UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

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.)
Harborside Financial Center, Plaza 5, Jersey City, New Jersey	**07311-1114**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(201) 631-3300**

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 Act. Yes ý 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 ý

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 ý 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. ý

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 ý 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 ý

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, 2005, was $3,785,698,416.

As of March 3, 2006, 10,780,053 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 25, 2006 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

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 subsidiaries and affiliates in the businesses of property and casualty insurance and reinsurance. 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 Harborside Financial Center, Plaza 5, Jersey City, New Jersey, 07311-1114 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 the OneBeacon Insurance Group LLC family of companies (collectively OneBeacon), which are U.S.-based property and casualty insurance writers, 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. OneBeacon was acquired by White Mountains from Aviva plc (Aviva , formerly CGNU) on June 1, 2001 (the OneBeacon Acquisition).

The White Mountains Re segment consists of White Mountains Re Group, Ltd. and its subsidiaries. White Mountains Re offers lead reinsurance capacity for property, casualty, accident & health, aviation and marine exposures on a worldwide basis through its reinsurance subsidiaries, Folksamerica Reinsurance Company (Folksamerica Re , together with its parent, Folksamerica Holding Company, 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) from ABB Ltd. (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 in international property and marine excess reinsurance, through White Mountains Underwriting Limited (domiciled in Ireland and formed in 2001) and White Mountains Underwriting (Bermuda) Limited, formed in 2003 (collectively, WMU).

The Esurance segment consists of Esurance Holdings, Inc. and its subsidiaries (collectively, Esurance). Esurance, which has been a unit of White Mountains since October 2000, markets 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), as well as the International American Group, Inc. (the International American Group). 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 both Montpelier Re Holdings, Ltd. (Montpelier) and Symetra Financial Corporation (Symetra).

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White Mountains Operating Principles

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

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

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

Invest for Total Return. Historical insurance accounting has tended to hide unrealized gains and losses in the investment portfolio and over-reward reported investment income (interest and dividends). Regardless of the accounting, White Mountains must invest for the best growth in after-tax value over time. 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, which is headquartered in Boston, Massachusetts, has been a part of White Mountains since June 2001. OneBeacon is one of the oldest property and casualty insurers in the United States, tracing its roots to 1831 and the Potomac Fire Insurance Company. OneBeacon s legacy includes being among the first to issue automobile policies, honoring claims arising from the great San Francisco earthquake and the sinking of the Titanic, as well as insuring several U.S. presidents.

At December 31, 2005 and 2004, OneBeacon had $9.7 billion and $10.0 billion of total assets, respectively, and shareholder s equity of $2.0 billion and $2.3 billion, 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 provides specialty lines insurance products and a variety of segmented personal lines insurance products for individuals and commercial lines insurance products for businesses.

OneBeacon has built specialty businesses by providing customized coverages to certain niche markets. These specialty businesses are not subject to extreme competitive market conditions and are distinct in their product design. Each specialty business has its own operations and distribution channels that target specific customer groups. OneBeacon s specialty lines insurance products include the following:

Assigned risk services: OneBeacon offers Limited Assigned Distribution (LAD) and Commercial Limited Assigned Distribution (CLAD) services to insurance companies required to accept personal and/or commercial automobile assignments through assigned risk plans in ten states. OneBeacon writes the majority of its LAD and CLAD business through the New York Automobile Insurance Plan (NYAIP) and the New Jersey Personal Automobile Insurance Plan (NJ PAIP). During 2005, OneBeacon also began to write such business through other state programs, including California, Connecticut, Delaware, Maine, Pennsylvania, Texas and Vermont, as well as the District of Columbia.

Medical errors and omissions: provides coverage for claims arising from direct patient treatment, such as making diagnoses, rendering opinions or providing advice or referral to another physician. Medical errors and omissions also provides coverage for professional committee activities as a member of an accredited hospital staff or any professional medical association or committee. These coverages are generally offered to mid-sized hospitals and/or managed care organizations and to individual physicians, but only through selected programs.

Ocean marine: provides coverage for losses to an insured s vessel, cargo and/or its marine property as a result of collision, fire, piracy, windstorm or other perils. Ocean marine coverages include cargo, hull, protection and indemnity, primary and excess liability, marina package, comprehensive marina liability package and yacht products.

Agricultural and rural marketplace products: policies providing property and liability coverages for dairy farms, equine farms, farm equipment dealers, orchard and other commercial farms. Also provides liability and umbrella coverages for farm owners as a package and property, liability and umbrella coverages for select commercial businesses, such as feed stores, seed merchants, fruit and vegetable packers and shippers, and others actively involved in support of farming operations. Coverage does not include multi-peril crop insurance or crop hail insurance.

Excess and surplus lines property: excess property covers the insured against certain damages over and above those covered by primary policies or a large self-insured retention. Specialized insurance coverage is available on a surplus lines basis in instances where such coverage is unavailable from insurers licensed (admitted) within a particular state. OneBeacon entered the excess and surplus lines property business in 2004.

Tuition reimbursement: covers tuition payments due to insured schools and colleges when a student is unable to complete a school term as a result of a covered reason for withdrawal (medical and in certain instances voluntary withdrawal and involuntary dismissal).

Community banking and lawyers professional liability: provides professional liability coverages for community banks with assets of $3 billion or less and law firms employing fewer than 150 attorneys. OneBeacon also offers its community banking customers its commercial package product, thereby providing comprehensive insurance solutions.

OneBeacon s personal lines coverages include homeowners insurance, segmented private passenger automobile and package policies sold through select independent agents. In addition, OneBeacon provides management services for a fee to reciprocal exchanges. Since OneBeacon s acquisition of the renewal rights on Atlantic Mutual s commercial lines business in 2004 (see page 8), OneBeacon s focus on commercial lines has been to write property, liability, automobile and other related lines for small and mid-sized businesses for specific industry segments. While its personal and commercial lines are subject to more competitive pressures than its specialty lines, OneBeacon believes that it has created certain niches in its personal and commercial businesses through proper segmentation in the design and rating of its products. OneBeacon s objective is to underwrite only profitable business without regard to market share or premium growth. OneBeacon s personal and commercial lines insurance products include the following:

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.

Commercial property: covers losses to a business premises, inventory and equipment as a result of weather, fire, theft and other causes.

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.

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.

Multi-peril: 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.

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.

Net written premiums in OneBeacon s other lines of business are primarily from reciprocal insurance exchanges administered by OneBeacon and premiums written during 2003 under the Liberty Agreement (as defined below).

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). The renewal rights under the Liberty Agreement expired on October 31, 2003. As a result, OneBeacon did not write any new premiums in 2005 or 2004 under the Liberty Agreement, but recorded earned premium in 2004 from policies written under the Liberty Agreement in 2003.

For the twelve months ended December 31, 2005, 2004 and 2003, OneBeacon s net written premiums by line of business were as follows:

Net written premiums by line of business ($ in millions)	Year Ended December 31, 2005	2004	2003
Specialty	**$ 840.2**	$ 848.5	$ 733.7
Personal	**618.7**	724.7	676.8
Commercial	**610.9**	807.1	426.7
Other lines	**51.3**	78.8	135.3
Total	**$ 2,121.1**	$ 2,459.1	$ 1,972.5

Specialty Lines

OneBeacon s specialty businesses include AutoOne, medical errors and omissions (offered through OneBeacon Professional Partners, OBPP), ocean marine (offered through International Marine Underwriters, IMU), agricultural (Agri), excess and surplus lines property business (offered through OneBeacon Specialty Property, OBSP), tuition reimbursement (offered through A.W.G. Dewar, Inc., Dewar) and other specialty products. OneBeacon offered additional rural and farm related products through National Farmers Union Property and Casualty Company (NFU) until its sale on September 30, 2005.

For the twelve months ended December 31, 2005, 2004 and 2003, OneBeacon s specialty lines net written premiums were as follows:

Specialty lines net written premiums ($ in millions)	Year Ended December 31, 2005	2004	2003
AutoOne	**$ 248.0**	$ 263.1	$ 233.8
OBPP	**149.5**	119.5	68.7
IMU	**133.6**	136.5	125.7
NFU (sold on September 30, 2005)	**132.5**	178.5	169.0
Agri	**84.0**	83.6	84.0
Dewar	**45.6**	44.6	43.4
OBSP	**43.6**	19.2	
Other	**3.4**	3.5	9.1
Total specialty lines	**$ 840.2**	$ 848.5	$ 733.7

AutoOne. As a condition of its license to write automobile business within most states, an insurance carrier is obligated by statute to accept future assignments from the assigned risk plan for that state. Assigned risk plans create a residual insurance market that provides personal automobile insurance for those who cannot otherwise obtain it in the voluntary market. Insurance carriers that are subject to assignments may contractually satisfy their assigned risk obligation by transferring their assignments to another insurance company or by utilizing various credits offered in New York and certain other states (i.e. take-out, territorial and youthful driver credits).

The process of transferring assigned risk obligations for personal auto is called Limited Assigned Distribution or LAD and the companies that assume these obligations are called LAD servicing carriers. The process of transferring assigned risk obligations for commercial auto is called Commercial Limited Assigned Distribution or CLAD and the companies that assume this obligation are called CLAD servicing carriers. Numerous states have similar programs for personal and commercial automobile assignments. AutoOne has launched a program to expand its services into an additional twelve states for 2006. With this expansion, AutoOne will provide LAD and/or CLAD services in all twenty-two states where such obligations may be assumed by a servicing carrier for a negotiated rate.

In addition to LAD and CLAD services, AutoOne also writes voluntary take-out business under NYAIP rules, whereby policies previously written through the assigned risk plan are taken out of the assigned risk pool and written voluntarily. AutoOne receives credits for taking these policies out of the pool. These credits may be utilized to reduce AutoOne s assigned risk quota obligations, or they may be sold to other carriers to reduce their quota obligations. In 2005, AutoOne wrote more take-out business than all other carriers in New York combined.

In late 2004, AutoOne introduced a multi-tiered private passenger auto product in New York. This sophisticated product utilizes underwriting tiers to move the policy premium rates higher or lower based on underwriting rules and risk characteristics. The tiered structure is a key element in the design, as it provides the flexibility needed to adjust to changing market and competitor conditions.

OBPP. OneBeacon entered into the professional liability markets in 2002 through OBPP, which provides insurance and excess of loss coverage to the healthcare industry, including hospital professional liability (HPL), managed care errors and omissions (MCE&O) and HMO reinsurance. Additionally, OBPP provides directors and officers liability coverage and medial liability coverage. In June 2005, OneBeacon acquired the renewal rights to the HPL and MCE&O business of Chubb Specialty. In May 2005, OBPP added smaller and middle market media liability insurance capabilities by acquiring First Media Insurance Specialists, Inc. These transactions added $35 million of net written premium in 2005.

IMU. IMU offers insurance products that specialize in the ocean marine marketplace. IMU s products include coverage for cargo, hull, yacht, marina and primary and excess liability. IMU is a franchise with an extensive history of profitability and outperforming the industry. The business is operated through nine regional offices throughout the United States providing local expertise and decision making.

NFU. On September 30, 2005, OneBeacon sold NFU to QBE Insurance Group for approximately $138 million, which resulted in a pre-tax gain of $26 million. The transaction included NFU s wholly-owned subsidiary, United Security Insurance Company.

Agri. Agri specializes in commercial farm and ranch and commercial agricultural package policies. Agri is a leading agricultural insurer focused on twelve core states and select targeted commercial agricultural segments. Marketing is focused primarily on southern states stretching from Kentucky to Arizona, and the west coast. Agri targets commercial agricultural segments that are low-to-moderate hazardous risks, including seed merchants, feedlots, wholesale nurseries, livestock auction yards and fruit and vegetable growers, packers and shippers.

Dewar**.** Dewar, which has offered tuition reimbursement insurance since 1930, provides customized policies to a large number of the leading independent schools and colleges in North America. Dewar is the originator of the Tuition Refund Plan, a means of protecting schools and parents from the financial consequences of withdrawals and dismissals.

OBSP. During 2004, OneBeacon entered the excess and surplus lines property business through OBSP, which markets products through brokers in all fifty states. OBSP s products offer attachment points and policy limits tailored to specific business-class and market conditions. Target classes include habitational risks (e.g., apartments and condominiums), municipalities and school districts, real estate and related classes (e.g., offices buildings, shopping centers), retail, wholesale (e.g., warehousing), builders risks and other inland marine classes. OBSP is exposed to large catastrophes, like hurricane Katrina, that cause losses to insured property in excess of attachment points in its policies. OBSP manages its catastrophic wind, earthquake and terrorism risks within the OneBeacon catastrophe management programs (see **"Reinsurance Protection"** below), including individual risk and portfolio loss modeling and reinsurance protection.

Personal Lines

OneBeacon s personal lines include automobile, homeowners and package products (package products are combination policies offering home and automobile coverage with optional umbrella, boatowners and other coverages). OneBeacon s mix of personal lines products between automobile and homeowners, including package, was 64% and 28%, respectively, of personal lines 2005 net written premium, compared to 67% and 25%, respectively, during 2004 and 63% and 30%, respectively, during 2003. OneBeacon writes the majority of its personal business in New York, Massachusetts and Maine.

In 2004, OneBeacon launched OneChoice, 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 was initially launched in the Northeast. During 2005, in addition to expanding its OneChoice product within its core Northeast territory by rolling out additional products in Maine, New Jersey, Massachusetts and New York, OneBeacon also expanded its OneChoice product into Arizona. In addition, a surplus lines operation became operational in 2005, with an initial focus on high value homes.

Commercial Lines

OneBeacon s commercial lines products principally include multi-peril, commercial automobile and workers compensation, which represented 52%, 23% and 11%, respectively, of commercial lines 2005 net written premium, compared to 54%, 23% and 14%, respectively, during 2004 and 55%, 23% and 8%, respectively, during 2003.

In late 2004, OneBeacon s commercial lines operation 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. In 2005, OneBeacon s middle-market and small-business operations represented 87% and 13% of commercial lines net written premium, respectively.

The middle-market division offers total protection for a broad range of mid-size businesses and industries. Tailored products and customized risk control and claims services are a focus of this division. In 2005, OneBeacon continued to be segment focused through its middle-market operations with 60% of its net written premium in segmented industries. In addition, OneBeacon grew its inland marine net written premium by 37% over 2004. Inland marine now represents 5% of total middle-market net written premium as compared to only 3% in 2004.

The small-business operation offers package, auto, workers compensation and umbrella policies typically to small businesses with account premium less than $25,000 and less than 25 employees. Target programs are in the office, service and retail classes. During 2005, OneBeacon expanded its small business offering products into eight additional states.

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 $404 million. This transaction has allowed OneBeacon to sell a highly segmented product to small and mid-sized companies on an industry basis. These select industries include, but are not limited to technology, professional services, printers and wholesalers.

During the third quarter of 2004, OneBeacon entered into an agreement to sell the renewal rights to most of its non-Atlantic Mutual New York commercial business to Tower Insurance Group. As a result of this transaction, approximately $110 million of premiums written in 2004 were subject to this renewal rights agreement in 2005.

Other Lines

OneBeacon s other lines include the results of insurance reciprocals that are included in OneBeacon s GAAP results and also business assumed under the Liberty Agreement.

Reciprocals are policyholder-owned insurance associations. 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 began writing personal automobile coverage for new customers in August 2002. During 2004, OneBeacon formed Houston General Management Company to provide management services for a fee to another reciprocal, Houston General Insurance Exchange. In November 2005, Houston General Insurance Exchange commenced writing business in Arizona using the full suite of OneChoice products (auto, home and package). OneBeacon has no ownership interest in New Jersey Skylands Insurance or Houston General Insurance Exchange. As a result of accounting literature changes, OneBeacon began consolidating the results of reciprocals on March 31, 2004 (See **Note 15 - "Variable Interest Entities"** in the accompanying Consolidated Financial Statements). Net written premiums of New Jersey Skylands Insurance and Houston General Insurance Exchange that were included in OneBeacon s results totaled $44 million and $75 million in 2005 and 2004, respectively.

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:

	Year Ended December 31,		
Specialty, personal and commercial net written premiums by state	**2005**	**2004**	**2003**
New York	**27%**	30%	36%
Massachusetts	**17**	17	20
New Jersey	**9**	9	3
California	**7**	8	2
Maine	**6**	6	2
Connecticut	**5**	5	5
Other (1)	**29**	25	32
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, 2005, 2004 and 2003.

Marketing

OneBeacon offers its products through a combination of independent agents, regional and national brokers and wholesalers. In total, OneBeacon has approximately 2,000 agency and distribution relationships. No agent or broker produced more than 2% of OneBeacon s premiums during 2005.

OneBeacon s specialty businesses are located in separate locations, logistically appropriate to their target markets. AutoOne issues its assigned risk (LAD and CLAD) business through independent agents and brokers in its operating states. In New York, AutoOne generates takeout credits by writing policies from select insurance brokers that were previously in the NYAIP, and sells these credits to insurance companies subject to NYAIP assignments. AutoOne markets its LAD and CLAD services and NY takeout credits directly to insurance carriers seeking assigned risk solutions. OBPP distributes its products through selected national and regional brokers and agents. IMU distributes its products through a network of select agents that specialize in the ocean marine business. Agri distributes its products through independent agencies. OBSP s excess property solutions are provided primarily through surplus lines wholesalers. Dewar s affiliate, A.W.G. Dewar Agency, distributes the tuition refund products to independent schools and colleges throughout North America. Through these distribution channels, OneBeacon leverages its knowledge about specialty markets to provide products and services that are tailored to meet customer needs.

OneBeacon distributes its personal and commercial lines products through select independent insurance agents. OneBeacon believes that independent agents provide complete assessments of their clients needs, which results in appropriate coverages and prudent risk management. OneBeacon believes that independent agents will continue to be a significant force in overall industry premium production and management intends to increase the cross-selling of specialty, commercial and personal business among its top agents and brokers.

Underwriting and Pricing

OneBeacon believes that there must be a realistic expectation of attaining an underwriting profit on all the business it writes as well as a demonstrated fulfillment of that expectation over time. Adequate pricing is a critical component to the achievement of an underwriting profit and requires a disciplined approach towards pricing insurance products. Inadequate pricing can be caused by pressures from: (1) insurance companies selling their products at rates less than those acceptable to OneBeacon because they either underestimate ultimate claim costs or overestimate the amount of investment income and investment gains they will earn on premiums collected before claims are paid, (2) insurance companies willing to accept a lower return on investment for their stakeholders than OneBeacon, (3) insurance companies seeking to increase revenues and market share by reducing the price of their products beneath levels acceptable to OneBeacon, (4) the emergence and continued growth of competitors that have lower cost structures, and (5) state regulation, legislation and judicial mandates.

Since 2003, OneBeacon has used tiered rating plans in both its personal and commercial lines that permit OneBeacon 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. Management believes that this significant improvement in the accuracy and precision of OneBeacon s rate plans moves it toward the pricing sophistication of the best insurance underwriters in the market.

These tiers are just one example of OneBeacon s segmented underwriting and pricing strategy. Segmentation is a key driver of OneBeacon s success in specialty lines and is being carried over into personal and commercial lines. OneBeacon develops proprietary knowledge about the industry, class and risk characteristics of its customers, which provides it with a competitive edge when offering terms and conditions on individual accounts. OneBeacon believes this will deliver superior returns versus a more generalist underwriting approach.

OneBeacon also monitors pricing activity on a weekly basis and regularly measures usage of tiers, credits, debits and limits. In addition, it regularly updates base rates to achieve targeted returns on surplus and attempts to shift writings away from lines and classes where pricing is inadequate. Lastly, OneBeacon expends considerable effort to measure and verify exposure bases and values.

Competition

Property and casualty insurance is highly competitive and extensively regulated by state insurance departments. 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 the regional Farm Bureaus. In personal and commercial lines, OneBeacon competes with numerous regional and national insurance companies, most notably The St. Paul Travelers Companies, Zurich Insurance Group, CNA Financial, the Hartford Financial Services Group, The Hanover Insurance Group, W.R. Berkley Corporation, The Chubb Corporation, Progressive Insurance, Allstate Insurance and Liberty Mutual. The more significant competitive factors for most insurance products offered by OneBeacon 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, 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 support efforts by regulatory bodies and trade associations to curtail the cost of fraud.

In 2005, OneBeacon completed several operational changes in the claims department that began in 2004. Claims are now separately organized by specialty, commercial, personal and run-off operations. This segmented approach has allowed OneBeacon to better identify and manage claims handling costs. In addition, a shared service unit was established to better manage costs related to both staff and vendors. OneBeacon has also introduced a total claims cost management program that gives equal importance to controlling claims handling costs, legal expenses and claims payments, enabling OneBeacon to lower its overall claims handling costs.

OneBeacon s claims department utilizes a modern 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 OneBeacon s Staff Counsel Program, 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 legal invoices submitted by outside counsel.

Calendar year reported claims in OneBeacon s run-off operations were 3,300 in 2005 compared to 5,900 in 2004, a 44% reduction. Total open claims for run-off operations were 8,800 at December 31, 2005 compared to 15,300 at December 31, 2004, a 42% reduction. These numbers included all of the claims that were previously handled by Liberty Mutual as a Third Party Administrator (TPA). Most of OneBeacon s claims for run-off operations are handled by in-house adjusters.

National Indemnity Company (NICO) is used as a TPA for asbestos and environmental claims reinsured under the NICO Cover (as defined on page 12). OneBeacon claims department personnel are consulted by NICO on major claims. As with all TPAs, claims department personnel perform claim audits on NICO 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 November 26, 2002, President Bush signed the Terrorism Risk Insurance Act (the Terrorism Act) establishing 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. 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 requires primary commercial insurers to make terrorism coverage available and provides Federal protection for certain losses above both individual company retention and industry retention levels. The following types of coverage are excluded from the program; commercial automobile, burglary and theft, surety, farm-owners 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 $150 million in 2006. The aggregate industry retention levels are $25 billion in 2006 and $27.5 billion in 2007. The Federal government will pay 90% of covered terrorism losses that exceed OneBeacon s or the industry s retention levels in 2006, and 85% of such losses in 2007, up to a total of $100 billion in each year.

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. 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 probable maximum loss (PML) from a terrorism event within any half-mile radius in a metropolitan area or target risk will not exceed $200 million. (PML is a modeling technique that measures a company s catastrophic exposure as the maximum probable loss from a defined loss event scenario.) The financial exposure of potential new business is evaluated when it is located in an area of existing concentration or individually presents significant terrorism exposure. Additionally, formal reports are generated quarterly to help validate that OneBeacon s terrorism exposures do not exceed limits specified within its corporate standards. As a result, OneBeacon believes that it has taken appropriate actions to mitigate its exposure to losses from terrorist attacks and will continue to monitor its terrorism exposure in the future. Nonetheless, risks insured by OneBeacon, including those covered by the Terrorism Act, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material to the Company.

Reinsurance Protection

In the ordinary course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third party reinsurers in order to provide diversification of its business and 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 PML forecasting to quantify its exposure to catastrophic losses. OneBeacon continually assesses and implements programs 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 natural catastrophe exposures, based on a 250-year PML single event scenario, are Northeastern United States windstorm and California earthquake.

OneBeacon seeks to further reduce its exposure to catastrophe losses through the purchase of catastrophe reinsurance. Effective July 1, 2005, OneBeacon renewed its normal property catastrophe reinsurance program to cover its full estimated PML (one-in-250 year) through June 30, 2006. 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. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

OneBeacon 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 other types of terrorist attacks, and commercial property losses resulting from other types of domestic terrorist attacks or events not certified under the Terrorism Act.

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 reinsures 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 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 connection with the OneBeacon Acquisition, Aviva caused OneBeacon to purchase 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: a full risk-transfer cover from NICO for up to $2.5 billion in old asbestos and environmental claims (the NICO Cover) and an adverse development cover from General Reinsurance Corporation (GRC) for up to $400 million on additional losses occurring in accident years 2000 and prior (the GRC Cover).

Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectibility of balances due from its reinsurers is critical to OneBeacon s financial strength. See **Note 4 Third Party Reinsurance** in the accompanying Consolidated Financial Statements for a discussion of OneBeacon s top 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 ten 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 losses and LAE. The liability represents the estimated amount of losses 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 losses 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 losses and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II 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 losses 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 III 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, 2005. Section IV shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2005. Section V shows the cumulative amount of net losses and LAE paid relating to recorded liabilities as of the end of each succeeding year.

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

($ in millions)	1995	1996	1997	1998 (2)(5)	1999	2000	2001	2002	2003	2004	2005
I. Liability for unpaid losses and LAE:											
Gross balance	$ 5,844.4	$ 5,804.4	$ 5,655.9	$ 6,944.0	$ 6,368.8	$ 6,982.7	$ 8,425.2	$ 7,630.5	$ 6,241.2	$ 5,475.5	$ 5,713.4
Less: reins. recoverables on unpaid losses and LAE	(1,307.4)	(1,260.4)	(1,159.2)	(1,651.9)	(1,285.6)	(1,276.4)	(3,609.7)	(3,560.6)	(2,984.0)	(2,714.7)	(3,382.0)
Net balance	$ 4,537.0	$ 4,544.0	$ 4,496.7	$ 5,292.1	$ 5,083.2	$ 5,706.3	$ 4,815.5	$ 4,069.9	$ 3,257.2	$ 2,760.8	$ 2,331.4
II. Net liability re- estimated as of:											
1 year later	4,584.7	4,627.8	5,370.1	5,305.3	5,901.2	4,815.8	4,872.9	4,216.7	3,357.4	2,855.8	
2 years later	4,667.1	5,476.0	5,424.7	5,985.4	5,013.5	4,913.7	5,155.0	4,337.0	3,478.4		
3 years later	5,460.6	5,549.0	5,965.0	5,002.8	5,001.5	5,384.7	5,244.0	4,451.2			
4 years later	5,510.6	5,924.8	4,980.5	4,932.1	5,297.5	5,429.3	5,325.3				
5 years later	5,779.5	4,948.0	4,911.8	5,117.6	5,243.4	5,482.0					
6 years later	4,794.7	4,900.4	5,069.3	5,006.1	5,279.5						
7 years later	4,749.4	5,028.9	4,902.3	5,017.7							
8 years later	4,871.8	4,867.4	4,910.2								
9 years later	4,714.2	4,868.0									
10 years later	4,713.6										
III. Cumulative net (deficiency)/ redundancy	$ (176.6)	$ (324.0)	$ (413.5)	$ 274.4	$ (196.3)	$ 224.3	$ (509.8)	$ (381.4)	$ (221.2)	$ (95.0)	$
Percent (deficient)/ redundant	(3.9)%	(7.1)%	(9.2)%	5.2%	(3.9)%	3.9%	(10.6)%	(9.4)%	(6.8)%	(3.4)%	%
IV. Reconciliation of net liability re- estimated as of the end of the latest re- estimation period (see II. above):											
Gross re-estimated liability	8,777.5	8,931.1	8,892.2	9,486.9	9,489.6	9,667.7	9,934.7	9,007.4	7,341.4	6,364.0	
Less: gross re- estimated reinsurance recoverable	(4,063.9)	(4,063.1)	(3,982.0)	(4,469.2)	(4,210.1)	(4,185.6)	(4,609.4)	(4,556.2)	(3,863.1)	(3,508.2)	
Net re-estimated liability	$ 4,713.6	$ 4,868.0	$ 4,910.2	$ 5,017.7	$ 5,279.5	$ 5,482.1	$ 5,325.3	$ 4,451.2	$ 3,478.3	$ 2,855.8	$
V. Cumulative net amount of liability paid through:											
1 year later	1,476.6	1,594.8	1,684.3	1,815.2	1,966.5	2,007.9	1,892.0	1,656.9	1,463.7	1,143.8	
2 years later	2,372.6	2,621.3	2,732.5	2,954.8	3,112.6	3,213.8	3,101.3	2,834.7	2,345.0		
3 years later	3,083.3	3,331.1	3,515.0	3,702.2	3,882.3	4,057.3	4,040.5	3,579.0			
4 years later	3,571.3	3,872.2	4,028.8	4,125.9	4,394.5	4,677.2	4,622.4				
5 years later	3,961.5	4,225.0	4,282.8	4,421.0	4,736.0	5,050.4					
6 years later	4,219.2	4,398.1	4,464.4	4,627.2	4,966.0						
7 years later	4,329.4	4,516.6	4,584.6	4,780.4							
8 years later	4,416.0	4,609.4	4,694.6								
9 years later	4,485.7	4,691.3									
10 years later	4,555.6										

(1) In 1998, OneBeacon was formed as a result of a pooling of interests between Commercial Union and General Accident. All historical balances have been restated as though the companies had been merged throughout the periods presented.

(2) OneBeacon acquired Houston General Insurance Company in 1998 and contributed it to Houston General Insurance Exchange in 2005. All liabilities related to this entity have been shown from 1998 forward in this table as it is still 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 have been 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 table presented below represents OneBeacon s cumulative net deficiency without regard to the NICO Cover and the GRC Cover.

	Years Ended December 31,										
($ in millions)	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Cumulative net deficiency adjusted for the NICO Cover and the GRC Cover	$ (2,277.0)	$ (2,447.8)	$ (2,573.0)	$ (1,938.0)	$ (2,490.8)	$ (2,194.2)	$ (862.7)	$ (734.4)	$ (574.2)	$ (448.0)	$
Percent deficient	(50.2)%	(53.9)%	(57.2)%	(36.6)%	(49.0)%	(38.5)%	(17.9)%	(18.0)%	(17.6)%	(16.2)%	%

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,		
($ in millions)	**2005**	**2004**	**2003**
Statutory reserves	**$ 4,253.4**	$ 4,413.4	$ 5,085.5
Reinsurance recoverable on unpaid losses and LAE (1)	**1,455.2**	1,046.8	1,197.5
Reserves allocated from other segments, net	**41.6**	44.5	
Other (2)	**(36.8)**	(29.2)	(41.8)
GAAP reserves	**$ 5,713.4**	$ 5,475.5	$ 6,241.2

(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 $36.8 million, $36.1 million and $38.0 million in 2005, 2004 and 2003 in excess of statutorily defined discount.

WHITE MOUNTAINS RE

During 2004, White Mountains formed White Mountains Re, which combined Folksamerica, Fund American Reinsurance Company, Ltd. (Fund American Re) and WMU with the newly acquired Sirius to form a global reinsurance organization.

White Mountains Re offers lead reinsurance capacity for property, casualty, accident & health, aviation and marine exposures on a world-wide basis and writes direct program insurance business through Sirius America. White Mountains Re also provides reinsurance advisory services through WMU, specializing in international property and marine excess reinsurance. White Mountains Re has offices in Belgium, Bermuda, Chicago, Connecticut, Dublin, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich. At December 31, 2005 and 2004, White Mountains Re had $8.5 billion and $8.2 billion of total assets and $1.9 billion and $1.7 billion of shareholder s equity, respectively.

Folksamerica is a multi-line property and casualty reinsurer that provides reinsurance to insurers primarily in the United States, Canada, Continental Europe, Latin America, the Caribbean and Japan. Folksamerica Re is rated A (Excellent, the third highest of fifteen ratings) by A.M. Best and A- , (Strong, the seventh highest of twenty-one ratings) with a positive outlook by Standard & Poor s.

On April 16, 2004, White Mountains completed the Sirius Acquisition, through which the principal operating companies acquired were Sirius International and Sirius America. Stockholm-based Sirius International is a multi-line property and casualty reinsurer that provides reinsurance primarily in Europe, North America and Asia and is the largest reinsurance company domiciled in Scandinavia (based on gross written premiums). Sirius America is a U.S.-based insurer that specializes in primary insurance programs. Sirius International and Sirius America are both rated A (Excellent, the third highest of fifteen ratings) by A.M. Best. Sirius International is also rated A- , (Strong, the seventh highest of twenty-one ratings) with a positive outlook by Standard & Poor s.

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 pays CNA Re a renewal commission on the premiums renewed over the two contract renewal periods subsequent to October 1, 2003.

In December 2001, White Mountains formed WMU, a reinsurance advisory company domiciled in Ireland. As part of a corporate reorganization, WMU established a sister company in Bermuda in June 2003. WMU provides reinsurance underwriting advice and reinsurance portfolio analysis services to both Folksamerica and Olympus Reinsurance Company Ltd. (Olympus). Prior to the Sirius Acquisition, WMU s Irish company, a specialist in handling non-marine property treaty excess of loss classes, expanded White Mountains Re s international profile, particularly in the United Kingdom, Continental Europe, Japan and Australia. WMU s Bermuda company specializes in excess reinsurance coverages for the marine and energy sector.

Since 1999, in addition to the transactions discussed above, White Mountains Re has made the following acquisitions:

On November 11, 2004, Sirius International acquired 100% of 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 100% of 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.

In 2002, Folksamerica acquired 100% of Imperial Casualty and Indemnity Insurance Company, a company in run-off.

In 2001, Fund American Re acquired substantially all of the international reinsurance operations of Folksam International Insurance Company and Folksamerica acquired 100% of 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 100% of PCA Property & Casualty Insurance Company (PCA), a company in run-off.

In 1999, Folksamerica acquired 100% of USF Re Insurance Co.

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 corresponding increase in its capital or surplus. Reinsurers may also purchase reinsurance, known as retrocessional reinsurance, to cover their own risks assumed from primary 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. In the underwriting of treaty reinsurance, the reinsurer does not evaluate each individual risk and generally accepts the original underwriting decisions made by the ceding insurer. 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 an agreed 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, reinsurance companies 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. However, this difference is less significant for reinsurers like White Mountains Re that write large volumes of short-tailed coverage, such as property reinsurance.

Classes of Business

White Mountains Re writes three main classes of reinsurance: property, liability and accident and health. White Mountains Re s net written premiums by class of business for the years ended December 31, 2005, 2004 and 2003 were as follows:

Business class	**Year Ended December 31,**					
(Millions)		**2005**		**2004**		**2003**
Property	**$**	**567.4**	$	432.1	$	314.6
Liability		**403.4**		524.5		450.7
Accident and Health		**169.4**		151.6		88.4
Other		**163.9**		138.1		32.0
Total	**$**	**1,304.1**	$	1,246.3	$	885.7

White Mountains Re writes both treaty and facultative reinsurance, as well as direct business. The majority of White Mountains Re s premiums are derived from treaty reinsurance contracts both on a quota share and an excess of loss basis, which in 2005 amounted to 51% and 36%, respectively, of its total net written premiums, while direct business represented 13% of total net written premium.

During the years ended December 31, 2005, 2004 and 2003, White Mountains Re received no more than 10% of its gross reinsurance premiums from any individual ceding company. During the years ended December 31, 2005, 2004 and 2003, White Mountains Re received approximately 40%, 51% and 58%, respectively, of its gross reinsurance written premiums from three major, third-party reinsurance brokers as follows: (1) AON Re - 18%, 22% and 25%, respectively; (2) Benfield - 14%, 16% and 19%, respectively; and (3) Guy Carpenter - 8%, 13% and 14%, respectively.

Geographic Concentration

White Mountains Re s net written premiums by geographic region for the years ended December 31, 2005, 2004 and 2003 were as follows:

Geographic region	**Year Ended December 31,**		
(Millions)	**2005**	**2004**	**2003**
United States	**$ 878.9**	$ 846.7	$ 702.5
Europe	**315.6**	303.5	114.0
Canada, the Caribbean and Latin America	**47.2**	42.4	53.6
Asia and Other	**62.4**	53.7	15.6
Total	**$ 1,304.1**	$ 1,246.3	$ 885.7

Marketing

White Mountains Re, which conducts its reinsurance business through Folksamerica and Sirius International, obtains most of its reinsurance business from reinsurance brokers. Business submissions come from intermediaries that represent the ceding company or through submissions recommended by WMU. White Mountains Re considers both the intermediary and the ceding company to be its clients in any placement. White Mountains Re has developed strong business relationships over a long period of time with the management of many of its ceding companies. 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. Often the ceding company and the broker will 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 broker will offer participation to qualified reinsurers until the program is fully subscribed.

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 (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 intermediary s commissions constitute a significant portion of White Mountains Re s total acquisition costs.

As mentioned above, White Mountains Re also writes direct program business through Sirius America, which began its program insurance operations in 1999. Sirius America works with managing general agents to produce U.S. based liability, property and accident & health insurance programs for small and mid-sized commercial accounts. Sirius America establishes strict underwriting guidelines, closely monitors all exposures and performs periodic on-site audits of the managing general agents to confirm compliance with established guidelines and procedures.

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Underwriting and Pricing

White Mountains Re derives its business from a broad spectrum of ceding insurers including national, regional, specialty and excess and surplus lines writers, both in the United States and internationally. White Mountains Re determines which risks it accepts based on the anticipated underwriting results of the transaction, which are evaluated on a variety of factors including types of risk, the quality of the reinsured, the attractiveness of the reinsured s insurance rates and policy conditions and the adequacy of the proposed reinsurance terms.

White Mountains Re s underwriters and pricing actuaries perform reviews of the underwriting, pricing, and general underwriting controls of potential clients 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 by estimating future loss and LAE costs. White Mountains Re accepts contracts that are anticipated to generate sufficient returns on capital. 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, the primary insurer s underwriting and claims experience and the primary insurer s financial condition. Folksamerica s underwriters, actuaries and claims personnel perform regular audits to monitor ceding companies risk selection, pricing and claim handling discipline. Sirius International s underwriters frequently communicate with ceding companies to discuss current terms and conditions. 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 risk associated with future terrorist attacks in a similar manner as primary insurers. Since the Attacks, reinsurers have attained significant price increases across all lines of reinsurance in response to greater perceived policy exposures. Reinsurers do not have the stringent regulations with respect to contract terms and policy exclusions that are generally imposed on primary writers. For example, the Terrorism Act is not applicable to reinsurers. As a result, exclusions on reinsurance contracts are dictated by the marketplace. White Mountains Re evaluates terrorism exposure to its ceding company clients and applies exclusions as appropriate. For example, reinsurance written on commercial risks subsequent to the Attacks generally contain clauses that exclude acts of terrorism certified under the Terrorism Act. Reinsurance on personal risks written 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. Reflecting the increasing capital costs associated with providing catastrophe protection, the marketplace is supporting an increase in the underwriting profit margin of catastrophe-exposed reinsurance contracts.

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. Folksamerica s claims staff also regularly perform on site claim reviews to assess the reinsured s claim handling ability, including suggesting improvements, 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 actuaries and underwriters to ensure that they are making the correct assumptions in pricing products and that all relevant information is used in establishing loss reserves.

White Mountains Re also uses TPAs for certain other claims, including the direct program business written by Sirius America and run-off claims related to the Sierra and PCA 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

In general, White Mountains Re competes for reinsurance business with other major global reinsurers, local reinsurers in certain markets and reinsurance divisions of direct insurance companies. Competition in the worldwide reinsurance market is influenced by a variety of factors, including financial strength ratings, prior history and relationships, as well as expertise and the speed at which the company has historically paid claims.

Through Folksamerica, White Mountains Re competes with all of the larger U.S. reinsurance companies. As reported by the Reinsurance Association of America (RAA) for the nine month period ending September 30, 2005, (the most recent data available), Folksamerica wrote approximately 5% of gross written premiums of all reinsurance companies that are viewed as direct competition. The reinsurance companies writing the largest portion of gross premiums in this period were: XL Reinsurance America (17%), Transatlantic Reinsurance Company (13%) and Everest Reinsurance Company (13%).

Through Sirius International, the largest reinsurance company domiciled in Scandinavia (based upon gross written premiums), White Mountains Re competes with many of the larger European and international reinsurance companies, including Munich Re, Swiss Re, Hannover Re, Lloyds, Partner Re and Everest Re.

White Mountains Re, through its operating subsidiaries, has a long history of close relationships with ceding companies and maintains a disciplined underwriting strategy which, among other things, 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. Additionally, White Mountains Re s acquisition strategy has contributed to its growth. Since 1995, White Mountains Re has completed eleven acquisitions of other insurance and reinsurance organizations. In most cases the acquired entities were fundamentally sound, but were owned by organizations that no longer considered them core businesses.

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 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 a global catastrophe model that calculates its expected 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 global catastrophe model is based on third party software models and internally developed models. White Mountains Re models and assesses each contract it writes for catastrophe exposure and uses the results in underwriting to ensure that the contracts it writes have an appropriate charge for assumed catastrophe risks.

Catastrophe exposure modeling is inherently uncertain due to the model s reliance on a large number of data points. 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 modeling is an important tool, White Mountains Re does not believe that it can be strictly relied upon to measure its catastrophe exposure. For example, the losses caused by Katrina for both the industry and White Mountains were substantially in excess of previously modeled losses, due to issues such as inadequate storm surge and demand surge assumptions in the models.

Reinsurance Protection

During 2005, White Mountains Re s primary reinsurance protection was through quota share retrocessional arrangements with Olympus. Under these arrangements, for an override commission on premiums ceded, Folksamerica ceded up to 75% of substantially all of its short-tailed excess of loss business, mainly property and marine, and 50% of its proportional property business and Sirius International ceded 25% of its new and renewal short-tailed proportional and excess of loss business to Olympus. Additionally, White Mountains Re was to receive a profit commission with respect to the profitability of the business placed with Olympus. This profit commission arrangement is subject to a deficit carryforward whereby net underwriting losses from one underwriting year carryover to future underwriting years. As a result of the Gulf Coast hurricanes and several other significant loss events during the year, Olympus recorded substantial net underwriting losses in 2005. Accordingly, White Mountains Re did not record a profit commission from Olympus during 2005 and does not expect to record profit commissions from Olympus for the foreseeable future. During 2004, White Mountains Re recorded a profit commission of $12.6 million.

Effective January 1, 2006, Sirius International no longer cedes any of its business to Olympus and Folksamerica renewed its quota-share reinsurance arrangements with Olympus on modified terms. Under its revised arrangements, for an override commission on premiums ceded, Folksamerica will cede up to 35% of its 2006 underwriting year short-tailed excess of loss business, mainly property and marine, to Olympus and a newly-formed reinsurer, Helicon Reinsurance Company, Ltd. (Helicon). Olympus and Helicon share, pro rata, in this up to 35% cession based on their relative capital bases. The 2005 and prior underwriting year business will continue to run-off with Olympus and it is expected that the majority of the risk exposures will expire by the end of the second quarter of 2006. White Mountains Re is fully collateralized for all recoverable amounts recorded as of December 31, 2005, related to the 2005 and prior underwriting year business ceded to Olympus.

These arrangements are designed to increase White Mountains Re s capacity to capitalize on improved pricing trends, where appropriate, and to reduce its potential loss exposure to any large, or series of smaller, property catastrophe events.

Under its prior ownership, Sirius threshold for risk exposure and earnings volatility was extremely low. As a consequence, Sirius purchased many reinsurance protections at significant costs. These protections were purchased primarily to reduce the company s property catastrophe exposure on both a treaty and facultative basis. Under White Mountains Re s ownership, Sirius reinsurance purchasing is subject to a higher retention of underlying business. Selective purchases are made primarily for property catastrophe protection and aviation exposures.

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 ten 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 losses and LAE. The liability represents the estimated amount of losses and LAE for claims that were unpaid at the balance sheet date, including IBNR reserves. In accordance with GAAP, the liability for unpaid losses 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 losses and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II 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 losses 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 III 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, 2005. Section IV shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2005. Section V shows the cumulative amount of net losses and LAE paid relating to recorded liabilities as of the end of each succeeding year.

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)
Years Ended December 31,

($ in millions)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
I. Liability for unpaid losses and LAE: Gross balance	$ 1,895.7	$ 2,448.2	$ 2,386.1	$ 2,524.2	$ 2,299.6	$ 3,175.1	$ 3,917.3	$ 3,925.1	$ 3,910.4	$ 4,170.3	$ 4,680.3
Less: reins. recoverables on unpaid losses and LAE	(336.6)	(524.7)	(513.3)	(592.9)	(651.0)	(1,148.5)	(1,353.7)	(1,277.6)	(1,214.6)	(1,346.6)	(1,878.5)
Net balance	$ 1,559.1	$ 1,923.5	$ 1,872.8	$ 1,931.3	$ 1,648.6	$ 2,026.6	$ 2,563.6	$ 2,647.5	$ 2,695.8	$ 2,823.7	$ 2,801.8
II. Net liability re-estimated as of:											
1 year later	1,470.8	1,937.9	1,855.4	2,001.3	1,908.2	2,491.9	2,617.0	2,844.0	2,718.4	2,874.7	
2 years later	1,482.1	1,871.0	1,889.2	2,036.4	2,169.0	2,500.7	2,844.8	2,881.9	2,788.9		
3 years later	1,423.4	1,909.2	1,862.8	2,011.9	2,175.0	2,744.5	2,907.7	2,962.9			
4 years later	1,499.0	1,903.8	1,834.3	2,012.5	2,369.9	2,793.7	2,986.1				
5 years later	1,483.4	1,870.1	1,817.6	2,065.9	2,388.3	2,909.7					
6 years later	1,445.3	1,842.7	1,837.0	2,079.0	2,448.5						
7 years later	1,416.8	1,854.5	1,842.1	2,142.6							
8 years later	1,426.7	1,857.4	1,903.9								
9 years later	1,426.5	1,914.5									
10 years later	1,482.5										
III. Cumulative net (deficiency)/ redundancy	$ 76.6	$ 9.0	$ (31.1)	$ (211.3)	$ (799.9)	$ (883.1)	$ (422.5)	$ (315.4)	$ (93.1)	$ (51.0)	
Percent (deficient)/ redundant	4.9%	.5%	(1.7)%	(10.9)%	(48.5)%	(43.6)%	(16.5)%	(11.9)%	(3.5)%	(1.8)%	%
IV. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see II. above):											
Gross re-estimated liability	1,848.5	2,492.6	2,494.1	2,837.9	3,154.0	4,302.3	4,548.1	4,413.1	4,156.6	4,332.9	
Less: gross re-estimated reinsurance recoverable	(366.0)	(578.1)	(590.2)	(695.3)	(705.5)	(1,392.6)	(1,562.0)	(1,450.2)	(1,367.7)	(1,458.2)	
Net re-estimated liability	$ 1,482.5	$ 1,914.5	$ 1,903.9	$ 2,142.6	$ 2,448.5	$ 2,909.7	$ 2,986.1	$ 2,962.9	$ 2,788.9	$ 2,874.7	
V. Cumulative net amount of liability paid											

through:										
1 year later	463.5	504.5	498.7	542.9	420.5	689.2	729.8	994.0	720.9	965.8
2 years later	665.3	771.2	830.9	741.1	860.2	1,167.4	1,429.6	1,394.5	1,310.3	
3 years later	788.4	1,007.0	975.3	1,008.0	1,142.4	1,731.1	1,720.3	1,873.4		
4 years later	940.9	1,147.4	1,129.5	1,181.6	1,516.1	1,936.7	2,119.7			
5 years later	1,018.6	1,258.2	1,242.9	1,382.7	1,658.7	2,243.2				
6 years later	1,088.7	1,351.0	1,317.4	1,487.3	1,872.7					
7 years later	1,158.8	1,405.6	1,384.2	1,580.9						
8 years later	1,200.7	1,457.7	1,444.9							
9 years later	1,246.1	1,502.8								
10 years later	1,277.1									

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(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 1995 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 during 2004. Reserve development for the years ended 1995 through 2003 reflects development on reserves established before White Mountains consolidated Sirius results. See table, below.

(4) White Mountains 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.

The cumulative net (deficiency)/redundancy in the table above reflects adverse development recorded by Scandinavian Re, which was acquired by White Mountains Re in 2004 and has been in run-off since 2002. This has the effect of significantly increasing White Mountains Re s cumulative deficiency for each of the years presented in the table, including the years prior to White Mountains Re s acquisition of Sirius. The table presented below represents White Mountains Re s cumulative net (deficiency)/redundancy excluding Scandinavian Re:

	Years Ended December 31,										
($ in millions)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cumulative net (deficiency) redundancy, excluding Scandinavian Re	$ 103.2	$ 32.6	$ (20.5)	$ (128.2)	$ (311.1)	$ (144.5)	$ (94.6)	$ (107.3)	$ (52.5)	$ (46.6)	$
Percent (deficient) / redundant	6.8%	1.7%	(1.1)%	(7.2)%	(22.6)%	(10.7)%	(6.8)%	(6.7)%	(2.7)%	(2.1)%	%

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)	2005	2004	2003
Regulatory reserves	**$ 3,109.7**	$ 3,092.0	$ 2,928.4
Reinsurance recoverable on unpaid losses and LAE (1)	**1,513.1**	948.2	746.1
Discount on loss reserves	**184.5**	245.2	246.0
Reserves allocated to other segments	**(105.4)**	(91.2)	(33.4)
Purchase accounting and other	**(21.6)**	(23.9)	23.3
GAAP reserves	**$ 4,680.3**	$ 4,170.3	$ 3,910.4

(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 is headquartered 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, 2005, Esurance had over 210,000 policies in force.

Esurance s underwriting companies, Esurance Insurance Company and Esurance Property and Casualty Insurance Company, are both rated A (Excellent, the third highest of fifteen ratings) by A.M. Best. The Esurance segment includes insurance ceded by Esurance to affiliates of White Mountains. At December 31, 2005 and 2004, Esurance had $414.2 million and $241.7 million of total assets and $176.7 million and $109.0 million of shareholder s equity, respectively.

Geographic Concentration

As of December 31, 2005, Esurance writes business in twenty-two states. These states represent approximately 77% of the premium volume for the entire U.S. personal automobile insurance market. For the years ended December 31, 2005, 2004 and 2003, Esurance had net written premiums of $349 million, $199 million and $116 million, respectively, which were produced in the following states:

	Year Ended December 31,		
Net written premiums by state	**2005**	**2004**	**2003**
Florida	**20%**	24%	24%
California	**20**	25	32
Texas	**9**	11	15
New York	**8**	5	2
Michigan	**7**	7	5
Virginia	**4**	4	3
Colorado	**4**	4	2
Illinois	**4**	4	4
Other	**24**	16	13
Total	**100%**	100%	100%

Marketing

Esurance targets technology-savvy consumers who rely on the internet to manage their financial services needs. Esurance distributes most of its business directly online or over the telephone. Phone sales are handled by sales teams in Esurance s Sioux Falls, Tampa, and Sacramento offices. Online agent partners also represent an important distribution channel for Esurance.

Esurance uses its media mix of offline and online advertising to reach its target customers efficiently. Esurance advertises offline on television, radio, and through direct mail. Esurance advertises online through paid search (e.g., Google and Yahoo! Search), and on a variety of insurance, finance, and automotive sites, along with major portals (e.g., MSN and AOL).

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 can quote rates to customers that most 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 automobile 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 centers 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 automobile insurance that covers liabilities and physical damage arising from the operation of automobiles. The majority of Esurance s customers elect coverage for physical damage (83%), 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

The process of estimating reserves for Esurance is similar to the process described in **Loss and Loss Adjustment Expense Reserves** in the **ONEBEACON** discussion and, as of any given date, is inherently uncertain. As described previously, 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 automobile 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, 2005 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 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 losses and LAE. The liability represents the estimated amount of losses and LAE for claims that were unpaid at the balance sheet date, including IBNR reserves. In accordance with GAAP, the liability for unpaid losses 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 losses and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II 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 losses 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 III 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, 2005. Section IV shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2005. Section V shows the cumulative amount of net losses and LAE paid relating to recorded liabilities as of the end of each succeeding year.

	Esurance Loss and LAE (1), (2) Years Ended December 31,				
($ in millions)	**2001**	**2002**	**2003**	**2004**	**2005**
I. Liability for unpaid losses and LAE:					
Gross balances:	$ 4.0	$ 15.5	$ 39.1	$ 63.0	$ 93.7
Less: reinsurance recoverables on unpaid losses and LAE				0.1	
Net balance	$ 4.0	$ 15.5	$ 39.1	$ 62.9	$ 93.7
II. Net liability re-estimated as of:					
1 year later	4.0	16.0	34.0	54.9	
2 years later	4.4	15.3	29.4		
3 years later	4.3	14.4			
4 years later	4.2				
III. Cumulative net (deficiency)/ redundancy	$ (0.2)	$ 1.1	$ 9.7	$ 8.0	$
Percent (deficient)/redundant	(5.0)%	7.1%	24.8%	12.7%	%
IV. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see II. above):					
Gross re-estimated liability	4.2	14.4	29.6	55.1	
Less: gross re-estimated reinsurance recoverable			0.2	0.2	
Net re-estimated liability	$ 4.2	$ 14.4	$ 29.4	$ 54.9	$
V. Cumulative net amount of liability paid through:					
1 year later	2.5	9.3	18.9	35.8	
2 years later	3.3	12.2	24.5		
3 years later	3.9	13.7			
4 years later	4.1				

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

(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)	**2005**	**2004**	**2003**
Statutory reserves	**$ 30.0**	$ 16.2	$ 7.6
Reserves allocated from other segments	**63.7**	46.7	31.5
Reinsurance recoverable on unpaid losses and LAE (1)		.1	
GAAP reserves	**$ 93.7**	$ 63.0	$ 39.1

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

OTHER OPERATIONS

The Company and its Intermediate Holding Companies

The Company s intermediate holding companies include Fund American Companies, Inc. (Fund American) and Fund American Enterprises Holdings, Inc. (FAEH), both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg, Sweden and Bermuda. White Mountains arranges the majority of its financing through the Company and these intermediate holding companies. 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 on May 15, 2013, and are fully and unconditionally guaranteed as to the payment of principal and interest by the Company.

Fund American and the Company are both permitted borrowers under a $400 million revolving credit facility (the Bank Facility), which matures in August 2009. As of December 31, 2005, the Bank Facility was undrawn.

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 the Company s option, the Zenith Preferred Stock may be redeemed on June 30, 2007.

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, 2005 and 2004, American Centennial had $76.8 million and $61.3 million of total assets and $16.8 million and $21.0 million of shareholder s equity, respectively. At December 31, 2005 and 2004, British Insurance Company had $37.7 million and $33.4 million of total assets and $6.3 million and $4.5 million of shareholder s equity, respectively.

In January 2004, White Mountains sold Peninsula, a Maryland-domiciled property and casualty insurer, for $23.3 million. For the year ended December 31, 2003, Peninsula had $34.1 million of net written premiums.

INVESTMENTS

The investment portfolios of White Mountains insurance and reinsurance operations consist primarily of fixed maturity investments but also consist, in part, of short-term investments, common equity securities and other investments (principally investments in limited partnership interests). White Mountains management believes that prudent levels of investments in common equity securities and other investments within its investment portfolio are likely to enhance after-tax total returns without significantly increasing the risk profile of the portfolio when considered over long periods of time and balanced with leverage and insurance risk considerations. White Mountains seeks to maximize after-tax, risk-adjusted returns over the long term.

At December 31, 2005, approximately 99% of White Mountains fixed maturity investments received an investment grade rating from Standard & Poor s or from Moody s Investor Services (Moody s) if a given security is unrated by Standard & Poor s. Standard & Poor s and Moody s are two third party rating agencies that assess the credit quality of companies that have publicly issued debt. An investment grade rating, which is indicative of a strong credit profile of an issuer, is defined as BBB (Adequate, the ninth highest of twenty-two ratings) or better by Standard & Poor s and Baa3 (Moderate Risk, the tenth highest of twenty-one ratings) or better by Moody 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.

At December 31, 2005 White Mountains consolidated investment portfolio consisted of $7,583 million (77%) of fixed maturity investments, $728 million (7%) of short-term investments, $968 million (10%) of common equity securities and $588 million (6%) of other investments. White Mountains fixed maturity investments at December 31, 2005 consisted principally of corporate debt securities (38%), asset-backed securities (28%), U.S. government and agency securities (23%), foreign government obligations (9%) and preferred equity securities and municipal bonds (2%).

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 overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to credit risks. White Mountains generally manages the interest rate risk associated with holding fixed maturity investments by actively maintaining the average duration of the portfolio to achieve an adequate after-tax total return without subjecting the portfolio to an unreasonable level of interest rate risk. At December 31, 2005, the duration of White Mountains fixed maturity investments was approximately 2.9 years and including short-term investments was approximately 2.2 years.

Montpelier

In December 2001, White Mountains, the Benfield Group plc and several other private investors established Montpelier and its wholly-owned subsidiary Montpelier Reinsurance Ltd. (Montpelier Re). Montpelier Re is a Bermuda-domiciled insurance and reinsurance company that was formed with approximately $1.0 billion in capital to respond to the then favorable underwriting and pricing environment in the reinsurance industry. Montpelier Re has initially focused on property reinsurance business. Montpelier Re is rated A- (Excellent, the fourth highest of fifteen ratings) by A.M. Best. On October 15, 2002, Montpelier 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 in exchange for 10.8 million common shares and warrants to acquire 4.8 million additional common shares of Montpelier.

During the first quarter of 2004, White Mountains sold 4.5 million common shares of Montpelier to third parties. As a result of this sale, as well as changes to the composition of the Board of Directors of both Montpelier and White Mountains, White Mountains changed the method of accounting for its remaining common share investment in Montpelier 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. Also during the first quarter of 2004, White Mountains purchased additional warrants to acquire 2.4 million common shares of Montpelier from an existing warrant holder for $54 million in cash, thereby raising the total number of such warrants owned by White Mountains to 7.2 million. The Montpelier warrants have an exercise price of $16.67 per share (as adjusted for stock splits) and are exercisable until December 2011.

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 equity and $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 year ended December 31, 2005 were $1,628.6 million and $145.5 million, respectively, and for the five months ended December 31, 2004 were $702.2 million and $57.9 million, respectively. Symetra s total assets and shareholders equity as of December 31, 2005 and 2004 were $21.0 billion and $1.4 billion, respectively, and $22.2 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, 2005 and 2004, White Mountains total investment in Symetra was $287.5 million and $248.4 million, respectively, excluding $24.2 million and $56.6 million, respectively, of equity in unrealized gains from Symetra s fixed maturity investments.

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 owns 50% of the outstanding common stock of MSA and accounts for this investment using the equity method. MSA s net written premiums for the years ended December 31, 2005, 2004 and 2003 totaled $481.6 million, $454.5 million and $427.6 million, respectively, and its net income totaled $16.1 million, $30.3 million and $29.3 million, respectively. MSA s total assets as of December 31, 2005 and 2004 were $1,064.8 million and $993.1 million, respectively, and its shareholders equity was $334.9 million and $324.0 million, respectively. The principal insurance operating subsidiaries of Main Street Group are rated A (Excellent, the third highest of fifteen ratings) by A.M. Best.

As of December 31, 2005 and 2004, White Mountains total investment in MSA was $168.0 million and $161.6 million, respectively.

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 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, 2005, the reserve for such assessments at OneBeacon totaled $18 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, 2005 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 as little as 10% of White Mountains common shares 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

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. 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 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 Sirius International s safety reserve of $920 million at December 31, 2005 is classified as surplus.

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, 2006:

	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	Positive	Positive	N/A	Stable
Moody s					
Rating (3)	A2 (Good)	A3 (Good)	A3 (Good)	A2 (Good)	Baa2 (Medium Grade)
Outlook	Stable	Positive	Positive	Stable	Stable
Fitch					
Rating (4)	A (Strong)	A (Strong)	No Rating	A (Strong)	BBB (Good)
Outlook	Stable	Stable	N/A	Stable	Stable

(1) A is the third 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 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, 2005, White Mountains employed 5,020 persons (consisting of 40 persons at the Company and its intermediate holding companies, 3,459 persons at OneBeacon, 566 persons at White Mountains Re, 916 persons at Esurance, 26 persons at WM Advisors 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 21E of the Securities Exchange Act of 1934. *See* **FORWARD-LOOKING STATEMENTS** (page 77) *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. 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.

Claims from catastrophic events could reduce our earnings and cause substantial volatility in our financial results 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. 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.

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 PMLs for many different catastrophe scenarios. 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 the quality of data provided to us by ceding companies (in the case of our reinsurance operations), the demand surge increase utilized to model the event and the relationship of the actual wind, zone density, storm surge and flood characteristics to the modeled event. Accordingly, the losses we might incur from an actual catastrophe could be materially higher than our expectation of losses generated from modeled catastrophe scenarios. For example, in 2005, the models did not adequately predict the insured losses from hurricane Katrina for either the industry or White Mountains.

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.

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. For example, Olympus and Helicon provide a substantial amount of reinsurance protection to us. As of January 1, 2006, Olympus and Helicon had pro-forma capital of approximately $188 million and $145 million, respectively. We cannot guarantee that Olympus and/or Helicon will have sufficient capital to pay amounts owed to us resulting from one or more future catastrophes. 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 may be inadequate to cover our ultimate liability for losses and as a result our financial results could be adversely affected.

We are required to maintain adequate reserves to cover our estimated ultimate liabilities for loss and loss adjustment expenses. 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 reserves, we cannot be certain that our reserves are adequate and actual claims and claim expenses paid might exceed our reserves. If our reserves are insufficient to cover our actual loss and loss adjustment expenses, we would have to strengthen our reserves and incur charges to our earnings. These charges could be material.

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 contracts that are affected by the changes.

For further discussion of our loss and loss adjustment reserves, including our asbestos and environmental reserves, see **Loss and Loss Adjustment Expenses** in **"CRITICAL ACCOUNTING ESTIMATES"** in Item 1.

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 of insurers and reinsurers. Financial strength ratings are used by insurers and reinsurers and insurance and reinsurance intermediaries as an important means of assessing the financial strength and quality of insurers and reinsurers. The financial strength ratings assigned by rating agencies to insurance or reinsurance companies are based upon factors relevant to policyholders and are not directed toward the protection of investors. Financial strength ratings by rating agencies are not ratings of securities or recommendations to buy, hold, or sell any security and may be withdrawn or revised at any time at the discretion of the assigning agency. Rating agencies also evaluate the general creditworthiness of debt securities issued by companies. Creditworthiness ratings are used by existing or potential investors to assess the likelihood of repayment on a particular debt issue. Some of the criteria used by rating agencies to assign financial strength and creditworthiness ratings relate to general economic conditions and other circumstances outside the rated company s control.

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 us from writing any new insurance or reinsurance policies. 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.

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

As of December 31, 2005, we had approximately $781 million face value of indebtedness and $320 million face value of mandatorily redeemable preferred stock outstanding.

Our ability to meet our debt, preferred stock and related service obligations will depend on our future performance, which will be affected by financial, business, economic 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, the redemption value and dividends on our preferred stock 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 and preferred stock, 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.

Investment returns are an important part of our growth in tangible book value, and fluctuations in the fixed income or equity markets could impair our results of operations, financial condition or cash flows. 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 loss adjustment expense 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. These conditions are outside of our control and could adversely affect the value of our investments and our results.

Our investment portfolio consists of fixed maturity investments, common equity securities, warrants to acquire common equity securities and other investments, principally limited partnership and private hedge fund securities. Our investment selections are designed to maximize after-tax total risk-adjusted return over the long term; however, investing entails substantial risks. There can be no assurance that we will achieve our investment objectives, and our investment performance may vary substantially over time.

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

The property and casualty insurance industry is highly competitive and has, from time to time, experienced severe price competition in the past. OneBeacon competes with numerous regional and national insurance companies, including The St. Paul Travelers Companies, Zurich Insurance Group, CNA Financial, the Hartford Financial Services Group, Hanover Insurance Group, W.R. Berkley Corporation, The Chubb Corporation, Progressive Insurance, Allstate Insurance, Liberty Mutual, The Robert Plan Corporation, American International Group and the regional Farm Bureaus. White Mountains Re competes with numerous reinsurance companies throughout the world, including Munich Re, Swiss Re, XL Re, Transatlantic Re, Hannover Re, Everest Re, Partner Re and Lloyds. Some of these competitors have greater financial resources than we do and have established long-term and continuing business relationships throughout the insurance and reinsurance industries, which can be a significant competitive advantage. 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 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

White Mountains, like the insurance and reinsurance industries in general, in the ordinary course of its business is subject to litigation and other legal proceedings, the outcomes of which are uncertain. 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 current non-ordinary course material legal proceedings, see **"Item 3. Legal Proceedings."**

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 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 addition, state insurance holding company statutes generally require prior approval of changes of control of an insurer or its holding company.

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 2004 and 2005, 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.

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.

Changes in tax laws may adversely affect our results of operations and financial condition.

Changes in the tax laws in the jurisdictions that we operate could adversely affect our results. In particular, from time to time legislation has been discussed or proposed in the United States that would tax us or our shareholders differently than other foreign corporations or their shareholders. In addition, if U.S. taxing authorities determined that our non-U.S. operations were subject to taxation in the United States, our results of operations and financial condition could be adversely affected.

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 and the loss of one or more of these key employees could have a negative effect 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 future operating performance.

Item 1B. Unresolved Staff Comments

As of the date of this report, the Company had no unresolved written 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. White Mountains Re s headquarters is in Hamilton, Bermuda with an additional office in Jersey City, New Jersey, which also serves as White Mountains principal executive office. Folksamerica is headquartered in New York, New York with branch offices in various cities throughout the United States. Sirius International is headquartered in Stockholm, Sweden with various branch offices in Europe and Asia. WMU maintains offices in Dublin, Ireland and Hamilton, Bermuda. The home office of OneBeacon is located in Boston, Massachusetts, with branch offices in various cities throughout the United States. Esurance is headquartered in San Francisco, California with various offices throughout the United States. In addition, the Company maintains professional offices in Hanover, New Hampshire and Guilford, Connecticut, which house its investment and corporate finance functions.

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 WMU s offices in Ireland and Bermuda, are leased. Folksamerica s home office and its branch offices are leased as well. The home office of OneBeacon and most of its branch offices are leased with the exception of branch offices located in New York, which are owned by OneBeacon. During 2005, OneBeacon purchased an office building in Canton, Massachusetts, which it expects to occupy as its home office in late 2006. 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.

In August 2005, OneBeacon received a civil investigative demand from the Attorney General of the Commonwealth of Massachusetts requesting documents and seeking information relating to the conduct of business between insurance brokers and OneBeacon. Previously, OneBeacon received similar demands from the Attorneys General of the State of New York and the State of Connecticut. Subsidiaries of the Company have also received information requests from various state insurance departments regarding producer compensation arrangements. White Mountains believes these requests are part of the ongoing, industry-wide investigation regarding industry sales practices.

On May 15, 2002, The Robert Plan Corporation and several of its subsidiaries filed a lawsuit against the Company, certain of its subsidiaries and several individuals employed by the subsidiaries. The suit alleges that the defendants misappropriated confidential information of the plaintiffs and used such information to enter into the New York automobile assigned risk business in direct competition with the plaintiffs. The plaintiffs are demanding damages of approximately $185 million, which they allege represents two years of their lost profits in the subject business. White Mountains, its named subsidiaries and employees do not believe they engaged in any improper or actionable conduct. White Mountains and its subsidiaries have no reason to believe they have any liability to The Robert Plan Corporation and intend to vigorously defend the lawsuit. In addition, OneBeacon has brought a counterclaim against the plaintiffs that it believes to be meritorious. OneBeacon is seeking compensatory damages of $9 million as a result of the breach by the plaintiffs of the LAD servicing contract that OneBeacon had entered into with them. The case is currently scheduled for trial July 10, 2006.

In August 2000, Aramarine Brokerage, Inc. (Aramarine), a former insurance broker of OneBeacon s, filed a lawsuit alleging that OneBeacon had wrongfully terminated its business relationship with Aramarine. The suit originally claimed $410 million in compensatory damages for lost commissions, although Aramarine has reduced its demand to $158 million. OneBeacon does not believe it has engaged in any actionable conduct. During 2004, OneBeacon prevailed on a motion for summary judgment to dismiss the plaintiff s claim. OneBeacon expects the plaintiff to appeal the summary judgment upon resolution of OneBeacon s counterclaim for return commission.

OneBeacon is in 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 $65 million. Liberty Mutual has since invoked the provisions of offset under the Liberty Agreement and has netted amounts billed under the ULAE dispute against amounts otherwise payable to OneBeacon. As of December 31, 2005, OneBeacon has recorded 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.

OneBeacon also has a claim against Liberty Mutual in the Philadelphia Court of Common Pleas in which it asserts that Liberty Mutual s claims practices under the Liberty Agreement from 2001 to 2004 were inconsistent with industry standards.

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 2005.

Executive Officers of the Registrant and its Subsidiaries (As of March 7, 2006)

Name	Position	Age	Executive officer since
Steven E. Fass	President and CEO	60	2002
Charles B. Chokel	Managing Director of White Mountains Capital, Inc.	52	2002
David T. Foy	Executive Vice President and Chief Financial Officer	39	2003
G. Thompson Hutton	President and CEO of White Mountains Re	50	2006
Robert R. Lusardi	Executive Vice President and Managing Director of White Mountains Capital, Inc.	49	2005
T. Michael Miller	President and CEO of OneBeacon	47	2005
J. Brian Palmer	Chief Accounting Officer	33	2001
Robert L. Seelig	Vice President and General Counsel	37	2002
Gary C. Tolman	President and CEO of Esurance	54	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. Fass has been a director of the Company since 2000. Mr. Fass has served as President and CEO of the Company since October 2005. Mr. Fass previously served as President and CEO of White Mountains Re from 2004 to February 2006 and as President and CEO of Folksamerica and its subsidiaries from 1984 to 2004. He joined Folksamerica as its Vice President, Treasurer and Chief Financial Officer in 1980. Mr. Fass also serves as Chairman of OneBeacon, White Mountains Re and Esurance.

Mr. Chokel has served as Managing Director of White Mountains Capital, Inc. since September 2003. Prior to that he served as Managing Director and Chief Administrative Officer of OneBeacon since January 2003 and as Managing Director 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 was with Progressive since 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.

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. Hutton is also a director of Safeco Corp.

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 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. Seelig also serves as a Director of MSA.

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 March 3, 2006, there were 368 registered holders of White Mountains common shares, par value $1.00 per share.

During 2005 and 2004, the Company declared and paid cash dividends on common shares of $8.00 and $1.00 per common share, respectively. During 2005, the Company amended its dividend payment policy to provide for quarterly dividends payable, dependent on the Company s financial position and the regularity of its cash flows.

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 2005 and 2004 is presented below:

	2005		2004	
	High	**Low**	**High**	**Low**
Quarter ended:				
December 31	**$ 638.99**	**$ 555.00**	$ 659.00	$ 495.00
September 30	**711.99**	**583.60**	531.00	467.00
June 30	**677.50**	**564.50**	559.50	474.01
March 31	**695.00**	**582.00**	527.00	451.50

No repurchases of common shares were made by or on behalf of the Company during the fourth quarter of 2005.

Item 6. Selected Financial Data

Selected consolidated income statement data and ending balance sheet data for each of the five years ended December 31, 2005, follows:

	Year Ended December 31,				
$ in millions, except share and per share amounts	**2005**	**2004**	**2003**	**2002**	**2001 (a)**
Income Statement Data:					
Revenues	**$ 4,632**	$ 4,553	$ 3,794	$ 4,208	$ 3,234
Expenses	**4,339**	4,305	3,422	4,089	3,662
Pre-tax earnings (loss)	**293**	248	372	119	(428)
Income tax (provision) benefit	**(37)**	(47)	(127)	(11)	179
Accretion and dividends on preferred stock of subsidiaries			(21)(c)	(41)	(23)
Equity in earnings of unconsolidated affiliates	**34**	37	57	14	1
Net income (loss) from continuing operations	**290**	238	281	81	(271)
Cumulative effect of changes in accounting principles				660(b)	
Extraordinary gains		181(d)		7	12
Net income (loss)	**$ 290**	$ 419	$ 281	$ 748	$ (259)
Net income (loss) from continuing operations per share:					
Basic	**$ 26.96**	$ 24.05	$ 26.48	$ 7.47	$ (86.52)
Diluted	**$ 26.56**	$ 22.67	$ 23.63	$ 6.80	$ (86.52)
Balance Sheet Data:					
Total assets	**$ 19,418**	$ 19,015	$ 15,882	$ 17,267	$ 18,410
Short-term debt				33	358
Long-term debt	**779**	783	743	760	767
Deferred credits				(b)	683
Convertible preference shares				219	
Mandatorily redeemable preferred stock of subsidiaries	**234**	212	195(c)	181	170
Common shareholders equity	**3,833**	3,884	2,979	2,408	1,445
Book value per share (e)	**$ 347.00**	$ 349.60	$ 293.15	$ 254.52	$ 160.36
Fully converted tangible book value per share (f)	**$ 342.51**	$ 342.52	$ 291.27	$ 258.82	$ 225.81
Share Data:					
Cash dividends paid per common share	**$ 8.00**	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Ending common shares (000 s)(g)	**10,779**	10,773	9,007	8,351	8,245
Ending equivalent common shares (000 s)(h)	**34**	47	1,775	2,455	1,803
Ending common and equivalent common shares (000 s)	**10,813**	10,819	10,782	10,806	10,048

(a) Includes the acquisition of OneBeacon on June 1, 2001 and its results of operations from that date through December 31, 2001. In connection with the OneBeacon Acquisition, White Mountains issued $1,085 million in debt. White Mountains also issued preferred stock of subsidiaries, warrants to acquire common shares and Convertible Preference Shares for total proceeds of $758 million. For a description of the historical factors affecting OneBeacon s loss and LAE reserves prior to the OneBeacon Acquisition, see Non-Asbestos and Environmental Reserves under the caption Loss and Loss Adjustment Expense Reserves in the OneBeacon section of the business description contained within the Company s Amendment No. 6 to Form S-3 dated July 17, 2003 (the Form S-3). Such portion of the Form S-3 is incorporated by reference into this Form 10-K.

(b) 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.

(c) 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.

(d) 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.

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

(f) 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.

(g) 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.

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

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 56). 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, 2005, 2004 and 2003

Overview

White Mountains ended 2005 with a fully converted tangible book value per common share of $343, which represents an increase of 2% (including dividends) over the fully converted tangible book value per common share of $343 as of December 31, 2004. During 2004, fully converted tangible book value per common share increased by 18% (including dividends) from $291 as of December 31, 2003.

During 2005, White Mountains experienced $288 million in after-tax losses from hurricanes Katrina, Rita and Wilma, a $104 million after-tax losses (net of dividends received) from the Company s investment in Montpelier and $70 million of after-tax unrealized foreign currency losses that adversely impacted fully converted tangible book value per common share. These losses offset solid underwriting results produced by OneBeacon. Esurance also had a good year in 2005 while growing its premiums 75%.

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, 2005, 2004, and 2003 and reconciles this non-GAAP measure to the most comparable GAAP measure:

	December 31, 2005	2004	2003
Book value per share numerators (in millions):			
Common shareholders equity	**$ 3,833.2**	$ 3,883.9	$ 2,979.2

Proceeds from assumed exercise of outstanding warrants						300.0
Benefits to be received from share obligations under employee benefit plans		**5.1**		6.7		7.0
Remaining accretion of subsidiary preferred stock to face value		**(86.0)**		(108.1)		(125.5)
Book value per share numerator		**3,752.3**		3,782.5		3,160.7
Equity in net unrealized gains from Symetra s fixed maturity portfolio		**(24.2)**		(56.6)		
Goodwill		**(24.4)**		(20.0)		(20.3)
Fully converted tangible book value per common and equivalent share numerator	**$**	**3,703.7**	$	3,705.9	$	3,140.4
Book value per share denominators (in thousands of shares):						
Common shares outstanding		**10,779.2**		10,772.8		9,007.2
Common shares issuable upon exercise of outstanding warrants						1,724.2
Share obligations under employee benefit plans		**34.3**		46.5		50.6
Fully converted tangible book value per common and equivalent share		**10,813.5**		10,819.3		10,782.0
Book value per share	**$**	**347.00**	$	349.60	$	293.15
Fully converted tangible book value per common and equivalent share		**342.51**		342.52		291.27

Review of Consolidated Results

A summary of White Mountains consolidated financial results for the years ended December 31, 2005, 2004 and 2003 follows:

Millions		Year Ended December 31, 2005		2004		2003
Gross written premiums	**$**	**4,601.6**	$	4,792.1	$	3,823.4
Net written premiums	**$**	**3,776.1**	$	3,904.8	$	3,007.7
Revenues						
Earned insurance and reinsurance premiums	**$**	**3,798.6**	$	3,820.5	$	3,137.7
Net investment income		**491.5**		360.9		290.9
Net realized investment gains		**112.6**		181.1		162.6
Other revenue		**229.2**		190.5		202.6
Total revenues		**4,631.9**		4,553.0		3,793.8
Expenses						
Losses and LAE		**2,858.2**		2,591.1		2,138.1
Insurance and reinsurance acquisition expenses		**761.2**		744.4		615.0
Other underwriting expenses		**428.9**		520.4		347.1
General and administrative expenses		**156.8**		309.3		201.8
Accretion of fair value adjustment to loss and LAE reserves		**36.9**		43.3		48.6
Interest expense - debt		**44.5**		49.1		48.6
Interest expense - dividends and accretion on preferred stock		**52.4**		47.6		22.3
Total expenses		**4,338.9**		4,305.2		3,421.5
Pre-tax income	**$**	**293.0**	$	247.8	$	372.3
Income tax expense		**(36.5)**		(47.0)		(127.6)
Accretion and dividends on mandatorily redeemable preferred stock of subsidiaries						(21.5)
Equity in earnings of unconsolidated affiliates		**33.6**		37.4		57.4
Net income before accounting changes and extraordinary items	**$**	**290.1**	$	238.2	$	280.6
Excess of fair value of acquired net assets over cost				180.5		
Net income	**$**	**290.1**	$	418.7	$	280.6
Other comprehensive income (loss)		**(254.1)**		176.5		79.0
Comprehensive net income	**$**	**36.0**	$	595.2	$	359.6
Less: Change in net unrealized gains from Symetra s fixed maturity portfolio		**32.4**		(56.6)		
Adjusted comprehensive net income	**$**	**68.4**	$	538.6	$	359.6

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 and $360 million in 2003. Net income was $290 million in 2005, compared to $419 million in 2004 and $281 million in 2003. The reduction in 2005 adjusted comprehensive net income resulted primarily from the aforementioned hurricane losses and Montpelier 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 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, and net realized investment gains decreased by $69 million in 2005, primarily due to losses in the value of the Company s investment in Montpelier warrants during 2005.

White Mountains total expenses also increased by 1% for 2005 as a $267 million increase in loss and LAE, primarily due to the Gulf Coast hurricanes, was partially offset by a $153 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.

Consolidated Results - Year Ended December 31, 2004 versus Year Ended December 31, 2003

White Mountains total revenues increased by 20% in 2004 compared to 2003. Growth in revenues was driven by the 22% increase in earned premiums due to the Sirius Acquisition and Atlantic Specialty transactions. Net investment income grew 24% in 2004 primarily due to the income earned on the additional invested assets acquired in the Sirius Acquisition offset by decreased net invested assets at OneBeacon.

White Mountains total expenses grew 26% for 2004 as loss and LAE, insurance acquisition and underwriting expenses were all up due to the Sirius Acquisition and Atlantic Specialty transactions. General and administrative costs were up 53% in 2004, primarily due to an increase in incentive compensation accruals, which were driven by a 41% rise in White Mountains share price during the year.

White Mountains net income in 2004 also benefitted from $181 million in transaction gains: $111 million from the Sirius Acquisition, $41 million for the Symetra investment, $20 million from the Tryg-Baltica acquisition and $9 million from the Sierra Group acquisition.

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 2005, 2004 and 2003 represents an effective tax rate of 12.5%, 19.0% and 34.3%, respectively. White Mountains effective tax rate for 2005 was lower than the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States. White Mountains effective tax rate for 2004 was lower than the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States and the recognition of foreign tax credits, offset by taxes incurred from an internal restructuring of the company. White Mountains effective tax rate for 2003 was lower than the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States.

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, 2005, 2004 and 2003 follows:

Millions	Year Ended December 31, 2005	2004	2003
Gross written premiums	**$ 2,266.5**	$ 2,657.5	$ 2,250.9
Net written premiums	**$ 2,121.1**	$ 2,459.1	$ 1,972.5
Earned insurance and reinsurance premiums	**$ 2,118.4**	$ 2,378.5	$ 2,160.3
Net investment income	**238.1**	221.4	223.7
Net realized investment gains	**123.8**	129.6	127.0
Other revenue	**134.0**	141.8	90.5
Total revenues	**2,614.3**	2,871.3	2,601.5
Losses and LAE	**1,401.5**	1,545.2	1,475.6
Insurance and reinsurance acquisition expenses	**390.7**	442.3	394.2
Other underwriting expenses	**283.1**	369.2	258.7
General and administrative expenses	**88.4**	122.2	67.6
Interest expense on debt	**1.4**	1.0	.3
Total expenses	**2,165.1**	2,479.9	2,196.4
Pre-tax earnings	**$ 449.2**	$ 391.4	$ 405.1

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, 2005, 2004, and 2003:

Twelve Months Ended December 31, 2005

	Specialty	Personal	Commercial	Total (1)
GAAP Ratios:				
Loss and LAE	**64%**	**56%**	**55%**	**66%**
Expense	**31%**	**29%**	**38%**	**32%**
Total Combined	**95%**	**85%**	**93%**	**98%**
Dollars in millions				
Net written premiums	**$ 840.2**	**$ 618.7**	**$ 610.9**	**$ 2,121.1**
Earned insurance premiums	**$ 789.6**	**$ 655.9**	**$ 622.5**	**$ 2,118.4**

Twelve Months Ended December 31, 2004

	Specialty	Personal	Commercial	Total (1)
GAAP Ratios:				
Loss and LAE	59%	62%	56%	65%
Expense	31%	32%	41%	34%
Total Combined	90%	94%	97%	99%
Dollars in millions				
Net written premiums	$ 848.5	$ 724.7	$ 807.1	$ 2,459.1

Earned insurance premiums	$ 812.0	$ 723.8	$ 703.3	$ 2,378.5

Twelve Months Ended December 31, 2003

	Specialty	Personal	Commercial	Total (1)
GAAP Ratios:				
Loss and LAE	54%	61%	61%	68%
Expense	32%	30%	34%	30%
Total Combined	86%			