock Appreciation Rights). The maximum of Shares with

(1) Assuming 100,000,000 shares outstanding, this would represent 2.5% of total shares outstanding at target.

respect to which Stock Options and Stock Appreciation Rights (not including Stock Appreciation Rights attached to Stock Options) may be issued to a participant in one year is 2,500,000. Each Stock Option shall comply with the following terms and conditions:

(a) The per share exercise price shall not be less than the greater of (i) the fair market value per Share at the time of grant, as determined in good faith by the Committee, or (ii) the par value per Share. However, the exercise price of an Incentive Stock Option granted to a participant who owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or of a subsidiary (a "Ten Percent Participant") shall not be less than the greater of 110% of such fair market value, or the par value per Share.

(b) The Committee shall initially determine the number of Shares to be subject to each Stock Option. The number of Shares subject to a Stock Option will subsequently be reduced on a Share-for-Share basis to the extent that Shares under such Stock Option are used to calculate the cash and/or Shares received pursuant to exercise of a Stock Appreciation Right attached to such Stock Option.

(c) The Stock Option shall not be transferable by the optionee otherwise than by will or the laws of descent and distribution, and shall be exercisable during his lifetime only by him.

(d) The Stock Option shall not be exercisable:

(i) after the expiration of ten years from the date it is granted (or such earlier date specified in the grant of the Stock Option) and may be exercised during such period only at such time or times as the Committee may establish;

(ii) unless payment in full is made for the Shares being acquired thereunder at the time of exercise (including any federal, state or local income or other taxes which the Committee determines are required to be withheld in respect of such shares); such payment shall be made (A) in United States dollars by cash or check, (B) by tendering to the Company Shares owned by the person exercising the Stock Option and having a fair market value equal to the cash exercise price thereof, such fair market value to be determined in such reasonable manner as may be provided for from time to time by the Committee or as may be required in order to comply with or to conform to the requirements of any applicable or relevant laws or regulations, (C) if there shall be a public market for the Shares at such time, subject to such rules as may be established by the Committee, through delivery of irrevocable instructions to a broker to sell a number of Shares otherwise deliverable upon the exercise

of the Stock Option and to deliver promptly to the Company an amount equal to the exercise price, or (D) by a combination of United States dollars and Shares pursuant to (A), (B) and/or (C) above;

(iii) by participants who were employees of the Company or one of its subsidiaries at the time of the grant of the Stock Option unless such participant has been, at all times during the period beginning with the date of grant of the Stock Option and ending on the date three months prior to such exercise, an officer or employee of the Company or a subsidiary, or of a corporation, or a parent or subsidiary of a corporation, issuing or assuming the Stock Option in a transaction to which Section 424(a) of the Code is applicable, except that:

(A) if such person shall cease to be an officer or employee of the Company or one of its subsidiary corporations solely by reason of a period of Related Employment as defined in Section 10, he may, during such period of Related Employment (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), exercise such Stock Option as if he continued to be such an officer or employee; or

(B) if an optionee shall become disabled as defined in Section 9 he may, at any time within three years of the date he becomes disabled (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), exercise the Stock Option with respect to (i) any Shares as to which he could have exercised the Stock Option on the date he became disabled and (ii) if the Stock Option is not fully exercisable on the date he becomes disabled, the number of additional Shares as to which the Stock Option would have become exercisable had he remained an employee through the next date on which additional Shares were scheduled to become exercisable under the Stock Option; or

(C) if an optionee shall die while holding a Stock Option, his executors, administrators, heirs or distributees, as the case may be, at any time within one year after the date of such death (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), may exercise the Stock Option with respect to (i) any Shares as to which the decedent could have exercised the Stock Option at the time of his death, and if the Stock Option is not fully exercisable on the date of his death, the number of

additional Shares as to which the Stock Option would have become exercisable had he remained an employee through the next date on which additional Shares were scheduled to become exercisable under the Stock Option; provided, however, that if death occurs during the three-year period following a disability as described in Section 5(d)(iii)(B) hereof or any period following a voluntary termination (including retirement) in respect of which the Committee has exercised its discretion to grant continuing exercise rights as provided in Section 5(d)(iii)(D) hereof, the Stock Option shall not become exercisable as to any Shares in addition to those as to which the decedent could have exercised the Stock Option at the time of his death; or

(D) if such person shall voluntarily terminate his employment with the Company (including retirement), the Committee, in its sole discretion, may determine that the optionee may exercise the Stock Option with respect to some or all of the Shares subject to the Stock Option as to which it would not otherwise be exercisable on the date of his voluntary termination provided, however, that in no event may such exercise take place after the Stock Option has expired under the provisions of Section 5(d)(i) hereof.

(e) The aggregate market value of Shares (determined at the time of grant of the Stock Option pursuant to Section 5(a) of the Plan) with respect to which Incentive Stock Options granted to any participant under the Plan are exercisable for the first time by such participant during any calendar year may not exceed the maximum amount permitted under Section 422(d) of the Code at the time of the Award grant. In the event this limitation would be exceeded in any year, the optionee may elect either (i) to defer to a succeeding year the date on which some or all of such Incentive Stock Options would first become exercisable or (ii) convert some or all of such Incentive Stock Options into non-qualified Stock Options.

(f) If the Committee, in its discretion, so determines, there may be related to the Stock Option, either at the time of grant or by amendment, a Stock Appreciation Right which shall be subject to such terms and conditions, not inconsistent with the Plan, as the Committee shall impose, including the following:

(i) A Stock Appreciation Right may be exercised only:

(A) to the extent that the Stock Option to which it relates is at the time exercisable, and

(B) if

(1) in the case of a Stock Option other than an Incentive Stock Option only, such Stock Option will expire by its terms within 30 days (90 days if the optionee is at the time an officer of the Company who is required to file reports pursuant to Section 16(a) of the Exchange Act);

(2) the optionee has become disabled or ceased to be an officer or employee by reason of his retirement with the approval of the Committee in its sole discretion; or

(3) the optionee has died.

However, if the Stock Option to which the Stock Appreciation Right relates is exercisable and if the optionee is at the time an officer of the Company who is required to file reports pursuant to Section 16(a) of the Exchange Act, the Stock Appreciation Right may, subject to the approval of the Committee, be exercised during such periods, as may be specified by the Committee;

(ii) A Stock Appreciation Right shall entitle the optionee (or any person entitled to act under the provisions of Section 5(d)(iii)(C) hereof) to surrender unexercised the related Stock Option (or any portion of such Option) to the Company and to receive from the Company in exchange therefor that number of Shares having an aggregate market value equal to the excess of the market value of one Share (provided that, if such value exceeds 150% of the per share exercise price specified in such Stock Option, such value shall be deemed to be 150% of such Stock Option price) over the exercise price of such Stock Option price per share, times the number of Shares subject to the Stock Option, or portion thereof, which is so surrendered. The Committee shall be entitled to elect to settle the obligation arising out of the exercise of a Stock Appreciation Right by the payment of cash equal to the aggregate value of the Shares it would otherwise be obligated to deliver or partly by the payment of cash and partly by the delivery of Shares. Any such election shall be made within 15 business days after the receipt by the Committee of written notice of the exercise of the Stock Appreciation Right. The market value of a Share for this purpose shall be the market value thereof on the last business day preceding the date of the election to exercise the Stock Appreciation Right, provided that if notice of such election is

received by the Committee more than three business days after the date of such election (as such date of election is stated in the notice of election), the Committee may, but need not, determine the market value of a Share as of the day preceding the date on which the notice of election is received;

(iii) No fractional Shares shall be delivered under this Section 5(f), but in lieu thereof a cash adjustment shall be made; and

(iv) In the case of a Stock Appreciation Right attached to an Incentive Stock Option, such Stock Appreciation Right shall only be transferable when such Incentive Stock Option is transferable pursuant to Section 5 (c) hereof.

(g) Notwithstanding anything herein to the contrary:

(i) in the event a Change in Control as defined in Section 11(a) occurs and within 24 months thereafter: (A) there is a Termination Without Cause, as defined in Section 12, of an optionee's employment; or (B) there is a Constructive Termination as defined in Section 13, of an optionee's employment; or (C) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of an optionee affecting any Award held by such optionee and if the optionee then holds a Stock Option,

(A) in the case of a Termination Without Cause or a Constructive Termination, the optionee may exercise the entire Stock Option, at any time within 30 days of such Termination Without Cause or such Constructive Termination (but in no event after the option has expired under the provisions of Sections (5)(d)(i)), and

(B) in the case of an Adverse Change in the Plan, the optionee may exercise the entire Stock Option at any time after such Adverse Change in the Plan in respect of him and prior to the date 30 days following his termination of employment as a result of a Termination Without Cause or a Constructive Termination (but in no event after the option has expired under the provisions of Section 5(d) (i)).

6. RESTRICTED STOCK

Each Award of Restricted Stock shall comply with the following terms and conditions:

(a) The Committee shall determine the number of Shares to be issued to a participant pursuant to the Award.

(b) Shares issued may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution, for such period from the date on which the Award is granted (the "Restricted Period") as the Committee shall determine. The Company shall have the option to repurchase the Shares subject to the Award at such price as the Committee shall have fixed, in its sole discretion, when the Award was made, which option will be exercisable if the participant's continuous employment with the Company or a subsidiary shall terminate for any reason, except solely by reason of an event described in Section 6(c), prior to the expiration of the Restricted Period or the earlier lapse of the option. Such option shall be exercisable on such terms, in such manner and during such period as shall be determined by the Committee when the Award is made. Certificates for Shares issued pursuant to Restricted Stock Awards shall bear an appropriate legend referring to the foregoing option and other restrictions. Any attempt to dispose of any such Shares in contravention of the foregoing option and other restrictions shall be null and void and without effect. If Shares issued pursuant to a Restricted Stock Award shall be repurchased pursuant to the option described above, the participant to whom the Award was granted, or in the event of his death after such option become exercisable, his executor or administrator, shall forthwith deliver to the Secretary of the Company any certificates for the Shares awarded to the participant, accompanied by such instruments of transfer, if any, as may reasonably be required by the Secretary of the Company. If the option described above is not exercised by the Company, such option and the restriction imposed pursuant to the first sentence of this Section 6(b) shall terminate and be of no further force and effect. Notwithstanding anything to the contrary in this Section 6(b), neither any Restricted Period nor any option shall lapse to the extent the Company or any subsidiary would be unable to take a deduction with respect to such lapse by reason of Section 162(m) of the Code.

(c) If a participant who has been in the continuous employment of the Company or of a subsidiary shall:

(i) die or become disabled (as defined in Section 9) during the Restricted Period, the option of the Company to repurchase (and any and all other restrictions on) a pro rata portion of the Shares awarded to him under such Award shall lapse and cease to be effective as of the date on which his death or disability occurs which shall be determined as follows: (A) the number of Shares awarded under the Award multiplied by (B) a percentage, the numerator of which is equal to the number of months elapsed in the Restricted Period as of the date of death or disability (counting the month in which the death or disability occurred as a full month) and the denominator of which is equal to the number of months in the Restricted Period.

(ii) voluntarily terminate his employment with the Company (including retirement) during the Restricted Period, the Committee may determine that all or any portion of the option to repurchase and any and all other restrictions on some or all of the Shares awarded to him under such Award, if such option and other restrictions are still in effect, shall lapse and cease to be effective as the date on which such voluntary termination or retirement occurs.

(d) In the event within 24 months after a Change in Control as defined in Section 11(a) and during the Restricted Period:

(i) there is a Termination Without Cause, as defined in Section 12, of the employment of a participant;

(ii) there is a Constructive Termination, as defined in Section 13, of the employment of a participant; or

(iii) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of a participant, then

the option to repurchase (and any and all other restrictions on) all Shares awarded to him under his Award shall lapse and cease to be effective as of the date on which such event occurs.

7. PERFORMANCE SHARES

The grant of a Performance Share Award to a participant will entitle him to receive, without payment to the Company, all or part of a specified amount (the "Actual Value") determined by the Committee, if the terms and conditions specified herein and in the Award are satisfied. Payment in respect of an Award shall be made as provided in Section 7(h). Each Performance Share Award shall be subject to the following terms and conditions:

(a) The Committee shall determine the target number of Performance Shares to be granted to a participant. The maximum number of Performance Shares that may be earned by a participant for any single Award Period of one year or longer shall not exceed 2,500,000. Performance Share Awards may be granted in different classes or series having different terms and conditions.

(b) The Actual Value of a Performance Share Award shall be the product of (i) the target number of Performance Shares subject to the Performance Share Award, (ii) the Performance Percentage (as determined below) applicable to the Performance Share Award and (iii) the market value of a Share on the date the Award is paid or becomes payable to the participant. The "Performance Percentage" applicable to a Performance Share Award

shall be a percentage of no less than 0% and no more than 200%, which percentage shall be determined by the Committee based upon the extent to which the Performance Objectives (as determined below) established for such Award are achieved during the Award Period. The method for determining the applicable Performance Percentage shall also be established by the Committee.

(c) At the time each Performance Share Award is granted, the Committee shall establish performance objectives ("Performance Objectives") to be attained within the Award Period as the means of determining the Performance Percentage applicable to such Award. The Performance Objectives shall be approved by the Committee (i) while the outcome for that Award Period is substantially uncertain and (ii) no more than 90 days after the commencement of the Award Period to which the Performance Objective relates or, if less than 90 days, the number of days which is equal to 25 percent of the relevant Award Period. The Performance Objectives established with respect to a Performance Share Award shall be specific performance targets established by the Committee with respect to one or more of the following criteria selected by the Committee: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) share price; (xi) combined ratio; (xii) operating ratio; (xiii) profitability of an identifiable business unit or product; (xiv) maintenance or improvement of profit margins; (xv) market share; (xvi) revenues or sales; (xvii) costs; (xviii) cash flow; (xix) working capital; (xx) return on assets; (xxi) customer satisfaction; (xxii) employee satisfaction; (xxiii) economic value per Share, (xxiv) underwriting return on capital and (xxv) underwriting return on equity. The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Performance Objectives may be calculated without regard to extraordinary items.

(d) The award period (the "Award Period") in respect of any grant of a Performance Share Award shall be such period as the Committee shall determine commencing as of the beginning of the fiscal year of the Company in which such grant is made. An Award Period may contain a number of performance periods; each performance period shall commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period. If the Committee does not specify in a

Performance Share Award agreement or elsewhere the performance periods contained in an Award Period, each 12-month period beginning with the first day of such Award Period shall be deemed to be a performance period.

(e) Except as otherwise determined by the Committee, Performance Shares shall be canceled if the participant's continuous employment with the Company or any of its subsidiaries shall terminate for any reason prior to the end of the Award Period, except by reason of a period of Related Employment as defined in Section 10, and except as otherwise specified in this Section 7(e) or in Section 7(f). Notwithstanding the foregoing and without regard to Section 7(g), if an employee participant shall:

(i) while in such employment, die or become disabled as described in Section 9 prior to the end of an Award Period, the Performance Share Award for such Award Period shall be immediately canceled and he, or his legal representative, as the case may be, shall receive as soon as administratively feasible a payment in respect of such canceled Performance Share Award equal to the product of (A)(i) the target number of Performance Shares for such Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full or partial months within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the month in which the death or disability occurs), and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the market value of a Share on the last day of the performance period in which the death or disability occurred, multiplied by (C) the Performance Percentage determined by the Board to have been achieved through the end of the performance period in which the death or disability occurred (but which in no event shall be less than 50%); provided, however, that no such continuation shall be deemed to have occurred for purposes of applying Section 7(f) in the event of an Adverse Change in the Plan in respect of the participant following a Change in Control; or

(ii) retire with the approval of the Committee in its sole discretion prior to the end of the Award Period, the Performance Share Award for such Award Period shall be immediately canceled; provided that the Committee in its sole discretion may determine to make a payment to the participant in respect of such canceled Performance Share Award, and

(f) If within 24 months after a Change in Control as defined in Section 11(a):

(i) there is a Termination Without Cause, as defined in Section 12, of the employment of a participant;

(ii) there is a Constructive Termination, as defined in Section 13, of the employment of a participant; or

(iii) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of a participant (any such occurrence under the above clauses (i), (ii) or (iii), a "Trigger Event"), then

with respect to Performance Share Awards that were outstanding on the date of the Trigger Event (each, an "Applicable Award"), each such Applicable Award shall be immediately canceled and, in respect thereof, such participant shall be entitled to receive a cash payment equal to the product of (A) (i) the target number of Performance Shares for such Applicable Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full months within the Award Period during which the participant was continuously employed by the Company or its subsidiaries, and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the greater of (i) the market value of a Share immediately prior to the Change in Control and (ii) the market value of a Share on the date the applicable Trigger Event occurs, multiplied by (C) a Performance Percentage equal to 100%. If following a Change in Control, a Participant's employment remains continuous through the end of an Award Period, then the Participant shall be paid with respect to such Awards for which he would have been paid had there not been a Change in Control and the Actual Value shall be determined in accordance with Section 7(g) below.

(g) Except as otherwise provided in Section 7(f), as soon as practicable after the end of the Award Period or such earlier date as the Committee in its sole discretion may designate, the Committee shall (i) determine, based on the extent to which the applicable Performance Objectives have been achieved, the Performance Percentage applicable to an Award of Performance Shares, (ii) calculate the Actual Value of the Performance Share Award and (iii) shall certify the foregoing to the Board of Directors. The Committee shall cause an amount equal to the Actual Value of the Performance Shares earned by the participant to be paid to him or his beneficiary.

(h) Unless payment is deferred in accordance with an election made by the participant in accordance with procedures adopted by the Company, payment of any amount in respect of the Performance Shares shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such Performance Shares are earned, and may be made in cash, in Shares or partly in cash and partly in Shares as determined by the Committee.

8. PERFORMANCE UNITS

The grant of a Performance Unit Award to a participant will entitle him to receive, without payment to the Company, all or part of a specified amount (the "Earned Value") determined by the Committee, if the terms and conditions specified herein and in the Award are satisfied. Payment in respect of a Performance Unit Award shall be made as provided in Section 8(h). Each Performance Unit Award shall be subject to the following terms and conditions:

(a) The Committee shall determine the target number of Performance Units to be granted to a participant. The maximum Earned Value that may be earned by a participant for Performance Units for any single Award Period of one year or longer shall not exceed $25,000,000. Performance Unit Awards may be granted in different classes or series having different terms and conditions.

(b) The Earned Value of an Award of Performance Units shall be the product of (i) the target number of Performance Units subject to the Performance Unit Award, (ii) the Performance Percentage (as determined below) applicable to the Performance Unit Award and (iii) the Value (as determined below) of a Unit on the date the Award is paid or becomes payable to the employee. The "Performance Percentage" applicable to a Performance Unit Award shall be a percentage of no less than 0% and no more than 200%, which percentage shall be determined by the Committee based upon the extent to which the Performance Objectives (as determined below) established for such Award are achieved during the Award Period. The method for determining the applicable Performance Percentage shall also be established by the Committee. The "Value" of a Unit shall be determined by multiplying $100 by the sum of (i) 100% and (ii) the aggregate standard pre-tax insurance return-on-equity of the Company, any of its subsidiaries or any combination thereof as set forth in the Award Agreement over the Award Period (or such earlier date as required by the Plan), as determined in good faith by the Committee.

(c) At the time each Performance Unit Award is granted the Committee shall establish performance objectives ("Performance Objectives") to be attained within the Award Period as the means of determining the Performance Percentage applicable to such Award. The Performance Objectives shall be approved by the Committee (i) while the outcome for that Award Period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance objective relates or, if less than 90 days, the number of days which is equal to 25 percent of the relevant performance period. The Performance Objectives established with respect to a Performance Unit Awards shall be specific performance targets established by the Committee with respect to one or more of the following criteria selected

by the Committee: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) share price; (xi) combined ratio; (xii) operating ratio; (xiii) profitability of an identifiable business unit or product; (xiv) maintenance or improvement of profit margins; (xv) market share; (xvi) revenues or sales; (xvii) costs; (xviii) cash flow; (xix) working capital; (xx) return on assets; (xxi) customer satisfaction; (xxii) employee satisfaction; (xxiii) economic value per Share, (xxiv) underwriting return on capital and (xxv) underwriting return on equity. The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to

the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Performance Objectives may be calculated without regard to extraordinary items.

(d) The award period (the "Award Period") in respect of any grant of a Performance Unit Award shall be such period as the Committee shall determine commencing as of the beginning of the fiscal year of the Company in which such grant is made. An Award Period may contain a number of performance periods; each performance period shall commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period. If the Committee does not specify in a Performance Unit Award agreement or elsewhere the performance periods contained in an Award Period, each 12-month period beginning with the first day of such Award Period shall be deemed to be a performance period.

(e) Except as otherwise determined by the Committee, Performance Units shall be cancelled if the participant's continuous employment with the Company or any of its subsidiaries shall terminate for any reason prior to the end of the Award Period, except solely by reason of a period of Related Employment as defined in Section 10, and except as otherwise specified in this Section 8(e) or in Section 8(f). Notwithstanding the foregoing and without regard to Section 8(f), if an employee participant shall:

(i) while in such employment, die or become disabled as described in Section 9 prior to the end of an Award Period, the Performance Unit Award for such Award Period shall be immediately canceled and he, or his legal representative, as the case may be, shall receive as soon as administratively feasible a payment in respect of such

canceled Performance Unit Award equal to the product of (A)(i) the target number of Performance Units for such Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full or partial months within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the month in which the death or disability occurs), and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the value of a Performance Unit on the last day of the performance period in which the death or disability occurred, multiplied by (C) the Performance Percentage determined by the Board to have been achieved through the end of the performance period in which the death or disability occurred; provided, however, that no such continuation shall be deemed to have occurred for purposes of applying Section 8(f) in the event of an Adverse Change in the Plan in respect of the participant following a Change in Control; or

(ii) retire with the approval of the Committee in its sole discretion prior to the end of the Award Period, the Performance Unit Award for such Award Period shall be immediately canceled; provided that the Committee in its sole discretion may determine to make a payment to the participant in respect of such canceled Performance Unit Award.

(f) If within 24 months after a Change in Control as defined in Section 11(a), a Trigger Event occurs, then with respect to Performance Unit Awards that were outstanding on the date of the Trigger Event (each, an "Applicable Award"), each such Applicable Award shall be immediately canceled and, in respect thereof, such participant shall be entitled to receive a cash payment equal to the product of (A) (i) the target number of Performance Units for such Applicable Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full months within the Award Period during which the participant was continuously employed by the Company or its subsidiaries, and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the greater of (i) the value of a Performance Unit immediately prior to the Change in Control and (ii) the value of Performance Unit on the date the applicable Trigger Event occurs, multiplied by (C) a Performance Percentage equal to 100%. If following a Change in Control, a Participant's employment remains continuous through the end of an Award Period, then the Participant shall be paid with respect to such Awards for which he would have been paid had there not been a Change in Control and the Actual Value shall be determined in accordance with Section 8(g) below.

(g) Except as otherwise provided in Section 8(f), as soon as practicable after the end of the Award Period or such earlier date as the Committee in its sole discretion may designate, the Committee shall (i) determine, based on the extent to which the applicable Performance Objectives have been achieved, the Performance Percentage applicable to an Award of Performance Units, (ii) calculate the Earned Value of the Performance Unit Award and (iii) shall certify all of the foregoing to the Board of Directors. The Committee shall cause an amount equal to the Earned Value of the Performance Units earned by the participant to be paid to him or his beneficiary.

(h) Unless payment is deferred in accordance with an election made by the participant in accordance with procedures adopted by the Company, payment of any amount in respect of the Performance Units shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such Performance Units are earned, and may be made in cash, in Shares or partly in cash and partly in Shares as determined by the Committee.

9. DISABILITY

For the purposes of this Plan, a participant shall be deemed to be disabled if the Committee shall determine that the physical or mental condition of the participant is such as would entitle him to payment of long-term disability benefits under any disability plan of the Company or a subsidiary in which he is a participant.

10. RELATED EMPLOYMENT

For the purposes of this Plan, Related Employment shall mean the employment of a participant by an employer which is neither the Company nor a subsidiary provided: (i) such employment is undertaken by the participant and continued at the request of the Company or a subsidiary; (ii) immediately prior to undertaking such employment, the participant was an officer or employee of the Company or a subsidiary, or was engaged in Related Employment as herein defined; and (iii) such employment is recognized by the Committee, in its sole discretion, as Related Employment for the purposes of this Section 10. The death or disability of a participant during a period of Related Employment as herein defined shall be treated, for purposes of this Plan, as if the death or onset of disability had occurred while the participant was an officer or employee of the Company.

11. CHANGE IN CONTROL

(a) For purposes of this Plan, a "Change in Control" within the meaning of this Section 11(a) shall occur if:

(i) Any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Exchange Act), other than White Mountains Insurance Group, Ltd. or one of its wholly owned subsidiaries, or an underwriter temporarily holding Shares in connection with a public issuance thereof or an employee benefit plan of the Company or its affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of thirty-five percent (35%) or more of the Company's then outstanding Shares and such percentage exceeds the beneficial ownership percentage of the Company's then outstanding Shares attributed to White Mountains Insurance Group, Ltd., together with its wholly owned subsidiaries;

(ii) the Continuing Directors, as defined in Section 11(b), cease for any reason to constitute a majority of the Board of the Company; or

(iii) the business of the Company for which the participant's services are principally performed is disposed of by the Company pursuant to a sale or other disposition of all or substantially all of the business or business-related assets of the Company (including stock of a subsidiary of the Company).

(b) For the purposes of this Plan, "Continuing Director" shall mean a member of the Board (A) who is not an employee of the Company or its subsidiaries or of a holder of, or an employee or an affiliate of an entity or group that holds, thirty-five percent (35%) or more of the Company's Shares and (B) who either was a member of the Board on October 18 th , 2006, or who subsequently became a director of the Company and whose election, or nomination for election, by the Company's shareholders was approved by a vote of a majority of the Continuing Directors then on the Board (which term, for purposes of this definition, shall mean the whole Board and not any committee thereof).

(c) In the event of a Change in Control, the Committee as constituted immediately prior to the Change in Control shall determine the manner in which "market value" of Shares will be determined following the Change in Control.

12. TERMINATION WITHOUT CAUSE

For purposes of this Plan, "Termination Without Cause" shall mean a termination of the participant's employment with the Company or subsidiary or business unit of the Company by the Company (or subsidiary or business unit, as applicable) or, by a purchaser of the participant's subsidiary or business unit after a Change in Control as described in Subsection 11(a)(iii), other than (i) for death or disability as described in Section 9 or (ii) for Cause. "Cause" shall mean (a) an act or omission by

the participant that constitutes a felony or any crime involving moral turpitude; or (b) willful gross negligence or willful gross misconduct by the participant in connection with his employment which causes, or is likely to cause, material loss or damage to the Company, subsidiary or business unit. Notwithstanding anything herein to the contrary, if the participant's employment with the Company, subsidiary or business unit shall terminate due to a Change in Control as described in Subsection 11(a)(iii), where the purchaser (the "Purchaser"), as described in such subsection, formally assumes the Company's obligations under this Plan or places the participant in a similar or like plan with no diminution of the value of the awards, such termination shall not be deemed to be a "Termination Without Cause."

13. CONSTRUCTIVE TERMINATION

"Constructive Termination" shall mean a termination of employment with the Company or a subsidiary at the initiative of the participant that the participant declares by prior written notice delivered to the Secretary of the Company to be a Constructive Termination by the Company or a

subsidiary and which follows (a) a material decrease in his total compensation opportunity or (b) a material diminution in the authority, duties or responsibilities of his position with the result that the participant makes a determination in good faith that he cannot continue to carry out his job in substantially the same manner as it was intended to be carried out immediately before such diminution. Notwithstanding anything herein to the contrary, Constructive Termination shall not occur within the meaning of this Section 13 until and unless 30 days have elapsed from the date the Company receives such written notice from the participant without the Company curing or causing to be cured the circumstance or circumstances described in this Section 13 on the basis of which the declaration of Constructive Termination is given.

14. ADVERSE CHANGE IN THE PLAN

An "Adverse Change in the Plan" shall mean

(a) termination of the Plan pursuant to Section 19(a);

(b) amendment of the Plan pursuant to Section 18 that materially diminishes the value of Awards that may be granted under the Plan, either to individual participants or in the aggregate, unless there is substituted concurrently authority to grant long-term incentive awards of comparable value to individual participants in the Plan or in the aggregate, as the case may be; or ,

(c) in respect of any holder of an Award a material diminution in his rights held under such Award (except as may occur under the terms of the

Award as originally granted) unless there is substituted concurrently a long-term incentive award with a value at least comparable to the loss in value attributable to such diminution in rights.

In no event shall any amendment of the Plan or an Award contemplated by Section 15 hereof be deemed an Adverse Change in the Plan.

15. DILUTION AND OTHER ADJUSTMENTS

In the event of any change in the Outstanding Shares of the Company by reason of any stock split, stock or extraordinary cash dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of Shares or other similar event, or in the event of an extraordinary cash dividend or other similar event, and if the Committee shall determine, in its sole discretion, that such change equitably requires an adjustment in the number or kind of Shares that may be issued under the Plan pursuant to Section 4, in the number or kind of Shares subject to, or the Stock Option price per share under, any outstanding Stock Option, in the number or kind of Shares which have been awarded as Restricted Stock or in the repurchase option price per share relating thereto, in the target number of Performance Shares which have been awarded to any participant, or in any measure of performance, then such adjustment shall be made by the Committee and shall be conclusive and binding for all purposes of the Plan.

16. DESIGNATION OF BENEFICIARY BY PARTICIPANT

A participant may name a beneficiary to receive any payment to which he may be entitled in respect of Performance Shares, Performance Units or Stock Appreciation Rights under the Plan in the event of his death, on a form to be provided by the Committee. A participant may change his beneficiary from time to time in the same manner. If no designated beneficiary is living on the date on which any amount becomes payable to a participant's executors or administrators, the term "beneficiary" as used in the Plan shall include such person or persons.

17. MISCELLANEOUS PROVISIONS

(a) No employee or other person shall have any claim or right to be granted an Award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving an employee any right to be retained in the employ of the Company or any subsidiary.

(b) A participant's rights and interest under the Plan may not be assigned or transferred in whole or in part either directly or by operation of law or otherwise (except in the event of a participant's death), including but not limited to, execution, levy, garnishment, attachment, pledge, bankruptcy

or in any other manner and no such right or interest of any participant in the Plan shall be subject to any obligation or liability or such participant.

(c) No Shares shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable Federal and state securities laws and Bermuda law.

(d) The Company and its subsidiaries shall have the right to deduct from any payment made under the Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the

Company to issue Shares upon exercise of a Stock Option, upon settlement of a Stock Appreciation Right, or upon payment of a Performance Share or a Performance Unit that the participant (or any beneficiary or person entitled to payment under Section 5(d)(iii)(C) hereof) pay to the Company, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold Federal, state or local income or other taxes. If the amount requested is not paid, the Company may refuse to issue Shares.

(e) The expenses of the Plan shall be borne by the Company. However, if an Award is made to an employee of a subsidiary:

(i) if such Award results in payment of cash to the participant, such subsidiary shall pay to the Company an amount equal to such cash payment; and

(ii) if the Award results in the issuance to the participant of Shares, such subsidiary shall pay to the Company an amount equal to fair market value thereof, as determined by the Committee, on the date such Shares are issued (or, in the case of issuance of Restricted Stock or of Shares subject to transfer and forfeiture conditions, equal to the fair market value thereof on the date on which such Shares are no longer subject to applicable restriction), minus the amount, if any received by the Company in exchange for such Shares.

(f) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under the Plan.

(g) By accepting any Award or other benefit under the Plan, each participant and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

(h) If a Purchaser of a subsidiary or business unit agrees to fully assume the obligations of the Company under a Participant's outstanding Awards

under the Plan or to replace them with similar or like awards with no diminution of value of the Awards as described in Section 12, then the Company shall be released from its obligations to such Participant with respect to such Awards without the requirement of any action by or approval of the Participant. If a Purchaser declines to assume or replace such obligations, the Company shall remain obligated under the Awards as provided in the Plan.

18. AMENDMENT

The Plan may be amended at any time and from time to time by the Board, but no amendment which increases the aggregate number of Shares which may be issued pursuant to the Plan or the class of employees eligible to participate shall be effective unless and until the same is approved by the shareholders of the Company. No amendment of the Plan shall adversely affect any right of any participant with respect to any Award previously granted without such participant's written consent.

19. TERMINATION

This Plan shall terminate upon the earlier of the following dates or events to occur:

(a) the adoption of a resolution of the Board terminating the Plan; or

(b) ten years from the date the Plan is initially or subsequently approved and adopted by the shareholders of the Company in accordance with Section 19 hereof.

No termination of the Plan shall alter or impair any of the rights or obligations of any person, without his consent, under any Award previously granted under the Plan.

Exhibit 10.25

ONEBEACON INSURANCE GROUP, LTD.

NON-QUALIFIED STOCK OPTION AGREEMENT

AGREEMENT made as of this 18th day of October, 2006, by and between OneBeacon Insurance Group, Ltd. ("the Company"), a Bermuda company limited by shares ("the Company"), and **T. Michael Miller** ("the Optionee").

W I T N E S S E T H :

WHEREAS, the Optionee is now employed by the Company or a subsidiary of the Company and the Company desires to promote the interests of the Company and its subsidiaries by providing the Optionee with incentives to continue and increase his or her efforts with respect to, and remain in the employ of, the Company and its subsidiaries and, as an inducement thereto, the Company has determined to grant to the Optionee an option pursuant to the OneBeacon Long-Term Incentive Plan (the "Plan").

NOW, THEREFORE, it is agreed between the parties as follows:

i) Grant of Option. Subject to the terms and conditions hereof, the Company hereby grants to the Optionee the right and option to purchase from the Company up to, but not exceeding in the aggregate, **277,826** shares of the Company's Common Shares, $0.01 par value (the "Common Shares"), at an exercise price of $30.00 per share (the "Option"). The Option is not intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

ii) Vesting of Right to Exercise Option. The Optionee may purchase from the Company the following aggregate number of shares covered by the Option on and after each of the following dates during the term of the Option:

Date	Number of Shares Available On a Cumulative Basis
Third anniversary of the date the Company consummates the initial public offering of its Common Shares	One-third of all option shares, rounded down to the nearest whole number of shares
Fourth anniversary of the date the Company consummates the initial public offering of its Common Shares	Two-thirds of all option shares, rounded down to the nearest whole number of shares
Fifth anniversary of the date the Company consummates the initial public offering of its Common Shares	100% of all option shares

The Option, to the extent vested, shall be exercisable in whole at any time or in part from time to time during the term of the Option. The term of the Option shall be five (5) years and six (6) months from the date the Company consummates the initial public offering of its Common Shares or such shorter period as is prescribed in paragraph 3. Notwithstanding anything in this Agreement or the Plan to the contrary, this Option shall not be exercisable unless, on or before the sixtieth day after the date of this award agreement, the Company consummates the initial public offering of its Common Shares.

3. Termination of Employment. If at any time the Optionee's employment with the Company or any subsidiary shall be terminated for any reason other than death or Disability (as described below), the Optionee shall have the right to exercise this Option to the extent of the shares with respect to which the Option could have been exercised by the Optionee as of the date of his or her termination of employment in accordance with its terms but in no event beyond the earlier of (i) three months after the date of termination of employment or (ii) the scheduled expiration of such Option. If the Optionee shall voluntarily terminate his or her employment with the Company (including retirement), the Board may determine that the Optionee may exercise his or her Option with respect to some or all of the shares subject to the Option as to which it would not otherwise be exercisable on the date of his or her voluntary termination; provided, however, that in no event may the Option be exercised after the scheduled expiration of the Option.

If an Optionee shall become Disabled, he may, at any time within three years of the date he becomes disabled (but in no event after the scheduled expiration date of the Option) exercise the Option with respect to (i) any shares as to which he could have exercised the Option on the date he became Disabled and (ii) if the Option is not fully exercisable on the date he becomes Disabled, the number of additional shares as to which the Option would have become exercisable had he remained an employee through the next date on which additional shares were scheduled to become exercisable under the Option.

If an Optionee shall die while holding an Option, his executors, administrators, heirs or distributees, as the case may be, at any time within one year after the date of such death (but in no event after the scheduled expiration of Option), may exercise the Option with respect to (i) any shares as to which the decedent could have exercised the Option at the time of his death, and (ii) if the Option is not fully exercisable on the date of his death, the number of additional shares as to which the Option would have become exercisable had he remained an employee through the next date on which additional shares were scheduled to become exercisable under the Option; provided,

however, that if death occurs during the three-year period following a Disability, the three-year period following a retirement or any period following a voluntary termination in respect of which the Board has exercised its discretion to grant continuing exercise rights, the Option shall not become exercisable as to any shares in addition to those as to which the decedent could have exercised the Option at the time of his death.

If an Optionee ceases to be employed by the Company or one of its subsidiaries by reason of Related Employment, he shall not be considered to have incurred a termination of employment for purposes of this Agreement.

4. Exercise of Option. The Optionee, from time to time during the period when the Option hereby granted may by its terms be exercised, may exercise the Option by delivering to the Company a written notice signed by the Optionee stating the number of shares that the Optionee has elected to purchase and the manner of payment for such shares. The notice shall be accompanied by payment in full by (a) cash or check, or, (b) delivery of shares of Common Shares, duly endorsed for transfer (or with duly executed stock powers attached), (c) Optionee's written request that the Company withhold a number of the Common Shares being acquired by Optionee having a fair market value equal to the cash exercise price thereof, such fair market value to be determined in such reasonable manner as may be provided from time to time by the Committee or as may be required in order to comply with or to conform to the requirements of any applicable or relevant laws or regulations or (d) any combination of the foregoing, for an amount equal to the purchase price of the shares then to be purchased (including any withholding taxes as determined by the Committee). Common Shares surrendered as payment for shares purchased pursuant to the exercise of this Option will be valued, for such purposes, at fair market value (as determined by the Committee) on the date of such Option exercise. As soon as practicable after receipt of the foregoing, the Company shall issue the shares in the name of the Optionee and deliver the certificates therefor to the Optionee.

Anything to the contrary herein notwithstanding, the Company's obligation to sell and deliver Common Shares under this Option is subject to such compliance with Federal and state laws, rules and regulations applying to the authorization, issuance or sale of securities as the Company deems necessary or advisable. The Company shall not be required to sell and deliver stock pursuant hereto unless and until it receives satisfactory proof that the provisions of the Securities Act of 1933 or the Securities Exchange Act of 1934 or the rules and regulations of the Securities and Exchange Commission promulgated thereunder or the provisions of any state law governing the sale of securities, or that there has been compliance with the provisions of such acts, rules, regulations and state laws.

5. Non-Assignability. The Option shall not be transferable by the Optionee other than by will or the laws of descent and distribution and may be exercised during the Optionee's lifetime only by the Optionee or by his or her guardian or legal representative. Any transferee of the Option shall be subject to the terms and conditions of this Agreement. No such transfer of the Option shall be effective to bind the Company

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unless the Company shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Company may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions of this Agreement. No assignment or transfer of this Option, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise except a transfer by the Optionee by will or by the laws of descent and distribution, shall vest in the purported assignee or transferee any interest or right herein whatsoever.

6. Disputes. As a condition of the granting of the Option, the Optionee and the Optionee's successors and assigns agree that any dispute or disagreement which shall arise under or as a result of this Agreement shall be determined by the Committee in its sole discretion and judgment and that any such determination and any interpretation by such Committee of the terms of this Agreement shall be final and shall be binding and conclusive for all purposes.

7. Dilution and Other Adjustments. In the event of any change in the Outstanding Shares of the Company by reason of any stock split, stock dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other similar event, and if the Committee shall determine, in its sole discretion, that such change equitably requires an adjustment in the number of shares subject to, or the Option price per share under, any outstanding Option, which has been awarded to any participant Optionee, then such adjustment shall be made by the Committee and shall be conclusive and binding for all purposes of the Plan.

8. Rights as Shareholder. The Optionee shall have no rights as a shareholder of the Company with respect to any of the unexercised shares until the issuance of a stock certificate or certificates upon the exercise of the Option in full or in part, and then only with respect to the shares represented by such certificate or certificates.

9. Notices. Every notice relating to this Agreement shall be in writing and if given by mail shall be given by registered or certified mail with return receipt requested. All notices to the Company shall be delivered to the Committee or addressed to the Compensation Committee of the Company at its offices at One Beacon Street, Boston, Massachusetts 02108. All notices by the Company to the Optionee shall be delivered to the Optionee personally or addressed to the Optionee at the Optionee's last address as then contained in the records of the Company or such other address as the Optionee may designate. Either party by notice to the other may designate a different address to which notices shall be addressed. Any notice given by the Company to the Optionee at the Optionee's last designated address shall be effective to bind any other person who shall acquire rights hereunder.

10. Provisions of Plan Controlling. The provisions hereof are subject to the terms and conditions of the Plan. In the event of any conflict between the provisions of this Option and the provisions of the Plan, the provisions of the Plan shall control. All

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capitalized concerning this Agreement shall have the same meaning, as in the Plan unless otherwise defined in this Agreement.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ONEBEACON INSURANCE GROUP, LTD.

By: /s/ T. Michael Miller
Name: T. Michael Miller
Its: President & CEO

OPTIONEE:

By: _____
Name: **T. Michael Miller**

Award Information
Grant Date: October 18, 2006
Options awarded: 277,826

Exhibit 12

WHITE MOUNTAINS INSURANCE GROUP, LTD.
Statement Re Computation of Ratio of Earnings to Fixed Charges
($ in millions except ratios)

	Year Ended				
	2006	2005	2004	2003	2002
Consolidated pretax income from continuing operations before minority interest, equity in earnings of affiliates, accounting changes and extraordinary items	$ 729.8	$ 305.2	$ 258.4	$ 373.9	$ 119.4
Distributed income of equity investees	85.6	—	—	3.7	—
Interest expense on debt	50.1	44.5	49.1	48.6	71.8
Interest portion of rental expense	16.4	16.4	15.5	14.3	15.3
Earnings	$ 881.9	$ 366.1	$ 323.0	$ 440.5	$ 206.5
Interest expense on debt	50.1	44.5	49.1	48.6	71.8
Interest portion of rental expense	16.4	16.4	15.5	14.3	15.3
Fixed charges	66.5	60.9	64.6	62.9	87.1
Ratio of earnings to fixed charges	**13.3**	**6.0**	**5.0**	**7.0**	**2.4**

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 2006

FULL NAME OF SUBSIDIARY	PLACE OF INCORPORATION
ESURANCE , INC.	DELAWARE, USA
ESURANCE HOLDINGS (BERMUDA) LTD.	BERMUDA
ESURANCE HOLDINGS INC.	DELAWARE, USA
ESURANCE INSURANCE COMPANY	WISCONSIN, USA
FOLKSAMERICA HOLDING COMPANY, INC.	NEW YORK, USA
FOLKSAMERICA REINSURANCE COMPANY	NEW YORK, USA
FUND AMERICAN COMPANIES, INC.	DELAWARE, USA
FUND AMERICAN ENTERPRISES HOLDINGS, INC.	DELAWARE, USA
FUND AMERICAN FINANCIAL SERVICES, INC.	DELAWARE, USA
FUND AMERICAN HOLDINGS AB	SWEDEN
FUND AMERICAN REINSURANCE COMPANY, LTD.	BERMUDA
GUILFORD HOLDINGS, INC.	DELAWARE, USA
HOMELAND INSURANCE COMPANY OF NEW YORK	NEW YORK, USA
LONE TREE HOLDINGS LTD.	BERMUDA
LONE TREE INSURANCE GROUP LTD.	BERMUDA
MILL SHARES HOLDINGS (BERMUDA) LIMITED	BERMUDA
ONEBEACON AMERICA INSURANCE COMPANY	MASSACHUSETTS, USA
ONEBEACON HOLDINGS (GIBRALTAR) LIMITED	GIBRALTAR
ONEBEACON HOLDINGS (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
ONEBEACON INSURANCE COMPANY	PENNSYLVANIA, USA
ONEBEACON INSURANCE GROUP LLC	DELAWARE, USA
ONEBEACON INSURANCE GROUP LTD.	BERMUDA
PENNSYLVANIA GENERAL INSURANCE COMPANY	PENNSYLVANIA, USA
SCANDINAVIAN REINSURANCE COMPANY LTD.	BERMUDA
SIRIUS INSURANCE HOLDING SWEDEN AB	SWEDEN
SIRIUS INTERNATIONAL INSURANCE CORPORATION	SWEDEN
THE NORTHERN ASSURANCE COMPANY OF AMERICA	MASSACHUSETTS, USA
WHITE MOUNTAINS ADVISORS LLC	DELAWARE, USA
WHITE MOUNTAINS HOLDINGS (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WHITE MOUNTAINS HOLDINGS BERMUDA LTD.	BERMUDA
WHITE MOUNTAINS INC.	DELAWARE, USA
WHITE MOUNTAINS INTERNATIONAL S.A.R.L.	LUXEMBOURG
WHITE MOUNTAINS RE FINANCIAL SERVICES LTD.	BERMUDA
WHITE MOUNTAINS RE GROUP, LTD.	BERMUDA
WHITE MOUNTAINS RE HOLDINGS, INC.	DELAWARE, USA
WHITE MOUNTAINS RE UNDERWRITING SERVICES LTD	BERMUDA
WHITE MOUNTAINS UNDERWRITING LIMITED	IRELAND
WM ALAMEDA (GIBRALTAR) LIMITED	GIBRALTAR
WM BECH (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM BELVAUX (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM CALETA (GIBRALTAR) LIMITED	GIBRALTAR
WM CUMBERLAND (GIBRALTAR) LIMITED	GIBRALTAR
WM FINDEL (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM KEHLEN (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM LAGUNA (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM LINGER (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM MERL (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM OLM (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM QUEENSWAY (GIBRALTAR) LIMITED	GIBRALTAR
WM REULER (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WM VIANDEN (LUXEMBOURG) S.A.R.L.	LUXEMBOURG
WMA HOLDINGS, INC.	DELAWARE, USA

Certain other subsidiaries of the Company have been omitted since, in the aggregate, they would not constitute a significant subsidiary.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements, as amended, on Form S-3 (No. 333-88352) and on Forms S-8 (No. 333-82563, 333-83206, 333-68438, 333-68460 and 333-132388) of White Mountains Insurance Group, Ltd. of our report dated February 28, 2007 relating to the financial statements, financial statement schedules, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 28, 2007

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Bruce R. Berkowitz does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Bruce R. Berkowitz

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Howard L. Clark does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Howard L. Clark

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Robert P. Cochran does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Robert P. Cochran

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Morgan W. Davis does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Morgan W. Davis

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Steven E. Fass does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Steven E. Fass

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that A. Michael Frinquelli does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ A. Michael Frinquelli

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that George J. Gillespie, III does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ George J. Gillespie, III

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that John D. Gillespie does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ John D. Gillespie

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Edith E. Holiday does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Edith E. Holiday

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Lowndes A. Smith does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Lowndes A. Smith

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Allan L. Waters does hereby make, constitute and appoint Raymond Barrette and Lowndes A. Smith, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day of February 2007.

/s/ Allan L. Waters

Exhibit 31.1

**PRINCIPAL EXECUTIVE OFFICER CERTIFICATION PURSUANT TO RULE 13a-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Raymond Barrette, Chairman & Chief Executive Officer of White Mountains Insurance Group, Ltd., certify that:

I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2006 of White Mountains Insurance Group, Ltd.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2007

By:

/s/ Raymond Barrette

Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER CERTIFICATION PURSUANT TO RULE 13a - 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, David T. Foy, Executive Vice President & Chief Financial Officer of White Mountains Insurance Group, Ltd. certify that:

I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2006 of White Mountains Insurance Group, Ltd.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2007

By:

/s/ David T. Foy
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

PRINCIPAL EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of White Mountains Insurance Group, Ltd. (the "Company"), for the period ending December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raymond Barrette, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ Raymond Barrette
Chairman and Chief Executive Officer
(Principal Executive Officer)

February 28, 2007

Exhibit 32.2

PRINCIPAL FINANCIAL OFFICER
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of White Mountains Insurance Group, Ltd. (the "Company"), for the period ending December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David T. Foy, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ David T. Foy
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

February 28, 2007