



FORM 10-K

WHITE MOUNTAINS INSURANCE GROUP LTD - WTM

Filed: March 28, 2000 (period: December 31, 1999)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1999

OR
 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
(State or other jurisdiction of
incorporation or organization)

94-2708455
(I.R.S. Employer
Identification No.)

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

03755-2053
(Zip Code)

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes /X/ No

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.

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 March 24, 2000, was \$796,743,057.

As of March 24, 2000, 5,904,534 shares of Common Stock, par value of \$1.00
per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's Notice of 2000 Annual Meeting of Shareholders and
Proxy Statement dated March 24, 2000 (Part III)

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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PART I

ITEM 1. BUSINESS

GENERAL

White Mountains Insurance Group, Ltd. (the "Company") was originally formed as a Delaware corporation in 1980 and became a Bermuda corporation during 1999. Within this report, the consolidated organization is referred to as "White Mountains". White Mountains' principal operations are conducted through its subsidiaries and affiliates in the businesses of property and casualty insurance, property and casualty reinsurance and financial guaranty insurance. The Company's headquarters is located at Crawford House, 23 Church Street, Hamilton, Bermuda and its principal executive office is located at 80 South Main Street, Hanover, New Hampshire, 03755-2053.

In June 1999 the Company changed its name from "Fund American Enterprises Holdings, Inc." to "White Mountains Insurance Group, Inc."

On October 25, 1999, the Company completed a corporate reorganization whereby it changed its domicile from Delaware to Bermuda (the "Redomestication"). The Redomestication was primarily undertaken to improve the Company's ability to compete in international markets by creating a corporate structure which is more favorable for the formation and growth of internationally-based insurance and reinsurance operations and which has an enhanced ability to pursue business combinations with non-United States entities. In connection with the Redomestication, the Company's name was further changed to "White Mountains Insurance Group, Ltd." to comply with Bermuda law.

REINSURANCE AND INSURANCE OPERATIONS

REINSURANCE OPERATIONS

FOLKSAMERICA HOLDING COMPANY, INC. ("FOLKSAMERICA")

Folksamerica, through its wholly-owned subsidiary, Folksamerica Reinsurance Company (a New York-domiciled reinsurance company), is a multi-line broker-market reinsurer which provides reinsurance to insurers of property and casualty risks in the United States, Canada, Latin America and the Caribbean. Folksamerica is rated "A" (Excellent) by A.M. Best Company. During 1999, 1998 and 1997, Folksamerica had net written premiums of \$201.7 million, \$212.6 million and \$232.4 million, respectively. At December 31, 1999 and 1998, Folksamerica had total assets of \$1.3 billion and \$1.2 billion, respectively, and shareholder's equity of \$249.4 million and \$302.0 million, respectively.

In June 1996 White Mountains purchased a 50.0% economic interest in Folksamerica for \$79.9 million from a group of European mutual insurance companies (the "European Mutuals") who continued to own the remaining 50.0% interest. White Mountains' initial investment in Folksamerica consisted of 6,920,000 shares of ten-year 6.5% voting preferred stock having a liquidation preference of \$79.4 million ("Folksamerica Preferred Stock") and ten-year warrants

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("Folksamerica Warrants") to purchase up to 6,920,000 shares of the common stock of Folksamerica ("Folksamerica Common Stock") for \$11.47 per share. In November 1997 White Mountains and the European Mutuals each purchased an additional 1,563,907 shares of Folksamerica Common Stock for \$20.8 million which maintained White Mountains 50.0% economic ownership position.

On August 18, 1998, White Mountains acquired all of the remaining outstanding shares of the Folksamerica Common Stock from the European Mutuals for \$169.1 million which resulted in Folksamerica becoming a wholly-owned consolidated subsidiary of White Mountains as of that date. Following the August 18, 1998 transaction, Folksamerica retired the Folksamerica Preferred Stock and issued White Mountains an equivalent amount of Folksamerica Common Stock. As of December 31, 1999 and 1998, White Mountains owned all of the outstanding shares of Folksamerica Common Stock.

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 net liability exposure on individual risks, providing catastrophe protections from large or multiple losses, stabilizing financial results and assisting in maintaining acceptable operating leverage ratios. Reinsurance also provides 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 enter into retrocessional agreements for many of the same reasons that ceding companies enter into reinsurance agreements.

Folksamerica writes both treaty and facultative reinsurance. Treaty reinsurance is an agreement whereby the ceding company is obligated to cede, and the reinsurer is obligated to assume, a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of a treaty. In the underwriting of treaty reinsurance, the reinsurer does not evaluate each individual risk assumed and generally accepts the original underwriting decisions made by the ceding insurer. Facultative reinsurance is underwritten on a risk-by-risk basis whereby Folksamerica applies its own pricing to an individual exposure. Facultative reinsurance is normally purchased by insurance companies for individual risks not covered under reinsurance treaties or for amounts in excess of limits on risks covered under reinsurance treaties. The majority of Folksamerica's premiums are derived from treaty reinsurance contracts both on an excess of loss and quota share basis, which in 1999 amounted to 28.5% and 63.9% of its total earned premiums, respectively. Folksamerica derives its business from a spectrum of ceding insurers including national, regional, specialty and excess and surplus lines writers. Folksamerica selects transactions based solely on anticipated underwriting results of the transaction which are evaluated on a variety of factors including the quality of the reinsured, the attractiveness of the reinsured's insurance rates, policy conditions and the adequacy of the proposed reinsurance terms.

A significant period of time normally elapses between the receipt of reinsurance premiums and the disbursement of reinsurance claims ("float"). The claims process generally begins upon the occurrence of an event causing an insured loss followed by: (i) the reporting of the

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loss to the ceding company; (ii) the reporting of the loss by the ceding company to Folksamerica; (iii) the ceding company's adjustment and payment of the loss; and (iv) the payment to the ceding company by Folksamerica. During this time,

Folksamerica earns investment income on the float. Therefore, Folksamerica's combined ratio can generally be higher than that of White Mountains' consolidated property and casualty insurance operations and yet may still earn an equivalent or superior return on equity.

LINES OF BUSINESS AND GEOGRAPHIC LOCATION

The following tables set forth information regarding Folksamerica's net written premiums by lines of business and geographic location:

Millions	Year Ended December 31,				
	1999	1998	1997	1996	1995
Liability	\$122.6	\$122.0	\$123.6	\$ 79.6	\$ 71.9
Property	68.9	87.2	104.9	85.9	87.9
Marine	3.1	3.4	3.9	6.4	--
Other	7.1	--	--	--	--
Total	\$201.7	\$212.6	\$232.4	\$171.9	\$159.8

Millions	Year Ended December 31,				
	1999	1998	1997	1996	1995
United States	\$172.2	\$190.9	\$208.6	\$155.2	\$159.8
Canada	21.0	13.9	10.1	4.2	--
Latin America	8.5	7.8	13.7	12.5	--
Total	\$201.7	\$212.6	\$232.4	\$171.9	\$159.8

UNDERWRITING

Folksamerica's primary underwriting objective is to carefully assess reinsurance opportunities to determine the probability of a particular transaction providing an underwriting profit. Those risks that do not provide a reasonable likelihood of delivering an underwriting profit are rejected. Underwriting opportunities presented to Folksamerica are evaluated based on a number of factors including historical analysis of results, estimates of future loss costs, a review of other programs displaying similar exposure characteristics, the primary insurers underwriting and claims experience and the primary insurer's financial condition. Folksamerica regularly conducts underwriting and claims audits of ceding companies to assist it in evaluating the information submitted by the ceding companies.

Folksamerica's most senior underwriters and executives are responsible for its underwriting policy and quality standards and informing Folksamerica's board of directors of current and anticipated market conditions and underwriting results.

MARKETING

Folksamerica generally obtains all its reinsurance business through brokers and reinsurance intermediaries which represent the ceding company in negotiations for the purchase of reinsurance. The process of effecting a brokered reinsurance placement typically begins when a ceding company enlists the aid of a reinsurance broker 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 participations to qualified reinsurers until the program is fully subscribed by reinsurers at terms agreed to by all parties.

Folksamerica pays its reinsurance brokers commissions representing negotiated percentages of the premium it writes. These commissions, which generally average 5% of premium, constitute a significant portion of Folksamerica's total acquisition costs and are included in its underwriting expenses. During the year ended December 31, 1999, Folksamerica received approximately 67% of its gross reinsurance premiums written from three major

reinsurance brokers as follows: (i) Guy Carpenter and affiliates - 26%; (ii) E.W. Blanch - 21%; and (iii) AON Re, Inc. - 20%. During the year ended December 31, 1999, Folksamerica received no more than 10% of its gross reinsurance premiums from any individual ceding company.

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LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Insurers and reinsurers establish loss and loss adjustment expense reserves representing estimates of future amounts needed to pay claims and related expenses with respect to insured events that have occurred. Loss and loss adjustment expense reserves have two components: case reserves, which are reserves for reported losses, and incurred but not reported ("IBNR") reserves, which are reserves for losses not yet reported. Reserve estimates reflect the judgement of both the ceding company and the reinsurer, based on the experience and knowledge of its claims personnel, regarding the nature and value of the claim. The ceding company may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made.

Upon notification of a loss from a ceding company, Folksamerica establishes case reserves, including loss adjustment expense reserves, based upon Folksamerica's share of the amount of reserves established by the ceding company and Folksamerica's independent evaluation of the loss. Where appropriate, Folksamerica establishes case reserves in excess of its share of the reserves established by the ceding company.

Folksamerica uses a combination of actuarial methods to determine its IBNR reserves. These methods fall into two general categories: (1) methods by which ultimate claims are estimated based upon historical patterns of reported claim development experienced by Folksamerica, as supplemented by reported industry data, and (2) methods in which the level of Folksamerica's IBNR claim reserves are established based upon the IBNR claim reserves relative to earned premium applied by accident year, line of business and type of reinsurance written by Folksamerica. Due to the inherent uncertainties of estimating claim reserves, actual losses and loss adjustment expenses may deviate, perhaps substantially, from estimates of Folksamerica's reserves reflected in its consolidated financial statements. During the claims settlement period, which may extend over a long period of time, additional facts regarding claims and trends may become known which may cause Folksamerica to adjust its estimates of the ultimate liability. The revised estimates of ultimate liability may prove to be less than or greater than the actual settlement or award amount for which the claim is finally discharged.

REINSURANCE INDUSTRY AND COMPETITION

Folksamerica commenced writing business in 1980 as one of a host of newly formed, foreign-owned reinsurers capitalized with minimum surplus. In 1991, recognizing that surplus size and critical mass would become an increasingly important business issue, Folksamerica launched an aggressive strategy to increase its resources and capacity through the acquisition of select broker-market reinsurance and property and casualty insurance companies. Since 1991, Folksamerica has acquired several other reinsurers which has served to raise Folksamerica's surplus and contributed a number of important business relationships.

In general, competition among primary companies has caused primary insurers to reduce their own premium writings or restructure their reinsurance programs, thereby reducing the

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amount of reinsurance they purchase. As a result of consolidation within the industry, many ceding companies are now larger and financially stronger, thereby enabling them to retain more risk. In addition, increasingly intense competition in the reinsurance markets has driven reinsurance prices on a number of accounts below pricing levels which Folksamerica will accept. Folksamerica's management believes that the reinsurance industry, including the intermediary market, will continue to undergo further consolidation. Management further believes that, although size and financial strength will continue to be factors in selecting reinsurance partners, product pricing has become the most telling competitive factor.

CONSOLIDATED INSURANCE OPERATIONS

Over the past several years White Mountains has been acquiring and developing various property and casualty insurance operating interests. These interests are described below:

VALLEY GROUP, INC. ("VGI")

In 1995 White Mountains acquired VGI of Albany, Oregon and Charter Group, Inc. ("CGI") of Richardson, Texas for \$41.7 million in cash less \$3.0 million of purchase price adjustments. In September 1995, White Mountains formed White Mountains Insurance Company ("WMIC") which is a New Hampshire-domiciled mid-size commercial property and casualty company. CGI and WMIC were subsequently contributed to VGI thereby making them wholly-owned subsidiaries of VGI.

On June 17, 1999, White Mountains completed the sale of VGI to Unitrin (the "Valley Group Sale") and received net proceeds of \$139.0 million in cash after receiving a special dividend prior to the closing of \$76.6 million (net of related tax liabilities) consisting of cash, investment securities and the common stock of Valley National Insurance Company (subsequently renamed to "Waterford Insurance Company"). In connection with the Valley Group Sale, the Company recorded a pretax gain of \$88.1 million, \$53.8 million after tax. As part of the Valley Group Sale, White Mountains has provided Unitrin, Inc. with certain adverse loss development protections for approximately four years. These protections are not expected to result in a material subsequent purchase price adjustment.

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CONSOLIDATED INTERNATIONAL GROUP, INC. ("CIG")

On October 15, 1999, White Mountains completed its acquisition of CIG, a Delaware-based insurance holding company for \$86.7 million in cash. As a result of the acquisition, the Company has recorded a \$62.0 million deferred credit (negative goodwill) which will be amortized over the estimated period of benefit of three years. CIG's principal operating subsidiaries are outlined below:

PENINSULA INSURANCE COMPANY ("PIC"). PIC, which was established in 1960, is a Maryland-domiciled property and casualty insurer which writes both personal and commercial lines, primarily private passenger auto, homeowners, commercial auto and commercial multiple peril. Most of PIC's insurance products are sold in Maryland, Delaware and Virginia. PIC is rated "A" or "excellent" by A.M. Best Company.

In the United States, property and casualty insurance can be obtained through national and regional companies that use an agency distribution system, direct writers, brokers or through self-insurance including the use by corporations of subsidiary captive insurers. PIC markets insurance products principally through independent agents. PIC's primary business focus is to establish strong long-term relationships with its agents and insured customers by focusing on providing quality insurance products to families and small private businesses. PIC pays their independent agents commissions representing negotiated percentages of the premium they write. These commissions, which currently range from 5.0% to 20.0% of premium, depending on the line of business, constitute a significant portion of total acquisition costs and are included in underwriting expenses.

The long-term relationships cultivated by PIC with its agents and insured customers have produced a relatively high level of renewal persistency, particularly in PIC's standard private passenger auto and commercial auto books of business. Renewal persistency can be a significant indicator of an insurance company's long-term prospects for successful underwriting. An insurance company typically incurs more marketing and underwriting costs to write new business (e.g., policies written for new customers) than it does to write "seasoned" business (e.g., policy renewals). Additionally, losses and loss adjustment expenses are typically higher and less predictable for new business than for seasoned business.

The principal competitive factors that affect PIC are: (i) pricing; (ii) underwriting; (iii) quality of claims and policyholder services; (iv) appointing and retaining high quality independent agents; (v) operating efficiencies; (vi) product differentiation and availability; and (vii) increased competition from national direct writers. No single company or group of affiliated companies dominates the insurance industry. The highly competitive environment in the property and casualty insurance market during the past several years has intensified due to increased capacity resulting from growing capital supporting the industry and robust investment returns achieved in recent years. PIC maintains a disciplined approach to pricing and underwriting of insurance risks. Application of this disciplined approach in a highly competitive environment results in a lower volume of insurance premiums than would result from a less disciplined approach, but should produce better overall financial returns from the business over long periods of time.

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Selected financial information for PIC is as follows:

Statutory Basis (a), in Millions	Year Ended December 31,		
	1999	1998	1997
Gross written premiums, by line of business:			
Private passenger auto	\$17.3	\$20.9	\$ 20.4
Homeowners	2.5	2.5	2.2
Commercial auto	2.8	2.5	2.4
Commercial multiple peril	1.9	2.1	2.3
Other	1.4	1.9	2.2
Total gross written premiums	\$25.9	\$29.9	\$ 29.5
Ending total admitted assets	\$62.5	\$63.4	\$ 57.8
Ending policyholders' surplus	33.6	30.4	29.3

(a) The term "statutory" as contained herein refers to a basis of accounting other than generally accepted accounting principles that is prescribed by the individual states that an insurance company transacts business in.

AMERICAN CENTENNIAL INSURANCE COMPANY ("ACIC"). ACIC is a Delaware-domiciled property and casualty insurance company in run-off. ACIC was incorporated in 1970 for the purpose of underwriting primary and excess liability insurance for many large national and international chemical, manufacturing and pharmaceutical companies, as well as for the purpose of underwriting facultative and treaty reinsurance for the same types of risks. In 1983, in response to the poor profitability of these books of business and substantial difficulties in the collection of its reinsurance recoverables due principally to financial problems of its reinsurers, ACIC stopped actively writing insurance and reinsurance and is currently in run-off. Since 1983, ACIC has concentrated its run-off efforts on commuting its loss exposures with its insureds and on settling the ultimate amount of its reinsurance recoverables with its reinsurers. In 1997, ACIC entered into a retrospective excess of loss reinsurance treaty with a highly rated reinsurer whereby substantially all of its remaining loss exposure has been reinsured. At December 31, 1999 and 1998, ACIC had \$51.4 million and \$51.0 million of total admitted assets, respectively, and \$43.2 million and \$43.0 million of policyholders' surplus, respectively.

BRITISH INSURANCE COMPANY OF CAYMAN ("BICC"). BICC is a Cayman Island-domiciled property and casualty insurance company in run-off. BICC was established in 1997 as a means to improve CIG's ability to recover reinsurance recoverables from insolvent or near insolvent international reinsurers. BICC consists principally of certain reinsurance recoverables and loss reserves assumed from ACIC and invested assets. At December 31, 1999 and 1998, BICC had \$36.1 million and \$26.0 million of total assets, respectively.

WATERFORD INSURANCE COMPANY ("WATERFORD").

Waterford is a Kansas-domiciled property and casualty insurance company. Waterford was purchased in 1996 (at which time it was an inactive insurance company) and is licensed to write property and casualty insurance in 48 states. Waterford had \$11.0 million and \$11.1 million in gross written premiums (\$1.4 million and \$1.4 million of net written premiums) during 1999 and 1998, respectively. As of December 31, 1999, Waterford has ceased writing new business. At December 31, 1999 and 1998, Waterford had \$13.3 million and \$13.2 million of total admitted assets, respectively, and \$12.2 million and \$11.9 million of policyholders' surplus, respectively.

INVESTMENTS IN UNCONSOLIDATED INSURANCE AFFILIATES

White Mountains' investments in unconsolidated insurance affiliates represent strategic operating investments in other insurers in which White Mountains has a significant voting and

economic interest but does not own more than 50.0% of the entity. Since 1994, White Mountains has been active in accumulating various investments in unconsolidated affiliates which are further described below:

FINANCIAL SECURITY ASSURANCE HOLDINGS LTD. ("FSA"). FSA, through its wholly-owned subsidiary, Financial Security Assurance Inc., guarantees scheduled payments of principal and interest on municipal bonds and asset-backed securities, including residential mortgage-backed securities. FSA's guaranty on investment-grade securities helps issuers lower their funding costs and provides bondholders with the highest-quality investments. FSA's claims-paying ability is rated Triple-A by Fitch IBCA, Inc., Moody's Investors Service, Inc., Standard & Poor's Rating Services and Nippon Investors Service Inc. For 1999, 1998 and 1997, FSA's gross premiums written totalled \$362.7 million, \$319.3 million and \$236.4 million, respectively, and its net income was \$125.4 million, \$115.4 million and \$94.7 million, respectively. As of December 31, 1999 and 1998, FSA's total assets were \$2.9 billion and \$2.4 billion, respectively, and its

shareholders' equity was \$1.3 billion and \$1.1 billion, respectively.

In 1994 White Mountains purchased 2,000,000 shares of the common stock of FSA ("FSA Common Stock") from MediaOne Capital Corp. ("MediaOne", formerly U S WEST Capital Corp.), a wholly-owned subsidiary of MediaOne Group, Inc. (formerly U S WEST, Inc.). The purchase was part of an initial public offering of 8,082,385 shares of FSA Common Stock at the offering price of \$20.00 per share.

White Mountains also acquired various fixed price options ("FSA Options") and shares of convertible preferred stock ("FSA Preferred Stock") during 1994 which, in total, gave White Mountains the right to acquire up to 4,560,607 additional shares of FSA Common Stock for aggregate consideration of \$125.7 million.

White Mountains purchased an additional 460,200 shares of FSA Common Stock on the open market for \$8.8 million during 1995 and an additional 1,000,000 shares of FSA Common Stock in a private transaction for \$26.5 million during 1996.

In May 1999, White Mountains exercised FSA Options pursuant to which it acquired 666,667 shares of FSA Common Stock at a strike price of \$23.50 per share. In September 1999, White Mountains exercised FSA Options pursuant to which it acquired 1,893,940 shares of FSA Common Stock at a strike price of \$26.40 per share.

In December 1999, White Mountains purchased an additional 922,509 shares of FSA Common Stock at a price of \$54.20 per share. The transaction was part of a private offering by FSA pursuant to which it sold a total of approximately \$135.0 million of its common stock to White Mountains, XL Capital Ltd, The Tokio Marine and Fire Insurance Co., Ltd and an FSA management group.

All shares of and rights to acquire FSA Common Stock owned by White Mountains are either formally registered with the Securities and Exchange Commission ("SEC") or are subject to demand registration rights. Notwithstanding SEC registration or the existence of registration rights, White Mountains is currently subject to the "affiliate" provisions of Rule 144 of the Securities Act of 1933 which limits public sales of FSA Common Shares by White Mountains. As of December 31, 1999, 1998 and 1997 White Mountains' economic interest in FSA was approximately 25.8%, 25.1% and 26.2%, respectively, and White Mountains' voting interest in FSA was approximately 25.8%, 23.1% and 24.0%, respectively.

Mr. K. Thomas Kemp (Deputy Chairman of the Company) and Mr. Terry L. Baxter (a director of the Company) are directors of FSA. In addition to being FSA directors, Mr. Kemp is Chairman of FSA's Human Resources Committee and Mr. Baxter is a member of FSA's Underwriting Committee.

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White Mountains' investment in FSA Common Stock is accounted for using the equity method. FSA Common Stock is publicly traded on the New York Stock Exchange ("NYSE"). The market value of the FSA Common Stock as of December 31, 1999 and 1998, as quoted on the NYSE, exceeded White Mountains' carrying value of the FSA Common Stock under the equity method. White Mountains' investment in FSA Preferred Stock is accounted for under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115 whereby the investment is reported at fair value as of the balance sheet date, with related unrealized investment gains and losses, after tax, reported as a net amount in a separate component of shareholders' equity and reported on the income statement as a component of other comprehensive net income.

MAIN STREET AMERICA HOLDINGS, INC. ("MSA"). MSA is a subsidiary of National Grange Mutual Insurance ("NGM"), a New Hampshire-domiciled property and casualty insurance company, which insures risks located primarily in New York, Massachusetts, Connecticut, Pennsylvania, New Hampshire, Virginia and Florida. NGM's principal lines of business and approximate percentage of total direct written premiums are personal automobile (43.1%), commercial multi-peril (17.5%), homeowners (15.7%), commercial automobile (12.9%) and all other (10.8%). MSA participates in NGM's property and casualty business through a reinsurance agreement. MSA's net written premiums totalled \$242.7 million, \$258.5 million and \$156.6 million in 1999, 1998 and 1997, respectively, and its net income was \$25.8 million, \$13.4 million and \$11.9 million, respectively. MSA's total assets as of December 31, 1999 and 1998 were \$582.3 million and \$581.6 million, respectively, and its shareholders' equity was \$233.4 million and \$232.5 million, respectively.

In 1994, White Mountains acquired 90,606 shares of the common stock of MSA ("MSA Common Stock") for \$25.0 million in cash plus \$1.2 million in subsequent purchase price adjustments which represented approximately 33.1% of the MSA Common Stock outstanding at that time. From 1994 to 1997 MSA participated in 40% NGM's property and casualty business through a reinsurance agreement.

In 1998 White Mountains acquired an additional 131,487 shares of MSA Common Stock for \$70.3 million (subject to certain purchase price adjustments which are not expected to exceed \$3.5 million) which raised White Mountains ownership of MSA to 50.0%. As a result of White Mountains' additional investment in MSA during 1998, MSA's reinsurance pooling agreement was increased from 40.0% to 60.0% and NGM contributed certain of its insurance, reinsurance and financial

services subsidiaries to MSA. White Mountains' investment in MSA Common Stock is accounted for using the equity method.

Messrs. Kemp, Baxter and John J. Byrne (Chairman and Chief Executive Officer of the Company) are directors of MSA.

DISCONTINUED MORTGAGE BANKING OPERATIONS

On May 1, 1999, White Mountains concluded its sale (the "Mortgage Banking Sale") of substantially all the mortgage banking assets of its subsidiary White Mountains Services Corporation ("WMSC" - formerly Source One Mortgage Services Corporation) to Citibank Mortgage, Inc. ("Citibank") and received net proceeds totalling \$180.6 million (which is net of WMSC's public indebtedness assumed by Citibank and WMSC's credit agreement borrowings which were required to be repaid at closing). Mortgage banking assets and liabilities that were not part of the Citibank sale were substantially liquidated during 1999. White Mountains recorded an estimated \$11.6 million after tax gain on the sale of its mortgage banking net assets (which is net of anticipated future liabilities) during 1999. As a result of the Company's decision to dispose of its net mortgage banking assets, these activities are shown as discontinued operations herein.

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INVESTING OPERATIONS

White Mountains' philosophy is to invest all assets to maximize their after tax total return over extended periods of time. Under this approach, each dollar of after tax investment income, realized capital gains and unrealized appreciation is valued equally. Management further believes that the investment assets of the insurance companies should be invested in a "balanced portfolio" consisting of a mixture of fixed income investments, equity securities and occasionally other investments in order to maximize returns over extended periods of time. The Company's Investment Committee, headed by director John D. Gillespie (a former T. Rowe Price fund manager) and comprised of certain other directors, key management and investment professionals, oversee the Company's investment activities which are more extensive than in the recent past. The Investment Committee regularly monitors the overall investment results of White Mountains, reviews the results of each of White Mountains' various investment managers, reviews compliance with established investment guidelines, approves all purchases and sales of investment securities and ultimately reports the overall investment results to the Company's Board of Directors (the "Board").

As previously stated, the investment portfolios of White Mountains' insurance operations consist, in part, of common equity securities and related investments. At December 31, 1999, Folksamerica's investment portfolio contained \$126.4 million of common equity securities and other investments which represented approximately 14% of its total portfolio (excluding short-term investments). At December 31, 1999, the portfolios of PIC, ACIC, BICC and Waterford contained \$3.5 million of common equity securities and other investments which represented approximately 3% of the aggregate PIC, ACIC, BICC and Waterford portfolios (excluding short-term investments). Management believes that modest investments of common equity securities within the investment portfolios of its insurance operations will enhance their after tax returns without significantly increasing the risk profile of the portfolio when considered over long periods of time.

REGULATION

White Mountains' insurance and reinsurance operations are subject to regulation and supervision of their operations in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid losses and loss adjustment expenses, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. Over the last several years most states have, and continue to implement, laws which establish standards for current, as well as continued, state accreditation. In addition, the National Association of Insurance Commissioners has adopted risk-based capital ("RBC") standards for property and casualty companies as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. The RBC ratios for Folksamerica, PIC, ACIC and Waterford at December 31, 1999 and 1998, were above the levels which would require 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 or any other matters that would require disclosure herein.

EMPLOYEES

As of December 31, 1999, White Mountains employed 235 persons (including 11 persons at the Company, 125 persons at Folksamerica, 75 persons at PIC, 20

persons at ACIC and BICC and 4 persons at subsidiary holding companies). Management believes that White Mountains' employee relations are good.

FORWARD-LOOKING STATEMENTS

White Mountains relies upon the safe harbor for forward looking statements provided by the Private Securities Litigation Reform Act of 1995. This safe harbor requires that White Mountains specify important factors that could cause actual results to differ materially from those contained

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in forward-looking statements made by or on behalf of White Mountains. Accordingly, forward-looking statements by the Company and its affiliates are qualified by reference to the following cautionary statements.

In its filings with the SEC, reports to shareholders, press releases and other written and oral communications, White Mountains from time to time makes forward-looking statements. Such forward-looking statements include, but are not limited to, (i) projections of revenues, income (or loss), earnings (or loss) per share, dividends, market share or other financial forecasts, (ii) statements of plans, objectives or goals of White Mountains or its management, including those related to growth in book value and deferred credit per share or return on equity and (iii) expected losses on, and adequacy of loss reserves for, insurance in force. Words such as "believes", "anticipates", "expects", "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

White Mountains cautions that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in forward-looking statements made by White Mountains. These factors include: (i) competitive forces, including the conduct of other property and casualty insurers and reinsurers; (ii) changes in domestic or foreign laws or regulations applicable to White Mountains, its competitors or its clients; (iii) an economic downturn or other economic conditions (such as a rising interest rate environment) adversely affecting White Mountains' investment portfolio; and (iv) inadequacy of loss reserves established by White Mountains. White Mountains cautions that the foregoing list of important factors is not exhaustive. In any event, such forward-looking statements made by White Mountains speak only as of the date on which they are made, and White Mountains does not undertake any obligation to update or revise such statements as a result of new information, future events or otherwise.

ITEM 2. PROPERTIES

The Company maintains two small professional offices in Hamilton, Bermuda which serve as its headquarters and registered office. In addition, the Company and certain of its subsidiaries lease 8,600 square feet of office space at 80 South Main Street, Hanover, New Hampshire, under a lease expiring in 2006, which serves as its principal executive office. Folksamerica leases 40,000 square feet of office space in New York, New York, under a lease expiring 2004, which serves as its principal office. PIC owns its principal offices in Salisbury, Maryland. ACIC and BICC lease 15,200 square feet of office space in Wilmington, Delaware, under a lease which expires in December 2000, which serves as their principal office. White Mountains leases several other office facilities and operating equipment under cancelable and noncancelable agreements.

ITEM 3. LEGAL PROCEEDINGS

Various claims have been made against White Mountains in the normal course of its business. Based on all information available at the date of this report, management believes that the outcome of such claims will not, in the aggregate, have a material effect on White Mountains' financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Pursuant to a Proxy Statement filed with the SEC on September 23, 1999 calling for a Special Meeting of Shareholders (the "Special Meeting") on October 22, 1999, shareholders approved the Redomestication, including the Company's bye-laws and authorization for the Board to exercise its powers set out in the bye-laws and to take all actions deemed necessary or advisable to give effect to the Redomestication. As of September 24, 1999, the record date for the Special Meeting, a total of 5,982,291 shares were eligible to vote. At the Special Meeting, 3,839,754 votes were cast in favor of the Redomestication, 692,714 votes were cast against and 16,743 votes abstained.

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of March 24, 2000, there were 440 registered holders of shares of the Company's Common Stock, par value \$1.00 per share ("Shares").

During 1999 and 1998 the Company declared and paid total cash dividends of \$1.60 per Share. Dividends are typically declared and paid on a quarterly basis. The Board currently intends to reconsider from time to time the declaration of regular periodic dividends on Shares with due consideration given to the financial characteristics of White Mountains' invested assets and operations and the amount and regularity of its cash flows at the time. The Company's Common Stock (symbol WTM) is listed on the NYSE. The quarterly range of the daily closing price for Shares during 1999 and 1998 is presented below:

	1999		1998	
	HIGH	LOW	High	Low
Quarter ended:				
December 31	\$134 1/2	\$116	\$144	\$117
September 30	143	130 1/16	153 1/8	119 1/8
June 30	149	131 3/8	149 1/8	135 15/16
March 31	150	120 1/2	137 5/16	120 9/16

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ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated income statement data and ending balance sheet data for each of the five years ended December 31, 1999, follows:

Millions, except per share amounts	Year Ended December 31,				
	1999	1998 (a)	1997	1996	1995
INCOME STATEMENT DATA:					
Revenues	\$ 565	\$ 390	\$ 293	\$ 186	\$ 85
Expenses	404	311	192	164	85
Pretax earnings	161	79	101	22	--
Income tax provision	(53)	(28)	(36)	(9)	(1)
Net income (loss) from continuing operations	\$ 108	\$ 51	\$ 65	\$ 13	\$ (1)
Net income (loss) from continuing operations per Share:					
Basic	\$ 19.25	\$ 8.71	\$ 9.88	\$ 1.74	\$ (.12)
Diluted	\$ 17.66	\$ 7.75	\$ 8.93	\$ 1.59	\$ (.11)
ENDING BALANCE SHEET DATA:					
Total assets	\$ 2,049	\$ 2,164	\$ 1,156 (b)	\$ 1,120	\$ 1,015
Short-term debt	4	52	2	2	21
Long-term debt	203	186	132	133	115
Deferred credit	101 (c)	37 (d)	--	--	--
Shareholders' equity	614 (e)	703	659 (e)	687 (e)	700 (e)
Book value per Share (f)	\$103.32	\$109.68	\$100.08	\$ 90.81	\$ 83.28
Book value plus deferred credit per Share (f)	\$120.23	\$115.11	\$100.08	\$ 90.81	\$ 83.28
SHARE DATA:					
Cash dividends paid per Share	\$ 1.60	\$ 1.60	\$.80	\$.80	\$.20
Ending common and equivalent Shares (000's)	5,946	6,831	6,983	7,908	8,687

(a) Includes the interim period income statement and ending balance sheet of Folksamerica which was acquired during 1998.

(b) Restated as a result of White Mountains' acquisition of Folksamerica during 1998. See Note 3.

(c) Deferred credits added during 1999 resulted from the purchase of CIG and exercises of FSA Options. See Note 1.

(d) Deferred credits added during 1998 resulted from the acquisition of Folksamerica. See Note 1.

(e) Reflects reductions in shareholders' equity resulting from repurchases of Shares.

(f) As adjusted for the dilutive effects of outstanding options and warrants to acquire Shares ("Warrants").

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

CONSOLIDATED RESULTS

White Mountains reported net income of \$121.0 million for the year ended December 31, 1999, which compares to net income of \$78.5 million and \$39.3 million for 1998 and 1997, respectively. Net income for 1999, 1998 and 1997 includes after tax gains from sales of investment securities of \$45.2 million, \$46.1 million and \$63.4 million, respectively. Net income for 1999 includes after tax gains of \$53.8 million from the Valley Group Sale and \$11.6 million from the Mortgage Banking Sale.

Comprehensive net income, which includes other comprehensive income items (primarily changes in net unrealized investment gains and losses for investments held during the period), for 1999 was \$3.0 million versus \$69.6 million and \$81.0 million for 1998 and 1997, respectively. Comprehensive net income for 1999 was adversely affected by \$28.8 million of after tax unrealized bond losses at Folksamerica and a \$43.9 million after tax accounting write-down of White Mountains' investment in FSA. Comprehensive net income for 1997 was favorably impacted by \$105.1 million of after tax unrealized holding gains primarily associated with White Mountains' investment in FSA.

Book value plus deferred credit per Share was \$120.23 at December 31, 1999, which compares to \$115.11 at December 31, 1998. At December 31, 1999 and 1998, White Mountains had \$100.6 million and \$37.1 million of after tax unamortized deferred credit, respectively, which will be amortized to income over the next four years. During 1998 White Mountains recorded a deferred credit of \$39.8 million resulting from its acquisition of Folksamerica. During 1999 White Mountains added a \$62.0 million deferred credit resulting from its acquisition of the CIG companies and a \$14.2 million deferred credit resulting from a write-down of its investment in FSA.

INSURANCE OPERATIONS

REINSURANCE OPERATIONS

Folksamerica contributed \$44.9 million to net income during 1999 versus \$10.0 million and \$5.2 million during 1998 and 1997, respectively. Folksamerica's contribution for 1998 included \$5.6 million of pretax earnings (\$4.5 million after tax) recorded as earnings from unconsolidated insurance affiliates. Folksamerica's entire contribution for 1997 was recorded as earnings from unconsolidated insurance affiliates.

Folksamerica's results for the three years ended December 31, 1999, 1998 and 1997 included \$211.0 million, \$238.1 million and \$238.0 million of earned reinsurance premiums, respectively, and \$182.2 million, \$170.3 million and \$165.6 million of losses and loss adjustment expenses, respectively. For 1999 Folksamerica's combined ratio was 122.5% versus a combined ratio of 108.0% and 102.9% for the comparable 1998 and 1997 periods.

A summary of Folksamerica's 1999, 1998 and 1997 underwriting results follows:

Dollars in millions	Year Ended December 31,		
	1999	1998	1997
Net written premiums	\$ 201.7	\$ 212.6	\$ 232.4
Earned premiums	211.0	238.1	238.0
Losses and loss adjustment expenses	182.2	170.3	165.6
Underwriting expenses	81.4	92.6	81.6
Underwriting loss	\$ (52.6)	\$ (24.8)	\$ (9.2)
Statutory combined ratios:			
Loss and loss adjustment expense	86.5%	71.5%	69.6%
Underwriting expense	36.0	36.5	33.3
Combined	122.5%	108.0%	102.9%

During 1999 Folksamerica acquired USF Re Insurance Co. ("USF Re") from The Centris Group Inc. for total consideration of \$92.5 million. The purchase consideration included the issuance of a \$20.8 million, five-year note by Folksamerica (which can be reduced by adverse loss development at USF Re post

acquisition).

Folksamerica's 1999 combined ratio of 122.5% included approximately \$20.1 million in pretax losses associated with USF Re's loss reserves, \$4.0 million of pretax property catastrophe losses and higher than anticipated asbestos and environmental losses. These significant 1999 adverse loss developments resulted primarily from business acquired through Folksamerica's prior acquisitions (mainly USF Re). However, Folksamerica's 1999 combined ratio does not reflect the offsetting bargain purchase benefits of such acquisitions which are recorded at its parent. For 1999, Folksamerica's holding company recorded \$20.3 million of after tax income resulting from the favorable purchase structures of such acquisitions which were designed to mitigate Folksamerica's adverse loss development. These benefits for 1999 included a \$14.0 million after tax reduction in the USF Re seller note and \$6.3 million of after tax deferred credit amortization. The effects of such favorable purchase structures, which are not included in Folksamerica's combined ratio, would serve to reduce the 1999 combined ratio by approximately 13 points to 110%.

Folksamerica's 1998 combined ratio of 108.0% was higher than that of 1997 due primarily to two property events experienced during the year (Canadian ice storms and Hurricane Georges) and higher than anticipated asbestos and environmental losses.

In addition to incurred losses, Folksamerica's combined ratios for 1999 and 1998 were higher than anticipated due to lower premium volume resulting from lower than expected production on a number of domestic treaties, the effects of non-renewals in its property portfolio, slower than anticipated growth in its Latin America business and a less favorable pricing environment. During 1999, Folksamerica's written premium volume decreased 5% versus 1998 despite its acquisition of USF Re during mid 1999. During 1998, Folksamerica's written premium volume decreased approximately 9% versus 1997 premium levels. These premium volume decreases primarily reflect increased non-renewed business due to deteriorating terms and conditions.

As previously mentioned, Folksamerica underwrites each reinsurance contract anticipating an element of underwriting profit. The anticipated degree of underwriting profit varies by contract and is based on a variety of factors which can include some degree of float. Despite this expectation on an individual contract basis, Folksamerica's reported results for the years ended December 31, 1999, 1998 and 1997 included overall underwriting losses due to the following: (i) actual results on some accounts or classes have produced higher than anticipated loss costs (considering the highly competitive market conditions, there has been insufficient margin in profitable accounts to absorb higher loss costs produced by other accounts); (ii) higher than anticipated property catastrophe losses, particularly during 1999 and 1998; and (iii) continued strengthening of reserve portfolios relating to acquired companies. However, as previously mentioned, Folksamerica has various protections into its prior acquisition structures at its holding company which are designed to mitigate such losses.

Since Folksamerica's claims settlement period generally extends over a long period of time, Folksamerica earns significant amounts of investment income on the float generated by its reinsurance operations. When considering investment income and certain other items at the Folksamerica holding company level (primarily interest expense and income taxes), Folksamerica reported net income of \$63.7 million, \$27.3 million and \$35.9 million for the three years ended December 31, 1999, 1998 and 1997, respectively, and reported comprehensive net

income of \$13.4 million, \$54.3 million and \$50.9 million during those periods, respectively. This resulted in Folksamerica attaining an after tax return on its beginning equity of 5.7%, 20.9% and 29.9% for 1999, 1998 and 1997, respectively.

The following table presents the subsequent development of the year-end reinsurance losses for the ten-year period from 1989 to 1999. Section I of the table shows the estimated liabilities that were recorded at the end of each of the indicated years for all current and prior year unpaid losses and loss adjustment expenses ("lae"). Section II shows the re-estimate of the liabilities made in each succeeding year. Section III shows the cumulative liabilities paid of such previously recorded liabilities. Section IV shows the cumulative deficiency representing the aggregate change in the liability from the original balance sheet dates:

Reinsurance Losses and Loss Adjustment Expenses (a)											
Year Ended December 31,											

Dollars in Millions	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999

I. Liability for unpaid losses and lae ..	\$341.4	\$391.1	\$461.6	\$698.4	\$728.3	\$776.9	\$836.1	\$830.5	\$848.1	\$869.1	\$782.1
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II. Liability
re-estimated
as of:

1 year later ...	351.2	425.5	493.7	748.2	762.6	847.4	861.5	863.3	890.4	912.8	--
2 years later ..	385.5	448.8	498.5	771.2	825.0	867.9	886.6	881.4	907.5		
3 years later ..	408.7	449.8	513.3	813.3	837.3	887.7	907.8	898.6			
4 years later ..	409.3	458.4	531.7	819.8	856.6	904.6	923.0				
5 years later ..	421.7	471.2	531.8	843.7	872.1	919.0					
6 years later ..	430.6	472.6	541.5	856.6	882.8						
7 years later ..	432.9	480.6	547.8	864.8							
8 years later ..	438.8	486.9	554.2								
9 years later ..	444.1	494.7									
10 years later ..	452.2										

III. Cumulative
amount of
liability paid
through:

1 year later ...	98.7	110.5	133.8	243.3	229.9	238.7	253.6	226.3	241.6	288.5	--
2 years later ..	156.5	175.1	199.6	366.5	363.4	387.1	393.3	364.2	401.3		
3 years later ..	195.5	216.2	256.7	452.3	466.2	485.8	484.3	475.0			
4 years later ..	221.2	252.7	304.4	525.6	534.4	550.5	570.7				
5 years later ..	248.2	285.6	340.0	575.2	576.7	617.1					
6 years later ..	271.1	312.6	367.6	604.8	630.5						
7 years later ..	293.0	332.8	382.3	651.6							
8 years later ..	306.1	342.9	409.4								
9 years later ..	314.1	367.5									
10 years later ..	336.0										

IV. Cumulative deficiency	\$110.8	\$103.6	\$92.6	\$166.4	\$154.5	\$142.1	\$86.9	\$68.1	\$59.4	\$43.7	--
Percent deficient	32%	26%	20%	24%	21%	18%	10%	8%	7%	5%	--

(a) For the years 1989 through 1991 liabilities are shown net of reinsurance recoverable. For the years 1992 through 1999 liabilities are shown without regard to reinsurance recoverable in accordance with SFAS No. 113. The table excludes the insurance operations of VGI and CIG whose liability for unpaid losses and lae totalled \$68.9 million, \$88.5 million, \$71.9 million and \$65.4 million as of December 31, 1999, 1998, 1997 and 1996, respectively.

The table above has been prepared in accordance with prescribed instructions, however, management believes that this information is not indicative of Folksamerica's actual loss development history for the following reasons: (i) with respect to 1992 through 1999, the information is presented prior to considering the benefit of significant amounts of ceded reinsurance recovered (and recoverable) from Folksamerica's reinsurers; (ii) the information includes the complete loss development history for companies acquired by Folksamerica for all periods presented, including periods prior to Folksamerica's acquisition of such companies; and (iii) the structure of each of Folksamerica's acquisitions has provided effective economic protections to offset potential post-acquisition loss development. The form of these protections has included deferred and adjustable purchase consideration and favorable purchase prices. In consideration of such factors, the table presented below is management's attempt to adjust the deficiencies presented above for the most recent five years:

Percent of deficit to carried reserves:	Year Ended December 31,				
	1995	1996	1997	1998	1999
Deficiency as reported	10%	8%	7%	5%	-- %
Deficiency as adjusted for the effects described above...	3%	3%	2%	2%	-- %

INSURANCE OPERATIONS

On October 15, 1999, the Company concluded its acquisition of the CIG companies (PIC, ACIC and BICC) for \$86.7 million in cash. Because the cost of these companies was less than the fair value of their net identifiable assets at October 15, 1999, the Company recorded a \$62.0 million deferred credit (\$57.7 million as of December 31, 1999) that will be amortized to income over three years. For the period from October 15, 1999 to December 31, 1999, the inclusion of PIC, ACIC and BICC did not have a significant impact on the Company's 1999 operating results.

On June 17, 1999, the Company completed the Valley Group Sale and recorded a pretax gain of \$88.1 million, \$53.8 million after tax on the transaction. The Company recorded net income from Valley Group for the 1999 period through the date of sale of \$3.6 million which primarily represented realized investment gains. For the years ended December 31, 1998 and 1997, VGI contributed \$5.0 million and \$7.2 million, respectively, to net income.

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INVESTMENTS IN UNCONSOLIDATED INSURANCE AFFILIATES

FSA and MSA represented White Mountains' investments in unconsolidated insurance affiliates at December 31, 1999 and 1998.

FSA and White Mountains' related investment in MediaOne preferred stock (which was redeemed on September 2, 1999) contributed \$15.7 million to net income during the year ended December 31, 1999 versus \$9.3 million for 1998 and \$7.8 million for 1997. The significant increase in FSA-related net income during 1999 resulted from the additional purchase of \$50.0 million of FSA Common Stock and the exercise of FSA Options, each occurring during 1999.

MSA contributed \$9.8 million to net income during the year ended December 31, 1999 versus \$3.2 million for 1998 and \$2.5 million for 1997. The significant increase in MSA-related net income during 1999 resulted principally from significant realized gains on sales of investments recorded by MSA during the year.

INVESTMENT OPERATIONS

Net realized gains on investments and the total net investment return from White Mountains' investment activities (excluding net unrealized investment holding gains and losses from White Mountains' investments in unconsolidated insurance affiliates) are shown below:

Millions	Year Ended December 31,		
	1999	1998	1997
Net realized investment gains, before tax	\$ 69.6 (a)	\$ 71.0	\$ 97.4
Net investment income	\$ 61.9	\$ 36.8	\$ 21.6
Net unrealized investment gains (losses) for investments held during the period	(20.2)	24.8	87.7
Total net investment return, before tax	\$ 41.7	\$ 61.6	\$ 109.3

(a) Excludes a \$15.8 million realized gain on sale of the USF Re shell company

Net realized investment gains of \$69.6 million for the year ended December 31, 1999 included \$23.9 million of pretax gains from sales of San Juan Basin Royalty Trust ("SJT") units and \$28.0 million of pretax gains from sales of various common stocks and other investments in Folksamerica's operating portfolio. In addition, \$9.4 million of pretax gains on sales of common stocks and fixed maturity investments were recorded in anticipation of or in connection with the Valley Group Sale. Net realized investment gains of \$71.0 million for the year ended December 31, 1998 resulted principally from

the sale of White Mountains' investment in White River Corporation ("White River"). Net realized investment gains of \$97.4 million recorded during 1997 included \$37.2 million of pretax gains from sales of Travelers Property Casualty Corp. common stock, \$24.3 million of pretax gains from sales of SJT units, \$10.3 million of pretax gains from sales of Mid Ocean Limited common stock and \$15.5 million of pretax gains from sales of Veritas DGC Inc. common stock.

White Mountains' net investment income is comprised primarily of interest income associated with the fixed maturity investments of its consolidated insurance and reinsurance operations and dividend income from its equity investments. The significant increase in net investment income

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from 1997 to 1999 is mainly attributable to White Mountains' growing portfolio of fixed maturity investments resulting from the consolidation of Folksamerica in August 1998 and the 1999 acquisitions of USF Re and CIG.

Net unrealized investment losses for investments held during 1999 of \$20.2 million pretax resulted from a \$48.3 million pretax loss on fixed maturities held in White Mountains' insurance operating portfolios partially offset by unrealized gains from common stocks and other investments. Net unrealized gains for investments held during 1998 of \$24.8 million pretax resulted from unrealized gains on fixed maturities and common stocks. Net unrealized gains for investments held during 1997 of \$87.7 million resulted from gains on common stocks, particularly White River.

EXPENSES

Insurance losses and loss adjustment expenses totalled \$228.3 million for 1999 versus \$174.8 million for 1998 and \$97.1 million for 1997. Insurance and reinsurance acquisition expenses totalled \$73.4 million for 1999 versus \$54.8 million for 1998 and \$23.2 million for 1997. The increase in these insurance expenses from 1997 to 1999 is primarily attributable to the inclusion of Folksamerica in the Company's consolidated results during 1998 and the acquisitions of USF Re and CIG during 1999. During 1999 and 1998, losses and loss adjustment expenses relating to prior years developed unfavorably by \$15.3 million (which is net of USF Re purchase price offsets) and \$7.8 million, respectively. During 1997, losses and loss adjustment expenses relating to prior years developed favorably by \$2.5 million pretax.

Compensation and benefits totalled \$67.8 million for 1999 versus \$51.5 million for 1998 and \$45.5 million for 1997. The increase in compensation and benefits from 1998 to 1999 is due to both the inclusion of Folksamerica in the Company's consolidated results for the entire 1999 period and expenses incurred in connection with the Redomestication. See "Liquidity and Capital Resources". The increase in compensation and benefits from 1997 to 1998 is primarily due to the initial inclusion of \$7.1 million of Folksamerica's compensation and benefits during 1998.

General expenses totalled \$19.5 million for 1999 versus \$15.9 million for 1998 and \$15.7 million for 1997. The increase in general expenses during the 1999 period are primarily attributable to both the inclusion of Folksamerica in the Company's consolidated results for the entire 1999 period and expenses incurred in connection with the Redomestication.

Interest expense totalled \$14.7 million during 1999 versus \$13.7 million for 1998 and \$10.6 million for 1997. The increase in interest expense from 1998 to 1999 primarily reflects higher average indebtedness levels due to indebtedness outstanding at Folksamerica for the entire 1999 period. The increase in interest expense from 1997 to 1998 primarily reflects the inclusion of \$1.4 million of Folksamerica's interest expense for 1998 and an increase in average indebtedness under White Mountains' credit facility associated with its 1998 acquisition of Folksamerica and its 1998 increase in its investment in MSA.

INCOME TAXES

In connection with the Redomestication, the Company and certain of its subsidiaries changed their domicile to either Bermuda or Barbados (the "Offshore Companies") while certain other subsidiaries remained domiciled in the United States (the "Onshore Companies"). As a result, income earned by the Offshore Companies will generally be subject to an effective overall tax rate lower than that imposed by the United States, however, no tax benefits will be attained

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in the event of net losses incurred by such companies. Additionally, prior to the Redomestication, the Company filed a consolidated United States income tax return with its subsidiaries. The Onshore Companies must continue to file United States tax returns but may no longer do so on a group-wide consolidated basis. As a result, the aggregate United States income tax liability of the Onshore Companies may be higher than it otherwise would have been if part of a

consolidated tax return. These factors may serve to increase or decrease White Mountains' effective tax rate for 1999 and beyond, depending on the events and circumstances occurring during such periods.

The income tax provision related to pretax earnings for 1999, 1998 and 1997 represents an effective tax rate of 32.9%, 35.8% and 35.9%, respectively. The reduction in the effective rate for 1999 resulted from the Redomestication.

White Mountains recorded a deferred tax asset of \$52.5 million (relating primarily to various operating items) and a deferred tax liability of \$37.5 million (relating primarily to net unrealized investment holding gains) on its balance sheet as of December 31, 1999. White Mountains recorded a net deferred tax liability of \$13.4 million on its balance sheet as of December 31, 1998. The 1998 net deferred tax liability consisted of \$103.3 million of deferred tax assets (relating primarily to various operating items) and \$116.7 million of deferred tax liabilities (relating primarily to net unrealized investment holding gains).

In 1991, the Company sold Fireman's Fund Insurance Company ("Fireman's Fund") to Allianz of America, Inc. The \$1.3 billion gain from the sale as reported in 1991 included a \$75.0 million tax benefit related to the Company's estimated tax loss from the sale. Since 1991 the Company has carried an estimated reserve related to tax matters affecting the amount of the deductible tax loss from the sale and other tax matters. The amount of tax benefit from the sale of Fireman's Fund ultimately realized by the Company may be significantly more or less than the Company's current estimate due to possible changes in or new interpretations of tax rules, possible amendments to White Mountains' 1991 or prior years' income tax returns, the results of further IRS audits and other matters affecting the amount of the deductible tax loss from the sale.

LIQUIDITY AND CAPITAL RESOURCES

THE COMPANY, INSURANCE OPERATIONS AND OTHER

The primary sources of cash inflows for the Company are investment income, sales of investment securities and dividends received from its operating subsidiaries. Under the insurance laws of the states under which the Company's insurance subsidiaries are licensed to write business, an insurer is restricted with respect to the amount of dividends it may pay without prior approval by state regulatory authorities. Accordingly, there is no assurance that dividends may be paid by such subsidiaries in the future.

During 1993 the Company issued \$150.0 million in principal amount of medium-term notes for net cash proceeds of \$148.0 million after related costs. The Company has repurchased its medium-term notes from time to time and during 1999 repurchased \$15.9 million in principal amount of the notes due in February 2003. At December 31, 1999 the \$96.0 million of medium-term notes outstanding had an average maturity of 3.6 years and an average yield to maturity of 7.83%.

The Company has a revolving credit agreement whereby it may borrow up to \$35.0 million

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(which was increased to \$50.0 million during 1999) at short-term market interest rates. The credit agreement contains certain customary covenants and conditions. At December 31, 1999 and 1998 the Company was in compliance with all covenants under the facility and had no borrowings outstanding under the agreement.

During 1999 and 1998 the Company repurchased 1,020,150 Shares for \$139.5 million and 151,916 Shares for \$19.8 million, respectively. All Shares repurchased during 1999 and 1998 have been retired. During 1999 and 1998 the Company declared and paid quarterly cash dividends of \$.40 per Share. Shares repurchased and dividends paid during 1999 and 1998 represented returns of excess capital to shareholders.

During 1999 the Company issued a total of 1,137,495 common shares to its Chairman and its key employees in satisfaction of the Chairman's warrant exercise and various employee benefit plan obligations. In order to entice the Chairman to exercise his Warrants early, the Company paid Mr. Byrne \$6.0 million to compensate him for the estimated interest cost of borrowing the strike price and the amounts required to prematurely pay his income taxes.

During 1999 White Mountains exercised FSA Options pursuant to which it acquired 666,667 shares of FSA Common Stock at a strike price of \$23.50 per share. Also during 1999, White Mountains exercised FSA Options pursuant to which it acquired 1,893,940 shares of FSA Common Stock at a strike price of \$26.40 per share in accordance with the redemption of the MediaOne preferred stock.

During 1999 White Mountains purchased an additional 922,509 shares of the common stock of FSA at a price of \$54.20 per share. The transaction was part of a private offering by FSA pursuant to which it sold a total of \$140.0 million of its common stock to White Mountains, XL Capital, Ltd, The Tokio Marine and Fire Insurance Co., Ltd and an FSA management group.

During 1999 the Company concluded the Mortgage Banking Sale and recorded an \$11.6 million after gain on the sale. The Company has retained the WMSC legal entity which currently owns the majority of White Mountains' investments in FSA and certain other mortgage-related and other assets and liabilities.

During 1999 the Company concluded the Valley Group Sale and recorded a \$53.8 million after tax gain on the sale. In connection with the Valley Group Sale, White Mountains repaid \$15.0 million of VGI's long-term indebtedness during 1999.

During 1999 the Company concluded its previously announced acquisition of the CIG companies for \$86.7 million in cash.

In connection with the Redomestication, White Mountains paid \$104.1 million in certain compensation benefits to its current and former employees and directors on October 22, 1999 at an incremental after tax cost of \$14.9 million. In connection with the compensation payments, White Mountains paid cash of \$89.8 million (primarily to its former employees) and issued \$14.3 million in Shares (primarily to its current employees, directors and advisors). A significant portion of the compensation paid on October 22, 1999 represented the acceleration of expenses that would have ordinarily been incurred in future periods which resulted in increased tax deductible expenses in 1999.

In connection with the Redomestication, the Company was treated as if it sold all of its directly owned assets in a fully taxable transaction in which gains, but not losses, were recognized. The Company incurred a United States income tax liability upon the Redomestication of approximately \$2.5 million.

On March 14, 2000, White Mountains entered into a definitive agreement to sell its indirect,

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wholly-owned subsidiary, White Mountains Holdings, Inc. (which controls a substantial amount of its holdings of FSA Common Stock and the FSA Preferred Stock) as well as all its other holdings of FSA Common Stock, to Dexia S.A. ("Dexia") for total cash proceeds of \$620.4 million. The transaction will occur only in connection with Dexia's pending merger with FSA in which all holders of FSA Common Stock will receive \$76.00 cash per share. The merger agreement between FSA and Dexia is subject to, among other matters, regulatory approvals and the satisfaction of the conditions contained in Dexia's merger agreement with FSA, including the approval of FSA shareholders. The transaction, if approved, is expected to close mid-year 2000.

REINSURANCE OPERATIONS

Under the insurance laws of New York an insurer is restricted with respect to the amount of dividends it may pay without prior approval by state regulatory authorities. Accordingly, there is no assurance that dividends may be paid by Folksamerica in the future.

As part of the Folksamerica acquisition in 1998, White Mountains agreed to repay or refinance Folksamerica's \$55.6 million of outstanding long-term indebtedness during February 1999. On February 24, 1999, White Mountains repayed and replaced its former facility with a revolving credit agreement whereby it may borrow up to \$100.0 million (which was subsequently increased to \$120.0 million during 1999) at market interest rates. The new credit agreement contains certain customary covenants and conditions. At December 31, 1999, Folksamerica was in compliance with all covenants under the facility and had \$100.0 million of borrowings outstanding under the agreement.

During 1999 Folksamerica acquired USF Re for total consideration of \$92.5 million. The purchase consideration included the issuance of a \$20.8 million, five-year note by Folksamerica (which has been reduced to \$6.8 million at year-end 1999 due to adverse loss development at USF Re post acquisition) with the balance paid in cash. Folksamerica did not record a significant amount of goodwill in connection with its acquisition of USF Re.

On December 30, 1999, Folksamerica announced that it had signed a definitive agreement to purchase PCA Property & Casualty Insurance Company ("PCA"), a Florida-domiciled insurance company specializing in workers' compensation, from Humana Inc. The transaction, for \$125.0 million in cash, is subject to regulatory approvals.

On January 10, 2000, Folksamerica announced that it had signed a definitive agreement to acquire substantially all the reinsurance operations of Risk Capital Reinsurance Company ("RCRe"), a wholly-owned subsidiary of Risk Capital Holdings, Inc., for consideration of \$20.3 million. The transaction is subject to regulatory approvals.

MARKET RISK

White Mountains' consolidated balance sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risk. The term

market risk refers to the risk of loss arising from adverse changes in: interest rates, foreign currency exchange rates and other relevant market rates and prices such as prices for common equity securities. Due to White Mountains' sizable investments in fixed maturity investments and common equity securities and its use of medium- and long-term debt financing, market risk can have a significant effect on White Mountains' consolidated financial position.

INTEREST RATE RISK

FIXED MATURITY PORTFOLIO. In connection with the Company's consolidated insurance and reinsurance subsidiaries, White Mountains invests in interest rate sensitive securities, primarily debt securities. White Mountains' strategy is to purchase fixed maturity investments that are attractively priced in relation to perceived credit risks. White Mountains' investments in fixed maturity investments are held as available for sale and, accordingly, White Mountains accepts that realized and unrealized losses on these instruments may occur. White Mountains does not use derivative securities to manage its interest rate risk associated with its fixed maturity investments, rather it manages the average duration of the fixed maturity portfolio in the anticipation of achieving an adequate yield without subjecting the portfolio to an unreasonable level of interest rate risk.

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions. These investments are carried at fair value on the balance sheet with unrealized gains reported net of tax in a separate component of shareholders equity.

INDEBTEDNESS. White Mountains utilizes debt financing at many levels of its businesses. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed rate indebtedness, respectively, particularly long-term debt. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

The table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on White Mountains' fixed maturity portfolio and long-term fixed rate indebtedness outstanding. Significant variations in market interest rates could produce changes in the timing of repayments due to prepayment options available to the issuer or the holder which are not reflected herein. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk.

Dollars in Millions	Fair Value at December 31, 1999	Assumed Change in Interest Rate	Estimated Fair Value after Change in Interest Rate	Percentage Increase (Decrease) to Shareholders' Equity
Fixed maturity investments	\$924.5	50 bp decrease	\$ 940.8	1.7%
		50 bp increase	908.5	(1.7)
		100 bp increase	892.9	(3.3)
		200 bp increase	862.8	(6.5)
Fixed rate indebtedness (a)	\$100.3	50 bp decrease	\$ 101.8	(.2)%
		50 bp increase	98.8	.2
		100 bp increase	97.4	.5
		200 bp increase	94.7	.9

(a) Represents medium-term notes with a carrying value at December 31, 1999 of \$96.4 million. Excludes short-term indebtedness, variable rate obligations and the USF Re seller note whose principal (and interest payable thereon) amortizes in response to adverse loss development experienced at Folksamerica resulting from its acquisition of USF Re.

FOREIGN CURRENCY EXCHANGE RATES

Folksamerica operates a branch office in Toronto, Canada to service its Canadian customers and a portion of BICC's premiums are denominated in a foreign currencies. Net unrealized foreign currency translation gains and losses associated with Folksamerica and BICC are reported, after tax, as a net amount

in a separate component of shareholders' equity. Changes in the values of these operations due to currency fluctuations, after tax, are reported on the income statement as a component of other comprehensive net income. At December 31, 1999 and 1998, Folksamerica's and BICC's net assets denominated in foreign currency represented approximately one percent of the Company's shareholders' equity, therefore, any significant change in foreign currency rates would not have a material impact on White Mountains' financial position.

EQUITY PRICE RISK

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

The table below summarizes White Mountains' equity price risks as of December 31, 1999 and shows the effects of a hypothetical 20% increase and a 20% decrease in market prices as of that date.

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Dollars in Millions	Fair Value at December 31, 1999	Assumed Price Change	Estimated Fair Value after Assumed Price Change	Percentage Increase (Decrease) to Shareholders' Equity
Common equity securities	\$108.4	20% increase	\$130.1	2.6%
		20% decrease	\$ 86.7	(2.6)%
Other investments (a)	\$ 67.7	20% increase	\$ 81.2	1.6%
		20% decrease	\$ 54.1	(1.6)%
FSA Preferred Stock	\$ 41.1	20% increase	\$ 61.3	2.1%
		20% decrease	\$ 20.9	(2.1)%

(a) Excludes \$.6 million of other investments which would not be directly affected by the assumed changes in equity prices.

OTHER MATTERS

ACCOUNTING FOR FSA OPTIONS AND FSA PREFERRED STOCK

White Mountains accounts for its investment in FSA Common Stock on the equity method of accounting and accounts for its unexercised stock options and convertible securities to acquire FSA Common Stock at fair value. Upon the exercises of FSA Options during 1999, the Company was required to write its investments in the FSA Options exercised to their original cost in order to transition the investment from fair value accounting to equity accounting. In connection with this accounting transition, the Company reduced its after tax net unrealized gains at the time of exercise by \$39.3 million and recorded a deferred credit of \$14.2 million that will be amortized to income over a five-year period. The difference between fair value and equity value (\$25.1 million at the time of exercise) may not be recognized by White Mountains until such time as equity accounting is no longer appropriate for its investment in FSA Common Stock.

RETIREMENT OF COMMON STOCK HELD IN TREASURY

In conformance with Bermuda law, the Company retired all Shares held in its treasury during 1999. The retirement of treasury shares resulted in a significant reclassification of several of the Company's various shareholders' equity accounts but did not affect total shareholders' equity.

YEAR 2000 UPDATE

Neither White Mountains nor any of its unconsolidated insurance affiliates experienced any significant Year 2000 disruptions to its business operations. White Mountains' total pretax cost of Year 2000 remediation, excluding its unconsolidated insurance affiliates, was approximately \$3.0 million. This figure does not include the cost of hardware and software replacements and upgrades made in the normal course of business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Market Risk Disclosures" contained in Item 7. Management's Discussion

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 34 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 10, 1999, the Audit Committee of the Board appointed PricewaterhouseCoopers LLP ("PwC") as its independent auditors for the fiscal year ending December 31, 1999, to succeed KPMG LLP ("KPMG") effective upon the date of their reports on such consolidated financial statements for the year ended December 31, 1998.

PwC has served as Folksamerica's independent auditors since 1981 and has served as FSA's independent auditors since 1989. The Audit Committee has recommended that PwC succeed KPMG as the Company's independent auditors for 1999 due to the growing significance of Folksamerica and FSA to the Company's 1999 financial position and results of operations.

In connection with the audits of the years ended December 31, 1998 and 1997, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to their satisfaction, would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

The Company has requested KPMG to furnish a letter addressed to the SEC stating whether it agrees with the above statements. A copy of this letter, dated March 25, 1999, is contained herein as Exhibit 16.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

A. DIRECTORS (AS OF MARCH 24, 2000)

Reported under the caption "Election of Directors" on pages 3 through 6 of the Company's 2000 Proxy Statement, herein incorporated by reference.

B. EXECUTIVE OFFICERS (AS OF MARCH 24, 2000)

Name	Position	Age	Executive officer since
Raymond Barrette	President	49	1997
John J. Byrne	Chief Executive Officer	67	1985
Reid T. Campbell	Vice President and Director of Finance	32	1996
Michael S. Paquette ...	Senior Vice President and Controller	36	1993
David G. Staples	Vice President	39	1997

All executive officers are elected by the Board for a term of one year or until their successors have been elected and have duly qualified.

MR. BARRETTE was appointed President of the Company in January 1999 and became a Director in February 2000. He joined White Mountains in 1997 as the Company's Executive Vice President and Chief Financial Officer. He was formerly a consultant with Tillinghast-Towers Perrin from 1994 to 1996 and was with Fireman's Fund from 1973 to 1993. Mr. Barrette is also a director of Folksamerica, PIC, ACIC, BICC and Waterford.

MR. BYRNE was appointed Chief Executive Officer of the Company in January 2000. He has served as Chairman of the Board of the Company since 1985 and formerly served as President and Chief Executive Officer from 1990 to 1997, and as Chief Executive Officer from 1985 to 1990. Mr. Byrne is also a director of MSA.

MR. CAMPBELL was elected Vice President and Director of Finance in 1998 and

previously served as Assistant Controller from 1996 to 1998 and Director of Accounting from 1995 to 1996. Mr. Campbell has been with White Mountains since 1994. Prior to joining White Mountains, Mr. Campbell was with KPMG Peat Marwick from 1990 to 1994. Mr. Campbell is a director of PIC and Waterford.

MR. PAQUETTE was appointed Senior Vice President and Controller in 1997. Mr. Paquette previously served as Vice President and Controller since 1995 and as Vice President and Chief Accounting Officer from 1993 to 1995. Mr. Paquette has been a member of the White Mountains organization since 1989. Mr. Paquette is also a director of Waterford.

MR. STAPLES was elected Vice President in 1997 and has been with White Mountains since 1996. Prior to joining White Mountains, Mr. Staples served as Vice President and Director of Taxation for Crum & Forster Holdings, Inc. from 1993 to 1996, and was with KPMG Peat Marwick from 1983 to 1993.

ITEM 11. EXECUTIVE COMPENSATION

Reported under the captions "Compensation of Executive Officers" on pages 11 through 13, "Reports of the Compensation Committees on Executive Compensation" on pages 13 through 15, "Shareholder Return Graph" on page 16, and "Compensation Plans" on page 17 of the Company's 2000 Proxy Statement, herein incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reported under the caption "Voting Securities and Principal Holders Thereof" on pages 7 through 9 of the Company's 2000 Proxy Statement, herein incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reported under the captions "Certain Relationships and Related Transactions" on page 13 and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" on page 18 of the Company's 2000 Proxy Statement, herein incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

a. DOCUMENTS FILED AS PART OF THE REPORT

The financial statements and financial statement schedules and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 34 of this report. A listing of exhibits filed as part of the report appear on pages 30 through 32 of this report.

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b. REPORTS ON FORM 8-K

During the fourth quarter of 1999 the Company filed two Current Reports on Form 8-K. The first, dated November 1, 1999, announced that the Company had completed the Redomestication on October 25, 1999. The second, dated December 30, 1999, announced that Folksamerica had signed a definitive agreement to purchase PCA.

c. EXHIBITS

EXHIBIT NUMBER	NAME
2	Plan of Reorganization (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3(a)	Memorandum of Continuance of the Company (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3(b)	Bye-Laws of the Company (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
4	Indenture dated January 1, 1993, with The First National Bank of Chicago, as trustee, pursuant to the Company's offering of \$150 million of medium-term notes (incorporated by reference herein to the Company's Registration Statement on S-3 (No. 33-54006) dated October 30, 1992)
9	Voting Trust Agreement dated September 2, 1994 between the Company, U S WEST Capital Corporation and The First National Bank of Chicago (incorporated by reference herein to Exhibit 10(a) of the Company's Report

- 10 (a) Second Amended and Restated Credit Agreement dated February 24, 1999 among the Company, the Lenders (as named therein) and The First National Bank of Chicago (*)
- 10 (b) Amendment No. 1 dated March 23, 1999 to the Second Amended and Restated Credit Agreement dated February 24, 1999 among the Company, the Lenders (as named therein) and The First National Bank of Chicago (*)
- 10 (c) Amendment No. 2 dated July 30, 1999 to the Second Amended and Restated Credit Agreement dated February 24, 1999 among the Company, the Lenders (as named therein) and The First National Bank of Chicago (*)
- 10 (d) Amendment No. 3 dated October 29, 1999 to the Second Amended and Restated Credit Agreement dated February 24, 1999 among the Company, the Lenders (as named therein) and The First National Bank of Chicago (*)
- 10 (e) Credit Agreement dated February 24, 1999 among Folksamerica Holding Company, Inc., the Lenders (as named therein) and The First National Bank of Chicago (*)
- 10 (f) Amendment No.1 dated June 29, 1999 to the Credit Agreement dated February 24, 1999 among Folksamerica Holding Company, Inc., the Lenders (as named therein) and The First National Bank of Chicago (*)
- 10 (g) Amendment No. 2 dated October 29, 1999 to the Credit Agreement dated February 24, 1999 among Folksamerica Holding Company, Inc., the Lenders (as named therein) and The First National Bank of Chicago (*)

EXHIBIT NUMBER	NAME
10 (h)	Folksamerica Stock Purchase Agreement dated as of July 1, 1998 by and among the Company, White Mountains, Folksam Mutual General Insurance Company, Folksam International Insurance Co. Ltd, Weiner Staedtische Allgemeine Versicherung AG, P&V Assurances S.C. and Samvirke Skadeforsikring AS (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated August 18, 1998)
10 (i)	Assignment and Assumption Agreement dated as of August 18, 1998 by and among Folksam Omsesidig Sakforsakring, Samvirke Skadeforsikring AS and the Company (incorporated by reference herein to Exhibit 10(b) of the Company's Report on Form 8-K dated August 18, 1998)
10 (j)	Subscription Agreement dated November 6, 1997 between Folksamerica, the Company, White Mountains, Folksam Mutual General Insurance Company, Folksam International Insurance Co. Ltd, Weiner Staedtische Allgemeine Versicherung AG, P&V Assurances S.C. and Samvirke Skadeforsikring AS (incorporated by reference herein to Exhibit 10(l) of the Company's 1997 Annual Report on Form 10-K)
10 (k)	Securities Purchase Agreement dated March 6, 1996 between the Company and Folksamerica (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated June 19, 1996)
10 (l)	Folksamerica Stock Purchase Agreement dated August 8, 1995 between the Company, Skandia U.S. Holding Corporation, and Skandia America Corporation (incorporated by reference herein to Exhibit 10(e) of the Company's 1995 Annual Report on Form 10-K)
10 (m)	Guaranty, dated February 28, 1997, by the Company to and for the benefit of Chemical Mortgage Company (incorporated by reference herein to Exhibit 10(y) of the Company's 1996 Annual Report on Form 10-K)
10 (n)	VGI Stock Acquisition Agreement dated February 10, 1999 between Unitrin, Inc. and the Company (incorporated by reference herein to Exhibit 10(n) of the Company's 1998 Annual Report on Form 10-K)
10 (o)	Transition Services Agreement dated March 25, 1999 between Source One and Citicorp Mortgage, Inc. (incorporated by reference herein to Exhibit 10(o) of the Company's 1998 Annual Report on Form 10-K)
10 (p)	Source One Asset Purchase Agreement dated March 25, 1999 between the Company, Source One and Citicorp Mortgage Inc. (incorporated by reference herein to Exhibit 10(p) of the Company's 1998 Annual Report on Form 10-K)
10 (q)	Common Stock Warrant Agreement with respect to shares of the Company's Common stock between the Company and John J. Byrne (incorporated by reference herein to Exhibit 10(v) of the Company's Registration Statement on Form S-1 (No. 33-0199)) (**)
10 (r)	The Company's Retirement Plan for Non-Employee Directors (incorporated by reference herein to Exhibit 10(aa) of the Company's 1992 Annual Report on Form 10-K) (**)
10 (s)	The Company's Voluntary Deferred Compensation Plan, as amended on November 15, 1996 (incorporated by reference herein to Exhibit 10(o) of the Company's 1996 Annual Report on Form 10-K) (**)
10 (t)	The Company's Deferred Benefit Plan, as amended on November 15, 1996 (incorporated by reference herein to Exhibit 10(p) of the Company's 1996 Annual Report on Form 10-K) (**)

EXHIBIT NUMBER	NAME
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- 10 (u) The Company's Long-Term Incentive Plan, as amended February 15, 1995 (incorporated by reference to Appendix I of the Company's Notice of 1995 Annual Meeting of Shareholders and Proxy Statement) (**)
- 10 (v) Stock Purchase Agreement by and among White Mountains Insurance Group, Inc., Consolidated International Group, Inc. and The Sellers Named Therein (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated June 1, 1999)
- 10 (w) Stock Purchase Agreement as of December 30, 1999, by and among Humana Inc., Physician Corporation of America and Folksamerica Holding Company, Inc. (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated December 30, 1999)
- 10 (x) Amended and Restated Management Contract by and between PCA and Humana Workers Compensation Services, Inc. (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated December 30, 1999)
- 10 (y) Stock Purchase Agreement dated March 31, 1999, by and Between the Centris Group, Inc. and Folksamerica Holding Company, Inc. (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated June 29, 1999)
- 10 (z) Stock Purchase and Indemnity Agreement by and among White Mountains and Dexia for all of the outstanding capital stock of White Mountains Holdings, Inc. and indirectly for certain of the outstanding capital stock of FSA (incorporated by reference herein to Exhibit 99.1 of the Company's Report on Form 8-K dated March 17, 2000)
- 11 Statement Re Computation of Per Share Earnings (***)
- 16 Letter of KPMG LLP dated March 25, 1999, (incorporated by reference herein to Exhibit 16 of the Company's 1998 Annual Report on Form 10-K)
- 21 Subsidiaries of the Registrant (*)
- 22 Notice of Special Meeting of Stockholders and Proxy Statement (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
- 23 (a) Consent of PricewaterhouseCoopers dated March 27, 2000 (*)
- 23 (b) Consent of KPMG LLP dated March 27, 2000 (*)
- 23 (c) Consent of PricewaterhouseCoopers LLP dated March 27, 2000 relating to Folksamerica and FSA (*)
- 24 Powers of Attorney (*)
- 27 1999 Financial Data Schedule (*)
- 99 (a) Report of PricewaterhouseCoopers LLP dated February 2, 1999 relating to Folksamerica (incorporated by reference herein to Exhibit 99(a) of the Company's 1998 Annual Report on Form 10-K)
- 99 (b) The Consolidated Financial Statements of FSA and the related Report of Independent Accountants as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 (*)

 (*) Included herein.

(**) Management contracts or compensation plans/arrangements required to be filed as an exhibit pursuant to Item 14(a)3 of Form 10-K.

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

D. FINANCIAL STATEMENT SCHEDULES

The financial statement schedules and report of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 34 of this report.

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SIGNATURES

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

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Date: March 27, 2000

By: /s/ MICHAEL S. PAQUETTE
 Senior Vice President and Controller

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

SIGNATURE -----	TITLE -----	DATE -----
RAYMOND BARRETTE ----- Raymond Barrette	President and Director	March 27, 2000
TERRY L. BAXTER* ----- Terry L. Baxter	Director	March 27, 2000
JOHN J. BYRNE ----- John J. Byrne	Chairman and Chief Executive Officer	March 27, 2000
PATRICK M. BYRNE* ----- Patrick M. Byrne	Director	March 27, 2000
HOWARD L. CLARK, JR.* ----- Howard L. Clark, Jr.	Director	March 27, 2000
ROBERT P. COCHRAN* ----- Robert P. Cochran	Director	March 27, 2000
STEVEN E. FASS* ----- Steven E. Fass	Director	March 27, 2000
GEORGE J. GILLESPIE, III* ----- George J. Gillespie, III	Director	March 27, 2000
JOHN D. GILLESPIE* ----- John D. Gillespie	Director	March 27, 2000
K. THOMAS KEMP* ----- K. Thomas Kemp	Director	March 27, 2000
GORDON S. MACKLIN* ----- Gordon S. Macklin	Director	March 27, 2000
FRANK A. OLSON* ----- Frank A. Olson	Director	March 27, 2000
MICHAEL S. PAQUETTE ----- Michael S. Paquette	Senior Vice President and Controller	March 27, 2000

*By: /s/ RAYMOND BARRETTE

Raymond Barrette, Attorney-in-Fact

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CONSOLIDATED BALANCE SHEETS

Dollars in millions	December 31,	
	1999	1998
ASSETS		
Fixed maturity investments, at fair value (cost \$957.9 and \$916.1)	\$ 924.5	\$ 929.6
Common equity securities, at fair value (cost \$100.4 and \$195.4)	108.4	241.7
Other investments (cost \$57.5 and \$69.1)	68.3	77.5
Short-term investments, at amortized cost (which approximated fair value)	117.5	79.0
Total investments	1,218.7	1,327.8
Cash	3.9	22.4
Investments in unconsolidated insurance affiliates	422.6	354.3
Reinsurance recoverable on paid and unpaid losses	193.7	137.3
Insurance and reinsurance balances receivable	49.8	124.7
Deferred acquisition costs	22.2	35.4
Investment income accrued	15.0	16.2
Other assets	106.9	35.2
Net assets of discontinued mortgage banking operations	16.3	110.4
Total assets	\$ 2,049.1	\$ 2,163.7
LIABILITIES		
Loss and loss adjustment expense reserves	\$ 851.0	\$ 811.7
Unearned insurance and reinsurance premiums	92.1	153.1
Short-term debt	4.0	51.5
Long-term debt	202.8	186.3
Deferred credit	100.6	37.1
Accounts payable and other liabilities	184.3	221.5
Total liabilities	1,434.8	1,461.2
SHAREHOLDERS' EQUITY		
Common stock - authorized 15,000,000 and 125,000,000 Shares, issued 5,945,953 and 30,863,547 Shares	5.9	30.9
Paid-in surplus	67.0	354.2
Retained earnings	534.2	1,063.2
Common stock in treasury, at cost, 0 and 25,034,939 Shares	-	(871.0)
Accumulated other comprehensive net income, after tax	7.2	125.2
Total shareholders' equity	614.3	702.5
Total liabilities and shareholders' equity	\$ 2,049.1	\$ 2,163.7

See Notes to Consolidated Financial Statements including Note 16 for Commitments and Contingencies.

Millions, except per Share amounts	Year Ended December 31,		
	1999	1998	1997
REVENUES:			
Earned insurance and reinsurance premiums	\$ 283.2	\$ 246.0	\$ 145.3
Gain on sale of Valley Group	88.1	-	-
Net realized gains on investments and other assets	85.4	71.0	97.4
Net investment income	61.9	36.8	21.6
Earnings from unconsolidated insurance affiliates	31.1	24.3	21.3
Amortization of deferred credit	11.8	2.7	-
Other insurance operations revenue	3.7	9.5	7.8
Total revenues	565.2	390.3	293.4
EXPENSES:			
Losses and loss adjustment expenses	228.3	174.8	97.1
Insurance and reinsurance acquisition expenses	73.4	54.8	23.2
Compensation and benefits	67.8	51.5	45.5
General expenses	19.5	15.9	15.7
Interest expense	14.7	13.7	10.6
Total expenses	403.7	310.7	192.1
PRETAX EARNINGS	161.5	79.6	101.3
Income tax provision	(53.1)	(28.5)	(36.4)
NET INCOME FROM CONTINUING OPERATIONS	108.4	51.1	64.9
Gain from sale of discontinued mortgage banking operations	11.6	-	-
Net income (loss) from discontinued mortgage banking operations	1.0	27.4	(25.6)
NET INCOME	121.0	78.5	39.3
OTHER COMPREHENSIVE NET INCOME (LOSS) ITEMS, AFTER TAX:			
Net unrealized gains (losses) for investments held during the period	(73.7)	38.1	105.1
Net unrealized gains (losses) on foreign currency translation	.9	(.9)	-
Recognition of unrealized gains for investments sold during the period	(45.2)	(46.1)	(63.4)
COMPREHENSIVE NET INCOME	\$ 3.0	\$ 69.6	\$ 81.0
BASIC EARNINGS PER SHARE:			
Net income	\$ 21.50	\$ 13.38	\$ 5.98
Comprehensive net income	.54	11.87	12.33
DILUTED EARNINGS PER SHARE:			
Net income	\$ 19.73	\$ 11.94	\$ 5.40
Comprehensive net income	.39	10.58	11.15

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Millions	Total	Common stock and paid-in surplus	Retained earnings	Common stock in treasury	Net unrealized investment gains	Foreign currency translation adjustment
Balances at January 1, 1997	\$ 686.9	\$ 398.4	\$1,067.1	\$ (871.0)	\$ 92.4	\$ -
Net income	39.3	-	39.3	-	-	-
Dividends to shareholders	(5.3)	-	(5.3)	-	-	-
Shares repurchased and retired	(103.7)	(11.5)	(92.2)	-	-	-
Change in net unrealized investment gains and losses, after tax	41.7	-	-	-	41.7	-
Balances at December 31, 1997	658.9	386.9	1,008.9	(871.0)	134.1	-
Net income	78.5	-	78.5	-	-	-
Dividends to shareholders	(9.4)	-	(9.4)	-	-	-
Shares repurchased and retired	(19.8)	(1.8)	(18.0)	-	-	-
Change in net unrealized investment gains and losses and other, after tax	(8.9)	-	-	-	(8.0)	(.9)
Other	3.2	-	3.2	-	-	-
Balances at December 31, 1998	702.5	385.1	1,063.2	(871.0)	126.1	(.9)
Net income	121.0	-	121.0	-	-	-
Dividends to shareholders	(8.8)	-	(8.8)	-	-	-
Issuances of Shares from treasury	57.1	-	(58.8)	115.9	-	-

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

Shares repurchased and retired	(139.5)	(312.2)	(582.4)	755.1	-	-
Change in net unrealized investment gains and losses and other, after tax	(118.0)	-	-	-	(118.9)	.9
BALANCES AT DECEMBER 31, 1999	\$ 614.3	\$ 72.9	\$534.2	\$ -	\$ 7.2	\$ -

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31,		
	1999	1998	1997
Net income	\$ 121.0	\$ 78.5	\$ 39.3
Reconciliation of net income to cash flows from operating activities:			
Gain from sale of discontinued mortgage banking operations, after tax ...	(11.6)	-	-
Net (income) loss from discontinued operations	(1.0)	(27.4)	25.6
Gain on sale of Valley Group	(88.1)	-	-
Undistributed earnings from unconsolidated insurance affiliates	(29.0)	(19.1)	(14.7)
Net realized gains on investments and other assets	(85.4)	(71.0)	(97.4)
Amortization of deferred credit	(11.8)	(2.7)	-
Decrease (increase) in reinsurance recoverable	5.7	(2.7)	33.2
Decrease (increase) in insurance and reinsurance premiums receivable	15.5	(2.4)	(3.8)
(Decrease) increase in insurance loss and loss adjustment expense reserves	(83.2)	13.7	6.6
Net change in current and deferred income taxes receivable and payable ..	55.6	(7.1)	19.8
(Decrease) increase in other liabilities	(97.9)	16.5	2.3
Decrease (increase) in other assets	7.4	25.1	(14.5)
Other, net	(5.5)	(5.3)	12.3
Net cash (used for) provided from operating activities	(208.3)	(3.9)	8.7
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	(41.3)	38.8	(19.0)
Sales of common equity securities and other investments	256.4	137.5	197.4
Sales and maturities of fixed maturity investments	273.7	132.8	92.4
Purchases of common equity securities and other investments	(71.1)	(56.1)	(.8)
Purchases of fixed maturity investments	(89.4)	(122.7)	(102.6)
Investments in unconsolidated insurance affiliates	(115.7)	(70.3)	(44.4)
Purchase of consolidated affiliates	(118.6)	(167.5)	-
Proceeds from sales of consolidated affiliates	144.5	-	-
Net purchases of fixed assets	(1.0)	(1.1)	(3.8)
Net cash provided from (used for) investing activities	237.5	(108.6)	119.2
Cash flows from financing activities:			
Net (decrease) increase of short-term debt	(51.6)	(.4)	.3
Issuances of long-term debt	100.0	50.0	-
Repayments of long-term debt	(86.4)	(1.1)	(1.1)
Shares repurchased and retired	(139.4)	(19.5)	(103.8)
Proceeds from exercises of Warrants and stock options	21.7	-	-
Cash dividends paid to common shareholders	(8.8)	(9.4)	(5.3)
Net cash (used for) provided from financing activities	(164.5)	19.6	(109.9)
Net cash provided from (used for) discontinued operations	116.8	108.3	(15.8)
Net (decrease) increase in cash during year	(18.5)	15.4	2.2
Cash balance at beginning of year	22.4	7.0	4.8
Cash balance at end of year	\$ 3.9	\$ 22.4	\$ 7.0

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The Company's consolidated operating subsidiaries at December 31, 1999 principally consisted of Folksamerica, PIC, ACIC, BICC and Waterford. The Company's principal unconsolidated affiliates at December 31, 1999 consisted of FSA and MSA. All significant intercompany transactions have been eliminated in consolidation. The financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation, including the segregation of mortgage banking net assets and mortgage banking net income as discontinued operations which relates to a decision made by the Company during 1999 to exit from the mortgage banking business. See Note 2.

White Mountains has completed numerous significant transactions that have affected the comparability of the financial statement information presented herein.

INVESTMENT SECURITIES

White Mountains' portfolio of fixed maturity investments, common equity securities and other investments are classified as available for sale and are reported at fair value as of the balance sheet date. Net unrealized investment gains and losses, after tax, associated with such investments are reported as a net amount as a separate component of shareholders' equity. Changes in net unrealized investment gains and losses, after tax, are reported as a component of other comprehensive net income.

Premiums and discounts on fixed maturity investments are accreted to income over the anticipated life of the investment.

Other investments principally include investments in limited partnership interests which are recorded using the equity method of accounting.

Realized gains and losses resulting from sales of investment securities are accounted for using the specific identification method.

Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 1999 and 1998.

White Mountains' consolidated insurance and reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits totalled \$59.5 million and \$57.7 million as of December 31, 1999 and 1998, respectively.

CASH

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company's consolidated subsidiaries.

INSURANCE AND REINSURANCE OPERATIONS

Premiums written are recognized as revenues and are earned ratably over the terms of the related policies or reinsurance treaties. Unearned premiums represent the portion of premiums collected that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force.

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs which are directly attributable to and vary with the production of new business. These costs are deferred and amortized over the applicable premium recognition period. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income.

Losses and loss adjustment expenses are charged against income as incurred. Unpaid insurance losses and loss adjustment expenses are based on estimates (generally determined by claims adjusters, legal counsel and actuarial staff) of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance losses and loss

adjustment expenses are based on reports received from ceding companies. Unpaid loss and loss adjustment expense reserves represent management's best estimate of ultimate losses and loss adjustment expenses, net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any adjustments resulting therefrom are reflected in current operations. The process of estimating loss and loss adjustment expenses involves a considerable degree of judgement by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

Due to the nature of the policies written by White Mountains' insurance subsidiaries, the Company's exposure to environmental and asbestos liabilities is limited. However, as case law expands, White Mountains may be subject to environmental and asbestos loss and loss adjustment expense liabilities beyond that intended by policy coverage. White Mountains' insurance subsidiaries have estimated environmental and asbestos loss and loss adjustment expense liabilities based upon several factors including facts surrounding reported cases (such as policy limits and deductibles), current law, past and projected claim activity and past settlement values for similar claims. The Company believes that recorded reserves related to environmental and asbestos loss and loss adjustment expenses are adequate. Furthermore, in the event that current case law is expanded to include claims not contemplated in the establishment of White Mountains' recorded environmental and asbestos loss and loss adjustment expense reserves, the Company believes that it is unlikely that these claims will have a material adverse effect on its financial condition or liquidity. Nonetheless, due to the inherent uncertainty present in the establishment of environmental and asbestos loss and loss adjustment expense liabilities, the possibility exists that the reserves for environmental and asbestos liabilities could be revised in the near term.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Amounts applicable to reinsurance ceded for unearned premium reserves (e.g., prepaid reinsurance premiums) have been included as a component of other assets. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

DEFERRED CREDIT

As of December 31, 1999 and 1998, White Mountains had deferred credit balances of \$100.6 million and \$37.1 million, respectively. These deferred credits resulted from the transactions outlined below.

During 1999 White Mountains completed its acquisition of CIG for \$86.7 million in cash. Because the cost acquiring CIG was less than the value of its net identifiable assets, the Company recorded a \$62.0 million deferred credit (negative goodwill) which is being amortized ratably over the estimated period of benefit of three years.

During 1999 White Mountains exercised its FSA Options and acquired 2,560,607 shares of FSA Common Stock. In accordance with GAAP, White Mountains accounted for its FSA Options

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at fair value and accounts for its investment in FSA Common Stock on the equity method of accounting. Upon the exercises of the FSA Options, White Mountains was required to write down its investments in the FSA Options to their original cost. Because the cost of White Mountains' investment in FSA Common Stock (resulting from the exercise of the FSA Options) was less than the incremental portion of FSA's net identifiable assets it acquired at the date of exercise, White Mountains recorded a \$14.2 million deferred credit that is being amortized to income ratably over the estimated period of benefit of five years.

During 1998 White Mountains acquired all outstanding shares of Folksamerica Common Stock for \$169.1 million thereby causing Folksamerica to become a consolidated subsidiary of the Company as of that date. Prior to 1998, White Mountains owned a 50.0% non-consolidated interest in Folksamerica through its investments in Folksamerica Preferred Stock and Folksamerica Common Stock. In accordance with GAAP, White Mountains accounted for its investment in Folksamerica Preferred Stock at fair value and accounts for its investment in Folksamerica Common Stock on the equity method of accounting. Upon the acquisition of Folksamerica, White Mountains was required to write down its investment in Folksamerica Preferred Stock to its original cost. Because the cost of White Mountains' investment in Folksamerica Preferred Stock was less than the value of Folksamerica's net identifiable assets at the date of acquisition, White Mountains recorded a \$39.8 million deferred credit that is being amortized to income ratably over the estimated period of benefit of 5 years.

INCOME AND WITHHOLDING TAXES

Deferred tax assets and liabilities are recorded when a difference between an asset or liability's financial statement value and its tax reporting value exists, and for other temporary differences as defined by SFAS No. 109, "Accounting for Income Taxes". The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses.

As a result of the Redomestication, income earned by the Offshore Companies will generally be subject to an effective overall tax rate lower than that imposed by the United States, however, no tax benefits will be attained in the event of net losses incurred by such companies. Onshore Companies continue to be subject to United States income taxes.

The Company is no longer subject to United States income taxes on its direct earnings. The Company's Barbados subsidiaries are generally subject to a 5% United States withholding tax and a 1% Barbados income tax on dividends received from its subsidiaries. Therefore, it is White Mountains' policy to accrue a 1% foreign income tax and a 5% United States withholding tax on the equity in earnings of each of its Onshore Companies. In addition, the Company may be subject to an 8% state tax on dividends it receives from certain of its subsidiaries. Therefore, it is the Company's policy to accrue an 8% state income tax on dividends it is expected to receive in any given period from such subsidiaries. These taxes are recorded in addition to United States income taxes accrued by its Onshore Companies.

FOREIGN CURRENCY TRANSLATION

Folksamerica operates a branch office in Toronto, Canada to service its Canadian customers and a portion of BICC's premiums are denominated in a foreign currencies. Net unrealized foreign currency translation gains and losses associated with Folksamerica and BICC are reported, after tax, as a net amount in a separate component of shareholders' equity. Changes in the values of these operations due to currency fluctuations, after tax, are reported on the income statement as a component of other comprehensive net income.

ACCOUNTING STANDARDS RECENTLY ADOPTED AND ISSUED

In October 1998, the American Institute of Certified Public Accountants (the "AICPA") issued Statement of Position ("SOP") 98-7 entitled "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk". SOP 98-7 provides guidance on how to account for all insurance and reinsurance contracts that do not transfer insurance risk. SOP 98-7 is effective for periods beginning January 1, 2000, with early adoption permitted. White Mountains is currently evaluating the impact of the adoption of SOP 98-7 and the potential effects on its financial position and results of operations.

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In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which requires companies to record all derivatives on the balance sheet as either assets or liabilities and measure those instruments at fair value. The manner in which companies are to record gains and losses resulting from changes in the values of those derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. The Company is not currently invested in traditional derivative financial instruments for hedging or for any other purpose. However, under SFAS 133 derivatives may be deemed to be embedded in other financial instruments. If the embedded derivatives meet certain criteria, they must be bifurcated from the original contract and separately accounted for in a manner that is consistent with other derivative financial instruments. SFAS No. 133 is effective beginning after June 15, 2000, with initial application as of the beginning of the first quarter of the applicable fiscal year. White Mountains is currently evaluating the impact of the adoption of SFAS 133 and the potential effects on its financial position and results of operations.

In March 1998, the AICPA issued SOP 98-1 entitled "Accounting For the Cost of Computer Software Developed or Obtained for Internal Use" which requires the capitalization of certain prospective costs in connection with developing or obtaining software for current use. The adoption of SOP 98-1 did not have a material impact on White Mountains' financial position or results of operations.

In December 1997, the AICPA issued SOP 97-3 entitled "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments". SOP No. 97-3 provides guidance on when a liability should be recognized for guaranty fund and other assessments and how to measure the liability. This statement is effective for fiscal years beginning after December 15, 1998. SOP No. 97-3 did not have a material effect on the results of operations or financial position.

EARNINGS PER SHARE

Basic earnings per Share amounts are based on the weighted average number of Shares outstanding. Diluted earnings per Share amounts are based on the average number of Shares and potential dilutive Shares outstanding. Potential dilutive Shares include outstanding stock options and Warrants. In the diluted earnings per Share calculation, the Company's net income is reduced by an amount

deemed to be reflective of the dilution to FSA's reported net income caused by its investment in FSA Preferred Stock. The following table outlines the Company's computation of earnings per Share for the years ended December 31, 1999, 1998 and 1997:

	Year Ended December 31,		
	1999	1998	1997
BASIC EARNINGS PER SHARE NUMERATORS (IN MILLIONS):			
Net income	\$121.0	\$ 78.5	\$ 39.3
Net income from continuing operations	\$108.4	\$ 51.1	\$ 64.9
Comprehensive net income	\$ 3.0	\$ 69.6	\$ 81.0
DILUTED EARNINGS PER SHARE NUMERATORS (IN MILLIONS):			
Net income	\$121.0	\$ 78.5	\$ 39.3
Dilution to earnings from unconsolidated insurance affiliates	(.6)	(.4)	(.2)
Diluted net income	\$120.4	\$ 78.1	\$ 39.1
Diluted net income from continuing operations	\$107.8	\$ 50.7	\$ 64.7
Diluted comprehensive net income	\$ 2.4	\$ 69.2	\$ 80.8

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EARNINGS PER SHARE DENOMINATORS (IN THOUSANDS):			
Basic earnings per Share denominator (average Shares outstanding)	5,630	5,866	6,570
Average outstanding dilutive stock options and Warrants (a)	472	669	674
Diluted earnings per Share denominator	6,102	6,535	7,244
BASIC EARNINGS PER SHARE (IN DOLLARS):			
Net income	\$21.50	\$ 13.38	\$ 5.98
Net income from continuing operations	\$19.25	\$ 8.71	\$ 9.88
Comprehensive net income	\$.54	\$ 11.87	\$ 12.33
DILUTED EARNINGS PER SHARE (IN DOLLARS):			
Net income	\$19.73	\$ 11.94	\$ 5.40
Net income from continuing operations	\$17.66	\$ 7.75	\$ 8.93
Comprehensive net income	\$.39	\$ 10.58	\$ 11.15

(a) See Note 10 for detailed information concerning outstanding dilutive stock options and Warrants.

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NOTE 2. DISCONTINUED MORTGAGE BANKING OPERATIONS

On May 1, 1999, White Mountains concluded the Mortgage Banking Sale which encompassed substantially all the mortgage banking assets of WMSC and received net proceeds totalling \$180.6 million (which was net of WMSC's public indebtedness assumed by Citibank and WMSC's credit agreement borrowings which were required to be repaid at closing). Mortgage banking assets and liabilities that were not part of the Citibank sale principally included WMSC's investments in financial instruments, pool loan purchases and preferred stock, each of which were substantially liquidated during 1999. White Mountains recorded an estimated \$11.6 million after tax gain on the sale of its mortgage banking net assets (which is net of anticipated future liabilities) during 1999. As a result of the Company's decision to dispose of its net mortgage banking assets, these activities are shown as discontinued operations herein.

Summary condensed financial results of discontinued mortgage banking operations follow:

CONDENSED STATEMENTS OF NET ASSETS

Millions	December 31,	
	1999	1998
ASSETS:		
Cash and investments	\$ 13.8	\$ 19.4
Capitalized mortgage servicing rights	-	169.7
Mortgage loans held for sale	-	676.3
Pool loan purchases	26.9	165.0
Other mortgage origination and servicing assets	2.1	106.9
Other assets	15.7	90.1
Total assets	\$ 58.5	\$ 1,227.4
LIABILITIES AND PREFERRED STOCK:		
Short-term debt	\$ -	\$ 697.0
Long-term debt	-	173.4
Accounts payable and other liabilities	42.2	202.6
Preferred stock	-	44.0
Total liabilities and preferred stock	42.2	1,117.0
Net assets of discontinued mortgage banking operations	\$ 16.3	\$ 110.4

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CONDENSED STATEMENTS OF INCOME

Millions	Year Ended December 31,		
	1999	1998	1997
REVENUES:			
Net investment income	\$ 27.8	\$ 81.6	\$ 43.5
Net gain on sales of mortgages	25.4	86.8	21.5
Net mortgage servicing revenue	10.4	43.3	38.2
Other mortgage operations revenue	12.0	47.1	14.3
Total revenues	76.2	258.8	117.5
EXPENSES:			
Compensation and benefits	28.5	78.7	56.3
Interest expense	24.5	70.2	35.4
General expenses	19.3	59.5	57.9
Total expenses	72.3	208.4	149.6
Pretax earnings (loss)	3.9	50.4	(32.1)
Income tax benefit (provision)	(1.7)	(19.3)	10.2
Net income (loss) before preferred stock dividends	2.2	31.1	(21.9)
Preferred stock dividends	(1.2)	(3.7)	(3.7)
Net income (loss) from discontinued mortgage banking operations	\$ 1.0	\$ 27.4	\$(25.6)

NOTE 3. REINSURANCE OPERATIONS

On August 18, 1998, White Mountains acquired all of the remaining outstanding shares of Folksamerica Common Stock for \$169.1 million thereby causing Folksamerica to become a consolidated subsidiary of White Mountains as of that date. Prior to that date, White Mountains owned a 50% non-consolidated interest in Folksamerica, primarily through the Folksamerica Preferred Stock.

Supplemental condensed unaudited pro forma financial information for the year ended December 31, 1998, which assumes that White Mountains' acquisition of all the outstanding Folksamerica Common Stock had occurred as of January 1, 1998, follows:

(Unaudited)
Pro Forma
Year Ended

Total revenues	\$ 576.3
Net income	\$ 95.0
Comprehensive net income	\$ 95.8
BASIC EARNINGS PER SHARE:	
Net income	\$ 16.19
Comprehensive net income	\$ 16.33
DILUTED EARNINGS PER SHARE:	
Net income	\$ 14.46
Comprehensive net income	\$ 14.59

The unaudited pro forma information presented does not purport to represent what White Mountains' results of operations actually would have been had White Mountains acquired all the outstanding common stock of Folksamerica as of January 1, 1998, or to project White Mountains' results of operations for any future date or period.

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LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE ACTIVITY

The following table summarizes White Mountains' loss and loss adjustment expense reserve activity relating to Folksamerica for the year ended December 31, 1999 and the interim period from August 18, 1998 to December 31, 1998:

Millions	YEAR ENDED DECEMBER 31, 1999	Period Ended December 31, 1998
Beginning balance	\$ 723.2	\$ 726.1
Less beginning reinsurance recoverable	(129.0)	(124.1)
Net loss and loss adjustment expense reserves	594.2	602.0
Loss and loss adjustment expense reserves acquired - USF Re	106.5	-
Losses and loss adjustment expenses incurred relating to:		
Current year losses	152.9	58.6
Prior year losses	29.3	1.1
Total incurred losses and loss adjustment expenses	182.2 (a)	59.7
Loss and loss adjustment expenses paid relating to:		
Current year losses	(55.4)	(13.0)
Prior year losses	(181.6)	(54.5)
Total loss and loss adjustment expense payments	(237.0)	(67.5)
Net ending balance	645.9	594.2
Plus ending reinsurance recoverable	136.2	129.0
Gross ending balance	\$ 782.1	\$ 723.2

(a) Includes adverse loss development on USF Re acquired reserves. This adverse development resulted in a \$14.0 million reduction in Folksamerica's USF Re seller note payable. See Note 7.

During 1999 Folksamerica acquired USF Re for total consideration of \$92.5 million. The purchase consideration included the issuance of a \$20.8 million, five-year note by Folksamerica (which can be reduced by adverse loss development at USF Re post acquisition). Incurred losses for the year ended December 31, 1999 related to prior accident years are primarily attributable to reserve additions related to: (i) adverse loss development on USF Re acquired reserves of \$20.1 million pretax (which resulted in a reduction of the USF Re seller note of \$14.0 million) and (ii) reserve additions relating to asbestos and environmental liability exposures.

As of December 31, 1999 and 1998, Folksamerica carried reported case reserves for environmental exposures of \$9.9 million and \$14.9 million, (\$8.4 million and \$10.9 million, net of reinsurance) respectively. As of December 31, 1999 and 1998, Folksamerica carried reported case reserves for asbestos exposures of \$34.5 million and \$29.5 million (\$22.3 million and \$17.9 million net of reinsurance), respectively. Folksamerica carried IBNR reserves for these exposures as of December 31, 1999 and 1998 of \$25.2 million (\$19.2 million net of reinsurance).

ADDITIONAL REINSURANCE OPERATIONS INFORMATION

For the period from August 18, 1998 to December 31, 1998, White Mountains recorded \$73.7 million of premiums written, \$85.4 million of premiums earned, \$29.1 million of reinsurance acquisition costs and \$59.7 million of loss and loss adjustment expenses relating to

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Folksamerica. These amounts are shown net of reinsurance ceded by Folksamerica of \$9.4 million of premiums written, \$8.8 million of premiums earned, \$.9 million of reinsurance acquisition costs and \$19.0 million of loss and loss adjustment expenses.

Folksamerica's policyholders' surplus, as reported to various regulatory authorities as of December 31, 1999 and 1998, was \$338.5 million and \$328.5 million, respectively. Folksamerica's statutory net income for the year ended December 31, 1999 and for the period from August 18, 1998 to December 31, 1998 was \$48.6 million and \$9.0 million, respectively. The principal differences between Folksamerica's statutory amounts and the amounts reported in accordance with GAAP (Folksamerica's stand-alone shareholder's equity was \$249.4 million and \$302.0 million at December 31, 1999 and 1998, respectively, and its net income was \$63.7 million and \$5.5 million for the year ended December 31, 1999 and for the period from August 18, 1998 to December 31, 1998, respectively) include deferred taxes, deferred acquisition costs and market value adjustments for debt securities. Folksamerica's statutory policyholders' surplus at December 31, 1999 was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the state of New York, Folksamerica is restricted with respect to the amount of dividends it may pay without prior approval by state regulatory authorities. Accordingly, there is no assurance that dividends may be paid by Folksamerica in the future. At December 31, 1999, Folksamerica had the ability to pay a dividend to its shareholder of \$33.9 million without prior approval of regulatory authorities.

On December 30, 1999, Folksamerica announced that it had signed a definitive agreement to purchase PCA, a Florida-domiciled workers' compensation insurance company, from Humana Inc. The transaction, for \$125.0 million in cash, is subject to regulatory approvals.

On January 10, 2000, Folksamerica announced that it had signed a definitive agreement to acquire substantially all the reinsurance operations of RCR, a wholly-owned subsidiary of Risk Capital Holdings, Inc., for consideration of \$20.3 million. The transaction is subject to regulatory approvals.

During the year ended December 31, 1999, Folksamerica received approximately 67% of its gross reinsurance premiums written from three major reinsurance brokers as follows: (i) Guy Carpenter and affiliates - 26%; (ii) E.W. Blanch - 21%; and (iii) AON Re, Inc. - 20%. During the year ended December 31, 1999, Folksamerica received no more than 10% of its gross reinsurance premiums from any individual ceding company.

NOTE 4. CONSOLIDATED INSURANCE OPERATIONS

On October 15, 1999, White Mountains completed its acquisition of CIG for \$86.7 million in cash. CIG's principal operating subsidiaries are PIC, a commercial and personal lines writer, and ACIC and BICC, both of which are in run-off.

On June 17, 1999, White Mountains completed the Valley Group Sale and received net proceeds of \$139.0 million in cash after receiving a special dividend prior to the closing of \$76.6 million (net of related tax liabilities) consisting of cash, investment securities and the common stock of Waterford. In connection with the Valley Group Sale, White Mountains recorded a pretax gain of \$88.1 million, \$53.8 million after tax. As part of the Valley Group Sale, White Mountains has provided Unitrin, Inc. with certain adverse loss development protections for approximately four years. These protections are not expected to result in a material subsequent purchase price adjustment.

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For the years ended December 31, 1998 and 1997, VGI contributed \$5.0 million and \$7.2 million, respectively, to net income. For the year ended December 31, 1999, VGI's contribution to net income was not material.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE ACTIVITY

The following table summarizes loss and loss adjustment expense reserve activity for White Mountains' consolidated property and casualty insurance operations for the years ended December 31, 1999, 1998 and 1997:

Millions	Year Ended December 31,		
	1999	1998	1997
Beginning balance	\$ 88.5	\$ 71.9	\$ 65.4
Less beginning reinsurance recoverable	(8.9)	(8.7)	(9.2)
Net loss and loss adjustment expense reserves	79.6	63.2	56.2
Loss and loss adjustment expense reserves sold - VGI	(87.8)	-	-
Loss and loss adjustment expense reserves acquired - CIG	22.5	-	-
Losses and loss adjustment expenses incurred relating to:			
Current year losses	57.5	108.4	99.6
Prior year losses	2.6	6.7	(2.5)
Total incurred losses and loss adjustment expenses	60.1	115.1	97.1
Loss and loss adjustment expense payments	(38.3)	(98.7)	(90.1)
Net ending balance	36.1	79.6	63.2
Plus ending reinsurance recoverable	32.8	8.9	8.7
Gross ending balance	\$ 68.9	\$ 88.5	\$ 71.9

Total policyholders' surplus of PIC and ACIC at December 31, 1999, as reported to regulatory authorities, was \$76.8 million. Statutory net loss for the period from October 16, 1999 to December 31, 1999 for PIC and ACIC totalled \$3.9 million. The principal differences between PIC and ACIC's statutory amounts and the amounts reported in accordance with GAAP (PIC and ACIC's total shareholder's equity was \$73.0 million at December 31, 1999 and its net loss was \$3.3 million for the period from October 16, 1999 to December 31, 1999) include deferred taxes, deferred acquisition costs and market value adjustments for debt securities. PIC and ACIC's statutory policyholders' surplus at December 31, 1999 was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the various states under which PIC and ACIC are domiciled, an insurer is restricted with respect to the amount of dividends it may pay without prior approval by state regulatory authorities. Accordingly, there is no assurance that dividends may be paid by PIC and ACIC in the future. At December 31, 1999, \$11.0 million of PIC and ACIC's total statutory surplus was available for the payment of dividends to its shareholders without prior approval of regulatory authorities.

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NOTE 5. INVESTMENT SECURITIES

White Mountains' net investment income is comprised primarily of interest income associated with the fixed maturity investments of its consolidated insurance and reinsurance operations and dividend income from its equity investments. Net investment income for 1999, 1998 and 1997 consisted of the following:

Millions	Year Ended December 31,		
	1999	1998	1997
Investment income:			
Fixed maturity investments	\$ 53.6	\$ 28.4	\$ 11.3
Common equity securities	3.2	3.6	7.3
Short-term investments	6.1	3.4	3.5
Other .....	.3	2.2	-
Total investment income	63.2	37.6	22.1
Less investment expenses and other charges	(1.3)	(.8)	(.5)
Net investment income, before tax	\$ 61.9	\$ 36.8	\$ 21.6

Total net investment gains and losses (excluding net unrealized gains and losses from investments in unconsolidated insurance affiliates), before tax, associated with White Mountains' investment portfolio consisted of the following:

Millions	Year Ended December 31,		
	1999	1998	1997

Gross realized investment gains	\$ 90.4	\$ 74.0	\$ 98.3
Gross realized investment losses	(20.8)	(3.0)	(.9)
Net realized investment gains	69.6 (a)	71.0	97.4
Change in net unrealized investment gains	(89.8)	(46.2)	(9.7)
Total net investment gains (losses) for investments held during the period, before tax	\$ (20.2)	\$ 24.8	\$ 87.7

(a) Excludes a \$15.8 million realized gain on sale of the USF Re shell company

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The composition of pretax realized gains consisted of the following:

Millions	Year Ended December 31,		
	1999	1998	1997
Fixed maturity investments	\$.7	\$ 1.6	\$.6
Common equity securities	61.3	22.6	59.5
Other investments	7.6	46.8	37.3
Net realized investment gains	\$ 69.6 (a)	\$ 71.0	\$ 97.4

(a) Excludes a \$15.8 million realized gain on sale of the USF Re shell company

The components of White Mountains' ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated insurance affiliates were as follows:

Millions	December 31,	
	1999	1998
Investment securities:		
Gross unrealized investment gains	\$ 21.6	\$ 68.4
Gross unrealized investment losses	(37.8)	(2.5)
Net unrealized gains (losses) from investment securities	(16.2)	65.9
Net unrealized gains from investments in unconsolidated insurance affiliates	30.0	128.1
Total net unrealized investment gains, before tax	\$ 13.8	\$194.0

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The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' fixed maturity investments as of December 31, 1999 and 1998, were as follows:

Millions	DECEMBER 31, 1999			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
U. S. Government and agency obligations	\$351.5	\$.6	\$ (14.5)	\$337.6
Debt securities issued by industrial corporations	330.8	.4	(11.8)	319.4
Municipal obligations	132.0	.7	(4.0)	128.7
Mortgage-backed securities	93.1	.1	(3.9)	89.3
Foreign government obligations	50.5	.1	(1.1)	49.5
Total fixed maturity investments	\$957.9	\$1.9	\$ (35.3)	\$924.5

December 31, 1998				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Debt securities issued by industrial corporations	\$351.9	\$ 7.0	\$ (1.0)	\$357.9
U. S. Government and agency obligations	217.6	4.7	(.3)	222.0
Municipal obligations	189.1	2.8	(.1)	191.8
Mortgage-backed securities	79.0	.9	(.7)	79.2
MediaOne redeemable preferred stock	49.8	-	-	49.8
Foreign government obligations	26.7	.3	(.1)	26.9
Other fixed maturity investments	2.0	-	-	2.0
Total fixed maturity investments	\$916.1	\$15.7	\$ (2.2)	\$929.6

The cost or amortized cost and carrying value of White Mountains' fixed maturity investments at December 31, 1999 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

DECEMBER 31, 1999		
Millions	Cost or amortized cost	Carrying value
Due in one year or less	\$81.0	\$80.3
Due after one year through five years	455.8	443.4
Due after five years through ten years	300.0	285.4
Due after ten years	28.0	26.1
Mortgage-backed securities	93.1	89.3
Total	\$957.9	\$924.5

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The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' common equity securities and other investments as of December 31, 1999 and 1998, were as follows:

DECEMBER 31, 1999				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Common equity securities	\$100.4	\$14.8	\$ (6.8)	\$108.4
Other investments	\$ 57.5	\$11.4	\$ (.6)	\$68.3

December 31, 1998				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Common equity securities	\$195.4	\$51.4	\$ (5.1)	\$241.7

Other investments	\$ 69.1	\$ 8.6	\$ (.2)	\$77.5
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Sales and maturities of investments, excluding short-term investments, totalled \$530.1 million, \$270.3 million and \$158.0 million for the years ended December 31, 1999, 1998 and 1997, respectively. There were no non-cash exchanges or involuntary sales of investment securities during 1999, 1998 and 1997.

The components of the White Mountains' change in net unrealized investment gains, after tax, from 1997 to 1999 are as follows:

Millions	Year Ended December 31,		
	1999	1998	1997
Net realized investment gains	\$ 69.6(a)	\$ 71.0	\$ 97.4
Income tax expense applicable to net realized investment gains	(24.4)	(24.9)	(34.0)
Net realized investment gains, after tax	\$ 45.2	\$ 46.1	\$ 63.4
Net unrealized investment holding gains (losses) arising during the year ...	\$ (118.4)	\$ 58.6	\$ 162.0
Income taxes applicable to net unrealized investment holding gains	44.7	(20.5)	(56.9)
Net unrealized investment holding gains arising during the year, after tax ..	(73.7)	38.1	105.1
Recognition of unrealized gains for investments sold, after tax	(45.2)	(46.1)	(63.4)
Change in net unrealized investment gains, after tax	\$ (118.9)	\$ (8.0)	\$ 41.7

(a) Excludes a \$15.8 million realized gain on sale of the USF Re shell company

NOTE 6. THIRD PARTY REINSURANCE

In the normal course of business, White Mountains' insurance subsidiaries seek to limit losses that may arise from catastrophes or other events that may cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. White Mountains remains liable for risks reinsured with third parties to the extent that the reinsurer is unable to honor its obligations under reinsurance contracts at the time of loss. White Mountains' insurance subsidiaries evaluate the financial condition of their reinsurers and monitor concentrations of credit risk arising from similar activities or economic characteristics of the reinsurers to minimize the Company's exposure to significant losses from reinsurer insolvencies.

REINSURANCE OPERATIONS

At December 31, 1999, Folksamerica has reinsurance recoverables with a carrying value of \$46.7 million associated with London Life and Casualty Reinsurance Corporation. At December 31, 1999, Folksamerica holds a letter of credit and funds withheld as collateral for amounts due from London Life and Casualty in excess of the recoverable balance.

INSURANCE OPERATIONS

ACIC is a party to an aggregate excess of loss contract with Gerling Global International Reinsurance Company, Ltd. ("Gerling") to reinsure direct excess liability policies written prior to December 31, 1985. At December 31, 1999, ACIC had reinsurance recoverables with a carrying value of \$23.3 million with Gerling under the contract. ACIC holds a letter of credit and assets held in trust as collateral for amounts due under the Gerling contract.

The effects of reinsurance on White Mountains' written and earned premiums and on loss and loss adjustment expenses was as follows:

Millions	Reinsurance Operations (a)	Consolidated Property and Casualty Insurance Operations			Total
		ACIC, PIC and BICC (b)	VGI (c)	Waterford	

YEAR ENDED DECEMBER 31, 1999
Gross written premiums:

Direct	\$ 2.2	\$ 4.9	\$ 48.2	\$ 9.5	\$ 64.8
Assumed	236.2	2.3	30.1	1.5	270.1
Ceded	(36.7)	(3.0)	(10.9)	(9.6)	(60.2)
Net written premiums	\$ 201.7	\$ 4.2	\$ 67.4	\$ 1.4	\$ 274.7
Gross earned premiums:					
Direct	\$ 2.4	\$ 5.9	\$ 44.1	\$ 11.4	\$ 63.8
Assumed	241.0	2.7	35.1	1.8	280.6
Ceded	(32.4)	(4.1)	(13.2)	(11.5)	(61.2)
Net earned premiums	\$ 211.0	\$ 4.5	\$ 66.0	\$ 1.7	\$ 283.2
Losses and loss adjustment expenses:					
Direct	\$ (6.2)	\$ 4.8	\$ 44.5	\$ (1.8)	\$ 41.3
Assumed	205.4	1.6	14.6	12.9	234.5
Ceded	(31.0)	(.2)	(6.6)	(9.7)	(47.5)
Net losses and loss adjustment expenses	\$ 168.2	\$ 6.2	\$ 52.5	\$ 1.4	\$ 228.3
Year ended December 31, 1998					
Gross written premiums:					
Direct	\$ 1.9	\$ -	\$ 96.3	\$ 9.6	\$ 107.8
Assumed	81.2	-	69.9	1.5	152.6
Ceded	(9.4)	-	(2.7)	(9.7)	(21.8)
Net written premiums	\$ 73.7	\$ -	\$ 163.5	\$ 1.4	\$ 238.6
Gross earned premiums:					
Direct	\$ 2.0	\$ -	\$ 98.0	\$ 6.4	\$ 106.4
Assumed	92.2	-	68.3	1.0	161.5
Ceded	(8.8)	-	(6.6)	(6.5)	(21.9)
Net earned premiums	\$ 85.4	\$ -	\$ 159.7	\$.9	\$ 246.0
Losses and loss adjustment expenses:					
Direct	\$ 4.4	\$ -	\$ 79.5	\$ 3.6	\$ 87.5
Assumed	74.3	-	37.9	.7	112.9
Ceded	(19.0)	-	(2.8)	(3.8)	(25.6)
Net losses and loss adjustment expenses	\$ 59.7	\$ -	\$ 114.6	\$.5	\$ 174.8

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Millions	Consolidated Property and Casualty Insurance Operations				
	Reinsurance Operations (a)	ACIC, PIC and BICC (b)	VGI (c)	Waterford	Total
Year ended December 31, 1997					
Gross written premiums:					
Direct	\$ -	\$ -	\$ 92.3	\$ 2.4	\$ 94.7
Assumed	-	-	64.2	1.0	65.2
Ceded	-	-	(6.0)	(3.1)	(9.1)
Net written premiums	\$ -	\$ 8	\$ 150.5	\$.3	\$ 150.8
Gross earned premiums:					
Direct	\$ -	\$ -	\$ 89.2	\$.5	\$ 89.7
Assumed	-	-	61.8	1.2	63.0
Ceded	-	-	(5.8)	(1.6)	(7.4)
Net earned premiums	\$ -	\$ -	\$ 145.2	\$.1	\$ 145.3
Losses and loss adjustment expenses:					
Direct	\$ -	\$ -	\$ 64.3	\$ -	\$ 64.3
Assumed	-	-	33.5	5.1	38.6
Ceded	-	-	(.8)	(5.0)	(5.8)
Net losses and loss adjustment expenses	\$ -	\$ -	\$ 97.0	\$.1	\$ 97.1

- (a) Excludes premiums and loss and loss adjustment expenses from January 1, 1997 to August 17, 1998 during which time Folksamerica was not a consolidated subsidiary of the Company. See Note 3.
- (b) Excludes premiums and loss and loss adjustment expenses from January 1, 1997 to October 14, 1999 during which time ACIC, PIC and BICC were not consolidated subsidiaries of the Company. See Note 4.
- (c) Excludes premiums and loss and loss adjustment expenses from Waterford for all periods presented, as Waterford was not part of the Valley Group Sale. See Note 4.

NOTE 7. DEBT

SHORT-TERM DEBT

At December 31, 1999 the Company had short-term debt outstanding of \$4.0

million representing medium-term notes due February 2000 with a stated interest rate of 7.39%. At December 31, 1998 White Mountains had \$51.5 million of short-term debt outstanding which consisted of a \$50.0 million credit facility at a subsidiary holding company with an average interest rate of 6.20% and a \$1.5 million note payable at CGI with a stated interest rate of 6.50%. During 1999, White Mountains repaid the \$50.0 million credit facility and extinguished the CGI obligation in connection with the Valley Group Sale.

In addition, the Company has a revolving credit agreement whereby it may borrow up to \$35.0 million (which was increased to \$50.0 million during 1999) at short-term market interest rates. The credit agreement contains customary facility fees plus an interest rate equal to the London Interbank Offered Rate plus .625% on borrowings thereunder. The credit agreement contains certain customary covenants and conditions. At December 31, 1999 the Company was in compliance with all covenants under the facility and had no borrowings outstanding under the agreement. At December 31, 1998 the Company had no outstanding borrowings under its previous credit agreement.

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LONG-TERM DEBT

Long-term debt outstanding consisted of the following:

Millions	December 31,	
	1999	1998
The Company:		
Medium-term notes	\$ 96.4	\$ 116.3
Less net discounts	(.4)	(.6)
Total	96.0	115.7
Folksamerica:		
Revolving credit agreement	100.0	-
USF Re seller note	6.8	-
Medium-term notes	-	55.6
Total	106.8	55.6
VGI: Medium-term notes	-	15.0
Total long-term debt	\$ 202.8	\$ 186.3

At December 31, 1999 the Company had \$96.0 million of outstanding medium-term notes with an average maturity of 3.6 years and a yield to maturity of 7.83%. During 1999 the Company repurchased \$15.9 million in principal amount of its medium-term notes due in February 2003.

As part of the Folksamerica acquisition in 1998, White Mountains agreed to repay or refinance Folksamerica's \$55.6 million of outstanding long-term indebtedness during February 1999. In February 1999 White Mountains repayed and replaced Folksamerica's former facility with a six-year revolving credit agreement whereby it may borrow up to \$100.0 million (which was subsequently increased to \$120.0 million during 1999) at market interest rates. The new credit agreement contains certain customary covenants and conditions. At December 31, 1999 Folksamerica was in compliance with all covenants under the facility and had \$100.0 million of borrowings outstanding under the agreement.

As part of its 1999 acquisition of USF Re, Folksamerica issued a \$20.8 million, five-year note which may be reduced by adverse loss development at USF Re post acquisition. During 1999 Folksamerica reduced the principal amount of the USF Re note to \$6.8 million in response to post acquisition adverse loss development experienced on loss reserves assumed in connection with

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the USF Re acquisition. The reduction of the principal amount of the USF Re note of \$14.0 million has been recorded as a reduction of incurred loss and loss adjustment expenses for the period ended December 31, 1999.

At December 31, 1998 Valley had \$15.0 million outstanding under a five year credit facility whereby it could borrow up to \$15.0 million at market interest rates. During 1999 this obligation was repaid in connection with the Valley Group Sale.

Total interest paid by White Mountains for its short-term and long-term indebtedness was \$15.6 million, \$13.3 million and \$14.3 million in 1999, 1998

and 1997, respectively.

White Mountains' debt maturities for 2000, 2003, 2004 and beyond are \$4.0 million, \$86.4 million, \$6.8 million and \$110.0 million, respectively.

NOTE 8. INCOME TAXES

In connection with the Redomestication, the Company and certain of its subsidiaries changed their domicile to either Bermuda or Barbados while certain other subsidiaries remained domiciled in the United States. As a result, income earned by the Offshore Companies will generally be subject to an effective overall tax rate lower than that imposed by the United States, however, no tax benefits will be attained in the event of net losses incurred by such companies. Additionally, prior to the Redomestication, the Company filed a consolidated United States income tax return with its subsidiaries. The Onshore Companies must continue to file United States tax returns but may no longer do so on a group-wide consolidated basis. As a result, the aggregate United States income tax liability of the Onshore Companies may be higher than it otherwise would have been if part of a consolidated tax return. These factors may serve to increase or decrease White Mountains' effective tax rate for 1999 and beyond, depending on the events and circumstances occurring during such periods.

In connection with the Redomestication, the Company was treated as if it sold all of its directly owned assets in a fully taxable transaction in which gains, but not losses, were recognized. The Company incurred a tax liability upon the Redomestication of approximately \$2.5 million.

The total income tax provision consisted of the following:

Millions	Year Ended December 31,		
	1999	1998	1997
United States income tax provision	\$ 47.0	\$ 26.9	\$ 35.1
State and local income tax provision	6.0	1.6	1.3
United States withholding tax and foreign income tax provision .....	.1	-	-
Total income tax provision	\$ 53.1	\$ 28.5	\$ 36.4
Net income tax payments	\$ 14.1	\$ 35.7	\$ 24.9
Tax provision recorded directly to shareholders' equity related to:			
Changes in net unrealized investment gains and losses	\$ (69.1)	\$ (4.4)	\$ 22.9
Changes in net foreign currency translation gains and losses	\$.5	\$ (.5)	\$ -

The components of the income tax provision (benefit) on pretax earnings follow:

Millions	Year Ended December 31,		
	1999	1998	1997
Current	\$ 14.3	\$30.3	\$ 36.9
Deferred	38.8	(1.8)	(.5)
Total income tax provision on pretax earnings	\$ 53.1	\$28.5	\$ 36.4

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts received for tax purposes. White Mountains recorded a net deferred income tax asset of \$52.5 million in other assets and a net deferred tax liability of \$37.5 million in accounts payable and other liabilities on its balance sheet as of December 31, 1999. White Mountains recorded a net deferred income tax liability of \$13.4 million in accounts payable and other liabilities on its balance sheet at December 31, 1998. An outline of the significant components of White Mountains' deferred tax assets and liabilities follows:

Millions	1999	1998
Deferred tax assets related to:		
Discounting of loss reserves	\$ 45.3	\$ 40.1
Unearned insurance and reinsurance premiums	5.7	10.5
Compensation and benefit accruals	4.4	49.9
Other items .....	.7	2.8
Total deferred tax assets	\$ 56.1	\$ 103.3

Millions	December 31,	
	1999	1998
Deferred tax liabilities related to:		
Earnings from unconsolidated insurance affiliates	\$ 18.1	\$ 17.5
Net unrealized investment gains	13.9	83.0
Deferred acquisition costs	7.8	12.4
Other items	1.3	3.8
Total deferred tax liabilities	\$ 41.1	\$ 116.7

The Company believes that it is more likely than not that results of future operations will generate sufficient taxable income to realize the deferred tax asset balances carried as of December 31, 1999 and 1998.

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A reconciliation of taxes calculated using the 35% United States statutory rate (the tax rate at which the majority of the Company's worldwide operations are subject to) to the income tax provision on pretax earnings follows:

Millions	Year Ended December 31,		
	1999	1998	1997
Tax provision at the United States statutory rate	\$ 56.5	\$ 27.9	\$ 35.5
Differences in taxes resulting from:			
Deferred credit amortization and purchase price adjustments	(7.9)	(.9)	-
Tax reserve adjustments	6.1	5.4	5.1
State income taxes, net	3.9	1.0	.9
Non-United States net earnings	(3.6)	-	-
United States income tax incurred upon the Redomestication	2.5	-	-
Tax exempt interest	(2.2)	(1.2)	-
Dividends received deduction	(1.4)	(2.6)	(3.1)
Other, net	(.8)	(1.1)	(2.0)
Total income tax provision on pretax earnings	\$ 53.1	\$ 28.5	\$ 36.4

The non-United States component of net earnings was \$9.0 million for the year ended December 31, 1999.

In 1991, the Company sold Fireman's Fund to Allianz of America, Inc. The \$1.3 billion gain from the sale as reported in 1991 included a \$75.0 million tax benefit related to the Company's estimated tax loss from the sale. Since 1991 the Company has carried an estimated reserve related to tax matters affecting the amount of the deductible tax loss from the sale and other tax matters. The amount of tax benefit from the sale of Fireman's Fund ultimately realized by the Company may be significantly more or less than the Company's current estimate due to possible changes in or new interpretations of tax rules, possible amendments to White Mountains' 1991 or prior years' Federal income tax returns, the results of further Internal Revenue Service audits and other matters affecting the amount of the deductible tax loss from the sale.

NOTE 9. RETIREMENT AND POSTRETIREMENT PLANS

The Company formerly had an unfunded, nonqualified defined contribution plan for a select group of management employees for the purpose of providing

retirement benefits (the "DBP"). The amount of annual contribution to the DBP was determined using actuarial assumptions. At December 31, 1998, White Mountains' liability to participants pursuant to the DBP was \$4.8 million.

The Company formerly had an unfunded, nonqualified plan for a select group of management employees for the purpose of deferring current compensation for retirement savings (the "DCP"). Pursuant to the DCP, participants could voluntarily defer all or a portion of qualifying remuneration payable by White Mountains. At December 31, 1998 White Mountains' liability to participants pursuant to the DCP was \$65.1 million.

Prior to the Redomestication, White Mountains terminated the DBP and the DCP and paid participants a total of \$88.6 million in full satisfaction of White Mountains' long-term DBP and DCP obligations. This payment resulted in an incremental pretax cost to the Company of \$15.2 million, however, this action provided the Company with increased tax deductible expenses during 1999 and served to reduce future compensation and benefit expenses.

During 1999 the Board mandated deferrals of a portion of compensation earned by certain of its executive officers totalling \$3.1 million for a period of no less than one year. These 1999 deferrals are eligible for inclusion in any successor plan to the DCP.

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White Mountains has various defined contribution employee savings plans for the benefit of substantially all its employees. The costs of these plans are not material to White Mountains' financial statements.

Folksamerica has a defined benefit pension plan for the benefit of its employees. Benefits under this plan are based on years of service and each employee's highest average eligible compensation over the last five consecutive years of employment. The cost of this plan is not material to White Mountains' financial statements.

White Mountains' does not have any significant ongoing postretirement benefit plan obligations.

NOTE 10. EMPLOYEE STOCK-BASED COMPENSATION PLANS

White Mountains' Long-Term Incentive Plan (the "Incentive Plan") provides for granting to participants of the Company (and certain of its subsidiaries) various types of stock-based incentive awards including stock options and performance shares. At December 31, 1999, 323,400 Shares remained available for grants under the Incentive Plan.

Performance shares are conditional grants of a specified maximum number of Shares or an equivalent amount of cash. The grants are generally payable (subject to the attainment of a specified after tax return on equity) at the end of a three year period or as otherwise determined by the Compensation Committee of the Board. The Compensation Committee consists solely of disinterested, non-management directors.

During 1999, 1998 and 1997 the Company granted a total of 29,300, 47,800 and 50,000 performance shares, respectively, to its employees. During 1999, 1998 and 1997 the Company paid a total of 141,650, 47,129 and 22,944 performance shares, respectively, to its participants in cash and Shares. Performance shares paid during 1999 included 58,100 performance shares relating to the period from 1996 to 1998, 40,300 performance shares relating to the period from 1997 to 1999 and 43,250 performance shares relating to the period from 1998 to 2000. At December 31, 1999 and 1998, 29,300 and 147,350 performance shares remained outstanding, respectively. The financial goal for full payment of the performance shares is the achievement of a 13% annual after tax return on equity (as specifically defined by the Compensation Committee) as measured over the applicable performance periods. All performance shares that remain unpaid at the end of any performance period are cancelled. White Mountains expenses performance shares outstanding ratably over the performance period assuming full vesting at current market values. During 1999, 1998 and 1997, White Mountains recorded \$6.1 million, \$7.2 million and \$8.8 million, of pretax performance share expense, respectively.

As of December 31, 1998 and 1997 there were 2,000 stock options outstanding which had an exercise price of \$27.13 per Share. These options were exercised during 1999.

As of December 31, 1998 and 1997 the Company's Chairman had Warrants outstanding entitling him to buy 1,000,000 Shares for \$21.66 per Share through January 2, 2002. During 1999 the Chairman exercised the Warrants early in exchange for a one-time payment of \$6.0 million. This one-time payment compensated the Chairman for the estimated interest cost of borrowing the strike price and the amounts required to prematurely pay his income taxes. The 1999 exercise of Warrants provided the Company with increased tax deductible expenses.

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Folksamerica's defined contribution plan (the "Folksamerica 401(k) Plan") offers its participants the ability to invest their balances in several different investment options including Shares. As of December 31, 1999 and 1998 the Folksamerica 401(k) Plan owned less than 1% of the total Shares outstanding.

SFAS No. 123, "Accounting for Stock Based Compensation," requires disclosure regarding all employee compensation involving Shares and Share equivalents and encourages companies to recognize compensation expense for stock-based awards based on the fair value of such awards on the date of grant. White Mountains has not adopted the recognition and measurement criteria of SFAS No. 123 and alternatively has chosen to disclose the pro forma effects of SFAS No. 123 as it relates to outstanding Warrants and stock options during 1998 and 1997, as follows:

Millions, except per Share amounts	Year Ended December 31,	
	1998	1997
Net income:		
As reported	\$ 78.5	\$ 39.3
Pro forma	77.4	39.4
Basic net income per Share:		
As reported	\$ 13.38	\$ 5.98
Pro forma	12.56	5.99
Diluted net income per Share:		
As reported	\$ 11.94	\$ 5.40
Pro forma	11.20	5.41

SFAS No. 123 provides for the expense of Warrants and stock options over the life of the award using the Black Scholes option pricing model. Significant assumptions used include a 5.0% risk-free interest rate, an expected Share volatility of .167 and an expected life of five years for the Warrants. In determining the pro forma effects of SFAS No. 123, the Company recognizes the pro forma expense of the Warrants and stock options over time. The pro forma net income figures disclosed above may not be representative of the effects on net income to be reported in future years.

As previously mentioned, during 1999 all Warrants and stock options were exercised. Therefore, no pro forma disclosures in accordance with SFAS No. 123 are provided for the year ended December 31, 1999.

NOTE 11. SHAREHOLDERS' EQUITY

SHARE REPURCHASES AND RETIREMENT

During 1999 and 1998 the Company repurchased 1,020,150 Shares for \$139.5 million and 151,916 Shares for \$19.8 million, respectively. All Shares repurchased during 1999 and 1998 were retired.

RETIREMENT OF SHARES HELD IN TREASURY

In conformance with Bermuda law, the Company retired all Shares held in its treasury during 1999. The retirement of treasury shares resulted in a significant reclassification of several of the Company's various shareholders' equity accounts but did not affect total shareholders' equity.

COMMON STOCK DIVIDENDS

During 1999 and 1998 the Company declared and paid quarterly cash dividends of \$.40 per Share.

NOTE 12. SEGMENT INFORMATION

White Mountains has determined that its reportable segments include Reinsurance, Property and Casualty Insurance, Investments in Unconsolidated Insurance Affiliates (which includes White Mountains' investment in MediaOne preferred stock where applicable) and Holding Company (primarily the operations of the Company and certain of its intermediate subsidiary holding companies). Investment results are included within the segment to which the investments

relate. The Company has made this determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board. Management and the Board does not currently review its operating results on a geographic basis. There are no significant intercompany transactions among White Mountains' segments other than occasional intercompany sales and transfers of investment securities (gains and losses resulting from such transfers have been eliminated herein).

Certain amounts in the prior periods have been reclassified to conform with the current presentation which involved the segregation of the mortgage banking net assets, revenues and pretax earnings as discontinued operations.

Selected financial information for White Mountains' segments follows:

Millions	Reinsurance	Property and Casualty Insurance	Investments in Unconsolidated Affiliates	Holding Company	Total
YEAR ENDED DECEMBER 31, 1999					
Revenues from external customers	\$ 211.0	\$ 75.6	\$ -	\$ -	\$ 286.6
Gain from the Valley Group Sale	-	-	-	88.1	88.1
Net realized gains on investments and other assets ...	43.8	10.0	-	31.6	85.4
Net investment income	49.1	4.9	2.6	5.3	61.9
Equity in earnings of unconsolidated affiliates	-	-	31.1	-	31.1
Amortization of deferred credit	6.3	-	1.2	4.3	11.8
Other revenue	-	-	-	.3	.3
Total revenues	\$ 310.2	\$ 90.5	\$ 34.9(a)	\$ 129.6	\$ 565.2
Pretax earnings before interest expense	\$ 60.6	\$.2	\$ 34.9	\$ 80.5	\$ 176.2
Interest expense	(5.9)	(.4)	-	(8.4)	(14.7)
Income tax provision	(9.8)	-	(1.1)	(42.2)	(53.1)
	\$ 44.9	\$ (.2)	\$ 33.8	\$ 29.9	\$ 108.4
Year ended December 31, 1998					
Revenues from external customers	\$ 85.4	\$ 170.0	\$ -	\$ -	\$ 255.4
Net realized gains (losses) on investments	(.8)	5.4	-	66.4	71.0
Net investment income	18.1	8.2	3.8	6.7	36.8
Equity in earnings of unconsolidated affiliates	-	-	24.3	-	24.3
Amortization of deferred credit	2.7	-	-	-	2.7
Other revenue	-	-	-	.1	.1
Total revenues	\$ 105.4	\$ 183.6	\$ 28.1(a)	\$ 73.2	\$ 390.3
Pretax earnings before interest expense	\$ 8.1	\$ 7.7	\$ 28.1	\$ 49.4	\$ 93.3
Interest expense	(1.4)	(1.1)	-	(11.2)	(13.7)
Income tax provision	(1.2)	(1.8)	(7.6)	(17.9)	(28.5)
Net income from continuing operations	\$ 5.5	\$ 4.8	\$ 20.5	\$ 20.3	\$ 51.1

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Millions	Reinsurance	Property and casualty insurance	Investments in unconsolidated affiliates	Holding company	Total
Year ended December 31, 1997					
Revenues from external customers	\$ -	\$ 153.1	\$ -	\$ -	\$ 153.1
Net realized gains (losses) on investments	-	4.1	-	93.3	97.4
Net investment income	-	8.9	3.8	8.9	21.6
Equity in earnings of unconsolidated affiliates	-	--	21.3	-	21.3
Total revenues	\$ -	\$ 166.1	\$ 25.1(a)	\$ 102.2	\$ 293.4
Pretax earnings before interest expense	\$ -	\$ 12.6	\$ 25.1	\$ 74.2	\$ 111.9
Interest expense	-	(1.2)	-	(9.4)	(10.6)
Income tax provision	-	(4.3)	(6.1)	(26.0)	(36.4)
Net income from continuing operations	\$ -	\$ 7.1	\$ 19.0	\$ 38.8	\$ 64.9

(a) Includes interest income on White Mountains' investment in MediaOne preferred stock (considered to be related to White Mountains' investment in FSA) of \$2.6 million, \$3.8 million and \$3.8 million for 1999, 1998 and 1997, respectively.

Millions	Reinsurance	Property and casualty insurance	Investments in unconsolidated affiliates	Holding company	Net assets of discontinued operations	Total
December 31, 1999	\$ 1,294.3	198.6	422.6	117.3	16.3	\$ 2,049.1
December 31, 1998	1,220.5	311.5	404.1	117.2	110.4	2,163.7

NOTE 13. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

INVESTMENT IN FSA

White Mountains owned 6,943,316, 3,460,200 and 3,460,200 shares of FSA Common Stock at December 31, 1999, 1998 and 1997, respectively. This represented approximately 21.2%, 11.6% and 12.1%, respectively, of the total shares of FSA Common Stock outstanding at those times. At December 31, 1999, 1998 and 1997, White Mountains also owned FSA Preferred Stock which gives White Mountains the right to acquire 2,000,000 additional shares of FSA Common Stock for net consideration of \$59.3 million. At December 31, 1998 and 1997, White Mountains also owned FSA Options which, in total, gave White Mountains the right to acquire 2,560,607 additional shares of FSA Common Stock for aggregate consideration of \$115.7 million which includes the MediaOne Preferred Stock. As of December 31, 1999, 1998 and 1997, White Mountains' total interest in FSA was 25.8%, 25.1% and 26.2%, respectively, which includes the economic effects of the FSA Preferred Stock and the FSA Options.

White Mountains' investment in FSA Common Stock is accounted for using the equity method. FSA Common Stock is publicly traded on the NYSE. The market value of the FSA Common Stock as of December 31, 1999 and 1998, as quoted on the NYSE, exceeded White Mountains' carrying value of the FSA Common Stock on the equity method. White Mountains' investment in FSA Preferred Stock and FSA Options are accounted for under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", whereby the investments are reported at fair value as of the balance sheet date, with related unrealized investment gains and losses, after tax, reported as a net amount in a separate component of shareholders' equity and reported on the income statement as a component of comprehensive net income.

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The following table summarizes financial information for FSA:

Millions	1999	1998	1997
FSA BALANCE SHEET DATA:			
Total investments	\$2,140.0	\$1,874.8	\$1,431.6
Total assets	2,905.6	2,444.2	1,931.2
Deferred premium revenue	844.1	721.7	595.2
Loss and loss adjustment expense reserve	87.3	63.9	75.4
Preferred shareholder's equity	.7	.7	.7
Common shareholders' equity	1,252.0	1,065.4	875.3
FSA INCOME STATEMENT DATA:			
Net premiums written	\$ 230.4	\$ 219.9	\$ 172.9
Net premiums earned	175.0	137.9	109.5
Net investment income	94.7	78.8	72.1
Net income	125.4	115.4	94.7
Comprehensive net income	39.9	127.8	110.8
AMOUNTS RECORDED BY WHITE MOUNTAINS:			
Investment in FSA Common Stock	\$ 262.2	\$ 119.7	\$ 104.3
Investment in FSA Options and Preferred Stock	41.1	114.4	87.8
Total investment in FSA	\$ 303.3	\$ 234.1	\$ 192.1
Equity in earnings from FSA Common Stock (a)	\$ 19.5	\$ 13.8	\$ 11.4
Dividends received from FSA Common Stock	2.1	1.5	1.4
Equity in net unrealized investment gains (losses) from FSA's investment portfolio, before tax (b)	(14.0)	3.1	2.1
Unrealized investment gains (losses) on FSA Options and Preferred Stock, before tax (b)	(4.1)	26.6	68.0

Write-down from fair value to equity value upon exercise of

- (a) Recorded net of related amortization of goodwill.
- (b) Recorded directly to shareholders' equity (after tax) with related changes in net unrealized investment gains and losses (after tax) reported as a component of comprehensive net income.

At December 31, 1999 and 1998, White Mountains' consolidated retained earnings included \$53.3 million and \$35.9 million, respectively, of accumulated undistributed earnings of FSA (net of related amortization of goodwill).

INVESTMENT IN MSA

At December 31, 1999, 1998 and 1997, White Mountains owned 222,093, 222,093 and 90,606 shares of MSA Common Stock. This represented approximately 50.0%, 50.0% and 33.1% of the total shares of MSA Common Stock outstanding at those times. White Mountains' investment in MSA is accounted for using the equity method. The following tables summarize financial information for MSA:

Millions	1999	1998	1997
MSA BALANCE SHEET DATA:			
Total investments	\$ 466.3	\$465.9	\$280.1
Total assets	582.3	581.6	337.2
Unearned premium reserve	118.3	113.0	71.8
Loss and loss adjustment expense reserves	198.4	212.2	123.7
Shareholders' equity	233.4	232.5	120.6
MSA INCOME STATEMENT DATA:			
Net premiums written	\$ 242.7	\$258.5	\$156.6
Net premiums earned	237.4	226.3	148.7
Net investment income	24.9	22.1	15.4
Net income	25.8	13.4	11.9
Comprehensive net income .....	.9	21.2	18.7
AMOUNTS RECORDED BY WHITE MOUNTAINS:			
Investment in MSA Common Stock	\$ 119.3	\$120.2	\$ 40.9
Equity in earnings from MSA Common Stock (a)	11.6	4.9	3.8
Equity in net unrealized investment gains (losses) from MSA's investment portfolio, before tax (b)	(12.5)	4.1	2.4

- (a) Recorded net of related amortization of goodwill.
- (b) Recorded directly to shareholders' equity (after tax) with related changes in net unrealized investment gains and losses (after tax) reported as a component of comprehensive net income.

At December 31, 1999 and 1998, White Mountains' consolidated retained earnings included \$25.7 million and \$14.1 million, respectively, of accumulated undistributed earnings of MSA (net of related amortization of goodwill).

INVESTMENT IN FOLKSAMERICA

On August 18, 1998, White Mountains acquired all of the remaining outstanding shares of the common stock of Folksamerica for \$169.1 million which resulted in Folksamerica becoming a consolidated subsidiary of White Mountains as of that date. Prior to August 18, 1998, Folksamerica was an unconsolidated insurance affiliate of White Mountains whereby its investment in Folksamerica Common Stock was accounted for using the equity method and its investment in Folksamerica Preferred Stock and Folksamerica Warrants were accounted for under the provisions of SFAS No. 115. For the years ended December 31, 1998 and 1997, White Mountains recorded \$5.6 million and \$6.1 million of pretax earnings from unconsolidated insurance affiliates, respectively, from its unconsolidated investment in Folksamerica. For the year ended December 31, 1997, White Mountains' recorded \$1.8 million of equity in net unrealized gains from Folksamerica's investment portfolio, before tax.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

White Mountains carries all its financial instruments on its balance sheet at fair value with the exception of long-term indebtedness. At December 31, 1999 and 1998, the market value of White Mountains' long-term indebtedness was \$206.7 million and \$198.1 million, respectively, which

compared to a carrying value of \$202.8 million and \$186.3 million, respectively. The fair value of long-term indebtedness is estimated by discounting future cash flows using incremental borrowing rates for similar types of borrowing arrangements or quoted market prices. Considerable judgement is required to develop such estimates of fair value. Therefore, the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

NOTE 15. RELATED PARTY TRANSACTIONS

For corporate travel purposes White Mountains Holdings, Inc., an indirect wholly-owned subsidiary of the Company, jointly owns two short-range aircraft with Haverford Utah, LLC ("Haverford"). Messrs. Byrne, Patrick M. Byrne (a director of the Company) and Kemp are principals of Haverford. Both aircraft were acquired from unaffiliated third parties during 1996. In exchange for Haverford's 20% ownership interest in the aircraft, Haverford contributed capital equal to 20% of the total initial cost of the aircraft and pays a pro rata share of all fixed costs plus the direct operating costs when onboard the aircraft pursuant to a Joint Ownership Agreement.

During 1998 White Mountains sold its 25% joint ownership interest in a private jet operated by a third party to Haverford for cash proceeds of \$500,000. The purchase price received from Haverford represented a payment of \$437,500 for White Mountains' joint ownership interest (which resulted in White Mountains recognizing a pretax gain on sale of approximately \$75,000) and \$62,500 for reimbursement of prepaid aircraft expenses which were required to be paid to the operator prior to the sale to Haverford.

Mr. Howard Clark, Jr., a director of the Company, is Vice Chairman of Lehman Brothers Inc. Lehman Brothers Inc. has, from time to time, provided various services to White Mountains including investment banking services, brokerage services, underwriting of debt and equity securities and financial consulting services.

Mr. George J. Gillespie, III, a director of the Company, is a Partner in the firm Cravath, Swaine & Moore, which has been retained by White Mountains from time to time to perform legal services.

White Mountains owns a limited partnership investment interest which is managed by John D. Gillespie, a director of the Company.

White Mountains owns a limited partnership investment interest which is managed by Arthur Zankel, a director of the Company.

White Mountains believes that all the above transactions were on terms that were reasonable and competitive. Additional transactions of this nature may be expected to take place in the ordinary course of business in the future.

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NOTE 16. COMMITMENTS AND CONTINGENCIES

Folksamerica leases its principal office space under noncancellable leases expiring at various dates through July 2008. Rental expense for all of Folksamerica's locations was approximately \$1.6 million, \$1.6 million and \$1.7 million for the years ended December 31, 1999, 1998 and 1997, respectively. Folksamerica's future annual minimum rental payments required under noncancellable leases for office space are \$2.5 million for each of the years 2000, 2001, and 2002, \$2.6 million for both 2003 and 2004 and \$11.3 million for years thereafter.

Various claims have been made against White Mountains in the normal course of its business. Based on all information available at the date of this report, management believes that the outcome of such claims will not, in the aggregate, have a material effect on White Mountains' financial position or results of operations.

NOTE 17. SUBSEQUENT EVENT

On March 14, 2000, White Mountains entered into a definitive agreement to sell its indirect, wholly-owned subsidiary, White Mountains Holdings, Inc. (which controls a substantial amount of its holdings of FSA Common Stock and the FSA Preferred Stock) as well as all its other holdings of FSA Common Stock, to Dexia for total cash proceeds of \$620.4 million. The transaction will occur only in connection with Dexia's pending merger with FSA in which all holders of FSA Common Stock will receive \$76.00 cash per share. The merger agreement between FSA and Dexia is subject to, among other matters, regulatory approvals and the satisfaction of the conditions contained in Dexia's merger agreement with FSA, including the approval of FSA shareholders. The transaction, if approved, is expected to close mid-year 2000.

White Mountains expects that the transaction will serve to increase its comprehensive net income by \$283.3 million, after tax, based on the December 31, 1999 carrying value of its investments in FSA.

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REPORT ON MANAGEMENT'S RESPONSIBILITIES

The financial information included in this report, including the audited consolidated financial statements, has been prepared by the management of White Mountains. The consolidated financial statements have been prepared in accordance with GAAP and, where necessary, include amounts based on informed estimates and judgments. In those instances where there is no single specified accounting principle or standard, management makes a choice from reasonable, accepted alternatives which are believed to be most appropriate under the circumstances. Financial information presented elsewhere in this report is consistent with that shown in the financial statements.

White Mountains maintains internal financial and accounting controls designed to provide reasonable and cost effective assurance that assets are safeguarded from loss or unauthorized use, that transactions are recorded in accordance with management's policies and that financial records are reliable for preparing financial statements. The internal controls structure is documented by written policies and procedures which are communicated to all appropriate personnel and is updated as necessary. White Mountains' business ethics policies require adherence to the highest ethical standards in the conduct of its business. Compliance with these controls, policies and procedures is continuously maintained and monitored by management.

PricewaterhouseCoopers has audited the consolidated financial statements of White Mountains as of December 31, 1999 and for the year then ended and KPMG LLP has audited the consolidated financial statements of White Mountains as of December 31, 1998 and for each of the two years in the period ended December 31, 1998. These firms have issued their unqualified reports thereon, which appear on pages 69 and 70.

In connection with their audits, the independent auditors provide an objective, independent review and evaluation of the structure of internal controls to the extent they consider necessary. Management reviews all recommendations of the independent auditors concerning the structure of internal controls and responds to such recommendations with corrective actions, as appropriate.

The Audit Committee of the Board, which is comprised solely of non-management directors, has general responsibility for the oversight and surveillance of the accounting, reporting and financial control practices of White Mountains. The Audit Committee, which reports to the full Board, annually reviews the effectiveness of the independent auditors and management with respect to the financial reporting process and the adequacy of internal controls. The internal auditors have free access to the Audit Committee, without members of management present, to discuss the results of their audits, the adequacy of internal controls and any other matter that they believe should be brought to the attention of the Audit Committee.

John J. Byrne Chairman and Chief Executive Officer	Raymond Barrette President	Michael S. Paquette Senior Vice President and Controller
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of White Mountains Insurance Group, Ltd.:

In our opinion, the 1999 consolidated financial statements listed in the index referenced under Item 14(a) present fairly, in all material respects, the financial position of White Mountains Insurance Group, Ltd. and subsidiaries at December 31, 1999, and the results of their operations and their cash flows for the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the 1999 financial statement schedules listed in the index referenced under Item 14(a) present fairly, in all material respects, the information set forth therein when read in conjunction with the related 1999 consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers
Hamilton, Bermuda
February 15, 2000, except for Note 17,
which is as of March 14, 2000

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
White Mountains Insurance Group, Ltd.

We have audited the accompanying consolidated balance sheets of White Mountains Insurance Group, Ltd. and Subsidiaries (the "Company") as of December 31, 1998, and the related consolidated statements of income and comprehensive income, statements of shareholders' equity, and cash flows for the two year period then ended (collectively, the "consolidated financial statements"). In connection with our audits of the consolidated financial statements, we also have audited the 1998 and 1997 financial information in Schedule II Condensed financial information of the registrant, Schedule III Supplementary insurance information, Schedule IV Reinsurance, Schedule V Valuation and qualifying accounts, and Schedule VI Supplementary information for property and casualty insurance underwriters (collectively, the "financial statement schedules"). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits. We did not audit the consolidated financial statements of Folksamerica Holding Company, Inc. ("Folksamerica"), a wholly-owned subsidiary and Financial Security Assurance Holdings, Ltd. ("FSA"), an 11.6 percent owned equity investee company. The financial statements of Folksamerica reflect total assets constituting 56.4 percent and total revenues of 27.0 percent in 1998 of the related consolidated totals. The Company's equity investment in FSA at December 31, 1998 was \$119.7 million and its equity in earnings of FSA were \$13.8 million and \$11.4 million for the years 1998 and 1997, respectively. The financial statements of Folksamerica and FSA were audited by other auditors, PricewaterhouseCoopers LLP, whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for Folksamerica and FSA, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of White Mountains Insurance Group, Ltd. and Subsidiaries as of December 31, 1998, and the results of their operations and their cash flows for the two year period then ended in conformity with generally accepted accounting principles. Also in our opinion, based on our audits and the reports of other auditors, the 1998 and 1997 information in the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

February 12, 1999
Providence, Rhode Island

/s/ KPMG LLP

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SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for 1999 and 1998 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods.

Millions, except per share amounts	1999 Three Months Ended (a)				1998 Three Months Ended (b)			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	\$132.3	\$106.5	\$ 199.5	\$ 126.9	\$130.5	\$151.3	\$ 55.5	\$ 53.0
Expenses	115.3	83.4	94.7	110.3	127.4	76.6	54.7	52.0
Pretax earnings	17.0	23.1	104.8	16.6	3.1	74.7	.8	1.0
Income tax benefit (provision)	2.7	(9.0)	(41.0)	(5.8)	(.4)	(26.1)	(.6)	(1.4)
Net income (loss) from continuing operations	19.7	14.1	63.8	10.8	2.7	48.6	.2	(.4)
Net income (loss) from discontinued operations	-	-	(2.0)	3.0	6.1	5.6	6.4	9.3
Net gain (loss) from sale of discontinued	(3.3)	-	14.9	-	-	-	-	-

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

operations

Net income	\$ 16.4	\$ 14.1	\$ 76.7	\$ 13.8	\$ 8.8	\$ 54.2	\$ 6.6	\$ 8.9
Earnings per Share:								
Basic	\$ 2.73	\$ 2.72	\$ 13.94	\$ 2.36	\$ 1.51	\$ 9.28	\$ 1.13	\$ 1.50
Diluted	2.69	2.43	12.41	2.10	1.33	8.31	1.00	1.33

- (a) The quarterly amounts for the three month period ended June 30, 1999 reflect the Valley Group Sale and the Mortgage Banking Sale. The Mortgage Banking Sale represented a decision by the Company to exit the mortgage banking business. As a result, all mortgage banking activities are presented herein as discontinued operations.
- (b) The quarterly amounts for the three month periods ended September 30, 1998 and December 31, 1998 reflect the consolidation of Folksamerica which became a wholly-owned subsidiary on August 18, 1998. The quarterly amounts for the three month period ended September 30, 1998 include \$61.6 million of pretax realized investment gains which served to increase third quarter 1998 net income by \$40.0 million.

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SCHEDULE I

WHITE MOUNTAINS INSURANCE GROUP, LTD.
 SUMMARY OF INVESTMENTS -- OTHER THAN
 INVESTMENTS IN RELATED PARTIES
 AT DECEMBER 31, 1999

Millions	Cost	FAIR VALUE
Fixed maturities:		
Bonds:		
United States Government and government agencies and authorities ...	\$ 444.6	\$ 426.9
Corporate bonds	330.8	319.4
States, municipalities and political subdivisions	132.0	128.7
Foreign governments	50.5	49.5
Total fixed maturities	957.9	924.5
Common equity securities:		
Banks, trust and insurance companies	45.0	43.6
Industrial, miscellaneous and other	55.4	64.8
Total common equity securities	100.4	108.4
Other investments	57.5	68.3
Short-term investments	117.5	117.5
Total investments	\$ 1,233.3	\$ 1,218.7

NOTE - fair value was equal to carrying value at December 31, 1999.

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SCHEDULE II

WHITE MOUNTAINS INSURANCE GROUP, LTD.
 (REGISTRANT ONLY)
 CONDENSED BALANCE SHEETS

December 31,

Millions	1999	1998
Assets:		
Fixed maturities	\$ 39.6	\$ -
Common equity securities and other investments	26.3	-
Short-term investments, at amortized cost	5.7	10.8
Other assets	1.2	37.8
Investments in consolidated affiliates	770.9	972.2
Total assets	\$ 843.7	\$1,020.8
Liabilities:		
Short-term debt	\$ 4.0	\$ -
Long-term debt	96.0	115.7
Intercompany borrowings	-	53.0
Deferred credit	57.8	-
Accounts payable and other liabilities	71.6	149.6
Total liabilities	229.4	318.3
Shareholders' equity	614.3	702.5
Total liabilities and shareholders' equity	\$ 843.7	\$1,020.8

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Millions	Year Ended December 31,		
	1999	1998	1997
Revenues	\$ 29.1	\$ 28.9	\$ 52.7
Expenses	46.6	23.2	21.2
Pretax earnings (loss)	(17.5)	5.7	31.5
Income tax provision	(6.0)	(8.3)	(16.3)
Net income (loss)	(23.5)	(2.6)	15.2
Earnings from consolidated affiliates	144.5	81.1	24.1
Consolidated net income	121.0	78.5	39.3
Other comprehensive net income (loss) items, after tax	(118.0)	(8.9)	41.7
Consolidated comprehensive net income	\$ 3.0	\$ 69.6	\$ 81.0

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SCHEDULE II
(CONTINUED)

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(REGISTRANT ONLY)

CONDENSED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31,		
	1999	1998	1997
Net income	\$ 121.0	\$ 78.5	\$ 39.3
Reconciliation of net income to net cash from operating activities:			
Net realized investment gains	(21.7)	(26.7)	(44.2)
Distributions from consolidated subsidiaries in excess of current earnings	213.0	-	-
Undistributed current earnings from consolidated subsidiaries	-	(78.0)	(24.1)
Undistributed current earnings from unconsolidated insurance affiliates	-	-	(.4)
Changes in current income taxes receivable and payable	(4.3)	8.5	5.1
Deferred income tax provision (benefit)	39.7	.1	(3.7)
(Decrease) increase in accounts payable and other liabilities	(103.2)	8.7	7.0
Other, net	(2.5)	(3.3)	(4.6)
Net cash (used for) provided from operating activities	242.0	(12.2)	(25.6)

Cash flows from investing activities:			
Net decrease (increase) in short-term investments, net of balances acquired	18.3	(8.5)	(2.0)
Sales of investment securities	5.4	-	119.4
Purchases of investment securities	-	-	-
Investments in consolidated affiliates, net of balances acquired	(73.5)	-	(12.7)
Investments in unconsolidated affiliates	(50.0)	-	-
Sale of securities carried in other assets	-	26.8	-
Net cash (used for) provided from investing activities	(99.8)	18.3	104.7
Cash flows from financing activities:			
Purchases of common stock retired	(139.4)	(19.5)	(103.8)
Proceeds from exercises of Warrants and stock options	21.7	-	-
Repayment of long-term debt	(15.9)	-	-
Intercompany borrowings from subsidiaries	-	23.0	30.0
Cash dividends paid to common shareholders	(8.8)	(9.4)	(5.3)
Net cash used for financing activities	(142.4)	(5.9)	(79.1)
Net (decrease) increase in cash during year	(.2)	.2	-
Cash balance at beginning of year2	-	-
Cash balance at end of year	\$ -	\$.2	\$ -

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SCHEDULE III

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUPPLEMENTARY INSURANCE INFORMATION
(MILLIONS)

Column A	Column B	Column C	Column D	Column E	Column F	Column G
Segment	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premiums earned	Net investment income (b)
Years ended:						
December 31, 1999:						
Reinsurance	\$ 21.3	\$ 782.1	\$ 79.0	\$ -	\$ 211.0	\$ 49.1
Property casualty insurance .....	.9	68.9	13.1	-	72.2	4.9
December 31, 1998:						
Reinsurance (a)	20.7	723.2	71.2	-	85.4	18.1
Property casualty insurance	14.7	88.5	81.9	-	160.6	8.3
December 31, 1997:						
Property and casualty insurance	14.3	71.9	78.0	-	145.3	9.0

(SCHEDULE III TABLE CONTINUED)

Column H	Column I	Column J	Column K
Segment	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses payable
Segment			Premiums written
Years ended:			
December 31, 1999:			
Reinsurance	\$ 168.2	\$ 64.3	\$ -
Property casualty insurance	60.1	9.1	-
December 31, 1998:			
Reinsurance (a)	59.7	29.1	-
Property casualty insurance	115.1	25.7	-
December 31, 1997:			
Property and casualty insurance	97.1	23.2	-

(a) The amounts shown for Reinsurance in columns F through K represent

activity for Folksamerica from August 18, 1998 through December 31, 1998.

- (b) The amounts shown exclude net investment income relating to non-insurance operations of \$7.9 million, \$10.4 million and \$12.6 million for the twelve months ended December 31, 1999, 1998 and 1997, respectively.

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SCHEDULE IV

WHITE MOUNTAINS INSURANCE GROUP, LTD.

REINSURANCE

Column A	Column B	Column C	Column D	Column E	Column F
	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Premiums earned (Dollars in millions)					
Years ended:					
December 31, 1999:					
Property and casualty insurance	\$ 61.4	\$ (28.8)	\$39.6	\$72.2	54.8%
Reinsurance	2.4	(32.4)	241.0	211.0	114.2%
December 31, 1998:					
Property and casualty insurance	104.4	(13.1)	69.3	160.6	43.2%
Reinsurance (a)	2.0	(8.8)	92.2	85.4	108.0%
December 31, 1997:					
Property and casualty insurance	89.7	(7.4)	63.0	145.3	43.4%

- (a) Amounts shown in columns B through F represent activity for Folksamerica from August 18, 1998 through December 31, 1998.

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SCHEDULE V

WHITE MOUNTAINS INSURANCE GROUP, LTD.

VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C	Column D	Column E
	Balance at beginning of period	Additions		Balance at end of period
Millions		Charged to costs and expenses	Charged to other accounts	Deductions described (a)
Years ended:				
December 31, 1999:				
Reinsurance recoverable:				
Allowance for reinsurance balances	\$1.2	\$ -	\$ -	\$ -
Property and casualty insurance:				
Allowance for uncollectible accounts	1.1	-	-	-
December 31, 1998:				
Reinsurance recoverable:				
Allowance for reinsurance balances (b)	\$1.2	\$ -	\$ -	\$ -
Property and casualty insurance:				
Allowance for uncollectible accounts	.3	1.9	-	(1.8)
December 31, 1997:				
Property and casualty insurance:				
Allowance for uncollectible accounts	.4	1.1	-	(1.2)

- (a) Represents charge-offs of balances receivable

SCHEDULE VI

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUPPLEMENTAL INFORMATION FOR PROPERTY AND CASUALTY INSURANCE UNDERWRITERS

(MILLIONS)

Column A	Column B	Column C	Column D	Column E	Column F	Column G
	Deferred acquisition costs	Reserves for unpaid claims and claims adjustment expenses	Discount, if any, deducted in Column C	Unearned premiums	Earned premiums	Net investment income
Consolidated reinsurance operations:						
1999	\$ 21.3	\$ 782.1	-	\$ 79.0	\$ 211.0	\$ 49.1
1998 (a)	20.7	723.2	-	71.2	85.4	18.1
1997	-	-	-	-	-	-
Consolidated property and casualty insurance operations:						
1999	.9	68.9	-	13.1	72.2	4.9
1998	14.7	88.5	-	81.9	160.6	8.3
1997	14.3	71.9	-	78.0	145.3	9.0
50%-or-less owned property and casualty investees (b):						
1999	17.5	99.2	-	59.2	118.7	12.5
1998	16.0	106.1	-	56.5	103.6	10.1
1997	6.5	40.9	-	23.8	49.2	5.1

Column A	Column H	Column I	Column J	Column K
	Claims and claims adjustment expenses incurred related to (1) Current year	Amortization of deferred policy acquisition Costs (2) Prior year	Paid claims and claims adjustment expenses	Premiums written
Consolidated reinsurance operations:				
1999	\$ 138.9	\$ 29.3	\$ 64.3	\$ 201.7
1998 (a)	58.6	1.1	29.1	73.7
1997	-	-	-	-
Consolidated property and casualty insurance operations:				
1999	57.5	2.6	9.1	73.0
1998	108.4	6.7	25.7	164.9
1997	99.6	(2.5)	23.2	150.8
50%-or-less owned property and casualty investees (b):				
1999	89.3	(7.0)	34.4	121.3
1998	82.5	(5.1)	24.2	118.3
1997	35.9	(1.2)	12.7	51.8

(a) The amounts shown for Reinsurance in columns F through K represent activity for Folksamerica from August 18, 1998 through December 31, 1998.

(b) The amounts shown represent White Mountains' share of its property and casualty affiliate, MSA, which was 50.0% owned during the years ended December 31, 1999 and 1998 and 33.1% owned during the year ended December 31, 1997.

\$35,000,000

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

AMONG

FUND AMERICAN ENTERPRISES HOLDINGS, INC.,
AS BORROWER,

THE LENDERS NAMED HEREIN,
AS LENDERS,

THE FIRST NATIONAL BANK OF CHICAGO,
AS AGENT,

FLEET NATIONAL BANK,
AS DOCUMENTATION AGENT,

FIRST UNION NATIONAL BANK,
AS DOCUMENTATION AGENT,

AND

DEUTSCHE BANK AG,
AS CO-AGENT,

DATED AS OF
FEBRUARY 24, 1999

LEAD ARRANGER AND BOOK RUNNER

FIRST CHICAGO CAPITAL MARKETS, INC.

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SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This Second Amended and Restated Credit Agreement, dated as of February 24, 1999, is among FUND AMERICAN ENTERPRISES HOLDINGS, INC., a Delaware corporation, the Lenders and THE FIRST NATIONAL BANK OF CHICAGO, individually and as Agent.

R E C I T A L S:

A. The Borrower, the lenders named therein and the Agent are party to that certain \$35,000,000 amended and restated credit agreement, dated as of August 14, 1998 (as amended through but not including the date hereof, the "Existing Credit Agreement").

B. The Borrower has requested that the Existing Credit Agreement be amended and restated in order to extend the maturity and to make certain other amendments to the Existing Credit Agreement.

C. The Borrower, the Lenders and the Agent desire to amend and restate the Existing Credit Agreement on the terms and conditions set forth below to accomplish such amendments.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Lenders and the Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement:

"ABR Advance" means an Advance which bears interest at the Alternate Base Rate.

"Acceptable Exchange" means any of (a) the New York Stock Exchange, (b) the American Stock Exchange, (c) NASDAQ or (d) the London Stock Exchange.

"Advance" means a borrowing pursuant to SECTION 2.1 consisting of the aggregate amount of the several Loans made on the same Borrowing Date by the Lenders to the Borrower of the same Type and, in the case of Eurodollar Advances, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 20% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

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"Agent" means First Chicago in its capacity for administrative purposes as contractual representative of the Lenders pursuant to ARTICLE X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to ARTICLE X.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders hereunder. The initial Aggregate Commitment is \$35,000,000.

"Agreement" means this Second Amended and Restated Credit Agreement, as it may be amended, modified or restated and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time; PROVIDED, HOWEVER, that if any changes in accounting principles from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether

such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of generally accepted accounting principles in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to SECTION 5.5 hereof.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day, and (b) the sum of the Federal Funds Effective Rate for such day PLUS 1/2% per annum, in each case changing when and as the Corporate Base Rate and the Federal Funds Effective Rate, as the case may be, changes.

"Applicable Eurodollar Margin" means the percentage rate per annum which is applicable at such time with respect to Eurodollar Advances as set forth in the Pricing Schedule.

"Applicable Facility Fee Margin" means the percentage rate per annum which is applicable at such time as set forth in the Pricing Schedule.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Authorized Officer" means, with respect to the Borrower, any of the chief executive officer, president, chief financial officer, treasurer or controller thereof, acting singly.

"Bankruptcy Code" means Title 11, United States Code, sections 1 ET SEQ., as the same may be amended from time to time, and any successor thereto or replacement therefor which may be hereafter enacted.

"Benefit Plan" means any deferred benefit plan for the benefit of present, future or former employees, whether or not such benefit plan is a Plan.

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"Borrower" means Fund American Enterprises Holdings, Inc., a Delaware corporation, and its successors and assigns.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in SECTION 2.7.

"Business Day" means (a) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market, and (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Cash Equivalents" means Investments maturing within one (1) year from the date of investment (in the case of Investments referenced in CLAUSES (a) through (e)) in (a) certificates of deposit, Eurodollar time deposits and other interest bearing deposits or accounts with United States commercial banks having a combined capital and surplus of at least \$500,000,000 and rated C or better by Keefe Bruyette and Associates or with any Lender, (b) certificates of deposit, other interest bearing accounts or deposits and demand deposits with other United States commercial banks, which deposits and accounts are in amounts fully insured by the Federal Deposit Insurance Corporation, (c) obligations issued or unconditionally guaranteed by the United States government or issued by an agency thereof and backed by the full faith and credit of the United States, (d) direct obligations issued by any state of the United States or any political subdivision thereof which have the highest rating obtainable from S&P on the date of investment, (e) commercial paper rated A-1 or better by S&P and P-1 or better by Moody's, (f) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a credit quality comparable to any of the Investments described in CLAUSES (a) through (e) above and a dollar weighted average maturity of not more than one (1) year, and for the calculation of this dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate and (g) money

market mutual funds identified by the valuation office of the NAIC as requiring no investment reserve.

"Change" is defined in SECTION 3.2.

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"Change in Control" means (a) the acquisition by any "person" or "group" (as such terms are used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than John J. Byrne), including without limitation any acquisition effected by means of any transaction contemplated by SECTION 6.12, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of the Borrower, or (b) during any period of twelve (12) consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "CONTINUING DIRECTORS") who (i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower to constitute a majority of the board of directors of the Borrower, or (c) during any period of twelve (12) consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President or such title that ranks senior to a Senior Vice President of the Borrower and the individual who holds the title of President of White Mountains (collectively, "Senior Management") on the first day of each such period to constitute a majority of the Senior Management of the Borrower. Senior Management on the date of this Agreement are listed on SCHEDULE 1.1, hereto, such SCHEDULE 1.1 to be updated by the Borrower and delivered to the Agent within three (3) Business Days of any change in Senior Management.

"Co-Agent" means Deutsche Bank AG, in its capacity as Co-Agent for the Lenders pursuant to ARTICLE X, and not in its individual capacity as a Lender.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Commitment" means, for each Lender, the obligation of such Lender to make Loans not exceeding the amount set forth opposite its signature below and as set forth in any Notice of Assignment relating to any assignment which has become effective pursuant to SECTION 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof.

"Consolidated" or "consolidated", when used in connection with any calculation, means a calculation to be determined on a consolidated basis for a Person and its Subsidiaries in accordance with Agreement Accounting Principles.

"Consolidated Person" means, for the taxable year of reference, each Person which is a member of the affiliated group of the Borrower if Consolidated returns are or shall be filed for such affiliated group for federal income tax purposes or any combined or unitary group of which the Borrower is a member for state income tax purposes.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement or take-or-pay

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contract or application for a Letter of Credit, excluding however (a) insurance policies and insurance contracts issued in the ordinary course of business and (b) any financial guarantees issued by FSA.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Conversion/Continuation Notice" is defined in SECTION 2.8.

"Corporate Base Rate" means a rate per annum equal to the corporate base rate of interest publicly announced by First Chicago from time to time, changing when and as said corporate base rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate of interest actually charged to any customer. First Chicago may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate.

"Default" means an event described in ARTICLE VII.

"Documentation Agent" means each of Fleet National Bank and First Union National Bank, each in its capacity as a Documentation Agent for the Lenders pursuant to ARTICLE X, and not in its capacity as Lender.

"Eligible FSA Securities" means equity securities of FSA traded on an Acceptable Exchange or any security convertible into such equity security owned by SOMSC, so long as (a) neither SOMSC nor any of its subsidiaries is in default under any of its obligations (contingent or otherwise) as a consequence of which the ability of SOMSC to sell any equity securities of FSA or to distribute to SOMSC's shareholders the proceeds thereof is restricted and (b) SOMSC is a Wholly-Owned Subsidiary of the Borrower.

"Environmental Laws" is defined in SECTION 5.18.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Advance" means an Advance which bears interest at the Eurodollar Rate.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the rate determined by the Agent to be the rate at which deposits in U.S. dollars are offered by First Chicago to first-class banks in the London interbank market at approximately 11 a.m. (London time) two (2) Business Days prior to the first day of such Interest Period, in the approximate amount of First Chicago's relevant Eurodollar Advance and having a maturity approximately equal to such Interest Period.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (a) the quotient of (i) the Eurodollar Base Rate applicable to such Interest Period, divided by (ii) one minus the Reserve Requirement (expressed as a decimal) applicable

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to such Interest Period, plus (b) the Applicable Eurodollar Margin. The Eurodollar Rate shall be rounded to the next higher multiple of 1/100 of 1% if the rate is not such a multiple.

"Existing Credit Agreement" is defined in the recitals to this Agreement.

"Facility Fee" is defined in SECTION 2.4(a).

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Finance Assets" means each of the following: (a) investments in securities issued or fully guaranteed by the United States of America or any agency or instrumentality thereof (PROVIDED that the full faith and credit of the United States of America is pledged in support thereof), (b) investments in equity securities traded on an Acceptable Exchange and securities convertible into such equity securities, (c) investments in Investment Grade Obligations, (d) investments in money market and mutual funds substantially all the assets of which are comprised of securities of the types described in CLAUSES (a) through (c) above and (e) Eligible FSA Securities; PROVIDED, that Finance Assets shall not include any securities (i) pledged to secure any obligation (contingent or otherwise) or (ii) restricted as to sale or disposition by any agreement.

"Finance Assets Ratio" means, at any time, the ratio of (a) Finance Assets owned by the Borrower and its Subsidiaries (including the Eligible FSA Securities, but excluding any other Finance Assets owned by any Insurance Subsidiary, Folksamerica, Valley and SOMSC) at such time to (b) an amount equal to the excess of (i) the aggregate outstanding principal amount of Advances under the Facility at such time MINUS (ii) cash and Cash Equivalents of the Borrower and its Subsidiaries (excluding any Insurance Subsidiary, Folksamerica, Valley and SOMSC) at such time. For purposes of this definition, Finance Assets shall be valued, without duplication, at fair market value to the extent there exists a readily ascertainable fair market value for such Finance Asset or, in the event there exists no such readily ascertainable fair market value for such Finance Asset, at book value, as calculated in accordance with Agreement Accounting Principles.

"Financial Statements" is defined in SECTION 5.5.

"First Chicago" means The First National Bank of Chicago in its individual capacity, and its successors.

"Fiscal Quarter" means one of the four three-month accounting periods

"Fiscal Year" means the twelve-month accounting period ending December 31 of each year.

"Folksamerica" means Folksamerica Holding Company, Inc., a New York corporation.

"Folksamerica Credit Agreement" means the \$100,000,000 credit agreement, dated as of February 24, 1999, among Folksamerica, the lenders named therein and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"FSA" means Financial Security Assurance Holdings Ltd., a New York corporation.

"FSA Amount" means an amount equal to that which is ultimately utilized by SOMSC on or before May 13, 1999 to exercise certain options, in existence on the date hereof, on the capital stock of FSA, such amount not to exceed \$18,000,000.

"Funded Indebtedness" means Indebtedness of the type described in clauses (a), (d), (e) and (h) of the definition "Indebtedness".

"Governmental Authority" means any government (foreign or domestic) or any state or other political subdivision thereof or any governmental body, agency, authority, department or commission (including without limitation any board of insurance, insurance department or insurance commissioner and any taxing authority or political subdivision) or any instrumentality or officer thereof (including without limitation any court or tribunal) exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any corporation, partnership or other entity directly or indirectly owned or controlled by or subject to the control of any of the foregoing.

"Hazardous Materials" is defined in SECTION 5.18.

"Indebtedness" of a Person means such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances, or similar instruments, (e) Capitalized Lease Obligations, (f) Rate Hedging Obligations, (g) Contingent Obligations, (h) obligations for which such Person is obligated pursuant to or in respect of a Letter of Credit and (i) repurchase obligations or liabilities of such Person with respect to accounts or notes receivable sold by such Person.

"Insurance Subsidiaries" means Subsidiaries which are engaged in the insurance business as an issuer or underwriter of insurance policies and/or insurance contracts.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three or six months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds

numerically to such date one, two, three or six months thereafter; PROVIDED, HOWEVER, that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day; PROVIDED, HOWEVER, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade) or contribution of capital by such Person; stocks, bonds, mutual funds, partnership interests, notes, debentures or other securities owned by such Person; any deposit accounts and certificates of deposit owned by such Person; and structured notes, derivative financial instruments (other than agreements related to Rate Hedging Obligations entered into in the ordinary course of business and not for speculative purposes) and other similar instruments or contracts owned by such Person.

"Investment Grade Obligations" means, as of any date, investments having an NAIC investment rating of 1 or 2, or an S&P rating within the range of ratings from AAA to BBB-, or a Moody's rating within the range of ratings from Aaa to Baa3.

"Lenders" means the lending institutions listed on the signature pages of this Agreement and their respective successors and assigns.

"Lending Installation" means, with respect to a Lender or the Agent, any office, branch, subsidiary or affiliate of such Lender or the Agent.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Leverage Ratio" means, at any time, the ratio of (a) the consolidated Funded Indebtedness of the Borrower and its Subsidiaries (excluding SOMSC) at such time to (b) the sum of (i) the consolidated Funded Indebtedness of the Borrower and its Subsidiaries (excluding SOMSC) at such time PLUS (ii) Net Worth at such time. For purposes of computing the Leverage Ratio, (A) Allowable Seller Paper (as defined in the Folksamerica Credit Agreement) which has been Defeased (as defined in the Folksamerica Credit Agreement) and Letters of Credit issued on behalf of Folksamerica in support of Allowable Seller Paper, (B) Indebtedness of any Insurance Subsidiary of Folksamerica permitted pursuant to Section 6.11(f) of the Folksamerica Credit Agreement and (C) Indebtedness of Folksamerica permitted by Section 6.11(g) of the Folksamerica Credit Agreement shall be excluded from Funded Indebtedness.

"Lien" means any security interest, lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease

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or other title retention agreement), save in respect of liabilities and obligations arising out of the underwriting of insurance policies and contracts of insurance.

"Loan" means, with respect to a Lender, such Lender's portion of any Advance and "Loans" means, with respect to the Lenders, the aggregate of all Advances.

"Loan Documents" means this Agreement, the Notes and the other documents and agreements contemplated hereby and executed by the Borrower in favor of the Agent or any Lender.

"Margin Stock" has the meaning assigned to that term under Regulation U.

"Material Adverse Effect" means a material adverse effect on (a) the business, Property, condition (financial or other), performance, results of operations, or prospects of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower or any Subsidiary to perform its obligations under the Loan Documents, or (c) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Maturity Date" means August 23, 2000.

"Moody's" means Moody's Investors Services, Inc., and any successor thereto.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in lieu thereof, any other association, agency or other organization performing advisory, coordination or other like functions among insurance departments, insurance commissioners and similar Governmental Authorities of the various states of the United States toward the promotion of uniformity in the practices of such Governmental Authorities.

"Net Worth" means, with respect to any Person, at any date the consolidated shareholders' equity of such Person and its Consolidated Subsidiaries determined in accordance with Agreement Accounting Principles (but excluding the effect of Statement of Financial Accounting Standards No. 115).

"Non-Excluded Taxes" is defined in SECTION 2.17(a).

"Note" means a promissory note in substantially the form of EXHIBIT A hereto, with appropriate insertions, duly executed and delivered to the Agent by the Borrower and payable to the order of a Lender in the amount of its Commitment, including any amendment, modification, renewal or replacement of such promissory note.

"Notice of Assignment" is defined in SECTION 12.3.2.

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"Obligations" means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent or any indemnified party hereunder arising under any of the Loan Documents.

"Participants" is defined in SECTION 12.2.1.

"Payment Date" means the last day of each March, June, September and December.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto.

"Person" means any natural person, corporation, firm, joint venture, partnership, limited liability company, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan, as defined in Section 3(2) of ERISA, as to which the Borrower or any member of the Controlled Group may have any liability.

"Pricing Schedule" means the Schedule attached hereto identified as such.

"Proceeding" is defined in SECTION 5.18.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"pro-rata" means, when used with respect to a Lender, and any described aggregate or total amount, an amount equal to such Lender's pro-rata share or portion based on its percentage of the Aggregate Commitment or if the Aggregate Commitment has been terminated, its percentage of the aggregate principal amount of outstanding Advances.

"Purchase" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (a) acquires any going business or all or substantially all of the assets of any firm, corporation or division or line of business thereof, whether through purchase of assets, merger or otherwise, or (b) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding partnership interests of a partnership or membership interests of a limited liability company.

"Purchasers" is defined in SECTION 12.3.1.

"Rate Hedging Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all agreements, devices or arrangements designed to protect at least

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one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to depository institutions.

"Regulation T" means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of such Board of Governors relating to the extension of credit by securities brokers and dealers for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by the specified lenders for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 39601 ET SEQ.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within thirty (30) days of the occurrence of such event; PROVIDED, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Required Lenders" means Lenders in the aggregate having at least 66-2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding at least 66-2/3% of the aggregate unpaid principal amount of the outstanding Loans.

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"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

"Revolver Termination Date" means February 23, 2000.

"Risk-Based Capital Guidelines" is defined in SECTION 3.2.

"S&P" means Standard & Poor's Ratings Group, and any successor thereto.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Significant Subsidiary" shall mean and include, at any time, each Subsidiary of the Borrower to the extent that the Net Worth of such Subsidiary is equal to or greater than \$5,000,000.

"Single Employer Plan" means a Plan subject to Title IV of ERISA maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group, other than a Multiemployer Plan.

"Solvent" means, when used with respect to a Person, that (a) the fair saleable value of the assets of such Person is in excess of the total amount of the present value of its liabilities (including for purposes of this definition all liabilities (including loss reserves as determined by such Person), whether or not reflected on a balance sheet prepared in accordance with Agreement Accounting Principles and whether direct or indirect, fixed or contingent, secured or unsecured, disputed or undisputed), (b) such Person is able to pay its debts or obligations in the ordinary course as they mature and (c) such Person does not have unreasonably small capital to carry out its business as conducted and as proposed to be conducted. "Solvency" shall have a correlative meaning.

"SOMSC" means Source One Mortgage Services Corporation, a Delaware corporation.

"SOMSC Credit Agreements" means the credit agreement or credit agreements from time to time in effect among SOMSC, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented, restated, replaced or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, association, joint venture, limited liability company or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Termination Event" means, with respect to a Plan which is subject to Title IV of ERISA, (a) a Reportable Event, (b) the withdrawal of the Borrower or any other member of the Controlled Group from such Plan during a plan year in which the Borrower or any other member of the Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA, (c) the termination of such Plan, the filing of a notice of intent to terminate such Plan or the treatment of an amendment of such Plan as a termination under Section 4041 of ERISA, (d) the institution by the PBGC of proceedings to terminate such Plan or (e) any event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Plan.

"Transferee" is defined in SECTION 12.4.

"Type" means, with respect to any Advance, its nature as an ABR Advance or Eurodollar Advance.

"Unfunded Liability" means the amount (if any) by which the present value of all vested and unvested accrued benefits under a Single Employer Plan exceeds the fair market value of assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"Unrestricted Subsidiary" means SOMSC and any Subsidiary thereof.

"Valley" means Valley Group, Inc., an Oregon corporation.

"Valley Credit Agreement" means the \$15,000,000 third amended and restated credit agreement, dated as of February 24, 1999, among Valley, the lenders named therein and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"White Mountains" means White Mountains Holdings, Inc., a Delaware corporation formerly known as Fund American Enterprises, Inc. and the survivor of a merger with White Mountains Holdings, Inc., a New Hampshire corporation.

"White Mountains Credit Agreement" means the \$50,000,000 second amended and restated credit agreement, dated as of August 14, 1998, among White Mountains, the financial institutions from time to time party thereto and First Chicago, as agent, as amended through but not including the date hereof.

"Wholly-Owned Subsidiary" of a Person means (a) any Subsidiary all of the outstanding voting securities of which (other than directors' qualifying or similar shares) shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (b) any partnership, association, joint venture, limited liability company or similar business organization 100% of the ownership interests having ordinary voting power of

which (other than directors' qualifying or similar shares) shall at the time be so owned or controlled.

"Year 2000 Issues" means anticipated costs, problems and uncertainties associated with the inability of certain computer applications and hardware to effectively function on and after January 1, 2000, as such inability affects the business, operations and financial condition of the Borrower and its Subsidiaries and of the Borrower's and its Subsidiaries' material customers, suppliers and vendors.

"Year 2000 Program" is defined in SECTION 5.21.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

THE CREDITS

2.1. ADVANCES. (a) From and including the date hereof to but excluding the Revolver Termination Date, each Lender severally (and not jointly) agrees, on the terms and conditions set forth in this Agreement, to make Advances to the Borrower from time to time in amounts not to exceed in the aggregate at any one time outstanding the amount of its pro-rata share of the Aggregate Commitment existing at such time. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Advances at any time prior to the Revolver Termination Date. The Commitments to lend hereunder

shall expire on the Revolver Termination Date. Principal payments made after the Revolver Termination Date may not be reborrowed.

(b) The Borrower hereby agrees that if at any time, prior to the Revolver Termination Date, as a result of reductions in the Aggregate Commitment pursuant to SECTION 2.4 or otherwise, the aggregate balance of the Loans exceeds the Aggregate Commitment, it shall repay, or cause to be repaid, immediately outstanding Loans in such amount as may be necessary to eliminate such excess.

(c) The Borrower's obligation to pay the principal of, and interest on, the Loans shall be evidenced by the Notes. Although the Notes shall be dated the date of this Agreement, interest in respect thereof shall be payable only for the periods during which the Loans evidenced thereby are outstanding and, although the stated amount of each Note shall be equal to the applicable Lender's Commitment, each Note shall be enforceable, with respect to the Borrower's obligation to pay the principal amount thereof, only to the extent of the unpaid principal amount of the Loans at the time evidenced thereby.

(d) All Advances and all Loans shall mature, and the principal amount thereof and the unpaid accrued interest thereon shall be due and payable in full, on the Maturity Date.

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2.2. RATABLE LOANS. Each Advance hereunder shall consist of Loans made from the several Lenders ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment.

2.3. TYPES OF ADVANCES. The Advances may be ABR Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with SECTIONS 2.7 and 2.8.

2.4. FACILITY FEE; REDUCTIONS IN AGGREGATE COMMITMENT. (a) The Borrower agrees to pay to the Agent for the account of each Lender a facility fee ("Facility Fee") in an amount equal to the Applicable Facility Fee Margin per annum times the daily average Commitment (or, on and after the Revolver Termination Date, times the aggregate outstanding principal amount of the Loans) of such Lender from the date hereof to and including the Maturity Date, payable on each Payment Date hereafter and on the Maturity Date. All accrued Facility Fees shall be payable on the effective date of any termination of the obligations of the Lenders to make Loans hereunder.

(b) The Borrower may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in a minimum aggregate amount of \$2,000,000, upon at least three (3) Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction; PROVIDED, HOWEVER, that the amount of the Aggregate Commitment may not be reduced below the aggregate principal amount of the outstanding Advances.

2.5. MINIMUM AMOUNT OF EACH ADVANCE. Each Advance shall be in the minimum amount of \$2,000,000 (and in integral multiples of \$500,000 if in excess thereof), PROVIDED, HOWEVER, that (a) any ABR Advance may be in the amount of the unused Aggregate Commitment and (b) in no event shall more than six (6) Eurodollar Advances be permitted to be outstanding at any time.

2.6. OPTIONAL PRINCIPAL PAYMENTS. The Borrower may from time to time pay, without penalty or premium, all outstanding ABR Advances, or, in a minimum aggregate amount of \$2,000,000, any portion of the outstanding ABR Advances, upon two (2) Business Days' prior written notice to the Agent. Subject to SECTION 3.4 and upon three (3) Business Days' prior written notice, a Eurodollar Advance may be paid prior to the last day of the applicable Interest Period in a minimum amount of \$2,000,000 or an integral multiple of \$500,000 in excess thereof.

2.7. METHOD OF SELECTING TYPES AND INTEREST PERIODS FOR NEW ADVANCES. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time; PROVIDED, HOWEVER, that in the event Loans are incurred on the date of this Agreement, all Loans incurred on such date shall be ABR Advances. The Borrower shall give the Agent irrevocable notice (a "BORROWING NOTICE") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each ABR Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

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(a) the Borrowing Date of such Advance, which shall be a Business Day;

(b) the aggregate amount of such Advance;

(c) the Type of Advance selected;

(d) in the case of each Eurodollar Advance, the Interest Period applicable thereto, which shall end on or prior to the Maturity

Date; and

(e) any changes to money transfer instructions previously delivered to the Agent.

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Chicago, to the Agent at its address specified pursuant to ARTICLE XIII. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address or at such account at such other institution in the United States of America as the Borrower may indicate in the Borrowing Notice.

2.8. CONVERSION AND CONTINUATION OF OUTSTANDING ADVANCES. ABR Advances shall continue as ABR Advances unless and until such ABR Advances are converted into Eurodollar Advances. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into an ABR Advance unless the Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of SECTION 2.5, the Borrower may elect from time to time to convert all or any part of an Advance of any Type into any other Type or Types of Advances; PROVIDED, HOWEVER, that any conversion of any Eurodollar Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall give the Agent irrevocable notice (a "CONVERSION/CONTINUATION NOTICE") of each conversion of an ABR Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) on the conversion date, in the case of a conversion into an ABR Advance, or at least three (3) Business Days, in the case of a conversion into or continuation of a Eurodollar Advance, prior to the date of the requested conversion or continuation, specifying:

(a) the requested date of such conversion or continuation, which shall be a Business Day;

(b) the aggregate amount and Type of the Advance which is to be converted or continued; and

(c) the amount and Type(s) of Advance(s) into which such Advance is to be converted or continued and, in the case of a conversion into or continuation of a Eurodollar Advance, the duration of the Interest Period applicable thereto, which shall end on or prior to the Maturity Date.

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2.9. CHANGES IN INTEREST RATE, ETC. Each ABR Advance shall bear interest at the Alternate Base Rate from and including the date of such Advance or the date on which such Advance was converted into an ABR Advance to (but not including) the date on which such ABR Advance is paid or converted to a Eurodollar Advance. Changes in the rate of interest on that portion of any Advance maintained as an ABR Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to, but not including, the last day of such Interest Period at the Eurodollar Rate determined by the Agent as applicable to such Eurodollar Advance based upon the Borrower's selections under SECTIONS 2.7 AND 2.8 and otherwise in accordance with the terms hereof. Changes in the Applicable Eurodollar Margin will take effect simultaneously with each change in a Level. No Interest Period may end after the Maturity Date.

2.10. RATES APPLICABLE AFTER DEFAULT. Notwithstanding anything to the contrary contained in SECTIONS 2.7 or 2.8, no Advance may be made as, converted into or continued as a Eurodollar Advance (except with the consent of the Agent and the Required Lenders) when any Default or Unmatured Default has occurred and is continuing. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of SECTION 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that each Eurodollar Advance and ABR Advance shall bear interest (for the remainder of the applicable Interest Period in the case of Eurodollar Advances) at a rate per annum equal to the rate otherwise applicable plus two percent (2%) per annum; PROVIDED, HOWEVER, that such increased rate shall automatically and without action of any kind by the Lenders become and remain applicable until revoked by the Required Lenders in the event of a Default described in SECTIONS 7.6 or 7.7.

2.11. METHOD OF PAYMENT. All payments of the Obligations hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to ARTICLE XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower (at least two (2) Business Days in advance), by noon (Chicago time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to ARTICLE XIII or at any Lending Installation specified in a notice received by

the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with the Agent for each payment of principal, interest and fees as it becomes due hereunder.

2.12. NOTES. Each Lender is hereby authorized to record the principal amount of each of its Loans and each repayment on the schedule attached to its Note; PROVIDED, HOWEVER, that neither the failure to so record nor any error in such recordation shall affect the Borrower's obligations under such Note.

2.13. INTEREST PAYMENT DATES; INTEREST AND FEE BASIS. Interest accrued on each ABR Advance shall be payable on each Payment Date, commencing with the first such date to occur

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after the date hereof, on any date on which an ABR Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any ABR Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three (3) months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.14. NOTIFICATION OF ADVANCES, INTEREST RATES, PREPAYMENTS AND COMMITMENT REDUCTIONS. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.15. LENDING INSTALLATIONS. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Notes shall be deemed held by each Lender for the benefit of such Lending Installation. Each Lender may, by written or telex notice to the Agent and the Borrower, designate a Lending Installation through which Loans will be made by it and for whose account Loan payments are to be made.

2.16. NON-RECEIPT OF FUNDS BY THE AGENT. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If the Borrower has not in fact made such payment to the Agent, the Lenders shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to the Federal Funds Effective Rate for such day. If any Lender has not in fact made such payment to the Agent, such Lender or the Borrower shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (a) in the case of payment by a Lender, the Federal Funds Effective

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Rate for such day, or (b) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.17. TAXES. (a) Any payments made by the Borrower under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes or any other tax

based upon any income imposed on the Agent or any Lender by the jurisdiction in which the Agent or such Lender is incorporated or has its principal place of business or maintains its Lending Installation. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Lender hereunder, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in or pursuant to this Agreement; PROVIDED, HOWEVER, that the Borrower shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the U.S. or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this SECTION 2.17. Whenever any Non-Excluded Taxes are payable by the Borrower, as promptly as practicable thereafter the Borrower shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure. The agreements in this SECTION 2.17 shall survive the termination of this Agreement and the payment of all other amounts payable hereunder.

(b) At least five (5) Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Lender, each Lender that is not incorporated under the laws of the United States of America, or a state thereof, agrees that it will deliver to each of the Borrower and the Agent two (2) duly completed and properly executed copies of United States Internal Revenue Service Form 1001 or 4224 (or any applicable successor form), certifying in either case that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes. Each Lender which so delivers a Form 1001 or 4224 (or any applicable successor form) further undertakes to deliver to each of the Borrower and the Agent two (2) additional duly completed and properly executed copies of such form (or any applicable successor form) on or before the date that such form expires (currently, three (3) successive calendar years for Form 1001 and each tax year for Form 4224) or becomes obsolete or after the occurrence of any event requiring a change in the most recent forms so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes, unless an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the

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date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

2.18. AGENT'S FEES. The Borrower shall pay to the Agent those fees, in addition to the Facility Fees referenced in SECTION 2.4(a), in the amounts and at the times separately agreed to between the Agent and the Borrower.

ARTICLE III

CHANGE IN CIRCUMSTANCES

3.1. YIELD PROTECTION. If, after the date hereof, the adoption of or any change in any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any new interpretation thereof, or the compliance of any Lender with such adoption, change or interpretation,

(a) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding taxation of the overall net income of any Lender or applicable Lending Installation imposed by the jurisdiction in which such Lender or Lending Installation is incorporated or has its principal place of business), or changes the basis of taxation of principal, interest or any other payments to any Lender or Lending Installation in respect of its Loans or other amounts due it hereunder, or

(b) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

(c) imposes any other condition the result of which is to increase the cost to any Lender or any applicable Lending Installation of making, funding or maintaining Loans or reduces any amount receivable by any Lender or any applicable Lending Installation in connection with any Loans, or requires any Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of Loans held, or interest received by it, by an amount deemed material by such Lender,

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then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender that portion of such increased expense incurred or resulting in an amount received which such Lender determines is attributable to making, funding and maintaining its Loans and its Commitment.

3.2. CHANGES IN CAPITAL ADEQUACY REGULATIONS. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "CHANGE" means (a) any change after the date of this Agreement in the Risk-Based Capital Guidelines, or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "RISK-BASED CAPITAL GUIDELINES" means (a) the risk-based capital guidelines in effect in the United States on the date of this Agreement and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. AVAILABILITY OF TYPES OF ADVANCES. If (a) any Lender determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law and gives notice of such fact to the Agent or (b) the Required Lenders determine that (i) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available or (ii) the interest rate applicable to a Eurodollar Advance does not accurately or fairly reflect the cost of making or maintaining such Advance, then the Agent shall suspend the availability of Eurodollar Advances until such circumstance no longer exists and require any Eurodollar Advances to be repaid or converted to ABR Advances, subject to the payment of any funding indemnification amounts required by SECTION 3.4.

3.4. FUNDING INDEMNIFICATION. If any payment of a Eurodollar Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance is not made on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify the Agent and each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the Eurodollar Advance.

3.5. LENDER STATEMENTS; SURVIVAL OF INDEMNITY. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Advances to reduce any liability of the Borrower to such Lender under SECTIONS 2.17, 3.1 and 3.2

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or to avoid the unavailability of a Type of Advance under SECTION 3.3, so long as such designation is not disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under SECTIONS 2.17, 3.1, 3.2 or 3.4. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Advance shall be calculated as though each Lender funded its Eurodollar Advances through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under SECTIONS 2.17, 3.1, 3.2 and 3.4 shall survive payment of the Obligations and termination of this Agreement.

3.6. SUBSTITUTION OF LENDERS. Any Lender claiming any additional amounts payable pursuant to SECTION 2.17, 3.1 or 3.2 or which gives a notice described in SECTION 3.3(a) shall, so long as no Default or Unmatured Default has occurred and is continuing, upon the written request of the Borrower delivered, within ninety (90) days after such Lender's claim or notice, to such Lender and the Agent, assign, pursuant to and in accordance with the provisions of SECTION 12.3, all of its rights and obligations under this Agreement and under the Loan Documents to another Lender or to a commercial bank, other financial institution, commercial finance company or other business lender selected by the Borrower and reasonably acceptable to the Agent that has agreed not to claim any additional amounts under SECTION 2.17, 3.1 or 3.2 with respect to some or all of the costs or regulatory charges that gave rise to such assigning Lender's claim for such compensation or, as applicable, has not made a determination of the type described in SECTION 3.3(a), in consideration for (a) the payment by such assignee to such assigning Lender of the principal of, and interest accrued and unpaid to the date of such assignment on, the Loans held by such assigning Lender, (b) the payment by the Borrower to such assigning Lender of any and all other amounts owing to such assigning Lender under any provision of this Agreement accrued and unpaid to the date of such assignment and (c) the payment by the Borrower to such assigning Lender of any amounts which would be payable to such Lender pursuant to SECTION 3.4 were such assignment treated as a repayment of such Loans.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. EFFECTIVENESS. This Agreement shall not become effective (in which case the Existing Credit Agreement shall remain in full force and effect) unless and until Borrower has furnished the following to the Agent with sufficient copies for the Lenders and the other conditions set forth below have been satisfied:

(a) CHARTER DOCUMENTS; GOOD STANDING CERTIFICATES. Copies of the certificate of incorporation of the Borrower, together with all amendments thereto, certified by the

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appropriate governmental officer in its jurisdiction of incorporation, together with a good standing certificate issued by the Secretary of State of its jurisdiction of incorporation and such other jurisdictions as shall be reasonably requested by the Agent.

(b) BY-LAWS AND RESOLUTIONS. Copies, certified by the Secretary or Assistant Secretary of the Borrower, of its by-laws and of its Board of Directors' resolutions authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party.

(c) SECRETARY'S CERTIFICATE. An incumbency certificate, executed by the Secretary or Assistant Secretary of the Borrower, which shall identify by name and title and bear the signature of the officers of the Borrower authorized to sign the Loan Documents and to make borrowings hereunder, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower.

(d) OFFICER'S CERTIFICATE. A certificate signed by an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent, to the effect that on the date hereof (both before and after giving effect to the consummation of the other transactions contemplated hereby and the making of any Loans hereunder on such date): (i) no Default or Unmatured Default has occurred and is continuing; (ii) no injunction or temporary restraining order which would prohibit the making of the Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (iii) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time required, will have been, obtained, given, filed or taken and are or will be in full force and effect (or the Borrower has obtained effective judicial relief with respect to the application thereof) and all applicable waiting periods have expired; (iv) each of the representations and warranties set forth in ARTICLE V of this Agreement is true and correct on and as of the date hereof; and (v) since September 30, 1998, no event or change has occurred that has caused or evidences a Material Adverse Effect.

(e) LEGAL OPINION. A written opinion of Brobeck, Phleger & Harrison LLP, counsel to the Borrower, addressed to the Agent and the Lenders in form and substance acceptable to the Agent and its counsel.

(f) NOTES. Notes payable to the order of each of the Lenders duly executed by the Borrower.

(g) LOAN DOCUMENTS. Executed originals of this Agreement and each of the Loan Documents, which shall be in full force and effect, together with all schedules, exhibits, certificates, instruments, opinions, documents and financial statements required to be delivered pursuant hereto and thereto.

(h) LETTERS OF DIRECTION. Written money transfer instructions with respect to the initial Advances and to future Advances in form and substance acceptable to the

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Agent and its counsel addressed to the Agent and signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may have reasonably requested.

(i) SOLVENCY CERTIFICATE. A written solvency certificate from the chief financial officer of the Borrower in form and content satisfactory to the Agent with respect to the value, Solvency and other factual information of, or relating to, as the case may be, the Borrower, on a consolidated basis.

(j) PAYMENTS UNDER EXISTING CREDIT AGREEMENT. Repayment in full of all loans and of all accrued and unpaid fees and interest arising under the Existing Credit Agreement.

(k) PAYMENT OF FEES. The Borrower shall have paid all fees due to First Chicago.

(l) FOLKSAMERICA CREDIT AGREEMENT. Executed original of the Folksamerica Credit Agreement, which shall be in full force and effect, in a form satisfactory to the Lenders.

(m) WHITE MOUNTAINS CREDIT AGREEMENT. Evidence satisfactory to the Agent that the White Mountains Credit Agreement has been terminated and all indebtedness, liabilities and obligations outstanding thereunder shall have been paid in full.

(n) YEAR 2000 MATTERS. Information satisfactory to the Agent and the Required Lenders regarding the Borrower's Year 2000 Program.

(o) REGULATORY MATTERS. Receipt of any required regulatory approvals from any Governmental Authority.

(p) OTHER. Such other documents as the Agent, any Lender or their counsel may have reasonably requested.

4.2. EACH FUTURE ADVANCE. The Lenders shall not be required to make any Advance unless on the applicable Borrowing Date:

(a) There exists no Default or Unmatured Default and none would result from such Advance;

(b) The representations and warranties contained in ARTICLE V are true and correct as of such Borrowing Date (except to the extent such representations and warranties are expressly made as of a specified date, in which event such representations and warranties shall be true and correct as of such specified date);

(c) A Borrowing Notice shall have been properly submitted; and

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(d) All legal matters incident to the making of such Advance shall be satisfactory to the Lenders and their counsel.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in SECTIONS 4.2 (a), (b) and (c) have been satisfied. Any Lender may require a duly completed compliance certificate in substantially the form of EXHIBIT B hereto as a condition to making an Advance.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

5.1. CORPORATE EXISTENCE AND STANDING. The Borrower and each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and is duly qualified and in good standing as a foreign corporation and is duly authorized to conduct its business in each jurisdiction in which its business is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

5.2. AUTHORIZATION AND VALIDITY. The Borrower has all requisite power

and authority (corporate and otherwise) and legal right to execute and deliver each of the Loan Documents and to perform its obligations thereunder. The execution and delivery by the Borrower of the Loan Documents and the performance of its respective obligations thereunder has been duly authorized by proper corporate proceedings and the Loan Documents constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. COMPLIANCE WITH LAWS AND CONTRACTS. The Borrower and its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the execution and delivery by the Borrower of the Loan Documents, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations T, U and X), order, writ, judgment, injunction, decree or award binding on the Borrower or any Subsidiary or the Borrower's or any Subsidiary's charter, articles or certificate of incorporation or by-laws, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which the Borrower or any Subsidiary is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by, the

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Loan Documents) in, of or on the property of the Borrower or any Subsidiary pursuant to the terms of any such indenture, instrument or agreement, or (c) require any consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance and are disclosed on SCHEDULE 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. GOVERNMENTAL CONSENTS. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents. Neither the Borrower nor any Subsidiary is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or award binding upon or applicable to the Borrower or such Subsidiary, in each case the consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. FINANCIAL STATEMENTS. The Borrower has heretofore furnished to each of the Lenders (a) the December 31, 1997 audited consolidated financial statements of the Borrower and its Subsidiaries, and (b) the unaudited consolidated financial statements of the Borrower and its Subsidiaries through September 30, 1998 (collectively, the "FINANCIAL STATEMENTS"). Each of the Financial Statements was prepared in accordance with Agreement Accounting Principles and fairly presents the consolidated financial condition and operations of the Borrower and its Subsidiaries at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

5.6. MATERIAL ADVERSE CHANGE. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of the Borrower and its Subsidiaries has occurred since December 31, 1997.

5.7. TAXES. The Borrower and its Subsidiaries have filed or caused to be filed on a timely basis and in correct form all United States federal and applicable foreign, state and local tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Borrower or any Subsidiary, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with Agreement Accounting Principles and as to which no Lien exists. As of the date hereof, the United States income tax returns of the Borrower on a consolidated basis have been audited by the Internal Revenue Service through its fiscal period ending December 31, 1988, and all tax years beginning on or after January 1, 1989 are currently being audited or are subject to audit. No tax liens have been filed and no claims are being asserted with respect to any such taxes which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and

its Subsidiaries in respect of any taxes or other governmental charges are in accordance with Agreement Accounting Principles.

5.8. LITIGATION AND CONTINGENT OBLIGATIONS. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any Subsidiary or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. Neither the Borrower nor any Subsidiary has any material contingent obligations incurred outside of the ordinary course of its business except as set forth on SCHEDULE 5.8 hereto or disclosed in the Financial Statements or in financial statements required to be delivered under SECTIONS 6.1(a) and (b) or as otherwise disclosed by the Borrower in writing to the Lenders and as permitted under this Agreement.

5.9. CAPITALIZATION. SCHEDULE 5.9 hereto contains (a) an accurate description of the Borrower's capitalization as of September 30, 1998 and (b) an accurate list of all of the existing Subsidiaries as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of the Borrower and of each Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens. Neither the Borrower nor any of its Subsidiaries is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital stock or any convertible securities, rights or options relating to its capital stock except as otherwise set forth on SCHEDULE 5.9 or pursuant to management incentive plans implemented after the date of this Agreement.

5.10. ERISA. Except as disclosed on SCHEDULE 5.10, neither the Borrower nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability. Neither the Borrower nor any other member of the Controlled Group maintains, or is obligated to contribute to, any Multiemployer Plan or has incurred, or is reasonably expected to incur, any withdrawal liability to any Multiemployer Plan. Each Plan complies in all material respects with all applicable requirements of law and regulations other than any such failure to comply which could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any member of the Controlled Group has, with respect to any Plan, failed to make any contribution or pay any amount required under Section 412 of the Code or Section 302 of ERISA or the terms of such Plan. There are no pending or, to the knowledge of the Borrower, threatened claims, actions, investigations or lawsuits against any Plan, any fiduciary thereof, or the Borrower or any member of the Controlled Group with respect to a Plan. Neither the Borrower nor any member of the Controlled Group has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan which would subject such Person to any material liability. Within the last five (5) years neither the Borrower nor any member of the Controlled Group has engaged in a transaction which resulted in a Single Employer Plan with an Unfunded Liability being transferred out of the Controlled Group which could reasonably be expected to have a Material Adverse Effect. No Termination Event has occurred or is reasonably expected to occur with respect to any Plan which is subject to Title IV of ERISA which could reasonably be expected to have a Material Adverse Effect.

5.11. DEFAULTS. No Default or Unmatured Default has occurred and is continuing.

5.12. FEDERAL RESERVE REGULATIONS. Neither the Borrower nor any Subsidiary is engaged, directly or indirectly, principally, or as one of its important activities, in the business of extending, or arranging for the extension of, credit for the purpose of purchasing or carrying Margin Stock. No part of the proceeds of any Loan will be used in a manner which would violate, or result in a violation of, Regulation T, Regulation U or Regulation X. Neither the making of any Advance hereunder nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulation T, Regulation U or Regulation X.

5.13. INVESTMENT COMPANY. Neither the Borrower nor any Subsidiary is, or after giving effect to any Advance will be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

5.14. CERTAIN FEES. No broker's or finder's fee or commission was, is or will be payable by the Borrower or any Subsidiary with respect to any of the transactions contemplated by this Agreement, except as described in SECTION 9.5. The Borrower hereby agrees to indemnify the Agent and the Lenders against, and agrees that it will hold each of them harmless from, any claim,

demand or liability for broker's or finder's fees or commissions alleged to have been incurred by the Borrower in connection with any of the transactions contemplated by this Agreement and any expenses (including, without limitation, attorneys' fees and time charges of attorneys for the Agent or any Lender, which attorneys may be employees of the Agent or any Lender) arising in connection with any such claim, demand or liability. No other similar fee or commissions will be payable by the Borrower or any Subsidiary for any other services rendered to the Borrower or any Subsidiary ancillary to any of the transactions contemplated by this Agreement.

5.15. SOLVENCY. As of the date hereof, after giving effect to the consummation of the transactions contemplated by the Loan Documents and the payment of all fees, costs and expenses payable by the Borrower or its Subsidiaries with respect to the transactions contemplated by the Loan Documents and the Loans incurred by the Borrower under this Agreement, the Borrower on a consolidated basis is Solvent.

5.16. INDEBTEDNESS. Attached hereto as SCHEDULE 5.16 is a complete and correct list of all Indebtedness of the Borrower and its Subsidiaries (other than Unrestricted Subsidiaries) outstanding on the date of this Agreement (other than Indebtedness in a principal amount not exceeding \$500,000 for a single item of Indebtedness and \$2,000,000 in the aggregate for all such Indebtedness listed), showing the aggregate principal amount which was outstanding on such date after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date.

5.17. MATERIAL AGREEMENTS. Except as set forth in SCHEDULE 5.17 and except for agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries or agreements of any Unrestricted Subsidiary, neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect or which restricts or imposes

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conditions upon the ability of any Subsidiary to (a) pay dividends or make other distributions on its capital stock (b) make loans or advances to the Borrower, (c) repay loans or advances from Borrower or (d) grant Liens to the Agent to secure the Obligations. Neither the Borrower nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect.

5.18. ENVIRONMENTAL LAWS. There are no claims, investigations, litigation, administrative proceedings, notices, requests for information (each a "PROCEEDING"), whether pending or threatened, or judgments or orders asserting violations of applicable federal, state and local environmental, health and safety statutes, regulations, ordinances, codes, rules, orders, decrees, directives and standards ("ENVIRONMENTAL LAWS") or relating to any toxic or hazardous waste, substance or chemical or any pollutant, contaminant, chemical or other substance defined or regulated pursuant to any Environmental Law, including, without limitation, asbestos, petroleum, crude oil or any fraction thereof ("HAZARDOUS MATERIALS") asserted against the Borrower or any of its Subsidiaries other than in connection with an insurance policy issued in the ordinary course of business to any Person (other than the Borrower or any Subsidiary of the Borrower) which, in any case, could reasonably be expected to have a Material Adverse Effect. As of the date hereof, the Borrower and its Subsidiaries do not have liabilities exceeding \$500,000 in the aggregate for all of them with respect to compliance by them with applicable Environmental Laws or related to the generation, treatment, storage, disposal, release, investigation or cleanup by them of Hazardous Materials, and no facts or circumstances exist which could give rise to such liabilities with respect to compliance with applicable Environmental Laws and the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials.

5.19. INSURANCE. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance on their Property in such amounts and covering such risks as is consistent with sound business practice.

5.20. DISCLOSURE. No information, exhibit or report furnished by either Borrower or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially misleading. There is no fact known to the Borrower (other than matters of a general economic or political nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to the Lenders for use in connection with the transactions contemplated by this Agreement.

5.21. YEAR 2000. The Borrower has made a reasonable assessment of the Year 2000 Issues and has a realistic and achievable program for remediating the Year 2000 Issues on a timely basis (the "Year 2000 Program"). Based on such assessment and on the Year 2000 Program the Borrower does not reasonably

ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1. FINANCIAL REPORTING. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, consistently applied, and furnish to the Lenders:

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows.

(b) As soon as practicable and in any event within sixty (60) days after the close of each of the first three (3) Fiscal Quarters of each of its Fiscal Years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating statements of income, retained earnings and cash flows for the period from the beginning of such Fiscal Year to the end of such quarter, all certified by its chief financial officer.

(c) Together with the financial statements required by CLAUSES (a) and (b) above, a compliance certificate in substantially the form of EXHIBIT B hereto signed by its chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(d) Promptly after the same becomes available after the close of each Fiscal Year, a statement of the Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(e) As soon as possible and in any event within ten (10) days after the Borrower knows that any Termination Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Borrower, describing said Termination Event and the action which the Borrower proposes to take with respect thereto.

(f) As soon as possible and in any event within ten (10) days after receipt by either Borrower, a copy of (i) any notice, claim, complaint or order to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the

release by the Borrower or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a Release of Hazardous Materials into the environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law or Environmental Permit by the Borrower or any of its Subsidiaries. Within ten (10) days of the Borrower or any Subsidiary having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, the Borrower shall provide the Agent with written notice thereof.

(g) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished.

(h) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission.

(i) Promptly and in any event within ten (10) days after learning thereof, notification of (i) any tax assessment, demand, notice of proposed deficiency or notice of deficiency received by the Borrower or any other Consolidated Person or (ii) the filing of any tax Lien or commencement of any judicial proceeding by or against any such Consolidated Person, if any such assessment, demand, notice, Lien or judicial proceeding relates to tax liabilities in excess of ten percent (10%) of the net worth (determined according to generally accepted accounting standards and without reduction for any reserve for such

liabilities) of the Borrower and its Subsidiaries taken as a whole.

(j) Promptly after the same becomes available, any management letter prepared by the accountants conducting the audit of the financial statements delivered pursuant to SECTION 6.1 (a).

(k) As soon as possible and in any event within two (2) Business Days after the Borrower obtains knowledge thereof, notice of any change in the Applicable Credit Rating of S&P or Moody's.

(l) Such other information (including non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. USE OF PROCEEDS. The Borrower will, and will cause each Subsidiary to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower and its Subsidiaries, including, but not limited to, the making of Investments permitted by SECTION 6.15. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances in a manner which would violate, or result in a violation of, Regulation T, Regulation U or Regulation X, or to finance the Purchase of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

6.3. NOTICE OF DEFAULT. The Borrower will give prompt notice in writing to the Lenders of the occurrence of (a) any Default or Unmatured Default and (b) of any other event or

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development, financial or other, relating specifically to the Borrower or any of its Subsidiaries (and not of a general economic or political nature) which could reasonably be expected to have a Material Adverse Effect.

6.4. CONDUCT OF BUSINESS. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of business as it is presently conducted, to not conduct any significant business except for financial services, and to do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

6.5. TAXES. The Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with generally accepted accounting principles or statutory accounting practices, as applicable.

6.6. INSURANCE. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to the Agent and any Lender upon request full information as to the insurance carried.

6.7. COMPLIANCE WITH LAWS. The Borrower will, and will cause each Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, the failure to comply with which could reasonably be expected to have a Material Adverse Effect.

6.8. MAINTENANCE OF PROPERTIES. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

6.9. INSPECTION. The Borrower will, and will cause each Subsidiary to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate. The Borrower will keep or cause to be kept, and cause each Subsidiary to keep or cause to be kept, appropriate records and books of account in which complete entries

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are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles.

6.10. DIVIDENDS. The Borrower will not declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock) or redeem, repurchase or otherwise acquire or retire any of its capital stock or any options or other rights in respect thereof at any time outstanding, except that so long as no Default or Unmatured Default exists before or after giving effect to the declaration or payment of such dividends or distributions or repurchase or redemption of such stock or other transaction, the Borrower may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock and any options or other rights in respect thereof.

6.11. INDEBTEDNESS. The Borrower will not, nor will it permit any Subsidiary (other than an Unrestricted Subsidiary) to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and described in SCHEDULE 5.16 hereto (it being understood and agreed that Indebtedness in a principal amount not exceeding \$500,000 for a single item of Indebtedness and \$2,000,000 in the aggregate for all such Indebtedness listed shall be permitted to exist pursuant to this SECTION 6.11(b) notwithstanding the absence thereof on SCHEDULE 5.16) and any renewals, extensions, refundings or refinancings of such Indebtedness (including any necessary pre-payment premium payments on such Indebtedness); PROVIDED that the amount thereof is not increased and the maturity or scheduled amortization of principal thereof is not shortened (unless to a maturity or scheduled amortization occurring after the Maturity Date);

(c) Indebtedness owing by (x) the Borrower to any Wholly-Owned Subsidiary and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary or the Borrower;

(d) Indebtedness of Folksamerica and its Subsidiaries permitted under the Folksamerica Credit Agreement and Indebtedness of Valley and its Subsidiaries permitted under the Valley Credit Agreement;

(e) Indebtedness of the Borrower, the proceeds of which are used directly or indirectly to refund or refinance Indebtedness of Wholly-Owned Subsidiaries of the Borrower (other than any Unrestricted Subsidiaries); PROVIDED, however that the amount thereof is not increased, the maturity or scheduled amortization of principal thereof is not set to a maturity or scheduled amortization occurring before the Maturity Date hereunder and the terms of the proposed Indebtedness are not otherwise, in the reasonable judgment of the Required Lenders, disadvantageous (relative to the terms of the Indebtedness refunded or refinanced) to the interests of the Lenders hereunder;

(f) Indebtedness secured by Liens permitted pursuant to SECTION 6.14(f);

(g) Contingent Obligations permitted by SECTION 6.13; and

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(h) other Indebtedness, so long as such other Indebtedness does not at any time exceed \$10,000,000 in aggregate principal amount.

6.12. MERGER. The Borrower will not, nor will it permit any Significant Subsidiary to, merge or consolidate with or into any other Person, except that:

(a) a Wholly-Owned Subsidiary (other than any Unrestricted Subsidiary) may merge (i) into the Borrower, (ii) with any Wholly-Owned Subsidiary of the Borrower or (iii) with any other Person so long as no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and the surviving entity of such merger is the Borrower (in the case of CLAUSE (i)) or a Wholly-Owned Subsidiary of the Borrower (in the case of either CLAUSE (ii) or (iii));

(b) a Significant Subsidiary may merge or consolidate with any Person so long as either (x) (i) no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger or consolidation and (ii) such Significant Subsidiary is the continuing or surviving corporation or (y) neither the Borrower nor any Subsidiaries hold any capital stock of such Significant Subsidiary after giving effect to such merger or consolidation; and

(c) the Borrower may merge or consolidate with any other Person, so long as immediately thereafter (and after giving effect thereto), (i) no Default or Unmatured Default exists, (ii) the Borrower is the continuing or surviving corporation and (iii) the covenants contained in SECTION 6.20 shall be complied with on a PRO FORMA basis on the date of, and after giving effect to, such merger or consolidation.

6.13. CONTINGENT OBLIGATIONS. The Borrower will not, nor will it permit

any Subsidiary (other than an Unrestricted Subsidiary) to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (a) the issuance of financial guarantees in the ordinary course of business and consistent with past practices, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course of business, (d) the issuance of intercompany guarantees (other than for an Unrestricted Subsidiary, excluding Contingent Obligations regarding servicing arrangements) so long as the primary obligation is permitted pursuant to this Agreement, (e) Contingent Obligations which are permitted pursuant to the Folksamerica Credit Agreement and the Valley Credit Agreement and (f) the Contingent Obligations described on SCHEDULE 5.8.

6.14. LIENS. The Borrower will not, nor will it permit any Subsidiary to, create, incur, or suffer to exist any Lien in, of or on the Property (other than Margin Stock) of the Borrower or any of its Subsidiaries (other than an Unrestricted Subsidiary), except:

(a) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with generally accepted principles of accounting shall have been set aside on its books;

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(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment of obligations not more than sixty (60) days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

(c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or its Subsidiaries;

(e) Liens existing on the date hereof and described in SCHEDULE 6.14 hereto;

(f) Liens in, of or on Property acquired after the date of this Agreement (by purchase, construction or otherwise), each of which Liens either (1) existed on such Property before the time of its acquisition and was not created in anticipation thereof, or (2) was created solely for the purpose of securing Indebtedness representing, or incurred to finance, refinancing or refund, the cost (including the cost of construction) of such Property; PROVIDED that no such Lien shall extend to or cover any Property of the Borrower or such Subsidiary other than the Property so acquired and improvements thereon; and PROVIDED, FURTHER, that the principal amount of Indebtedness secured by any such Lien shall at the time the Lien is incurred not exceed 75% of the fair market value (as determined in good faith by a financial officer of the Borrower and, in the case of such Property having a fair market value in excess of \$500,000, certified by such officer to the Agent, with a copy for each Lender) of the Property at the time it was so acquired;

(g) Liens of Folksamerica and its Subsidiaries permitted under the Folksamerica Credit Agreement and Liens of Valley and its Subsidiaries permitted under the Valley Credit Agreement; and

(h) Liens not otherwise permitted by the foregoing clauses (a) through (g) securing any Indebtedness of the Borrower, PROVIDED that the aggregate principal amount of Indebtedness secured by Liens permitted by this CLAUSE (h) shall not exceed \$5,000,000 at any time.

6.15. INVESTMENTS AND PURCHASES. The Borrower will not, and will not permit any Subsidiary (other than any Unrestricted Subsidiary) to, make or suffer to exist any Investments (including, without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Purchases, except:

(a) Cash and Cash Equivalents;

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(b) Investments or commitments therefor (such commitments being set forth on SCHEDULE 6.15) in existence as of the date hereof (including

Investments in Subsidiaries as of the date hereof);

(c) Investments in debt securities rated BBB- or better by S&P, Baa-3 or better by Moody's or NAIC-2 or better by the NAIC; PROVIDED, that any such Investment which, at any time after which it is made, ceases to meet such rating requirements shall remain permitted hereby until thirty (30) days after the date on which such rating requirement is no longer met;

(d) Purchases of or Investments in businesses or entities engaged in the insurance business and/or insurance services or businesses reasonably incident thereto (including holding companies, the Subsidiaries of which on a consolidated basis are primarily engaged in such businesses) which do not constitute hostile takeovers (including the creation of Subsidiaries in connection therewith) so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Purchase or Investment;

(e) other Investments by the Borrower in any Person which is a Subsidiary (other than any Unrestricted Subsidiary) as of the date hereof, so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment;

(f) loans made by (x) the Borrower to any Wholly-Owned Subsidiary (other than any Unrestricted Subsidiary) and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary (other than any Unrestricted Subsidiary) or the Borrower so long as, in all cases, no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such loan;

(g) Investments by the Borrower (in addition to those permitted by CLAUSES (a) through (f) of this SECTION 6.15) in an amount not exceeding in aggregate at any time \$40,000,000 PLUS the FSA Amount (including the creation of Subsidiaries and Investments therein and Investments in any partnership or joint venture) so long as at the time of such Investment no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; PROVIDED, however, that any Investments pursuant to this CLAUSE (g) are made from net proceeds traceable to either (i) dividends, sales, transfers or other distributions of equity interests in SOMSC or (ii) the sale or issuance of equity securities of the Borrower after the date hereof;

(h) Investments by the Borrower (in addition to those permitted by the other clauses of this SECTION 6.15) in an amount not exceeding in aggregate at any time \$10,000,000 (including the creation of Subsidiaries and Investments therein and Investments in any partnership or joint venture) so long as at the time of any such Investment no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; and

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(i) other Investments by Folksamerica and its Subsidiaries permitted under the Folksamerica Credit Agreement and other Investments by Valley and its Subsidiaries permitted under the Valley Credit Agreement.

6.16. AFFILIATES. The Borrower will not, and will not permit any Subsidiary to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate (other than a Wholly-Owned Subsidiary), except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction, except that any Unrestricted Subsidiary may make loans to the Borrower.

6.17. ENVIRONMENTAL MATTERS. The Borrower shall and shall cause each of its Subsidiaries to (a) at all times comply in all material respects with all applicable Environmental Laws and (b) promptly take any and all necessary remedial actions in response to the presence, storage, use, disposal, transportation or Release of any Hazardous Materials on, under or about any real property owned, leased or operated by the Borrower or any of its Subsidiaries.

6.18. CHANGE IN CORPORATE STRUCTURE; FISCAL YEAR. The Borrower shall not, nor shall it permit any Subsidiary to, (a) permit any amendment or modification to be made to its certificate or articles of incorporation or by-laws which is materially adverse to the interests of the Lenders or (b) change its Fiscal Year to end on any date other than December 31 of each year.

6.19. INCONSISTENT AGREEMENTS. The Borrower shall not, nor shall it permit any Subsidiary (other than an Unrestricted Subsidiary) to, enter into any indenture, agreement, instrument or other arrangement which by its terms, (a) other than pursuant to the Folksamerica Credit Agreement or the Valley Credit Agreement or pursuant to agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, directly or indirectly

contractually prohibits or restrains, or has the effect of contractually prohibiting or restraining, or contractually imposes materially adverse conditions upon, the incurrence of the Obligations, the granting of Liens to secure the Obligations, the amending of the Loan Documents or the ability of any Subsidiary to (i) pay dividends or make other distributions on its capital stock, (ii) make loans or advances to the Borrower or (iii) repay loans or advances from the Borrower or (b) contains any provision which would be violated or breached by the making of Advances or by the performance by the Borrower or any Subsidiary of any of its obligations under any Loan Document.

6.20. FINANCIAL COVENANTS.

6.20.1 MINIMUM NET WORTH. The Borrower shall, at all times after the date hereof, maintain a minimum Net Worth at least equal to (a) the sum of (i) \$514,530,000, PLUS (ii) an amount equal to 90% of the cash and non-cash proceeds of any equity securities issued by the Borrower after September 30, 1998, MINUS (b) an amount equal to the lesser of (i) \$30,000,000 or (ii) the aggregate amount expended by the Borrower after September 30, 1998 to repurchase its capital stock in compliance with SECTION 6.10.

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6.20.2 MAXIMUM LEVERAGE RATIO. The Borrower shall, at all times after the date hereof, maintain a Leverage Ratio of not greater than 35%.

6.20.3 FINANCE ASSETS RATIO. The Borrower shall, at all times after the date hereof when Loans are outstanding and the aggregate sum of cash and Cash Equivalents of the Borrower and its Subsidiaries (excluding any Insurance Subsidiaries, Folksamerica, Valley and SOMSC) at such time is less than the aggregate outstanding principal amount of Advances at such time, maintain a Finance Assets Ratio of not less than 1.5:1.0.

6.21. TAX CONSOLIDATION. The Borrower will not and will not permit any of its Subsidiaries to (a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than the Borrower and its Subsidiaries or (b) amend, terminate or fail to enforce any existing tax sharing agreement or similar arrangement if such action would cause a Material Adverse Effect.

6.22. ERISA COMPLIANCE.

With respect to any Plan, neither the Borrower nor any Subsidiary shall:

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the Code in excess of \$500,000 could be imposed;

(b) incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) in excess of \$500,000, whether or not waived, or permit any Unfunded Liability to exceed \$500,000;

(c) permit the occurrence of any Termination Event which could result in a liability to the Borrower or any other member of the Controlled Group in excess of \$500,000;

(d) be an "employer" (as such term is defined in Section 3(5) of ERISA) required to contribute to any Multiemployer Plan or a "substantial employer" (as such term is defined in Section 4001(a)(2) of ERISA) required to contribute to any Multiple Employer Plan; or

(e) permit the establishment or amendment of any Plan or fail to comply with the applicable provisions of ERISA and the Code with respect to any Plan which could result in liability to the Borrower or any other member of the Controlled Group which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.23. YEAR 2000. The Borrower will take and will cause each of its Subsidiaries to take all such actions as are reasonably necessary to successfully implement the Year 2000 Program and to assure that Year 2000 Issues will not have a Material Adverse Effect. At the request of

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the Agent or any Lender, the Borrower will provide a description of the Year 2000 Program, together with any updates or progress reports with respect thereto.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Lenders or the Agent under or in connection with this Agreement, any other Loan Document, any Loan or any certificate or information delivered in connection with this Agreement shall be false in any material respect on the date as of which made.

7.2. Nonpayment of (a) any principal of any Note when due, or (b) any interest upon any Note or any commitment fee or other fee or obligations under any of the Loan Documents within five (5) days after the same becomes due.

7.3. The breach by the Borrower of any of the terms or provisions of SECTION 6.2, SECTION 6.3(a) or SECTIONS 6.10 through 6.16 or SECTIONS 6.18 through 6.22.

7.4. The breach by the Borrower (other than a breach which constitutes a Default under SECTIONS 7.1, 7.2 or 7.3) of any of the terms or provisions of this Agreement which is not remedied within twenty (20) days after written notice from the Agent or any Lender.

7.5. The default by the Borrower or any of its Subsidiaries in the performance of any term, provision or condition contained in any agreement or agreements under which any Funded Indebtedness aggregating in excess of \$10,000,000 (\$20,000,000, or such lower cross-default threshold amount as is provided in the SOMSC Credit Agreements, in the case of SOMSC) was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Funded Indebtedness to cause, such Funded Indebtedness to become due prior to its stated maturity; or any such Funded Indebtedness of the Borrower or any of its Subsidiaries shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof.

7.6. The Borrower or any of its Significant Subsidiaries shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial portion of its Property, (d) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy,

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insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (e) take any corporate action to authorize or effect any of the foregoing actions set forth in this SECTION 7.6, (f) fail to contest in good faith any appointment or proceeding described in SECTION 7.7 or (g) become unable to pay, not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.7. Without the application, approval or consent of the Borrower or any of its Significant Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its Significant Subsidiaries or any substantial portion of its Property, or a proceeding described in SECTION 7.6(d) shall be instituted against the Borrower or any of its Significant Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of sixty (60) consecutive days.

7.8. The Borrower or any of its Subsidiaries shall fail within thirty (30) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$2,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of \$10,000,000), which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced.

7.9. Any Change in Control shall occur.

7.10. The occurrence of any "default", as defined in any Loan Document (other than this Agreement or the Notes) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement or the Notes), which default or breach continues beyond any period of grace therein provided.

7.11. Any License of any Insurance Subsidiary (a) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced against such Insurance Subsidiary and shall not have been dismissed within thirty (30) days after the commencement thereof, (b) shall be suspended by such Governmental Authority for a period in excess of thirty (30) days or (c) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which, in any case, could reasonably be expected

to have a Material Adverse Effect.

7.12. Any Insurance Subsidiary shall be the subject of a final non-appealable order imposing a fine by or at the request of any state insurance regulatory agency as a result of the violation by such Insurance Subsidiary of such state's applicable insurance laws or the regulations promulgated in connection therewith which could reasonably be expected to have a Material Adverse Effect.

7.13. Any Insurance Subsidiary shall become subject to any conservation, rehabilitation or liquidation order, directive or mandate issued by any Governmental Authority or any Insurance Subsidiary shall become subject to any other directive or mandate issued by any Governmental Authority in either case which could reasonably be expected to have a Material Adverse Effect and which is not stayed within thirty (30) days.

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ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1. ACCELERATION. If any Default described in SECTIONS 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Lenders to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs, the Required Lenders (or the Agent with the consent of the Required Lenders) may terminate or suspend the obligations of the Lenders to make Loans hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

If, within ten (10) Business Days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans hereunder as a result of any Default (other than any Default as described in SECTIONS 7.6 or 7.7 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2. AMENDMENTS. Subject to the provisions of this ARTICLE VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; PROVIDED, HOWEVER, that no such supplemental agreement shall, without the consent of each Lender:

- (a) Extend the final maturity of any Loan or Note or reduce the principal amount thereof, or reduce the rate or, subject to SECTION 2.10, extend the time of payment of interest or fees thereon;
- (b) Reduce the percentage specified in the definition of Required Lenders;
- (c) Increase the amount of the Commitment of any Lender hereunder;
- (d) Extend the Revolver Termination Date or the Maturity Date;
- (e) Amend this SECTION 8.2; or
- (f) Permit any assignment by the Borrower of its Obligations or its rights hereunder.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent. The Agent may waive payment of the fee required under SECTION 12.3.2 without obtaining the consent of any other party to this Agreement.

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8.3. PRESERVATION OF RIGHTS. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to SECTION 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and

the Lenders until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1. SURVIVAL OF REPRESENTATIONS. All representations and warranties of the Borrower or any Subsidiary contained in any Loan Document shall survive delivery of the Notes and the making of the Loans herein contemplated.

9.2. GOVERNMENTAL REGULATION. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. TAXES. Any stamp, documentary or similar taxes, assessments or charges payable or ruled payable by any governmental authority in respect of the Loan Documents shall be paid by the Borrower, together with interest and penalties, if any.

9.4. HEADINGS. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5. ENTIRE AGREEMENT. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof other than the fee letter, dated January 5, 1999, in favor of First Chicago.

9.6. SEVERAL OBLIGATIONS; BENEFITS OF THIS AGREEMENT. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

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9.7. EXPENSES; INDEMNIFICATION. The Borrower shall reimburse the Agent for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, actual or proposed amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Agent and the Lenders for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Loan Documents. The Borrower further agrees to indemnify the Agent and each Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation thereof whether or not the Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder arising from claims or assertions by third parties except to the extent that they arise out of the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

9.8. NUMBERS OF DOCUMENTS. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. ACCOUNTING. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. NONLIABILITY OF LENDERS. The relationship between the Borrower and the Lenders and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection

with any phase of the Borrower's business or operations. The Borrower shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to the Borrower by the Agent or the Lenders is for the protection of the Agent and the Lenders and neither the Borrower nor any other Person is entitled to rely thereon. Whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither the Agent nor any Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection

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with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby or the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING, WITHOUT LIMITATION, 735 ILCS SECTION 105/5-1 ET SEQ, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS; PROVIDED, THAT SUCH PROCEEDINGS MAY BE BROUGHT IN OTHER COURTS IF JURISDICTION MAY NOT BE OBTAINED IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. DISCLOSURE. The Borrower and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time may hold other investments in, make other loans to or have other relationships with the Borrower, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to the Borrower or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of First Chicago or its

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Affiliates to the extent that such liability would not have arisen but for First Chicago's status as Agent hereunder.

9.16. COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent that it has taken such action.

9.17. TREATMENT OF CERTAIN INFORMATION: CONFIDENTIALITY.

(a) The Borrower acknowledges that (i) services may be offered or provided to it (in connection with this Agreement or otherwise) by each Lender or by one or more Subsidiaries or Affiliates of such Lender and (ii) information delivered to each Lender by the Borrower and its Subsidiaries may be provided to each such Subsidiary and Affiliate, it being understood that any such Subsidiary or Affiliate receiving such information shall be bound by the provisions of clause (b) below as if it were a Lender hereunder.

(b) Each Lender and the Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such

information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender as provided in clause (a) above, (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) agrees with the respective Lender to keep such information confidential on substantially the terms set forth in this SECTION 9.17(b), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of either Borrower or any of its Subsidiaries at any time during the continuance of a Default; PROVIDED that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by the Borrower.

ARTICLE X

THE AGENT

10.1. APPOINTMENT. First Chicago is hereby appointed Agent hereunder and under each other Loan Document, and each of the Lenders authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this ARTICLE X.

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The Agent shall not have a fiduciary relationship in respect of the Borrower or any Lender by reason of this Agreement or any other Loan Document.

10.2. POWERS. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder, except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. GENERAL IMMUNITY. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

10.4. NO RESPONSIBILITY FOR LOANS, RECITALS, ETC. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder, (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in ARTICLE IV, except receipt of items required to be delivered to the Agent and not waived at closing, or (d) the validity, effectiveness, sufficiency, enforceability or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. ACTION ON INSTRUCTIONS OF LENDERS. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders (or, to the extent required by SECTION 8.2, all Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. EMPLOYMENT OF AGENTS AND COUNSEL. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

10.7. RELIANCE ON DOCUMENTS; COUNSEL. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document

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believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. AGENT'S REIMBURSEMENT AND INDEMNIFICATION. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (a) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Loan Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents, and (c) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents; PROVIDED, that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this SECTION 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. NOTICE OF DEFAULT. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. RIGHTS AS A LENDER. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document as any Lender, including, without limitation, pursuant to ARTICLE XII hereof, and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. LENDER CREDIT DECISION. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

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10.12. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five (45) days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least \$250,000,000 and with a Lending Installation in the United States of America. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this ARTICLE X shall continue in effect for its benefit in

respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents.

10.13. DOCUMENTATION AGENT. Each of Fleet National Bank and First Union National Bank is hereby appointed Documentation Agent of the Lenders hereunder and under each Loan Document. Each of Fleet National Bank and First Union National Bank shall not have any duties, responsibilities or liabilities in its capacity as Documentation Agent.

10.14. CO-AGENT. Deutsche Bank AG is hereby appointed Co-Agent of the Lenders hereunder and under each Loan Document. Deutsche Bank AG shall not have any duties, responsibilities or liabilities in its capacity as Co-Agent.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. SETOFF. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

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11.2. RATABLE PAYMENTS. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to SECTIONS 2.17, 3.1, 3.2 or 3.4) in a greater proportion than its pro-rata share of such Loans, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrower to a Lender, other than Indebtedness evidenced by any of the Notes held by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by such Notes.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. SUCCESSORS AND ASSIGNS. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (a) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents, and (b) any assignment by any Lender must be made in compliance with SECTION 12.3. Notwithstanding CLAUSE (b) of the preceding sentence, any Lender may at any time, without the consent of the Borrower or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; PROVIDED, HOWEVER, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with SECTION 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

12.2. PARTICIPATIONS.

12.2.1. PERMITTED PARTICIPANTS; EFFECT. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("PARTICIPANTS") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the

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Loan Documents, all amounts payable by the Borrower under this Agreement

shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2. VOTING RIGHTS. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which effects any of the modifications referenced in CLAUSES (a) through (f) of SECTION 8.2.

12.2.3. BENEFIT OF SETOFF. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in SECTION 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents; PROVIDED, that each Lender shall retain the right of setoff provided in SECTION 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in SECTION 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with SECTION 11.2 as if each Participant were a Lender.

12.3. ASSIGNMENTS.

12.3.1. PERMITTED ASSIGNMENTS. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities, excluding the Borrower or an Affiliate thereof, ("PURCHASERS") all or any part of its rights and obligations under the Loan Documents; provided, however, that in the case of an assignment to an entity which is not a Lender or an Affiliate of a Lender, such assignment shall be in a minimum amount of \$5,000,000 (or, if less, the entire amount of such Lender's Commitment). Such assignment shall be substantially in the form of EXHIBIT C hereto or in such other form as may be agreed to by the parties thereto. The consent of the Borrower and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof; PROVIDED, HOWEVER, that if a Default has occurred and is continuing, the consent of the Borrower shall not be required. Such consent shall not be unreasonably withheld or delayed.

12.3.2. EFFECT; EFFECTIVE DATE. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to EXHIBIT C hereto (a "NOTICE OF ASSIGNMENT"), together with any consents required by SECTION 12.3.1, and (b) payment of a \$3,500 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. On and after the effective date of such assignment, (a) such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and (b) the transferor Lender shall be released with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser without any further consent or

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action by the Borrower, the Lenders or the Agent. Upon the consummation of any assignment to a Purchaser pursuant to this SECTION 12.3.2, the transferor Lender, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

12.4. DISSEMINATION OF INFORMATION. Subject to SECTION 9.17, the Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "TRANSFeree") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries.

12.5. TAX TREATMENT. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of SECTION 2.17.

ARTICLE XIII

NOTICES

13.1. GIVING NOTICE. All notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing, by facsimile, first class U.S. mail or overnight courier and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party

in a notice to the other parties. Any notice, if mailed and properly addressed with first class postage prepaid, return receipt requested, shall be deemed given three (3) Business Days after deposit in the U.S. mail; any notice, if transmitted by facsimile, shall be deemed given when transmitted; and any notice given by overnight courier shall be deemed given when received by the addressee.

13.2. CHANGE OF ADDRESS. The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

[signature pages to follow]

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IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
 Hanover, New Hampshire 03755
 Attn: Reid T. Campbell
 Vice President and
 Director of Finance
 Fax No.: (603) 640-2203
 Tel. No.: (603) 643-4562

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PRICING SCHEDULE

 APPLICABLE EURODOLLAR MARGIN
 (AS A PER ANNUM RATE)

LEVEL -----	APPLICABLE EURODOLLAR MARGIN (BASED ON PERCENT USAGE)	
	Less than 66 2/3%	Greater than 66 2/3%
Level I	0.300%	0.550%
Level II	0.375%	0.625%
Level III	0.475%	0.725%
Level IV	0.800%	1.050%

 APPLICABLE FACILITY FEE MARGIN
 (AS A PER ANNUM RATE)

LEVEL -----	APPLICABLE FACILITY FEE MARGIN -----
Level I	0.100%
Level II	0.125%
Level III	0.150%
Level IV	0.200%

For the purposes of this Schedule, the following terms have the following meanings:

"Applicable Credit Rating" shall mean the highest rating level assigned by S&P or Moody's, as the case may be, to any long-term senior debt of the Borrower which ranks on parity, as to payment and security, with the Loans and the obligations of the Borrower under this Agreement.

"Level" means, and includes, Level I, Level II, Level III or Level IV, whichever is in effect at the relevant time.

"Level I" shall exist at any time the Applicable Credit Rating of S&P is equal to or greater than BBB+ OR the Applicable Credit Rating of Moody's is equal to or greater than Baa1.

"Level II" shall exist at any time (a) the Applicable Credit Rating of S&P is equal to or greater than BBB OR the Applicable Credit Rating of Moody's is equal to or greater than Baa2 and (b) Level I does not exist.

"Level III" shall exist at any time the Applicable Credit Rating of S&P is BBB- AND the Applicable Credit Rating of Moody's is Baa3.

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"Level IV" shall exist at any time the Applicable Credit Rating of S&P is less than BBB- OR the Applicable Credit Rating of Moody's is less than Baa3 OR at any time neither S&P nor Moody's assigns an Applicable Credit Rating.

"Percent Usage" shall mean at any time the percentage equal to the aggregate outstanding principal amount of the Loans to the Aggregate Commitment (or, on and after the Revolver Termination Date, the Percent Usage shall be the percentage equal to the percentage determined on the Revolver Termination Date).

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AMENDMENT NO. 1 TO CREDIT AGREEMENT AND WAIVER

This Amendment and Waiver (this "Amendment") is entered into as of March 23, 1999 by and among Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Borrower"), The First National Bank of Chicago, individually and as agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

RECITALS

A. The Borrower, the Agent and the Lenders are party to that certain \$35,000,000 Second Amended and Restated Credit Agreement dated as of February 24, 1999 (the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Agent and the undersigned Lenders wish to amend the Credit Agreement and waive certain provisions thereof on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. The Credit Agreement shall be amended as follows:

(a) SCHEDULE 5.8 Upon the Effective Date (as defined below), Schedule 5.8 shall be amended in its entirety and replaced with Schedule 5.8 attached hereto.

(b) SCHEDULE 5.10 Effective as of February 24, 1999, Schedule 5.10, is amended in its entirety and replaced with Schedule 5.10 attached hereto.

(c) SCHEDULE 5.16 Upon the Effective Date, Schedule 5.16 shall be amended in its entirety and replaced with Schedule 5.16 attached hereto.

(d) SECTION 6.15(e) Upon the Effective Date, Section 6.15(e) shall be amended in its entirety and replaced with the following:

"(e) other Investments by the Borrower in any Person which is a Subsidiary as of the date hereof, so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; PROVIDED, however, that the aggregate amount of Investments in SOMSC pursuant to this CLAUSE (e) after December 31, 1998 (when taken together with the aggregate amount of loans made to SOMSC pursuant to SECTION 6.15(f) after December 31, 1998) do not exceed the amount of net proceeds received from dividends, transfers, loans or other distributions from SOMSC after December 31, 1998

(less the aggregate amount of Investments made by the Borrower under SECTION 6.15(g) after December 31, 1998 to the extent such Investments under SECTION 6.15(g) are made from net proceeds traceable to dividends, sales, transfers or other distributions of equity interests in SOMSC after December 31, 1998 and are not held by SOMSC or SOMSC's Subsidiaries;"

(e) SECTION 6.15(f) Upon the Effective Date, Section 6.15(f) shall be amended in its entirety and replaced with the following:

"(f) loans made by (x) the Borrower to any Wholly-Owned Subsidiary and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary or the Borrower so long as, in all cases, no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such loan; PROVIDED, however, that the aggregate amount of loans to SOMSC pursuant to this CLAUSE (f) after December 31, 1998 (when taken together with the aggregate amount of Investments made in SOMSC pursuant to SECTION 6.15(e) after December 31, 1998) do not exceed the amount of net proceeds received from dividends, transfers, loans or other distributions from SOMSC after December 31, 1998 (less the aggregate amount of Investments made by the Borrower under SECTION 6.15(g) after December 31, 1998 to the extent such Investments under SECTION 6.15(g) are made from net proceeds traceable to dividends, sales, transfers or other distributions of equity interests in SOMSC after December 31, 1998 and are not held by SOMSC or SOMSC's Subsidiaries;"

2. CONSENT AND WAIVER. The Lenders hereby (a) waive any breach of SECTION 6.4 of the Credit Agreement arising solely out of the sale by the

Borrower's Subsidiary, Source One Mortgage Services Corporation ("SOMSC"), of substantially all of its business pursuant to that certain Asset Purchase Agreement by and among SOMSC, the Borrower and Citicorp Mortgage, Inc., dated as of March 23, 1999 (as it may be amended or otherwise modified, the "Purchase Agreement"), and the resulting failure of such Subsidiary to carry on and conduct its business in substantially the same manner and in substantially the same fields of business as it conducted on February 24, 1999, (b) waive any breach of SECTION 6.22(b) of the Credit Agreement to and including July 31, 1999 arising solely out of the Unfunded Liability of certain Subsidiaries of the Borrower exceeding \$500,000 as disclosed on SCHEDULE 5.10 attached hereto (the "Excess Unfunded Liability") and (c) waive any Default or Unmatured Default under SECTIONS 7.1, 7.3, 7.4 and 7.5 of the Credit Agreement which has heretofore arisen as a result of the Purchase Agreement, the Contingent Obligations of the Borrower related thereto, any Funded Indebtedness of SOMSC which shall be declared to be due and payable or required to be repaid (other than by a regularly scheduled payment) prior to its stated maturity resulting from consummation of the Purchase Agreement, or the Excess Unfunded Liability.

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3. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants that:

(a) The execution, delivery and performance by the Borrower of this Amendment has been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

4. EFFECTIVE DATE. This Amendment shall become effective upon the execution and delivery hereof by the Borrower, the Agent and the Required Lenders (without respect to whether it has been executed and delivered by all the Lenders); provided that SECTIONS 1 and 2 hereof shall not become effective until the date (the "Effective Date") when the following additional conditions have also been satisfied:

(a) delivery of a copy, certified by the Secretary or Assistant Secretary of the Borrower, of the fully executed Purchase Agreement with all schedules (as may be requested by the Agent) and amendments thereto;

(b) a certificate, executed by the Secretary or Assistant Secretary of the Borrower, certifying the consummation of the transactions contemplated by the Purchase Agreement on the "Closing Date" (as defined in the Purchase Agreement);

(c) a certificate, executed by the Secretary or Assistant Secretary of the Borrower, certifying (i) an attached copy of the Borrower's Board of Directors' resolutions authorizing its execution, delivery and performance under the Purchase Agreement and (ii) that there has been no amendments, supplements or modifications to the Articles of Incorporation, Bylaws or certificate of incumbency delivered to the Agent on February 24, 1999;

(d) evidence satisfactory to the Agent that all credit arrangements of SOMSC and its Subsidiaries related to Funded Indebtedness of SOMSC and its Subsidiaries have been either (i) terminated and all Indebtedness, liabilities and obligations outstanding thereunder shall have been paid in full and all liens thereunder released or (ii) assumed by Citicorp Mortgage, Inc. pursuant to the Purchase Agreement; and

(e) such other documents as the Agent, any Lender or their counsel may have reasonably requested.

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In the event the Effective Date has not occurred on or before June 30, 1999, SECTIONS 1(a), (b), (d) AND (e) and 2 hereof shall not become operative and shall be of no force or effect.

5. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

6. COSTS AND EXPENSES. The Borrower hereby affirms its obligations under Section 9.7 of the Credit Agreement to reimburse the Agent for all reasonable costs, internal charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.

7. CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING, WITHOUT LIMITATION, 735 ILCS SECTION 105/5-1 ET SEQ, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

8. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

9. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

By: _____

Name: _____

Title: _____

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THE FIRST NATIONAL BANK OF CHICAGO,
Individually and as Agent

By: _____

Print Name: _____

Title: _____

Address: 153 West 51st Street
New York, NY 10019
Attn: Samuel W. Bridges
First Vice President

Fax No.: (212) 373-1393
Tel. No.: (212) 373-1142

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FLEET NATIONAL BANK

By: _____

Print Name: _____

Title: _____

Address: One Federal Street-MAOFD06H
Boston, MA 02110-2010
Attn: David A. Bosselait
Vice President

Fax No.: (617) 346-5825
Tel. No.: (617) 346-5823

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FIRST UNION NATIONAL BANK

By: _____

Print Name: _____

Title: _____

Address: 1339 Chestnut Street, PA4819
Philadelphia, PA 19101-4819
Attn: Joseph DiFrancesco

Fax No.: 215-786-4114
Tel. No.: 215-973-2944

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DEUTSCHE BANK AG,
New York and/or Cayman Islands Branch

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Address: 31 West 52nd Street
New York, NY 10019
Attn: George Korchowsky

Fax No.: 212-469-8366
Tel. No.: 212-469-8242

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ABN AMRO BANK N.V.

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Address: 500 Park Avenue
New York, NY 10022
Attn: Bruce Ballentine

Fax No.: 212-446-4335

Fund American Enterprises Holdings, Inc.
Schedule 5.8
To Credit Agreement

MATERIAL CONTINGENT OBLIGATIONS

Guaranty by Fund American Enterprises Holdings, Inc. (the "Company") of a \$15,000,000 term loan, dated as of October 23, 1995, by and between John J. Byrne, as borrower, and First National Bank of Chicago, as agent. The term loan is due December 31, 1999. The guaranty is provided pursuant to Mr. Byrne's employment contract and is recourse to Mr. Byrne's net worth.

Guaranty dated February 28, 1997, in connection with Source One Mortgage Services Corporation's ("Source One") February 28, 1997 sale of approximately \$17.0 billion of mortgage servicing rights to Chemical Mortgage Company ("Chemical") whereby the company made certain collection, payment and performance guarantees to Chemical for a period of no more than ten years. The aggregate amount of the Company's obligation is initially limited to \$20,000,000 and amortizes down to \$15,000,000 as mortgage loans serviced under the related servicing agreements are repaid. During 1998, the Company permitted Chemical to include an

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additional \$2.9 billion of mortgage servicing rights that it purchased from Source One during 1998 to be included in the guaranty, however, the inclusion of the 1998 servicing rights sold did not serve to change the maximum amount of the guaranty or the original term of the guaranty.

Stock Purchase Agreement dated as of October 19, 1998 by and between the Company, Valley Insurance Company ("VIC") and Executive Risk Indemnity Inc. ("ERII") providing for the sale of all the outstanding capital stock of Valley National Insurance Company ("VNIC") to ERII following the reinsurance cession of all the insurance business of VNIC to VIC and Charter Indemnity Company ("CIC") (the "VNIC Sale Agreement"). In conjunction with the VNIC Sale Agreement, the Company and ERII entered into a Keep Well Agreement dated as of October 19, 1998 whereby the Company has agreed to maintain the shareholder's equity of Valley Group, Inc. ("VGI") at predetermined levels (initially set at \$60,000,000). In conjunction with the VGI Sale Agreement (as defined below), The Company and VIC intend to amend the VNIC Sale Agreement and Keep Well Agreement prior to closing to, among other items, remove the obligation to maintain the shareholder's equity of VGI at predetermined levels. The VNIC Sale Agreement and Keep Well Agreement are subject to the receipt of regulatory approval.

Stock Acquisition Agreement dated as of February 10, 1999 by and between the Company, and Unitrin, Inc. ("Unitrin") providing for the sale of all the outstanding capital stock of VGI to Unitrin (the "VGI Sale Agreement"). In conjunction with the VGI Sale Agreement the Company has agreed to guarantee the Closing Date Loss and Loss Adjustment Expense Reserves of VGI's insurance subsidiaries (the "Reserves") for a period of four years. The Company is obligated to pay Unitrin an amount equal to 90% of the amount by which the Reserves develop unfavorably to the extent that such unfavorable development exceeds \$500,000. Conversely, the Company is entitled to receive from Unitrin an amount equal to 90% of the amount by which the Reserves develop favorably to the extent that such favorable development exceeds \$500,000. The Company's exposure to the Reserves is limited to \$50,000,000. The VGI Sale Agreement is subject to the receipt of regulatory approval.

The Company has guaranteed the obligations of Source One (including but not limited to indemnity obligations) under that certain Asset Purchase Agreement dated as of March 23, 1999 by and among Source One as Seller, the Company as Parent and Citicorp Mortgage, Inc. as Purchaser. Such Asset Purchase Agreement provides for the sale by Source One to Citicorp Mortgage, Inc. of a significant portion of the assets and liabilities of Source One (other than the stock of Financial Security Assurance Holdings Ltd. held by Source One).

There is currently no litigation, arbitration, proceeding, inquiry or governmental investigation pending or threatened against or affecting the Borrower or any Subsidiary of the Borrower (outside of those in the ordinary course of the insurance and mortgage banking businesses) which could reasonably be expected to have a Material Adverse Effect upon the Borrower.

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Fund American Enterprises Holdings, Inc.
Schedule 5.16
To Credit Agreement

INDEBTEDNESS

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

Guaranty by Fund American Enterprises Holdings, Inc. (the "Company") of a \$15,000,000 term loan, dated as of October 23, 1995, by and between John J.

Byrne, as borrower, and First National Bank of Chicago, as agent. The term loan is due December 31, 1999. The guaranty is provided pursuant to Mr. Byrne's employment contract and is recourse to Mr. Byrne's net worth.

Guaranty dated February 28, 1997, in connection with Source One Mortgage Services Corporation's ("Source One") February 28, 1997 sale of approximately \$17.0 billion of mortgage servicing rights to Chemical Mortgage Company ("Chemical") whereby the company made certain collection, payment and performance guarantees to Chemical for a period of no more than ten years. The aggregate amount of the Company's obligation is initially limited to \$20,000,000 and amortizes down to \$15,000,000 as mortgage loans serviced under the related servicing agreements are repaid. During 1998, the Company permitted Chemical to include an additional \$2.9 billion of mortgage servicing rights that it purchased from Source One during 1998 to be included in the guaranty, however, the inclusion of the 1998 servicing rights sold did not serve to change the maximum amount of the guaranty or the original term of the guaranty.

Stock Purchase Agreement dated as of October 19, 1998 by and between the Company, Valley Insurance Company ("VIC") and Executive Risk Indemnity Inc. ("ERII") providing for the sale of all the outstanding capital stock of Valley National Insurance Company ("VNIC") to ERII following the reinsurance cession of all the insurance business of VNIC to VIC and Charter Indemnity Company ("CIC") (the "VNIC Sale Agreement"). In conjunction with the VNIC Sale Agreement, the Company and ERII entered into a Keep Well Agreement dated as of October 19, 1998 whereby the Company has agreed to maintain the shareholder's equity of Valley Group, Inc. ("VGI") at predetermined levels (initially set at \$60,000,000). In conjunction with the VGI Sale Agreement (as defined below), The Company and VIC intend to amend the VNIC Sale Agreement and Keep Well Agreement prior to closing to, among other items, remove the obligation to maintain the shareholder's equity of VGI at predetermined levels. The VNIC Sale Agreement and Keep Well Agreement are subject to the receipt of regulatory approval.

Stock Acquisition Agreement dated as of February 10, 1999 by and between the Company, and Unitrin, Inc. ("Unitrin") providing for the sale of all the outstanding capital stock of VGI to Unitrin (the "VGI Sale Agreement"). In conjunction with the VGI Sale Agreement the Company has agreed to guarantee the Closing Date Loss and Loss Adjustment Expense Reserves of VGI's insurance subsidiaries (the "Reserves") for a period of four years. The Company is obligated to pay Unitrin an amount equal to 90% of the amount by which the Reserves develop unfavorably to the extent that such unfavorable development exceeds \$500,000. Conversely, the Company is entitled to receive from Unitrin an amount equal to 90% of the amount by which the Reserves develop favorably to the extent that such favorable development exceeds \$500,000. The Company's exposure to the Reserves is limited to \$50,000,000. The VGI Sale Agreement is subject to the receipt of regulatory approval.

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The Company has guaranteed the obligations of Source One (including but not limited to indemnity obligations) under that certain Asset Purchase Agreement dated as of March 23, 1999 by and among Source One as Seller, the Company as Parent and Citicorp Mortgage, Inc. as Purchaser. Such Asset Purchase Agreement provides for the sale by Source One to Citicorp Mortgage, Inc. of a significant portion of the assets and liabilities of Source One (other than the stock of Financial Security Assurance Holdings Ltd. held by Source One).

FUND AMERICAN ENTERPRISES HOLDINGS, INC. (cont.)

Creditor	Various
Subject matter of debt/lease	Medium Term Notes
Date of note/lease	January 27, 1993
Unpaid principal balance	\$1,000,000
Maturity date	2003
Interest rate	7.86%
Date to which interest has been paid	November 1, 1998

Creditor	Various
Subject matter of debt/lease	Medium Term Notes
Date of note/lease	February 4, 1993
Unpaid principal balance	\$10,000,000
Maturity date	2008
Interest rate	7.8%
Date to which interest has been paid	November 1, 1998

Creditor	Various
Subject matter of debt/lease	Medium Term Notes
Date of note/lease	February 10, 1993
Unpaid principal balance	\$4,000,000
Maturity date	2000
Interest rate	7.39%
Date to which interest has been paid	November 1, 1998

Creditor	Various
----------	---------

Subject matter of debt/lease	Medium Term Notes
Date of note/lease	February 3, 1993
Unpaid principal balance	\$101,250,000
Maturity date	2003
Interest rate	7.75%
Date to which interest has been paid	February 1, 1999
Creditor(s)	AT&T Capital Corporation
Subject matter of debt	Telephone and video equipment
Date of note	Feb. 1, 1996
Original amount of note	\$174,038
Unpaid principal balance	\$53,271.10
Maturity date	Feb. 1999, Feb. 2001
Interest rate	n/a
Monthly payment	\$3,450.47
Date to which interest has been paid	n/a

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FOLKSAMERICA HOLDING COMPANY, INC.

Creditor	Swedbank
Subject matter of debt/lease	Financing
Date of note/lease	July 14, 1996 (date of refinancing)
Unpaid principal balance	\$55,553,118
Maturity date	2005*
Interest rate	LIBOR + .55%

* to be refinanced in conjunction with the Folksamerica Credit Agreement

Folksamerica has obtained two Letters of Credit in the amount of approximately \$7.4 million which inure to the benefit of Folksamerica Reinsurance Company as beneficiary as a result of unauthorized reinsurance and an intercompany tax sharing agreement in the ordinary course of business. Folksamerica Reinsurance Company has issued a Letter of Credit in the amount of approximately \$2.6 million in the ordinary course of its reinsurance business.

Folksamerica \$100,000,000 Credit Agreement, dated as of February 24, 1999, among Folksamerica, the lenders named therein and First Chicago, as agent.

VALLEY GROUP, INC.

Valley Group \$15,000,000 Third Amended and Restated Credit Agreement, dated as of February 24, 1999, among Valley Group, the lenders named therein and First Chicago, as agent.

VALLEY INSURANCE COMPANY

Creditor	IBM	IBM	IBM
Subject matter of debt/lease	IBM Equip.	IBM Equip.	IBM Equip.
	AS400/Model 530	AS400/Model 320	AS400/Model 320
Date of note/lease	10/01/97	03/01/96	03/01/96
Original amount of note	\$617,724.00	\$340,000.00	\$127,797.61
Unpaid principal balance	\$442,100.00	\$20,504.00	\$8,074.00
Maturity Date	Feb. 1, 2001	Mar. 1, 1999	Mar. 1, 1999
Interest Rate	4.51%	5.90%	8.19%
Monthly Payment	\$18,654.00	\$10,328.06	\$4,078.75
Date to which interest/lease has been paid	Dec. 31, 1998	Dec. 31, 1998	Dec. 31, 1998

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CHARTER GENERAL AGENCY, INC.

Creditor(s)	Skandia U.S. Holdings, Inc.
Subject matter of debt	Payable under the terms of the Stock Purchase Agreement Skandia U.S. Holdings, Inc.
Date of note	Sept. 30, 1996
Original amount of note	\$3,174,956
Unpaid principal balance	\$1,058,319
Maturity date	Sept. 30, 1999
Interest rate	6.5%

Monthly payment
Date to which interest
has been paid

\$1,058,319 due 9/30/99

Sept. 30, 1998

CHARTER GROUP, INC.

Creditor(s)	AT&T Capital Corporation
Subject matter of debt	IBM Equip. - Lease AS400
Date of note	June 1, 1998
Original amount of note	\$455,370
Unpaid principal balance	\$363,971
Maturity date	June 1, 2001
Interest rate	n/a
Monthly payment	\$14,373
Date to which interest has been paid	n/a

AMENDMENT NO. 2 TO CREDIT AGREEMENT AND WAIVER

This Amendment (this "Amendment") is entered into as of July 30, 1999 by and among White Mountains Insurance Group, Inc., a Delaware corporation, formerly known as Fund American Enterprises Holdings, Inc., (the "Borrower"), The First National Bank of Chicago, individually and as agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

RECITALS

A. The Borrower, the Agent and the Lenders are party to that certain \$35,000,000 Second Amended and Restated Credit Agreement dated as of February 24, 1999 (as amended, the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Agent and the undersigned Lenders wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. Upon the Effective Date (as defined below), the Credit Agreement shall be amended as follows:

(a) ARTICLE I is amended by deleting the definitions of "Borrower" and "Unfunded Liability" and replacing each in its entirety to read as follows:

"`Borrower' means White Mountains Insurance Group, Inc., a Delaware corporation, formerly known as Fund American Enterprises Holdings, Inc., and its successors and assigns"

"`Unfunded Liability' means the amount (if any) by which the present value of all vested and unvested accrued benefits under a Single Employer Plan exceeds the fair market value of assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans and valued on a basis consistent with that used to prepare the Borrower's annual audited financial statements."

(b) SECTION 5.10 is amended by deleting the first sentence in such section and replacing it in its entirety to read as follows:

"Except as disclosed on SCHEDULE 5.10 or as otherwise disclosed by the Borrower in writing to the Lenders, neither the Borrower nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability."

(c) SECTION 6.22(b) is amended by deleting the second reference contained therein to the dollar amount of "\$500,000" and replacing it with a reference to the dollar amount of "\$1,000,000".

(d) SCHEDULE 5.10 is amended in its entirety and replaced with SCHEDULE 5.10 attached hereto.

2. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants that:

(a) The execution, delivery and performance by the Borrower of this Amendment has been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

3. EFFECTIVE DATE. This Amendment shall become effective upon the execution and delivery hereof by the Borrower, the Agent and the Required Lenders (without respect to whether it has been executed and delivered by all the Lenders); provided that SECTION 1 hereof shall not become effective until the date (the "Effective Date") when the following additional conditions have also been satisfied:

(a) a certificate, executed by the Secretary or Assistant Secretary of the Borrower, certifying (i) an attached copy of the Borrower's Board of Directors' resolutions authorizing and directing any changes to the Borrower's Articles of Incorporation to effect a change in its corporate name and (ii) that there have been no amendments, supplements or modifications to any of the Articles of Incorporation, Bylaws or certificate of incumbency of the Borrower delivered to the Agent on February 24, 1999, or attached copies of such amendments, supplements or modifications; and

(b) such other documents as the Agent, any Lender or their counsel may have reasonably requested.

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In the event the Effective Date has not occurred on or before July 31, 1999, SECTION 1 hereof shall not become operative and shall be of no force or effect.

4. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

5. COSTS AND EXPENSES. The Borrower hereby affirms its obligations under Section 9.7 of the Credit Agreement to reimburse the Agent for all reasonable costs, internal charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.

6. CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING, WITHOUT LIMITATION, 735 ILCS SECTION 105/5-1 ET SEQ, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

7. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

[signature pages to follow]

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

WHITE MOUNTAINS INSURANCE GROUP, INC.

By: _____

Name: _____

Title: _____

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THE FIRST NATIONAL BANK OF CHICAGO,
Individually and as Agent

By: _____

Print Name: _____

Title: -----

Address: 153 West 51st Street
New York, NY 10019
Attn: Samuel W. Bridges
First Vice President

Fax No.: (212) 373-1393
Tel. No.: (212) 373-1142

-5-

FLEET NATIONAL BANK

By: -----

Print Name: -----

Title: -----

Address: One Federal Street-MAOFD06H
Boston, MA 02110-2010
Attn: David A. Bosselait
Vice President

Fax No.: (617) 346-5825
Tel. No.: (617) 346-5823

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FIRST UNION NATIONAL BANK

By: -----

Print Name: -----

Title: -----

Address: 1339 Chestnut Street, PA4819
Philadelphia, PA 19101-4819
Attn: Joseph DiFrancesco

Fax No.: 215-786-4114
Tel. No.: 215-973-2944

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DEUTSCHE BANK AG,
New York and/or Cayman Islands Branch

By: -----

Print Name: -----

Title: -----

By: -----

Print Name: -----

Title: -----

Address: 31 West 52nd Street
New York, NY 10019
Attn: George Korchowsky

Fax No.: 212-469-8366
Tel. No.: 212-469-8242

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ABN AMRO BANK N.V.

By: -----

Print Name: -----

Title: -----

By: -----

Print Name: -----

Title: -----

Address: 500 Park Avenue
New York, NY 10022
Attn: Bruce Ballentine

Fax No.: 212-446-4335
Tel. No.: 212-446-4358

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AMENDMENT NO. 3 TO CREDIT AGREEMENT

This AMENDMENT NO. 3 TO CREDIT AGREEMENT (this "Amendment") is entered into as of October 29, 1999 by and among White Mountains Insurance Group, Ltd., a Bermuda company formerly an Arizona corporation and survivor of a merger with White Mountains Insurance Group, Inc., a Delaware corporation formerly known as Fund American Enterprises Holdings, Inc. (the "Borrower"), Bank One, NA (f/k/a The First National Bank of Chicago), individually and as agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

RECITALS

A. The Borrower, the Agent, the Lenders and ABN AMRO Bank, NA are party to that certain \$35,000,000 Second Amended and Restated Credit Agreement dated as of February 24, 1999 (as amended, the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Agent and the undersigned Lenders wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. Upon the Effective Date (as defined below), the Credit Agreement shall be amended as follows:

(a) ARTICLE I is amended as follows:

(i) by deleting the definitions of "Aggregate Commitment", "Alternate Base Rate", "Commitment", "Corporate Base Rate", "Documentation Agent", "Eurodollar Base Rate", "Lenders", "Maturity Date" and "Revolver Termination Date" and replacing each in its entirety to read as follows:

"`Aggregate Commitment' means the aggregate of the Commitments of all the Lenders hereunder. The Aggregate Commitment as of October 29, 1999 is \$50,000,000."

"`Alternate Base Rate' means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day, and (b) the sum of the Federal Funds Effective Rate for such day PLUS 1/2% per annum; PROVIDED, that "Alternate Base Rate" means, for any day for the period from November 15, 1999 to January 15, 2000, a rate of interest per annum equal to the highest of (i) the Corporate Base Rate for such day, (ii) the sum of the Federal Funds Effective

Rate for such day plus 1/2% per annum and (iii) the sum of the then current Federal Reserve Board Open Market Committee's "Target Fed Funds Rate" for such day plus 1 1/2% per annum plus the Applicable Eurodollar Margin, in each case changing when and as the Corporate Base Rate, the Federal Funds Effective Rate or the Target Fed Funds Rate, as the case may be, changes."

"`Commitment' means, for each Lender, the obligation of such Lender to make Loans not exceeding the amount set forth opposite its name on the Commitment Schedule and as set forth in any Notice of Assignment relating to any assignment which has become effective pursuant to SECTION 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof."

"`Corporate Base Rate' means a rate per annum equal to the corporate base rate or prime rate of interest announced by Bank One or by its parent, Bank One Corporation, from time to time, changing when and as said corporate base rate or prime rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate of interest actually charged to any customer. Bank One may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate."

"`Documentation Agent' means First Union National Bank, in its capacity as Documentation Agent for the Lenders pursuant to ARTICLE X, and not in its capacity as Lender."

"`Eurodollar Base Rate' means, with respect to a Eurodollar Advance for the relevant Interest Period, the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars appearing on Reuters Screen FRBD as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period,

PROVIDED that, (i) if Reuters Screen FRBD is not available to the Agent for any reason, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars as reported by any other generally recognized financial information service as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, and (ii) if no such British Bankers' Association Interest Settlement Rate is available to the Agent, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the rate determined by the Agent to be the rate at which Bank One or one of its Affiliate banks offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, in the approximate amount of Bank One's relevant Loan and having a maturity equal to such Interest Period."

"Lenders' means the lending institutions listed on the signature pages of Amendment No. 3 to Credit Agreement, dated as of October 29, 1999, and their respective successors and assigns."

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"Maturity Date' means April 27, 2001."

"Revolver Termination Date' means October 27, 2000."

(ii) by deleting the definition of "First Chicago" and replacing it in its entirety with the following definition of "Bank One" in its proper alphabetical order:

"Bank One' means Bank One, NA, a national banking association having its principal office in Chicago, Illinois, in its individual capacity, and its successors."

(iii) by adding the following definitions for "Commitment Schedule", "Medium Term Notes", "Medium Term Note Indenture", "merge", "Reorganization Conditions", "Reorganization Transactions", "Syndication Agent", "White Mountains-Arizona", "White Mountains-Bermuda", "White Mountains-Delaware", "WMSC" and "WMSC Obligations" each in its proper alphabetical order:

"Commitment Schedule' means the Schedule attached hereto identified as such."

"Medium Term Notes' means the securities issued by the Borrower under the Medium Term Note Indenture in the original aggregate principal amount of \$150,000,000, of which approximately \$100,385,000 remains outstanding as of October 29, 1999."

"Medium Term Note Indenture' means that certain indenture dated as January 1, 1993 between the Borrower, as issuer, and Bank One Trust Company, NA (f/k/a The First National Bank of Chicago), as trustee, as amended and supplemented from time to time."

"merge' means merge or amalgamate."

"Reorganization Conditions' means: (a) with respect to the transaction described in CLAUSE (b) of the definition of Reorganization Transactions, the Borrower shall have furnished to the Agent, with sufficient copies for the Lenders, the following documents, all of which shall be in form and substance reasonably satisfactory to the Lenders and their counsel: (i) the certificate of merger and all other merger documents, (ii) the articles of incorporation of the surviving entity, (iii) the bylaws of the surviving entity, (iv) a certificate of incumbency as to the Authorized Officers for the surviving entity, (v) an affirmation by the surviving entity of its Obligations under the Credit Agreement as successor to the Borrower, (vi) opinions of counsel as to such matters as the Agent may reasonably request and (vii) a certificate of compliance by the surviving entity as to the matters described in SECTIONS 6.12(c) (i) and (iii) of the Credit Agreement; and (b) with respect to the transaction described in CLAUSE (c) of the definition of Reorganization Transactions, the Borrower shall have

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furnished to the Agent, with sufficient copies for the Lenders, the following documents, all of which shall be in form and substance reasonably satisfactory to the Lenders and their counsel: (i) the memorandum of continuance filed with the Registrar of Companies in Bermuda and all other redomestication documents, (ii) the bye-laws of the continuing entity, (iii) a certificate of incumbency as to the Authorized Officers for the continuing entity, (iv) an affirmation by the continuing entity of its Obligations under the Credit Agreement as successor to the Borrower, (v) opinions of

counsel as to such matters as the Agent may reasonably request and (vi) a certificate of compliance by the continuing entity as to the matters described in SECTIONS 6.12(c) (i) and (iii) of the Credit Agreement."

"`Reorganization Transactions' means the Subsidiary formation, merger and change of domicile transactions, taken together, by which (a) White Mountains-Delaware has formed a Wholly-Owned Subsidiary, White Mountains Insurance Group (Arizona), Inc., (b) immediately preceding and for the purpose of consummating the transaction described in CLAUSE (c) below, White Mountains-Delaware merges with and into White Mountains-Arizona, which will be the surviving corporation in the merger, with each outstanding share of common stock of White Mountains-Delaware converted automatically into one share of common stock of White Mountains-Arizona, (c) White Mountains-Arizona is redomiciled and continues its existence as White Mountains-Bermuda upon registration of the memorandum of continuance by the Registrar of Companies in Bermuda, with each outstanding share of common stock of White Mountains-Arizona continuing automatically as one common share of White Mountains-Bermuda, (d) White Mountains forms a new subsidiary, White Mountains Properties (Barbados) SRL, a Barbados corporation (and Wholly-Owned Subsidiary of White Mountains-Delaware), and contributes all the shares of common stock of White Mountains Properties, Inc., a Delaware corporation and survivor of a merger with Fund American Enterprises, Inc., to such new subsidiary, after which White Mountains Properties (Barbados) SRL will merge White Mountains Properties, Inc. with and into Folksamerica with Folksamerica being the surviving entity and (e) White Mountains-Delaware forms a new Wholly-Owned Subsidiary, White Mountains Holdings (Barbados) SRL, a Barbados corporation, and contributes all the shares of common stock of White Mountains to such new subsidiary."

"`Syndication Agent' means Fleet National Bank, in its capacity as Syndication Agent for the Lenders pursuant to ARTICLE X, and not in its capacity as Lender."

"`White Mountains-Arizona' means White Mountains Insurance Group (Arizona), Inc., an Arizona corporation."

"`White Mountains-Bermuda' means White Mountains Insurance Group, Ltd., a Bermuda company, following the registration of the memorandum of continuance by White Mountains-Arizona with the Registrar of Companies in Bermuda."

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"`White Mountains-Delaware' means the Borrower prior to the consummation of the Reorganization Transactions."

"`WMSC' means White Mountains Services Corporation, a Delaware corporation formerly known as Source One Mortgage Services Corporation, and its successors and assigns."

"`WMSC Obligations' means, individually and collectively, the Letters of Credit, Liens and Contingent Obligations of the Borrower relating to the sale of WMSC in an aggregate principal amount outstanding at any one time not to exceed \$25,000,000."

(iv) by deleting the definitions for "Eligible FSA Securities", "FSA Amount", "SOMSC", "SOMSC Credit Agreement", "Unrestricted Subsidiary", "Valley", "Valley Credit Agreement" and "White Mountains Credit Agreement".

(b) Each reference therein to "First Chicago" is deemed amended to be a reference to "Bank One".

(c) Each reference therein to "Eligible FSA Securities", "FSA Amount", "SOMSC", "SOMSC Credit Agreement", "Unrestricted Subsidiary", "Valley", "Valley Credit Agreement" and "White Mountains Credit Agreement" is deemed deleted with appropriate grammatical amendments made therein.

(d) SECTION 3.1 is amended by inserting "(a)" before the body of text therein, replacing the subclause numbering of "(a)", "(b)" and "(c)" therein with "(i)", "(ii)" and "(iii)", respectively, and adding the following new subsection 3.1(b) as follows:

"(b) NON-U.S. RESERVE COSTS OR FEES WITH RESPECT TO LOANS TO NON-U.S. BORROWER. If any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive of any jurisdiction outside of the United States of America or any subdivision thereof (whether or not having the force of law), imposes or deems applicable any reserve requirement against or fee with respect to assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation, and the result of the foregoing is to increase the

cost to such Lender or applicable Lending Installation of making or maintaining its Loans to the Borrower at any time that the Borrower is not incorporated under the laws of the United States of America or a state thereof or its Commitment to the Borrower at any such time or to reduce the return received by such Lender or applicable Lending Installation in connection with such Loans to the Borrower or Commitment to the Borrower, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction in amount received, PROVIDED that the Borrower shall not be required to compensate any Lender for such non-U.S. reserve costs or fees to the extent that an amount equal to such reserve costs or fees is received by such Lender as a

-5-

result of the calculation of the interest rate applicable to Eurodollar Advances pursuant to clause (a)(ii) of the definition of 'Eurodollar Rate.'

(e) ARTICLE IV is amended by adding the following Section 4.3:

"4.3. ADVANCES FOLLOWING REORGANIZATION TRANSACTIONS. The Lenders shall not be required to make any Advance after the consummation of any of the Reorganization Transactions unless on the applicable Borrowing Date the applicable Reorganization Conditions have been satisfied."

(f) SECTION 6.4 is amended by adding the following at the end of such section:

"; PROVIDED, HOWEVER, that (a) subject to satisfaction of the applicable Reorganization Conditions, the Reorganization Transactions are approved by the Lenders hereunder and (b) any Wholly-Owned Subsidiary may discontinue its business pursuant to a merger permitted pursuant to SECTION 6.12 or discontinue its business where the recipient of any liquidating dividend is the Borrower or a Wholly-Owned Subsidiary of the Borrower."

(g) SECTION 6.8 is amended by adding the following at the end of such section:

"; PROVIDED, HOWEVER, that (a) subject to satisfaction of the applicable Reorganization Conditions, the Reorganization Transactions are approved by the Lenders hereunder and (b) any Wholly-Owned Subsidiary may discontinue its business pursuant to a merger permitted pursuant to SECTION 6.12 or discontinue its business where the recipient of any liquidating dividend is the Borrower or a Wholly-Owned Subsidiary of the Borrower."

(h) SECTION 6.11(d) is amended in its entirety and replaced with the following:

"(d) Indebtedness of Folksamerica and its Subsidiaries permitted under the Folksamerica Credit Agreement and Letters of Credit issued on behalf of the Borrower related to the WMSC Obligations;"

(i) SECTION 6.12(c) is amended in its entirety and replaced with the following:

"(c) the Borrower may merge or consolidate with any other Person, so long as immediately thereafter (and after giving effect thereto), (i) no Default or Unmatured Default exists, (ii) the Borrower is the continuing or surviving corporation (PROVIDED, HOWEVER, subject to satisfaction of the applicable Reorganization Conditions, the Borrower may consummate the merger pursuant to the Reorganization Transactions, so long as contemporaneously with each step the successor, continuing or surviving entity affirms its obligations hereunder pursuant to a writing in form and substance satisfactory to the Agent) and (iii) the

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covenants contained in SECTION 6.20 shall be complied with on a PRO FORMA basis on the date of, and after giving effect to, such merger or consolidation."

(j) SECTION 6.13(e) is amended in its entirety and replaced with the following:

"(e) Contingent Obligations which are permitted pursuant to the Folksamerica Credit Agreement and Contingent Obligations related to the WMSC Obligations and"

(k) SECTION 6.14(g) is amended in its entirety and replaced with the following:

"(g) Liens of Folksamerica and its Subsidiaries permitted under the Folksamerica Credit Agreement and Liens of the Borrower or any of its Subsidiaries related to the WMSC Obligations; and"

(l) SECTION 6.15(d) is amended by inserting on the first line after the word "entities" contained therein, the parenthetical phrase reading as follows:

"(including the creation of Wholly-Owned Subsidiaries)"

(m) SECTION 6.15(e) is amended in its entirety and replaced with the following:

"(e) other Investments by the Borrower in any Person which is a Subsidiary as of February 24, 1999, so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment;"

(n) SECTION 6.15(f) is amended in its entirety and replaced with the following:

"(f) loans made by (x) the Borrower to any Wholly-Owned Subsidiary and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary or the Borrower so long as, in all cases, no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such loan;"

(o) SECTION 6.15(g) is amended in its entirety and replaced with the following:

"(g) Investments by the Borrower (in addition to those permitted by the other clauses of this SECTION 6.15) in an amount not exceeding in the aggregate at any time \$25,000,000 (including the creation of Subsidiaries and Investments therein and Investments in any partnership or joint venture) so long as at the time of any such Investment no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; and"

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(p) SECTION 6.15(h) is amended in its entirety and replaced with the following:

"(h) other Investments by Folksamerica and its Subsidiaries permitted under the Folksamerica Credit Agreement."

(q) SECTION 6.15(i) is deleted in its entirety.

(r) SECTION 6.18 is amended by adding the following at the end of such section:

"; PROVIDED, HOWEVER that subject to satisfaction of the applicable Reorganization Conditions, the Reorganization Transactions are approved by the Lenders hereunder."

(s) SECTION 6.19(a) is amended by deleting the language "or the Valley Credit Agreement" therein.

(t) SECTION 6.20.3 is amended by deleting the parenthetical phrase contained therein and replacing it in its entirety with the following:

"(excluding any Insurance Subsidiaries and Folksamerica)"

(u) SECTION 6.21(a) is amended in its entirety and replaced with the following:

"(a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than the Borrower or its Wholly-Owned Subsidiaries or"

(v) SECTION 7.5 is amended in its entirety and replaced with the following:

"7.5. The default by the Borrower or any of its Subsidiaries in the performance of any term, provision or condition contained in any agreement or agreements under which any Funded Indebtedness aggregating in excess of \$10,000,000 was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Funded Indebtedness to cause, such Funded Indebtedness to become due prior to its stated maturity; or any such Funded Indebtedness of the Borrower or any of its Subsidiaries shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof; PROVIDED, HOWEVER, that in each case if any of the above described events arises with respect to the Medium Term

Notes or the Medium Term Notes Indenture and arises solely out of the Borrower's consummation of the Reorganization Transactions, a Default shall not occur unless the Borrower shall fail within ninety (90) days to pay in full any such Funded Indebtedness which has been declared to be due and payable or required

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to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof."

(w) SECTION 10.13 is amended in its entirety and replaced with the following:

"10.13 SYNDICATION AGENT AND DOCUMENTATION AGENT.

(a) Fleet National Bank is hereby appointed Syndication Agent of the Lenders hereunder and under each Loan Document. Fleet National Bank shall not have any duties, responsibilities or liabilities in its capacity as Syndication Agent.

(b) First Union National Bank is hereby appointed Documentation Agent of the Lenders hereunder and under each Loan Document. First Union National Bank shall not have any duties, responsibilities or liabilities in its capacity as Documentation Agent."

(x) The PRICING SCHEDULE is amended in its entirety and replaced with the PRICING SCHEDULE attached hereto.

(y) EXHIBIT C is amended in its entirety and replaced with EXHIBIT C attached hereto.

(z) The Credit Agreement is amended by adding the COMMITMENT SCHEDULE attached hereto.

2. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants that:

(a) The execution, delivery and performance by the Borrower of this Amendment has been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

3. EFFECTIVE DATE. This Amendment shall become effective upon the execution and delivery hereof by the Borrower, the Agent and each of the Lenders; provided that SECTION 1 hereof shall not become effective until the date (the "Effective Date") when the following additional conditions have also been satisfied:

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(a) a certificate, executed by the Secretary or Assistant Secretary of the Borrower, certifying (i) an attached copy of the Board of Directors' resolutions for White Mountains-Arizona and the Board of Directors' resolutions for White Mountains-Delaware authorizing the execution, delivery and performance under this Amendment and (ii) that there have been no amendments, supplements or modifications to any of the Articles of Incorporation, Bylaws or certificate of incumbency of White Mountains-Delaware delivered to the Agent on February 24, 1999, or attached copies of such amendments, supplements or modifications;

(b) Notes payable to the order of each of the Lenders in the amount of their respective increased Commitment duly executed by the Borrower;

(c) payment of all fees by the Borrower due to the Agent and the Lenders;

(d) ABN AMRO Bank, NA shall have consented to this Amendment and the reduction to \$0 of its commitment under the Credit Agreement, such consent to be in form and substance satisfactory to the Agent; and

(e) such other documents as the Agent or its counsel may have reasonably requested.

In the event the Effective Date has not occurred on or before November 15, 1999, SECTION 1 hereof shall not become operative and shall be of no force or effect.

4. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

5. COSTS AND EXPENSES. The Borrower hereby affirms its obligations under Section 9.7 of the Credit Agreement to reimburse the Agent for all reasonable costs, internal charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.

6. CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING, WITHOUT LIMITATION, 735 ILCS SECTION 105/5-1 ET SEQ, BUT OTHERWISE

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WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

7. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

[signature pages to follow]

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

WHITE MOUNTAINS INSURANCE GROUP, LTD.

By: _____

Name: _____

Title: _____

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BANK ONE, NA,
Individually and as Agent

By: _____

Print Name: _____

Title: _____

Address: One Bank One Plaza
Chicago, IL 60670
Attn: Samuel W. Bridges
First Vice President

Fax No.: (212) 373-1393
Tel. No.: (212) 373-1142

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FLEET NATIONAL BANK

By: _____

Print Name: _____

Title: _____

Address: One Federal Street-MAOFD06H
Boston, MA 02110-2010
Attn: David A. Bosselait
Vice President

Fax No.: (617) 346-5825
Tel. No.: (617) 346-5823

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FIRST UNION NATIONAL BANK

By: _____

Print Name: _____

Title: _____

Address: 1339 Chestnut Street, PA4819
Philadelphia, PA 19101-4819
Attn: Joseph DiFrancesco

Fax No.: 215-786-4114
Tel. No.: 215-973-2944

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DEUTSCHE BANK AG,
New York and/or Cayman Islands Branch

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Address: 31 West 52nd Street
New York, NY 10019
Attn: George Korchowsky

Fax No.: 212-469-8366
Tel. No.: 212-469-8242

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DRESDNER BANK AG, New York and
Grand Cayman Branches

By: _____

Print Name: _____

Title:

By: _____

Print Name: _____

Title: _____

Address: 75 Wall Street, 34th Floor
New York, NY 10005
Attn: George Ferguson

Fax No.: 212-429-2524
Tel. No.: 212-429-3189

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PRICING SCHEDULE

APPLICABLE EURODOLLAR MARGIN
(AS A PER ANNUM RATE)

APPLICABLE EURODOLLAR MARGIN
(BASED ON PERCENT USAGE)

LEVEL -----	-----	
	Less than 50%	Greater than or equal to 50%
Level I	0.625%	0.875%
Level II	0.725%	0.975%
Level III	0.825%	1.075%
Level IV	1.125%	1.375%

APPLICABLE FACILITY FEE MARGIN
(AS A PER ANNUM RATE)

LEVEL -----	APPLICABLE FACILITY FEE MARGIN -----
Level I	0.125%
Level II	0.150%
Level III	0.175%
Level IV	0.375%

For the purposes of this Schedule, the following terms have the following meanings:

"Applicable Credit Rating" shall mean the highest rating level assigned by S&P or Moody's, as the case may be, to any long-term senior debt of the Borrower which ranks on parity, as to payment and security, with the Loans and the obligations of the Borrower under this Agreement.

"Level" means, and includes, Level I, Level II, Level III or Level IV, whichever is in effect at the relevant time.

"Level I" shall exist at any time the Applicable Credit Rating of S&P is equal to or greater than BBB+ OR the Applicable Credit Rating of Moody's is equal to or greater than Baa1.

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"Level II" shall exist at any time (a) the Applicable Credit Rating of S&P is equal to or greater than BBB OR the Applicable Credit Rating of Moody's is equal to or greater than Baa2 and (b) Level I does not exist.

"Level III" shall exist at any time the Applicable Credit Rating of S&P is BBB- AND the Applicable Credit Rating of Moody's is Baa3.

"Level IV" shall exist at any time the Applicable Credit Rating of S&P is less than BBB- OR the Applicable Credit Rating of Moody's is less than Baa3 OR at any time neither S&P nor Moody's assigns an Applicable Credit Rating.

"Percent Usage" shall mean at any time the percentage equal to the aggregate outstanding principal amount of the Loans to the Aggregate Commitment (or, on and after the Revolver Termination Date, the Percent Usage shall be the percentage equal to the percentage determined on the Revolver Termination Date).

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COMMITMENT SCHEDULE

LENDER -----	COMMITMENT AMOUNT -----
Bank One, NA	\$ 14,000,000
Fleet National Bank	\$ 13,000,000
First Union National Bank	\$ 11,000,000
Deutsche Bank AG, New York and/or Cayman Islands Branch	\$ 7,000,000
Dresdner Bank AG, New York and Grand Cayman Branches	\$ 5,000,000 -----
AGGREGATE COMMITMENT	\$ 50,000,000

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\$100,000,000

CREDIT AGREEMENT

AMONG

FOLKSAMERICA HOLDING COMPANY, INC.,
AS BORROWER,

THE LENDERS NAMED HEREIN,
AS LENDERS,

THE FIRST NATIONAL BANK OF CHICAGO,
AS AGENT,

FLEET NATIONAL BANK,
AS DOCUMENTATION AGENT,

FIRST UNION NATIONAL BANK,
AS DOCUMENTATION AGENT,

AND

DEUTSCHE BANK AG,
AS CO-AGENT,

DATED AS OF
FEBRUARY 24, 1999

LEAD ARRANGER AND BOOK RUNNER

FIRST CHICAGO CAPITAL MARKETS, INC.

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EXHIBITS

- Exhibit A (Article I) - Form of Note
- Exhibit B (Section 4.2) - Form of Compliance Certificate
- Exhibit C (Section 12.3.1) - Form of Assignment Agreement
- Exhibit D (Section 4.1(xi)) - Form of Written Money Transfer Instructions

SCHEDULES

- Dividend Schedule
- Pricing Schedule
- Schedule 1.1 - Senior Management/Continuing Directors
- Schedule 5.3 - Approvals and Consents
- Schedule 5.8 - Material Contingent Obligations

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CREDIT AGREEMENT

This Credit Agreement, dated as of February 24, 1999, is among Folksamerica Holding Company, Inc., a New York corporation, the Lenders and The First National Bank of Chicago, as Agent.

R E C I T A L S:

A. The Borrower is party to a certain \$70,000,000 credit agreement between the Borrower and Swedbank (Sparbanken Sverige AB (publ)), New York Branch, dated as of November 12, 1991, as amended (the "Existing Credit Agreement");

B. The Borrower is party to a certain Purchase Agreement (as hereinafter defined), pursuant to which the Borrower has agreed to redeem \$30,000,000 of its capital stock from Fund American Enterprises, Inc., a Delaware corporation ("FAE");

C. The Borrower has requested the Lenders to make financial accommodations to it in the aggregate principal amount of \$100,000,000, the proceeds of which the Borrower will use (a) in part to repay approximately \$56,114,729 due under the Existing Credit Agreement, (b) in part to finance the cash payment to be made pursuant to the Purchase Agreement and (c) for the general corporate needs of the Borrower and its Subsidiaries; and

D. The Lenders are willing to extend such financial accommodations on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Lenders and the Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement:

"Account" is defined in the definition of Defeased.

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (a) acquires any going business or all or substantially all of the assets of any firm, corporation or limited liability company, or division thereof, whether through purchase or swap of assets, merger or otherwise or (b) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than

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securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding partnership interests of a partnership or membership interests of any limited liability company.

"Advance" means a borrowing hereunder, made by the Lenders on the same Borrowing Date, consisting of the aggregate amount of the several Loans of the same Type and, in the case of Eurodollar Loans, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 20% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agent" means The First National Bank of Chicago in its capacity for

administrative purposes as contractual representative of the Lenders pursuant to ARTICLE X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to ARTICLE X.

"Aggregate Available Commitment" means, at any time, (a) the Aggregate Commitment at such time LESS (b) the outstanding Facility Letter of Credit Obligations at such time.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders, as reduced from time to time pursuant to the terms hereof. The initial Aggregate Commitment is \$100,000,000.

"Agreement" means this credit agreement, as it may be amended, modified or restated and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time, applied in a manner consistent with that used in preparing the Financial Statements referred to in SECTION 5.5; PROVIDED, HOWEVER, that if any changes in accounting principles from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of generally accepted accounting principles in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to SECTION 5.5 hereof.

"Allowable Seller Paper" means Subordinated Indebtedness of the Borrower, in an amount described in the Borrower's audited consolidated financial statements, issued to a seller in connection with an Acquisition or Investment permitted by SECTION 6.14(a) (v) and on terms and conditions satisfactory to the Required Lenders, including (a) terms of subordination, (b)

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default provisions, (c) limitation on amortization of principal and payment of fees and cash interest until one year after the Loans have been paid in full and the Commitments hereunder terminated, (d) interest rates and (e) covenants; PROVIDED that if such Indebtedness has been Defeased, the condition set forth in CLAUSE (c) above shall not be applicable.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day and (b) the sum of the Federal Funds Effective Rate for such day PLUS 1/2% per annum.

"Annual Statement" means the annual statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing annual statutory financial statements and shall contain the type of information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Applicable Fee Rate" means, at any time, the percentage rate per annum at which Commitment Fees are accruing on the unused portion of the Aggregate Commitment at such time as set forth in the Pricing Schedule.

"Applicable Margin" means, with respect to Advances of any Type at any time, the percentage rate per annum which is applicable at such time with respect to Advances of such Type as set forth in the Pricing Schedule.

"Arranger" means First Chicago Capital Markets, Inc., a Delaware corporation, and its successors.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Authorized Officer" means any of the chief executive officer, president, chief financial officer, treasurer or controller of the Borrower, acting singly.

"Borrower" means Folksamerica Holding Company, Inc., a New York corporation, and its successors and assigns.

"Borrowing Date" means a date on which an Advance is made or a Facility Letter of Credit is issued hereunder.

"Borrowing Notice" is defined in SECTION 2.8.

"Business Day" means (a) with respect to any borrowing, payment or rate

selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago and New York for the conduct of substantially all of their commercial lending

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activities and on which dealings in United States dollars are carried on in the London interbank market and (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Cash Equivalents" means Investments maturing within one (1) year from the date of investment (in the case of Investments referenced in CLAUSES (a) through (e)) in (a) certificates of deposit, Eurodollar time deposits and other interest bearing deposits or accounts with United States commercial banks having a combined capital and surplus of at least \$500,000,000 and rated C or better by Keefe Bruyette and Associates or with any Lender, (b) certificates of deposit, other interest bearing accounts or deposits and demand deposits with other United States commercial banks, which deposits and accounts are in amounts fully insured by the Federal Deposit Insurance Corporation, (c) obligations issued or unconditionally guaranteed by the United States government or issued by an agency thereof and backed by the full faith and credit of the United States, (d) direct obligations issued by any state of the United States or any political subdivision thereof which have the highest rating obtainable from S&P on the date of investment, (e) commercial paper rated A-1 or better by S&P and P-1 or better by Moody's, (f) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a credit quality comparable to any of the Investments described in CLAUSES (a) through (e) above and a dollar weighted average maturity of not more than one (1) year, and for the calculation of this dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate and (g) money market mutual funds identified by the valuation office of the NAIC as requiring no investment reserve.

"Cash Flow" means an amount equal to the maximum amount of dividends available to be paid to the Borrower without approval of any Governmental Authority by each present and future Wholly-Owned Subsidiary of the Borrower that is a First-Tier Significant Insurance Subsidiary of the Borrower pursuant to applicable insurance statutes, rules and regulations of the applicable Governmental Authority during the succeeding four (4) Fiscal Quarters.

"Change" is defined in SECTION 3.2.

"Change in Control" means (a) Fund (or a successor to Fund satisfactory to the Required Lenders) shall cease to own directly or indirectly at least 51% of the fully diluted common equity

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of the Borrower, or (b) during any period of twelve (12) consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "CONTINUING DIRECTORS") who (i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower to constitute a majority of the board of directors of the Borrower; or (c) during any period of twelve (12) consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President or such title that ranks senior to a Senior Vice President (collectively, "Senior Management") of the Borrower or Folksamerica Reinsurance Company on the first day of each such period to constitute a majority of the combined Senior Management of the Borrower and Folksamerica Reinsurance Company. Senior Management and the Continuing Directors on the date of this Agreement are listed on SCHEDULE 1.1, hereto, such SCHEDULE 1.1 to be updated by the Borrower and delivered to the Agent within three (3) Business Days of any change in Senior Management or the Continuing Directors.

"Co-Agent" means Deutsche Bank AG, in its capacity as Co-Agent for the Lenders pursuant to ARTICLE X, and not in its individual capacity as a Lender.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or

otherwise modified from time to time.

"Commercial Letter of Credit" means a trade or commercial Facility Letter of Credit issued by the Issuer pursuant to SECTION 2.19 hereof.

"Commitment" means, for each Lender, the obligation of such Lender to make Loans and participate in Facility Letters of Credit not exceeding the amount set forth opposite its signature below or as set forth in any Notice of Assignment relating to any assignment that has become effective pursuant to SECTION 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof.

"Consolidated" or "consolidated", when used in connection with any calculation, means a calculation to be determined on a consolidated basis for a Person and its Subsidiaries in accordance with Agreement Accounting Principles.

"Consolidated Person" means, for the taxable year of reference, each Person which is a member of the affiliated group of the Borrower if Consolidated returns are or shall be filed for such affiliated group for federal income tax purposes or any combined or unitary group of which the Borrower is a member for state income tax purposes.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person

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against loss, including, without limitation, any comfort letter, operating agreement, take-or-pay contract, application for a Letter of Credit or the obligations of any such Person as general partner of a partnership with respect to the liabilities of the partnership, but excluding Contingent Obligations in respect of insurance policies and insurance contracts issued in the ordinary course of business.

"Controlled Group" means all members of a controlled group of corporations or other business entities and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Conversion/Continuation Notice" is defined in SECTION 2.9.

"Corporate Base Rate" means a rate per annum equal to the corporate base rate of interest announced by First Chicago from time to time, changing when and as said corporate base rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate of interest actually charged to any customer. First Chicago may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate.

"Default" means an event described in ARTICLE VII.

"Defeased" means, with respect to any Indebtedness of the Borrower, that such Indebtedness is subject to an arrangement which is in all respects (including, without limitation, the related documentation and the amount and maturity of Cash Equivalents involved) satisfactory to the Required Lenders whereby an amount of Cash Equivalents described in CLAUSE (c) of the definition thereof (but regardless of maturity thereof) sufficient to repay such Indebtedness and related interest is deposited in an account (the "Account") with First Chicago which is pledged to the Agent to secure the Obligations pursuant to documentation reasonably satisfactory to the Agent, which documentation shall irrevocably direct the Agent (a) to apply amounts from the Account to pay principal and interest on such Indebtedness as it comes due, (b) to release such funds or a portion thereof to the Borrower upon the direction of the Borrower and subject to the Agent's determination that the Borrower's audited consolidated financial statements evidence a reduction in the amount of such Indebtedness equal to or greater than such funds so released or (c) to apply amounts from the Account to repay Advances and reduce the Aggregate Commitment by the amount of such repayment pursuant to SECTION 2.5.4 upon the earlier of (i) direction of the Borrower or (ii) the acceleration of the Obligations. "Defeasing" and "Defeasement" shall have correlative meanings.

"Dividend Schedule" means the Schedule attached hereto identified as such.

"Documentation Agent" means each of Fleet National Bank and First Union National Bank, each in its capacity as a Documentation Agent for the Lenders pursuant to ARTICLE X, and not in its capacity as Lender.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules,

permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to (i) the protection of the environment, (ii) the effect of the environment on human health, (iii) emissions, discharges or releases of pollutants, contaminants, hazardous substances or wastes into surface water, ground water or land, or (iv) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, hazardous substances or wastes or the clean-up or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

"Eurodollar Advance" means an Advance which, except as otherwise provided in SECTION 2.11, bears interest at the applicable Eurodollar Rate.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the rate determined by the Agent to be the rate at which First Chicago offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two (2) Business Days prior to the first day of such Interest Period, in the approximate amount of First Chicago's relevant Eurodollar Loan and having a maturity approximately equal to such Interest Period.

"Eurodollar Loan" means a Loan which, except as otherwise provided in SECTION 2.11, bears interest at the applicable Eurodollar Rate.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (a) the quotient of (i) the Eurodollar Base Rate applicable to such Interest Period, divided by (ii) one MINUS the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, PLUS (b) the Applicable Margin. The Eurodollar Rate shall be rounded to the next higher multiple of 1/100 of 1% if the rate is not such a multiple.

"Excluded Taxes" means, in the case of each Lender or applicable Lending Installation and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it, by (a) the jurisdiction under the laws of which such Lender or the Agent is incorporated or organized or (b) the jurisdiction in which the Agent's or such Lender's principal executive office or such Lender's applicable Lending Installation is located.

"Exhibit" refers to an exhibit to this Agreement, unless another document is specifically referenced.

"Existing Credit Agreement" is defined in the recitals to this Agreement.

"Facility Letter of Credit" means a Letter of Credit issued pursuant to SECTION 2.19.

"Facility Letter of Credit Obligations" means as at the time of determination thereof, the sum of (i) the Reimbursement Obligations then outstanding and (ii) the aggregate then undrawn face amount of the then outstanding Facility Letters of Credit.

"Facility Letter of Credit Sublimit" means an aggregate amount of \$22,500,000.

"Facility Termination Date" means February 23, 2005 or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof.

"FAE" is defined in the recitals to this Agreement.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:00 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Financial Statements" is defined in SECTION 5.5.

"First-Tier Significant Insurance Subsidiary" means any Significant Insurance Subsidiary that is either (a) a direct Wholly-Owned Subsidiary of the Borrower or (b) a Wholly-Owned Subsidiary of a Subsidiary of the Borrower and there exists no Insurance Subsidiary in the chain of ownership between the Borrower and such Significant Insurance Subsidiary.

"First Chicago" means The First National Bank of Chicago in its individual capacity, and its successors.

"Fiscal Quarter" means one of the four three-month accounting periods comprising a Fiscal Year.

"Fiscal Year" means the twelve-month accounting period ending December 31 of each year.

"Fixed Charges Coverage Ratio" means, as of the end of any Fiscal Quarter, the ratio of (a) Cash Flow to (b) Fixed Charges.

"Fixed Charges" means, with respect to the Borrower, as of the end of any Fiscal Quarter, the sum, without duplication and after giving effect to consolidation, of (a) the sum of all interest expense on outstanding Indebtedness (excluding the Loans hereunder) for the period of four Fiscal Quarters immediately preceding the date of determination (except that for each Fiscal Quarter prior to the first anniversary of the date of this Agreement, interest expense shall be annualized with respect to such period) paid by the Borrower and its Subsidiaries, PLUS (b) the sum of all interest expense payable under the Loans for the period of four Fiscal Quarters immediately following the date of determination, assuming the Loans equal the Aggregate Commitment as of the date of determination (adjusted for any scheduled mandatory reductions during such period pursuant to SECTION 2.5.3(a)) during the succeeding four Fiscal Quarter period and that the applicable interest rate in effect as of the date of determination would remain

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constant during the succeeding four Fiscal Quarter period, PLUS (c) Indebtedness (excluding the Loans hereunder) payable pursuant to the scheduled amortization of such Indebtedness by the Borrower and its Subsidiaries for the period of four Fiscal Quarters immediately following the date of determination, PLUS (d) Loans payable pursuant to the second sentence of SECTION 2.2(a) as a result of reductions in the Aggregate Commitment occurring pursuant to SECTION 2.5.3(a) for the period of four Fiscal Quarters immediately following the date of determination.

"Floating Rate" means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day and (b) the sum of the Federal Funds Effective Rate for such day PLUS 1/2% per annum.

"Floating Rate Advance" means an Advance which, except as otherwise provided in SECTION 2.11, bears interest at the Floating Rate.

"Fund" means Fund American Enterprises Holdings, Inc., a Delaware corporation.

"Fund Credit Agreement" means the \$35,000,000 Second Amended and Restated Credit Agreement, dated as of February 24, 1999, among Fund, the lenders named therein and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified and in effect from time to time.

"Funded Indebtedness" means Indebtedness of the type described in CLAUSES (a), (d), (e) and (h) of the definition "Indebtedness".

"Governmental Authority" means any government (foreign or domestic) or any state or other political subdivision thereof or any governmental body, agency, authority, department or commission (including without limitation any board of insurance, insurance department or insurance commissioner and any taxing authority or political subdivision) or any instrumentality or officer thereof (including without limitation any court or tribunal) exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any corporation, partnership or other entity directly or indirectly owned or controlled by or subject to the control of any of the foregoing.

"Guaranty" means a Guaranty in form and substance satisfactory to the Agent, dated as of the date hereof, duly executed and delivered to the Agent by Fund, as the same may be amended, modified or restated and in effect from time to time.

"Indebtedness" of a Person means such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances, or other instruments, (e) Capitalized Lease Obligations, (f) Rate Hedging Obligations, (g) Contingent Obligations, (h) obligations for which such Person is obligated pursuant to or in respect of a Facility Letter of Credit and the face amount of any other Letter of Credit, (i) repurchase obligations or liabilities of such Person with

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respect to accounts or notes receivable sold by such Person and (j) obligations of such Person to purchase securities or other Property arising out of or in connection with the sale of the same or substantially similar securities or Property.

"Insurance Subsidiaries" means Subsidiaries which are engaged in the insurance business as an issuer or underwriter of insurance policies and/or insurance contracts.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three, six or, with the consent of all the Lenders with respect to any such requested Interest Period, twelve months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds numerically to such date one, two, three, six or twelve months thereafter, PROVIDED, HOWEVER, that if there is no such numerically corresponding day in such next, second, third, sixth or twelfth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third, sixth or twelfth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, PROVIDED, HOWEVER, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade) or contribution of capital by such Person; stocks, bonds, mutual funds, partnership interests, notes, debentures or other securities owned by such Person; any deposit accounts and certificates of deposit owned by such Person; and structured notes, derivative financial instruments (other than Rate Hedging Agreements entered into in the ordinary course of business and not for speculative purposes) and other similar instruments or contracts owned by such Person.

"Issuance Request" is defined in Section 2.19.4.

"Issuer" means First Chicago.

"Lenders" means the lending institutions listed on the signature pages of this Agreement and their respective successors and assigns.

"Lending Installation" means, with respect to a Lender or the Agent, the office, branch, subsidiary or affiliate of such Lender or the Agent listed on the signature pages hereof or on a Schedule or otherwise selected by such Lender or the Agent pursuant to SECTION 2.17.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Letter of Credit Cash Collateral Account" is defined in SECTION 8.1. Such account and the related cash collateralization shall be subject to documentation satisfactory to the Agent.

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"Leverage Ratio" means, with respect to any Person, at any time, the ratio of (a) the consolidated Funded Indebtedness of such Person and its Subsidiaries (excluding SOMSC, if applicable) at such time to (b) the sum of (i) the consolidated Funded Indebtedness of such Person and its Subsidiaries (excluding SOMSC, if applicable) at such time PLUS (ii) the Net Worth of such Person at such time. For purposes of computing the Leverage Ratio, (A) Allowable Seller Paper which has been Defeased and Letters of Credit issued in support of Allowable Seller Paper, (B) Indebtedness of any Insurance Subsidiary of the Borrower permitted pursuant to SECTION 6.11(f) and (C) Indebtedness of the Borrower permitted by SECTION 6.11(g) shall be excluded from Funded Indebtedness.

"License" means any license, certificate of authority, permit or other authorization which is required to be obtained from any Governmental Authority in connection with the operation, ownership or transaction of insurance business.

"Lien" means any security interest, lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement), save in respect of liabilities and obligations arising out of the underwriting of insurance policies and contracts of insurance.

"Loan" means, with respect to a Lender, such Lender's loan made pursuant to ARTICLE II (or any conversion or continuation thereof).

"Loan Documents" means this Agreement, any Notes issued pursuant to SECTION 2.13, the Pledge Agreement, the Reimbursement Agreements, the Guaranty and the other documents and agreements contemplated hereby and executed by the Borrower or any Subsidiary in favor of the Agent or any Lender.

"Margin Stock" has the meaning assigned to that term under Regulation U.

"Material Adverse Effect" means a material adverse effect on (a) the business, Property, condition (financial or otherwise), results of operations, or prospects of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform its obligations under the Loan Documents to which it is a party, or (c) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in lieu thereof, any other association, agency or other organization performing advisory, coordination or other like functions among insurance departments, insurance

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commissioners and similar Governmental Authorities of the various states of the United States toward the promotion of uniformity in the practices of such Governmental Authorities.

"Net Worth" means, with respect to any Person, at any date the consolidated shareholders' equity of such Person and its Consolidated Subsidiaries determined in accordance with Agreement Accounting Principles (but excluding the effect of Statement of Financial Accounting Standards No. 115).

"Non-U.S. Lender" is defined in SECTION 3.5(d).

"Note" means any promissory note issued at the request of a Lender pursuant to SECTION 2.13 in the form of EXHIBIT A.

"Notice of Assignment" is defined in SECTION 12.3.2.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Loans, the Facility Letter of Credit Obligations and all other liabilities (if any), whether actual or contingent, of the Borrower with respect to Facility Letters of Credit, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent or any indemnified party arising under the Loan Documents.

"Other Taxes" is defined in SECTION 3.5(b).

"Participants" is defined in SECTION 12.2.1.

"Payment Date" means the last day of each March, June, September and December.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Person" means any natural person, corporation, firm, joint venture, partnership, limited liability company, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which the Borrower or any member of the Controlled Group may have any liability.

"Pledge Agreement" means a pledge agreement in form and substance satisfactory to the Agent, dated as of the date hereof, duly executed and delivered to the Agent by the Borrower, as the same may be amended, modified or restated and in effect from time to time.

"Pricing Schedule" means the Schedule attached hereto identified as such.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

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"Purchase Agreement" means that certain letter agreement dated as of February 5, 1999 between the Borrower and FAE, as amended up to but not including the date hereof, pursuant to which the Borrower has agreed to repurchase \$30,000,000 of its capital stock from FAE.

"Purchasers" is defined in SECTION 12.3.1.

"Quarterly Statement" means the quarterly statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing quarterly statutory financial statements and shall contain the type of financial information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Rate Hedging Agreement" means an agreement, device or arrangement providing for payments which are related to fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants.

"Rate Hedging Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all Rate Hedging Agreements, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any Rate Hedging Agreement.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation T" means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of such Board of Governors relating to the extension of credit by securities brokers and dealers for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Regulation X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or

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official interpretation of said Board of Governors relating to the extension of credit by the specified lenders for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Reimbursement Agreement" means a letter of credit application and reimbursement agreement in such form as the Issuer may from time to time employ in the ordinary course of business.

"Reimbursement Obligations" means, at any time, the aggregate (without duplication) of the Obligations of the Borrower to the Lenders, the Issuer and/or the Agent in respect of all unreimbursed payments or disbursements made by the Lenders, the Issuer and/or the Agent under or in respect of draws made under the Facility Letters of Credit.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within thirty (30) days of the occurrence of such event, PROVIDED, HOWEVER, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Required Lenders" means Lenders in the aggregate having at least 66 2/3% of the Aggregate Commitment (or, if the Aggregate Commitment has been terminated, the sum of (a) the aggregate unpaid principal amount of the outstanding Loans plus (b) the aggregate amount of the outstanding Facility Letter of Credit Obligations).

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

"Risk-Based Capital Act" means the Risk-Based Capital (RBC) for Insurers Model Act adopted by the NAIC, together with the RBC instructions referred to herein, as in effect on the date hereof.

"Risk-Based Capital Guidelines" is defined in SECTION 3.2.

"SAP" means, with respect to any Insurance Subsidiary, the statutory accounting practices prescribed or permitted by the insurance commissioner (or other similar authority) in the jurisdiction of such Person for the preparation of annual statements and other financial reports by insurance companies of the same type as such Person in effect from time to time; PROVIDED, HOWEVER, that if any changes in statutory accounting practices from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution

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thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of statutory accounting practices in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to SECTION 5.5(e) AND (f) hereof.

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.

"Schedule" refers to a specific schedule to this Agreement, unless another document is specifically referenced.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Significant Insurance Subsidiary" shall mean an Insurance Subsidiary that is a Significant Subsidiary.

"Significant Subsidiary" shall mean and include, at any time, each Subsidiary of the Borrower to the extent that the Net Worth of such Subsidiary is equal to or greater than \$5,000,000.

"Single Employer Plan" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

"Solvent" means, when used with respect to a Person, that (a) the fair saleable value of the assets of such Person is in excess of the total amount of the present value of its liabilities (including for purposes of this definition all liabilities (including loss reserves as determined by such Person), whether or not reflected on a balance sheet prepared in accordance with Agreement Accounting Principles and whether direct or indirect, fixed or contingent, secured or unsecured, disputed or undisputed), (b) such Person is able to pay its debts or obligations in the ordinary course as they mature and (c) such Person does not have unreasonably small capital to carry out its business as conducted and as proposed to be conducted. "Solvency" shall have a correlative meaning.

"SOMSC" means Source One Mortgage Services Corporation, a Delaware corporation.

"Standby Letter of Credit" means a Facility Letter of Credit which is not a Commercial Letter of Credit.

"Statutory Surplus" means, with respect to any Insurance Subsidiary at any time, the statutory capital and surplus of such Insurance Subsidiary at such time, as determined in accordance with SAP ("Liabilities, Surplus and Other Funds" statement, page 3, line 25 of the Annual Statement for the 1997 Fiscal Year entitled "Surplus as Regards Policyholders").

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"Subordinated Indebtedness" of a Person means any Indebtedness of such Person the payment of which is subordinated to payment of the Obligations to the written satisfaction of the Required Lenders.

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one

or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, limited liability company, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Substantial Portion" means, with respect to the Property of any Person and its Subsidiaries, Property which (a) represents more than 10% of the consolidated assets of such Person and its Subsidiaries as would be shown in the consolidated financial statements of such Person and its Subsidiaries as at the beginning of the twelve-month period ending with the month in which such determination is made, or (b) is responsible for more than 10% of the consolidated net sales or of the consolidated net income of such Person and its Subsidiaries as reflected in the financial statements referred to in CLAUSE (a) above.

"Taxes" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all liabilities with respect to the foregoing, but EXCLUDING Excluded Taxes.

"Termination Event" means, with respect to a Single Employer Plan, (a) a Reportable Event, (b) the withdrawal of the Borrower or any other member of the Controlled Group from such Single Employer Plan during a plan year in which the Borrower or any other member of the Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA, (c) the termination of such Single Employer Plan, the filing of a notice of intent to terminate such Single Employer Plan or the treatment of an amendment of such Single Employer Plan as a termination under Section 4041 of ERISA, (d) the institution by the PBGC of proceedings to terminate such Single Employer Plan or (e) any event or condition which could reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Single Employer Plan.

"Transferee" is defined in SECTION 12.4.

"Type" means, with respect to any Advance, its nature as a Floating Rate Advance or a Eurodollar Advance.

"Unfunded Liabilities" means the amount (if any) by which the present value of all vested and unvested accrued benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent

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valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"USF RE" means USF RE Insurance Company, a Massachusetts insurance company.

"USF RE Transaction" means that certain transaction by which (a) the Borrower and/or Folksamerica Reinsurance Company acquires all of the outstanding capital stock of USF RE (but at no time shall USF RE be owned such that it would be deemed a First-Tier Significant Insurance Subsidiary) on substantially the terms and conditions contained in that certain letter of intent dated as of January 28, 1999, (b) Folksamerica Reinsurance Company assumes substantially all of the assets and liabilities of USF RE and (c) the corporate "shell" of USF RE is sold to a party other than Fund or any of its Subsidiaries.

"White Mountains" means White Mountains Holdings, Inc., a Delaware corporation, formerly known as Fund American Enterprises, Inc. and the survivor of a merger with White Mountains Holdings, Inc., a New Hampshire corporation.

"White Mountains Credit Agreement" means the \$50,000,000 Second Amended and Restated Credit Agreement, dated as of August 14, 1998, among White Mountains, the financial institutions from time to time party thereto and First Chicago, as agent, as amended through but not including the date hereof.

"Wholly-Owned Subsidiary" of a Person means (a) any Subsidiary all of the outstanding voting securities of which (other than director' qualifying or similar shares) shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (b) any partnership, limited liability company, association, joint venture or similar business organization 100% of the ownership interests having ordinary voting power of which (other than director' qualifying or similar shares) shall at the time be so owned or controlled.

"Year 2000 Issues" means anticipated costs, problems and uncertainties associated with the inability of certain computer applications and hardware

to effectively function on and after January 1, 2000, as such inability affects the business, operations and financial condition of the Borrower and its Subsidiaries and of the Borrower's and its Subsidiaries' material customers, suppliers and vendors.

"Year 2000 Program" is defined in SECTION 5.23.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. References herein to particular columns, lines or sections of any Person's Annual Statement shall be deemed, where appropriate, to be references to the corresponding column, line or section of such Person's Quarterly Statement, or if no such corresponding

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column, line or section exists or if any report form changes, then to the corresponding item referenced thereby. In the event that the columns, lines or sections of the Annual Statement referenced herein are changed or renumbered, all such references shall be deemed references to such column, line or section as so renumbered or changed. Each accounting term used herein which is not otherwise defined herein shall be defined in accordance with Agreement Accounting Principles or SAP, as applicable, unless otherwise specified.

ARTICLE II

THE CREDITS

2.1. COMMITMENT. From and including the date of this Agreement and prior to the Facility Termination Date, each Lender severally (and not jointly) agrees, on the terms and conditions set forth in this Agreement, to make Loans to the Borrower from time to time in amounts not to exceed in the aggregate at any one time outstanding the amount of its pro-rata (relative to the respective Commitments of the Lenders) share of the Aggregate Available Commitment. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow at any time prior to the Facility Termination Date. The Commitments to lend hereunder shall expire on the Facility Termination Date.

2.2. REQUIRED PAYMENTS; TERMINATION. (a) Any outstanding Advances and all other accrued but unpaid Obligations shall be paid in full by the Borrower on the Facility Termination Date. The Borrower shall also make such mandatory prepayments as may be required upon giving effect to a reduction in the Aggregate Commitment pursuant to SECTIONS 2.5.3(a) and 2.5.3(b) so that the sum of (i) the amount of Advances outstanding and (ii) the Facility Letter of Credit Obligations does not at any time exceed the Aggregate Commitment as in effect at such time; PROVIDED, that if an excess remains after repayment of all Advances outstanding under the Commitment, then the Borrower shall cash collateralize the Facility Letter of Credit Obligations by depositing into the Letter of Credit Cash Collateral Account such amount as may be necessary to eliminate such excess.

(b) Within three (3) Business Days of the sale of any common stock, warrant or other common equity by the Borrower or any of its Subsidiaries (other than a sale to Fund or any of its Wholly-Owned Subsidiaries), the Borrower shall make a mandatory prepayment of Advances in an amount equal to 50% of the net cash proceeds realized upon such sale, PROVIDED that the Borrower shall not be obligated to pay any amount under this SECTION 2.2(b) in excess of the aggregate principal amount of Advances outstanding; PROVIDED, FURTHER that if substantially contemporaneously with the receipt thereof such proceeds or a portion thereof are used to Defeas Allowable Seller Paper, then the Borrower shall not be obligated to make a prepayment with respect to such proceeds or portion thereof, as applicable; and PROVIDED, FURTHER that if, within three (3) Business Days of such sale the Borrower gives notice to the Agent of its intent to utilize the net cash proceeds of such sale to finance an Acquisition permitted by SECTION 6.14 and deposits such portion of the net cash proceeds applicable to a prepayment in a cash collateral account securing the Obligations maintained by the Agent pursuant to documentation

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satisfactory to the Agent, then the Borrower shall not be obligated to make a prepayment with respect to such proceeds except as provided in the last sentence of this Section. The Agent is authorized by the Lenders to remit all or any portion of the amounts in such account to the seller in an Acquisition permitted by SECTION 6.14 as the Borrower may from time to time direct; PROVIDED that the Borrower may not give such direction at any time a Default or Unmatured Default is pending. Any amounts (other than investment income, which will be remitted to the Borrower) remaining in such account ninety (90) days after their deposit shall be applied as a prepayment under this Section on such date.

(c) Upon issuance of any Indebtedness for borrowed money (other than any such Indebtedness permitted by SECTION 6.11), preferred stock or other capital securities (other than described in SECTION 2.2(b)) by the Borrower or any of its Subsidiaries, the Borrower shall make a mandatory prepayment of

Advances in an amount equal to 100% of the net cash proceeds so realized in excess of \$1,000,000 in any Fiscal Year; PROVIDED that the Borrower shall not be obligated to pay any amount under this SECTION 2.2(c) in excess of the aggregate principal amount of Advances outstanding.

2.3. RATABLE LOANS. Each Advance hereunder shall consist of Loans made from the several Lenders ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment.

2.4. TYPES OF ADVANCES. The Advances may be Floating Rate Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with SECTIONS 2.8 and 2.9.

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2.5. COMMITMENT FEE; REDUCTIONS IN AGGREGATE COMMITMENT.

2.5.1 COMMITMENT FEES. The Borrower agrees to pay to the Agent for the account of each Lender a commitment fee at a per annum rate equal to the Applicable Fee Rate on the daily unused portion of such Lender's Commitment from the date hereof to and including the Facility Termination Date, payable on each Payment Date hereafter and on the Facility Termination Date. All accrued commitment fees shall be payable on the effective date of any termination of the obligations of the Lenders to make Loans hereunder.

2.5.2 AGENT'S FEES. The Borrower agrees to pay to the Agent, for the Agent's own account, such fees as the Borrower and the Agent may agree upon from time to time.

2.5.3 MANDATORY REDUCTIONS IN AGGREGATE COMMITMENT. (a) The Aggregate Commitment will be permanently reduced annually on each anniversary of the date of this Agreement commencing with February 24, 2000 through and including the Facility Termination Date. Each reduction in the Aggregate Commitment on the date set forth below shall be in an amount equal to the lesser of (i) the amount for each date set forth below opposite such date and (ii) the then-effective Aggregate Commitment. Reductions in the Aggregate Commitment pursuant to this Section shall be in addition to, and shall not be reduced by, reductions in the Aggregate Commitment pursuant to SECTION 2.5.3(b).

DATE	ANNUAL REDUCTION
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February 24, 2000	\$ 5,000,000
February 24, 2001	\$12,500,000
February 24, 2002	\$17,500,000
February 24, 2003	\$20,000,000
February 24, 2004	\$22,500,000
February 24, 2005	\$22,500,000

Contemporaneously with each such reduction, the Borrower shall make such payments as are required by SECTION 2.2(a).

(b) Upon any sale or series of sales or issuance of equity or issuance of Indebtedness subject to the prepayment provisions of SECTIONS 2.2(b) and (c) the Aggregate Commitment shall be reduced by the full amount which would have been required to be repaid thereunder (as determined without respect to the first proviso to SECTION 2.2(b) and (c) and whether or not sufficient Loans are outstanding for such amount to be applied as a prepayment). Any mandatory reductions in the Aggregate Commitment due pursuant to this SECTION 2.5.3(b) shall be applied to the scheduled reductions in the Aggregate Commitment described in SECTION 2.5.3(a) in the inverse order of maturity.

2.5.4 VOLUNTARY REDUCTIONS IN AGGREGATE COMMITMENT. The Borrower may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in integral multiples of \$2,000,000, upon at least three (3) Business Days' prior written notice to

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the Agent, which notice shall specify the amount of any such reduction, PROVIDED, HOWEVER, that the amount of the Aggregate Commitment may not be reduced below the sum of (a) the aggregate principal amount of the outstanding Advances, plus (b) the aggregate amount of the outstanding Facility Letter of Credit Obligations. All accrued commitment fees in respect of any terminated portion of the Aggregate Commitment shall be payable on the effective date of the termination thereof. Any voluntary reductions in the Aggregate Commitment shall be applied to the scheduled reductions in the Aggregate Commitment described in SECTION 2.5.3(a) in the direct order of maturity.

2.6. MINIMUM AMOUNT OF EACH ADVANCE. Each Advance shall be in the

minimum amount of \$2,000,000 (and in multiples of \$500,000 if in excess thereof), PROVIDED, HOWEVER, that any Floating Rate Advance may be in the amount of the unused Aggregate Commitment.

2.7. OPTIONAL PRINCIPAL PAYMENTS. The Borrower may from time to time pay, without penalty or premium, all outstanding Floating Rate Advances, or, in a minimum aggregate amount of \$2,000,000 or any integral multiple of \$500,000 in excess thereof, any portion of the outstanding Floating Rate Advances upon two (2) Business Days' prior written notice to the Agent. The Borrower may from time to time pay, subject to the payment of any funding indemnification amounts required by SECTION 3.4 but without penalty or premium, all outstanding Eurodollar Advances, or, in a minimum aggregate amount of \$2,000,000 or any integral multiple of \$500,000 in excess thereof, any portion of the outstanding Eurodollar Advances upon three (3) Business Days' prior written notice to the Agent.

2.8. METHOD OF SELECTING TYPES AND INTEREST PERIODS FOR NEW ADVANCES. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable thereto from time to time. The Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each Floating Rate Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

- (i) the Borrowing Date, which shall be a Business Day, of such Advance,
- (ii) the aggregate amount of such Advance,
- (iii) the Type of Advance selected, and
- (iv) in the case of each Eurodollar Advance, the Interest Period applicable thereto, which shall end on or prior to the Facility Termination Date.

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Chicago, to the Agent at its address specified pursuant to ARTICLE XIII. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address.

2.9. CONVERSION AND CONTINUATION OF OUTSTANDING ADVANCES. Floating Rate Advances shall continue as Floating Rate Advances unless and until such Floating Rate Advances are

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converted into Eurodollar Advances pursuant to this SECTION 2.9 or are repaid in accordance with SECTION 2.2 OR 2.7. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into a Floating Rate Advance unless (a) such Eurodollar Advance is or was repaid in accordance with SECTION 2.2 OR 2.7 or (b) the Borrower shall have given the Agent a Conversion/Continuation Notice (as defined below) requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of SECTION 2.6, the Borrower may elect from time to time to convert all or any part of a Floating Rate Advance into a Eurodollar Advance. The Borrower shall give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each conversion of a Floating Rate Advance into a Eurodollar Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) at least three (3) Business Days prior to the date of the requested conversion or continuation, specifying:

- (i) the requested date, which shall be a Business Day, of such conversion or continuation,
- (ii) the aggregate amount and Type of the Advance which is to be converted or continued, and
- (iii) the amount of such Advance which is to be converted into or continued as a Eurodollar Advance and the duration of the Interest Period applicable thereto, which shall end on or prior to the Facility Termination Date.

2.10. CHANGES IN INTEREST RATE, ETC. Each Floating Rate Advance shall bear interest on the outstanding principal amount thereof, for each day from and including the date such Advance is made or is automatically converted from a Eurodollar Advance into a Floating Rate Advance pursuant to SECTION 2.9, to but excluding the date it is paid or is converted into a Eurodollar Advance pursuant to SECTION 2.9 hereof, at a rate per annum equal to the Floating Rate for such day. Changes in the rate of interest on that portion of any Advance maintained as a Floating Rate Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest on the outstanding principal amount thereof from and including the first day of the Interest Period applicable thereto to (but not including) the last day of such Interest Period at the Eurodollar Rate determined by the Agent as applicable to such Eurodollar Advance based upon

the Borrower's selections under SECTIONS 2.8 and 2.9 and otherwise in accordance with the terms hereof. No Interest Period may end after the Facility Termination Date.

2.11. RATES APPLICABLE AFTER DEFAULT. Notwithstanding anything to the contrary contained in SECTION 2.8 or 2.9, no Advance may be made as, converted into or continued as a Eurodollar Advance when any Default or Unmatured Default has occurred and is continuing. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of SECTION 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that (a) each Eurodollar Advance shall bear interest for the remainder of the

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applicable Interest Period at the rate otherwise applicable to such Interest Period PLUS 2% per annum and (b) each Floating Rate Advance shall bear interest at a rate per annum equal to the Floating Rate in effect from time to time PLUS 2% per annum, PROVIDED that, during the continuance of a Default under SECTION 7.6 or 7.7, the interest rates set forth in clauses (a) and (b) above shall be applicable to all Advances without any election or action on the part of the Agent or any Lender.

2.12. METHOD OF PAYMENT. All payments of the Obligations hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to ARTICLE XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower, by noon (Chicago time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to ARTICLE XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with First Chicago for each payment of principal, interest and fees as it becomes due hereunder.

2.13. NOTELESS AGREEMENT; EVIDENCE OF INDEBTEDNESS. (a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Agent shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Agent hereunder from the Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be PRIMA FACIE evidence of the existence and amounts of the Obligations therein recorded; PROVIDED, HOWEVER, that the failure of the Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) Any Lender may request that its Loans be evidenced by a promissory note (a "Note"). In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender in a form supplied by the Agent. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to SECTION 12.3) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to SECTION 12.3, except to the extent that any such Lender or

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assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (a) and (b) above.

2.14. TELEPHONIC NOTICES. The Borrower hereby authorizes the Lenders and the Agent to extend, convert or continue Advances, effect selections of Types of Advances and to transfer funds based on telephonic notices made by any person or persons the Agent or any Lender in good faith believes to be acting on behalf of the Borrower, it being understood that the foregoing authorization is specifically intended to allow Borrowing Notices and Conversion/Continuation Notices to be given telephonically. The Borrower agrees to deliver promptly to the Agent a written confirmation, if such confirmation is requested by the Agent or any Lender, of each telephonic notice signed by an Authorized Officer. If the written confirmation differs in any material respect from the action taken by the Agent and the Lenders, the records of the Agent and the Lenders shall govern absent manifest error.

2.15. INTEREST PAYMENT DATES; INTEREST AND FEE BASIS. Interest accrued on each Floating Rate Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which the Floating Rate Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any Floating Rate Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three (3) months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.16. NOTIFICATION OF ADVANCES, INTEREST RATES, PREPAYMENTS, COMMITMENT REDUCTIONS AND ISSUANCE REQUESTS. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, Issuance Request and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.17. LENDING INSTALLATIONS. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Loans and any Notes issued hereunder shall be deemed held by each Lender for the benefit of any such Lending Installation. Each Lender may, by written notice to the Agent and the Borrower in accordance

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with ARTICLE XIII, designate replacement or additional Lending Installations through which Loans will be made by it and for whose account Loan payments are to be made.

2.18. NON-RECEIPT OF FUNDS BY THE AGENT. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If such Lender or the Borrower, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (i) in the case of payment by a Lender, the Federal Funds Effective Rate for such day for the first three days and, thereafter, the interest rate applicable to the relevant Loan or (ii) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.19. FACILITY LETTERS OF CREDIT.

2.19.1 ISSUANCE OF FACILITY LETTERS OF CREDIT.

(a) From and after the date hereof, the Issuer agrees, upon the terms and conditions set forth in this Agreement, to issue at the request and for the account of the Borrower, one or more Facility Letters of Credit; PROVIDED, HOWEVER, that the Issuer shall not be under any obligation to issue, and shall not issue, any Facility Letter of Credit if (i) any order, judgment or decree of any governmental authority or other regulatory body with jurisdiction over the Issuer shall purport by its terms to enjoin or restrain such Issuer from issuing such Facility Letter of Credit, or any law or governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) from any governmental authority or other regulatory body with jurisdiction over the Issuer shall prohibit, or request that the Issuer refrain from, the issuance of Facility Letters of Credit in particular or shall impose upon the Issuer with respect to any Facility Letter of Credit any restriction or reserve or capital requirement (for which the Issuer is not otherwise compensated) or any unreimbursed loss, cost or expense which was not applicable, in effect and known to the Issuer as of the date of this Agreement and which the Issuer in good faith deems material to it; (ii) one or more of the conditions to such issuance contained in SECTION 4.2 is not then satisfied; or (iii) after

giving effect to such issuance, the aggregate outstanding amount of the Facility Letter of Credit Obligations would exceed the Facility Letter of Credit Sublimit.

(b) In no event shall: (i) the aggregate amount of the Facility Letter of Credit Obligations at any time exceed the Facility Letter of Credit Sublimit; (ii) the sum at any time of (A) the aggregate amount of Facility Letter of Credit Obligations and (B) the aggregate principal balance of outstanding Advances exceed the amount of the Aggregate

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Commitment; or (iii) the expiration date of any Facility Letter of Credit (including, without limitation, Facility Letters of Credit issued with an automatic "evergreen" provision providing for renewal absent advance notice by the Borrower or the Issuer), or the date for payment of any draft presented thereunder and accepted by the Issuer, be later than the date five (5) Business Days prior to the Facility Termination Date.

2.19.2 INTERESTS. Immediately upon the issuance by the Issuer of a Facility Letter of Credit in accordance with SECTION 2.19.4, each Lender shall be deemed to have irrevocably and unconditionally purchased and received from the Issuer, without recourse, representation or warranty, an undivided participation interest equal to its pro-rata share of the Aggregate Commitment of the face amount of such Facility Letter of Credit and each draw paid by the Issuer thereunder. Each Lender's obligation to pay its proportionate share of all draws under the Facility Letters of Credit, absent gross negligence or willful misconduct by the Issuer in honoring any such draw, shall be absolute, unconditional and irrevocable and in each case shall be made without counterclaim or set-off by such Lender.

2.19.3 FACILITY LETTER OF CREDIT REIMBURSEMENT OBLIGATIONS.

(a) The Borrower agrees to pay to the Issuer of a Facility Letter of Credit (i) on each date that any amount is drawn under each Facility Letter of Credit a sum (and interest on such sum as provided in clause (ii) below) equal to the amount so drawn plus all other charges and expenses with respect thereto specified in Section 2.19.6 or in the applicable Reimbursement Agreement and (ii) interest on any and all amounts remaining unpaid under this SECTION 2.19.3 until payment in full at the Floating Rate plus the margin specified in SECTION 2.11. The Borrower agrees to pay to the Issuer the amount of all Facility Letter of Credit Reimbursement Obligations owing in respect of any Facility Letter of Credit immediately when due, under all circumstances, including, without limitation, any of the following circumstances: (w) any lack of validity or enforceability of this Agreement or any of the other Loan Documents; (x) the existence of any claim, set-off, defense or other right which the Borrower may have at any time against a beneficiary named in a Facility Letter of Credit, any transferee of any Facility Letter of Credit (or any Person for whom any such transferee may be acting), any Lender or any other Person, whether in connection with this Agreement, any Facility Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transaction between the Borrower and the beneficiary named in any Facility Letter of Credit); (y) the validity, sufficiency or genuineness of any document which the Issuer has determined in good faith complies on its face with the terms of the applicable Facility Letter of Credit, even if such document should later prove to have been forged, fraudulent, invalid or insufficient in any respect or any statement therein shall have been untrue or inaccurate in any respect; or (z) the surrender or impairment of any security for the performance or observance of any of the terms hereof.

(b) Notwithstanding any provisions to the contrary in any Reimbursement Agreement, the Borrower agrees to reimburse the Issuer for amounts which the Issuer pays under

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such Facility Letter of Credit no later than the time specified in this Agreement. If the Borrower does not pay any such Facility Letter of Credit Reimbursement Obligations when due, the Borrower shall be deemed to have immediately requested that the Lenders make a Floating Rate Advance under this Agreement in a principal amount equal to such unreimbursed Facility Letter of Credit Reimbursement Obligations. The Agent shall promptly notify the Lenders of such deemed request and, without the necessity of compliance with the requirements of SECTIONS 2.6 and 4.2, each Lender shall make available to the Agent its Loan in the manner prescribed for Floating Rate Advances. The proceeds of such Loans shall be paid over by the Agent to the Issuer for the account of the Borrower in satisfaction of such unreimbursed Facility Letter of Credit Reimbursement Obligations, which shall thereupon be deemed satisfied by the proceeds of, and replaced by, such Floating Rate Advance.

(c) If the Issuer makes a payment on account of any Facility Letter of Credit and is not concurrently reimbursed therefor by the Borrower and if for any reason a Floating Rate Advance may not be made pursuant to paragraph (b) above, then as promptly as practical during normal banking hours on the date of its receipt of such notice or, if not practicable on such date, not later than noon (Chicago time) on the Business Day immediately succeeding such date of notification, each Lender shall deliver to the Agent for the account of the Issuer, in immediately available funds, the purchase price for such Lender's interest in such unreimbursed Facility Letter of Credit Obligations, which shall be an amount equal to such Lender's pro-rata share of such payment. Each Lender shall, upon demand by the Issuer, pay the Issuer interest on such Lender's pro-rata share of such draw from the date of payment by the Issuer on account of such Facility Letter of Credit until the date of delivery of such funds to the Issuer by such Lender at a rate per annum, computed for actual days elapsed based on a 360-day year, equal to the Federal Funds Effective Rate for such period; PROVIDED, that such payments shall be made by the Lenders only in the event and to the extent that the Issuer is not reimbursed in full by the Borrower for interest on the amount of any draw on the Facility Letters of Credit.

(d) At any time after the Issuer has made a payment on account of any Facility Letter of Credit and has received from any other Lender such Lender's pro-rata share of such payment, such Issuer shall, forthwith upon its receipt of any reimbursement (in whole or in part) by the Borrower for such payment, or of any other amount from the Borrower or any other Person in respect of such payment (including, without limitation, any payment of interest or penalty fees and any payment under any collateral account agreement of the Borrower or any Loan Document but excluding any transfer of funds from any other Lender pursuant to SECTION 2.19.3(b)), transfer to such other Lender such other Lender's ratable share of such reimbursement or other amount; PROVIDED, that interest shall accrue for the benefit of such Lender from the time such Issuer has made a payment on account of any Facility Letter of Credit; PROVIDED, FURTHER, that in the event that the receipt by the Issuer of such reimbursement or other amount is found to have been a transfer in fraud of creditors or a preferential payment under the United States Bankruptcy Code or is otherwise required to be returned, such Lender shall promptly return to the Issuer any portion thereof previously transferred by the Issuer to such Lender, but without interest to the extent that interest is not payable by the Issuer in connection therewith.

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2.19.4 PROCEDURE FOR ISSUANCE. Prior to the issuance of each Facility Letter of Credit, and as a condition of such issuance, the Borrower shall deliver to the Issuer (with a copy to the Agent) a Reimbursement Agreement signed by the Borrower, together with such other documents or items as may be required pursuant to the terms thereof, and the proposed form and content of such Facility Letter of Credit shall be reasonably satisfactory to the Issuer. Each Facility Letter of Credit shall be issued no earlier than two (2) Business Days after delivery of the foregoing documents, which delivery may be by the Borrower to the Issuer by telecopy, telex or other electronic means followed by delivery of executed originals within five (5) days thereafter. The documents so delivered shall be in compliance with the requirements set forth in SECTION 2.19.1(b), and shall specify therein (i) the stated amount of the Facility Letter of Credit requested, (ii) the effective date of issuance of such requested Facility Letter of Credit, which shall be a Business Day, (iii) the date on which such requested Facility Letter of Credit is to expire, which shall be a Business Day prior to the earlier of one (1) year from the effective date of such Facility Letter of Credit and the date five (5) Business Days prior to the Facility Termination Date, (iv) the entity on whose behalf the requested Facility Letter of Credit is to be issued, which shall be the Borrower or a Subsidiary, (v) whether the requested Facility Letter of Credit is a Standby Letter of Credit or Commercial Letter of Credit, and (vi) the aggregate amount of Facility Letter of Credit Obligations in respect of Standby Letters of Credit and Commercial Letters of Credit which are outstanding and which will be outstanding after giving effect to the requested Facility Letter of Credit issuance. The delivery of the foregoing documents and information shall constitute an "Issuance Request" for purposes of this Agreement. Subject to the terms and conditions of SECTION 2.19.1 and provided that the applicable conditions set forth in SECTION 4.2 hereof have been satisfied, the Issuer shall, on the requested date, issue a Facility Letter of Credit on behalf of the Borrower in accordance with the Issuer's usual and customary business practices. In addition, any amendment of an existing Facility Letter of Credit shall be deemed to be an issuance of a new Facility Letter of Credit and shall be subject to the requirements set forth above. The Issuer shall give the Agent prompt written notice of the issuance of any Facility Letter of Credit.

2.19.5 NATURE OF THE LENDERS' OBLIGATIONS.

(a) As between the Borrower and the Lenders, the Borrower assumes

all risks of the acts and omissions of, or misuse of the Facility Letters of Credit by, the respective beneficiaries of the Facility Letters of Credit. In furtherance and not in limitation of the foregoing, the Lenders shall not be responsible for (i) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for an issuance of a Facility Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (ii) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Facility Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) the failure of the beneficiary of a Facility Letter of Credit to comply fully with conditions required to be satisfied by any Person other than the Issuer in order to draw upon such Facility Letter of Credit; (iv)

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errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise; (v) errors in the interpretation of technical terms; (vi) the misapplication by the beneficiary of a Facility Letter of Credit of the proceeds of any drawing under such Facility Letter of Credit; or (vii) any consequences arising from causes beyond control of the Issuer.

(b) In furtherance and extension and not in limitation of the specific provisions hereinabove set forth, any action taken or omitted by the Issuer under or in connection with the Facility Letters of Credit or any related certificates, if taken or omitted in good faith, shall not put the Agent or any Lender under any resulting liability to the Borrower or relieve the Borrower of any of its obligations hereunder to the Issuer or any such Person.

2.19.6 FACILITY LETTER OF CREDIT FEES. The Borrower hereby agrees to pay to the Agent for the account of the Issuer or the Lenders, as applicable, letter of credit fees with respect to each Facility Letter of Credit from and including the date of issuance thereof until the date such Facility Letter of Credit is fully drawn, cancelled or expired, (a) for the account of the Issuer, computed at such rate as may be agreed upon between the Issuer and the Borrower, on the aggregate initial face amount of such Facility Letter of Credit payable quarterly in arrears on each Payment Date in each year, and (b) for the ratable account of the Lenders, equal to (i) in the case of Commercial Letters of Credit, an amount equal to the then Applicable Margin for Eurodollar Loans multiplied by the aggregate initial face amount of such Commercial Letter of Credit, payable upon the date of issuance thereof, and (ii) in the case of Standby Letters of Credit, an amount equal to the then Applicable Margin for Eurodollar Loans multiplied by the aggregate amount from time to time available to be drawn on such Standby Facility Letter of Credit, calculated with respect to actual days elapsed on the basis of a 360-day year and payable quarterly in arrears on each Payment Date in each year and upon the expiration, cancellation or utilization in full of such Facility Letter of Credit. In addition to the foregoing, the Borrower agrees to pay the Issuer any other fees customarily charged by it in respect of Standby or Commercial Letters of Credit issued by it.

ARTICLE III

YIELD PROTECTION; TAXES

3.1. YIELD PROTECTION. If, on or after the date of this Agreement, the adoption of any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any change in the interpretation or administration thereof by any governmental or quasi-governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender or applicable Lending Installation with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

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- (i) subjects any Lender or any applicable Lending Installation to any Taxes, or changes the basis of taxation of payments (other than with respect to Excluded Taxes) to any Lender in respect of its Eurodollar Loans, its interest in the Facility Letters of Credit or other amounts due hereunder, or
- (ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or
- (iii) imposes any other condition the result of which is to increase the

cost to any Lender or any applicable Lending Installation of making, funding or maintaining its Eurodollar Loans or issuing Facility Letters of Credit or reduces any amount receivable by any Lender or any applicable Lending Installation in connection with its Eurodollar Loans or Facility Letters of Credit, or requires any Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of Eurodollar Loans held, Facility Letters of Credit issued or participated in or interest received by it, by an amount deemed material by such Lender,

and the result of any of the foregoing is to increase the cost to such Lender or applicable Lending Installation of making or maintaining its Eurodollar Loans, its interest in the Facility Letters of Credit or Commitment or to reduce the return received by such Lender or applicable Lending Installation in connection with such Eurodollar Loans or Commitment, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction in amount received.

3.2. CHANGES IN CAPITAL ADEQUACY REGULATIONS. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans, its interest in the Facility Letters of Credit or its Commitment to make Loans or participate in or issue Facility Letters of Credit hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (a) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory

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authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. AVAILABILITY OF TYPES OF ADVANCES. If (a) any Lender determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law and gives notice of such fact to the Agent or (b) the Required Lenders determine that (i) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available or (ii) the interest rate applicable to Eurodollar Advances does not accurately reflect the cost of making or maintaining Eurodollar Advances, then the Agent shall suspend the availability of Eurodollar Advances and require any Eurodollar Advances to be repaid or converted to Floating Rate Advances, subject to the payment of any funding indemnification amounts required by SECTION 3.4.

3.4. FUNDING INDEMNIFICATION. If any payment of a Eurodollar Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance is not made on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain such Eurodollar Advance.

3.5. TAXES. (a) All payments by the Borrower to or for the account of any Lender or the Agent hereunder or under any Note shall be made free and clear of and without deduction for any and all Taxes. If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this SECTION 3.5) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant authority in accordance with applicable law and (iv) the Borrower shall furnish to the Agent the original copy of a receipt evidencing payment thereof within thirty (30) days after such payment is made.

(b) In addition, the Borrower hereby agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under any Note or from the execution or delivery of, or otherwise with respect to, this

Agreement or any Note ("Other Taxes").

(c) The Borrower hereby agrees to indemnify the Agent and each Lender for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this SECTION 3.5) paid by the Agent or such Lender and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto.

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Payments due under this indemnification shall be made within thirty (30) days of the date the Agent or such Lender makes demand therefor pursuant to SECTION 3.6.

(d) Each Lender that is not incorporated under the laws of the United States of America or a state thereof (each a "Non-U.S. Lender") agrees that it will, not less than ten Business Days after the date of this Agreement, (i) deliver to each of the Borrower and the Agent two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 (or any applicable successor form), certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, and (ii) deliver to each of the Borrower and the Agent a United States Internal Revenue Form W-8 or W-9 (or any applicable successor form), as the case may be, and certify that it is entitled to an exemption from United States backup withholding tax. Each Non-U.S. Lender further undertakes to deliver to each of the Borrower and the Agent (x) renewals or additional copies of such form (or any applicable successor form) on or before the date that such form expires or becomes obsolete, and (y) after the occurrence of any event requiring a change in the most recent forms so delivered by it, such additional forms or amendments thereto as may be reasonably requested by the Borrower or the Agent. All forms or amendments described in the preceding sentence shall certify that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, UNLESS an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form or amendment with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(e) For any period during which a Non-U.S. Lender has failed to provide the Borrower with an appropriate form pursuant to clause (d), above (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any governmental authority, occurring subsequent to the date on which a form originally was required to be provided), such Non-U.S. Lender shall not be entitled to indemnification under this SECTION 3.5 with respect to Taxes imposed by the United States; PROVIDED that, should a Non-U.S. Lender which is otherwise exempt from or subject to a reduced rate of withholding tax become subject to Taxes because of its failure to deliver a form required under clause (d), above, the Borrower shall take such steps as such Non-U.S. Lender shall reasonably request to assist such Non-U.S. Lender to recover such Taxes.

(f) Any Lender that is entitled to an exemption from or reduction of withholding tax with respect to payments under this Agreement or any Note pursuant to the law of any relevant jurisdiction or any treaty shall deliver to the Borrower (with a copy to the Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

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(g) If the U.S. Internal Revenue Service or any other governmental authority of the United States or any other country or any political subdivision thereof asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or properly completed, because such Lender failed to notify the Agent of a change in circumstances which rendered its exemption from withholding ineffective, or for any other reason), such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax, withholding therefor, or otherwise, including penalties and interest, and including taxes imposed by any jurisdiction on amounts payable to the Agent under this subsection, together with all costs and expenses related thereto (including attorneys fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent). The obligations of the Lenders under this SECTION 3.5(g) shall survive the payment of the Obligations and termination of this Agreement.

3.6. LENDER STATEMENTS; SURVIVAL OF INDEMNITY. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Loans to reduce any liability of the Borrower to such Lender under SECTIONS 3.1, 3.2 and 3.5 or to avoid the unavailability of Eurodollar Advances under SECTION 3.3, so long as such designation is not, in the reasonable judgment of such Lender, disadvantageous to such Lender. Each

Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under SECTION 3.1, 3.2, 3.4 or 3.5. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Loan shall be calculated as though each Lender funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of such written statement. The obligations of the Borrower under SECTIONS 3.1, 3.2, 3.4 and 3.5 shall survive payment of the Obligations and termination of this Agreement.

3.7. SUBSTITUTION OF LENDERS. Any Lender claiming any additional amounts payable pursuant to SECTION 3.1, 3.2, or 3.5 or which gives a notice described in SECTION 3.3(a) shall, so long as no Default or Unmatured Default has occurred and is continuing, upon the written request of the Borrower delivered, within ninety (90) days after such Lender's claim or notice, to such Lender and the Agent, assign, pursuant to and in accordance with the provisions of SECTION 12.3, all of its rights and obligations under this Agreement and under the Loan Documents to another Lender or to a commercial bank, other financial institution, commercial finance company or other business lender selected by the Borrower and reasonably acceptable to the Agent that has agreed not to claim any additional amounts under SECTION 3.1, 3.2 or 3.5 with respect to some or all of the costs or regulatory charges that gave rise to such assigning Lender's claim for such compensation or, as applicable, has not made a determination of the type described in SECTION 3.3(a), in consideration for (a) the payment by such assignee to such assigning Lender of the principal of, and interest accrued and unpaid to the date of such assignment on, the Loans held by such assigning Lender, (b) the payment by the Borrower to such assigning Lender of any and

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all other amounts owing to such assigning Lender under any provision of this Agreement accrued and unpaid to the date of such assignment and (c) the payment by the Borrower to such assigning Lender of any amounts which would be payable to such Lender pursuant to SECTION 3.4 were such assignment treated as a repayment of such Loans.

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ARTICLE IV

CONDITIONS PRECEDENT

4.1. INITIAL ADVANCE AND FACILITY LETTERS OF CREDIT. The Lenders shall not be required to make the initial Advance hereunder and the Issuer shall not be required to issue any Facility Letter of Credit hereunder unless and until the Borrower (a) has furnished the following to the Agent with sufficient copies for the Lenders and (b) the other conditions set forth below have been satisfied:

- (i) Copies of the articles or certificate of incorporation of the Borrower, together with all amendments thereto, and a certificate of good standing, each certified by the appropriate governmental officer in its jurisdiction of incorporation.
- (ii) Copies, certified by the Secretary or Assistant Secretary of the Borrower, of its by-laws and of its Board of Directors' resolutions and of resolutions or actions of any other body authorizing the execution of the Loan Documents to which the Borrower is a party.
- (iii) An incumbency certificate, executed by the Secretary or Assistant Secretary of the Borrower, which shall identify by name and title and bear the signatures of the Authorized Officers and any other officers of the Borrower authorized to sign the Loan Documents to which the Borrower is a party, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower.
- (iv) A certificate signed by an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent, to the effect that on the date hereof (both before and after giving effect to the consummation of the other transactions contemplated hereby, the making of any Loans hereunder and the issuance of any Facility Letters of Credit hereunder on such date): (A) no Default or Unmatured Default has occurred and is continuing; (B) no injunction or temporary restraining order which would prohibit the making of the Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (C) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any

Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time required, will have been, obtained, given, filed or taken and are or will be in full force and effect (subject to prior approval of the relevant insurance commission or analogous Governmental Authority (if and to the extent required by applicable insurance laws and regulations) in respect of the exercise pursuant to the Pledge Agreement of any right to control, or to sell or otherwise require the transfer of title to any collateral constituting capital stock of, any Insurance Subsidiary); (D) each of the representations and warranties set forth in

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ARTICLE V of this Agreement is true and correct on and as of the date hereof; and (E) since September 30, 1998, no event or change has occurred that has caused or evidences a Material Adverse Effect.

- (v) Copies of the certificate or articles of incorporation of Fund together with all amendments thereto, certified by the appropriate governmental officer in its jurisdiction of incorporation, together with a good standing certificate issued by the Secretary of State of the jurisdiction of its incorporation and such other jurisdictions as shall be requested by the Agent.
- (vi) Copies, certified by the Secretary or Assistant Secretary of Fund, of its by-laws and of its Board of Directors' resolutions authorizing the execution, delivery and performance of the Loan Documents to which it is a party.
- (vii) An incumbency certificate, executed by the Secretary or Assistant Secretary of Fund, which shall identify by name and title and bear the signature of its officers authorized to sign the Loan Documents to which it is a party.
- (viii) Copies of the articles of incorporation of each Significant Insurance Subsidiary, together with all amendments thereto, certified by the Secretary or Assistant Secretary of the Borrower, together with such good standing certificates and certificates of authority and/or compliance as shall be required by the Agent.
- (ix) A written opinion of Brobeck, Phleger & Harrison LLP, counsel to the Borrower, addressed to the Agent and the Lenders in form and substance acceptable to the Agent and its counsel.
- (x) Any Notes requested by a Lender pursuant to SECTION 2.13 payable to the order of each such requesting Lender.
- (xi) Written money transfer instructions, in substantially the form of EXHIBIT D, addressed to the Agent and signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may have reasonably requested.
- (xii) Executed originals of this Agreement and each of the Loan Documents, which shall be in full force and effect, together with all schedules, exhibits, certificates, instruments, opinions, documents and financial statements required to be delivered pursuant hereto and thereto.
- (xiii) A written solvency certificate from the chief financial officer of the Borrower and Fund in form and content satisfactory to the Agent with respect to the value, Solvency and other factual information of, or relating to, as the case may be, the Borrower, on a consolidated basis, and Fund, on a consolidated basis.
- (xiv) The Guaranty duly executed by Fund.

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- (xv) Executed originals of the Pledge Agreement, together with the stock certificates representing the capital stock of each Subsidiary of the Borrower (other than any Subsidiary of an Insurance Subsidiary) and stock powers with respect thereto executed in blank.
- (xvi) A copy of the Purchase Agreement and any amendments, supplements and modifications thereto.
- (xvii) Evidence satisfactory to the Agent that the Existing Credit Agreement has been terminated and all Indebtedness, liabilities and obligations outstanding thereunder shall have been paid in full.
- (xviii) Evidence satisfactory to the Agent that the White Mountains Credit Agreement has been terminated and all Indebtedness, liabilities and obligations outstanding thereunder shall have been paid in full.
- (xix) Executed original of the Fund Credit Agreement, which shall be in

full force and effect, in a form satisfactory to the Lenders.

- (xx) Receipt of any required regulatory approvals from any Governmental Authority, including the Department of Insurance of the State of New York (subject to prior approval of the relevant insurance commission or analogous Governmental Authority (if and to the extent required by applicable insurance laws and regulations) in respect of the exercise pursuant to the Pledge Agreement of any right to control, or to sell or otherwise require the transfer of title to any collateral constituting capital stock of, any Insurance Subsidiary).
- (xxi) Information satisfactory to the Agent and the Required Lenders regarding the Borrower's Year 2000 Program.
- (xxii) The Borrower shall have paid all fees due to First Chicago.
- (xxiii) Such other documents as any Lender or its counsel may have reasonably requested.

4.2. EACH ADVANCE AND FACILITY LETTER OF CREDIT. The Lenders shall not be required to make any Advance and the Issuer shall not be obligated to issue any future Facility Letter of Credit unless on the applicable Borrowing Date:

- (a) There exists no Default or Unmatured Default and none would result from such Advance or issuance of such Facility Letter of Credit;
- (b) The representations and warranties contained in ARTICLE V are true and correct as of such Borrowing Date, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct on and as of such earlier date;
- (c) A Borrowing Notice shall have been properly submitted; and
- (d) All legal matters incident to the making of such Advance or issuance of such Facility Letter of Credit shall be satisfactory to the Lenders and their counsel.

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Each Borrowing Notice with respect to each such Advance and each Issuance request with respect to each Facility Letter of Credit shall constitute a representation and warranty by the Borrower that the conditions contained in SECTIONS 4.2(a) and (b) have been satisfied. Any Lender may require a duly completed compliance certificate in substantially the form of EXHIBIT B as a condition to making an Advance or issuing a Facility Letter of Credit.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

5.1. EXISTENCE AND STANDING. Each of the Borrower and its Subsidiaries is a corporation, partnership (in the case of Subsidiaries only) or limited liability company duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

5.2. AUTHORIZATION AND VALIDITY. Each of the Borrower and Fund has the power and authority (corporate or otherwise) and legal right to execute and deliver the Loan Documents to which it is a party and to perform its obligations thereunder. The execution and delivery by the Borrower and Fund of the Loan Documents to which it is a party and the performance of their respective obligations thereunder have been duly authorized by proper corporate proceedings, and the Loan Documents constitute legal, valid and binding obligations of the Borrower and Fund, as applicable, enforceable against the Borrower or Fund, as applicable, in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. COMPLIANCE WITH LAWS AND CONTRACTS. The Borrower and its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the execution and delivery by the Borrower of the Loan Documents, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the

Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations T, U and X), order, writ, judgment, injunction, decree or award binding on the

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Borrower or any Subsidiary or the Borrower's or any Subsidiary's charter, articles or certificate of incorporation or by-laws, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which the Borrower or any Subsidiary is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by or granted under, the Loan Documents) in, of or on the property of the Borrower or any Subsidiary pursuant to the terms of any such indenture, instrument or agreement, or (c) require any consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance or are disclosed on SCHEDULE 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. GOVERNMENTAL CONSENTS. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents or the application of the proceeds of the Loans or any other transaction contemplated in the Loan Documents (subject to prior approval of the relevant insurance commission or analogous Governmental Authority (if and to the extent required by applicable insurance laws and regulations) in respect of the exercise pursuant to the Pledge Agreement of any right to control, or to sell or otherwise require the transfer of title to any collateral constituting capital stock of, any Insurance Subsidiary). Neither the Borrower nor any Subsidiary is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or award binding upon or applicable to the Borrower or such Subsidiary, in each case the consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. FINANCIAL STATEMENTS. The Borrower has heretofore furnished to each of the Lenders (a) the December 31, 1997 audited consolidated financial statements of the Borrower and its Subsidiaries, (b) the unaudited consolidated financial statements of the Borrower and its Subsidiaries through September 30, 1998, (c) the December 31, 1997 audited consolidated financial statements of Fund and its Subsidiaries, (d) the unaudited consolidated financial statements of Fund and its Subsidiaries through September 30, 1998, (e) the December 31, 1997 Annual Statement of each Significant Insurance Subsidiary of the Borrower and (f) the September 30, 1998 Quarterly Statement of each Significant Insurance Subsidiary of the Borrower (collectively, the "FINANCIAL STATEMENTS"). Each of the Financial Statements was prepared in accordance with Agreement Accounting Principles or SAP, as applicable, and fairly presents the consolidated financial condition and operations of the Person which is the subject of such Financial Statement at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

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5.6. MATERIAL ADVERSE CHANGE. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of the Borrower and its Subsidiaries has occurred since December 31, 1997.

5.7. TAXES. The Borrower and its Subsidiaries have filed or caused to be filed on a timely basis and in correct form all United States federal and applicable foreign, state and local tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Borrower or any Subsidiary, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with Agreement Accounting Principles or SAP, as applicable, and as to which no Lien exists. As of the date hereof, the United States income tax returns of the Borrower on a consolidated basis have not been audited by the Internal Revenue Service. No tax liens have been filed and no claims are being asserted with respect to any such taxes which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of any taxes or other governmental charges are in accordance with Agreement Accounting Principles or SAP, as applicable.

5.8. LITIGATION AND CONTINGENT OBLIGATIONS. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to

the knowledge of any of their officers, threatened against or affecting the Borrower or any Subsidiary or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. Neither the Borrower nor any Subsidiary has any material contingent obligations incurred outside of the ordinary course of its business except as set forth on SCHEDULE 5.8 hereto or disclosed in the Financial Statements or in financial statements required to be delivered under SECTIONS 6.1(a) and (b) or as otherwise disclosed by the Borrower in writing to the Lenders and as permitted under this Agreement.

5.9. CAPITALIZATION. SCHEDULE 5.9 hereto contains (a) an accurate description of the Borrower's capitalization as of the date of this Agreement after giving effect to the transactions contemplated hereby and (b) an accurate list of all of the existing Subsidiaries as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of the Borrower and of each Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens. No authorized but unissued or treasury shares of capital stock of the Borrower or any of its Subsidiaries are subject to any option, warrant, right to call or commitment of any kind or character. Except as set forth on SCHEDULE 5.9 or pursuant to management incentive plans implemented after the date of this Agreement, neither the Borrower nor any of its Subsidiaries has any outstanding stock or securities convertible into or exchangeable for any shares of its capital stock, or any right issued to any Person (either preemptive or other) to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to any of its capital stock or any stock or securities convertible into or exchangeable for any of its capital stock other than as expressly set forth in the certificate or articles of incorporation of the

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Borrower or such Subsidiary. Neither the Borrower nor any of its Subsidiaries is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital stock or any convertible securities, rights or options of the type described in the preceding sentence except as otherwise set forth on SCHEDULE 5.9 or pursuant to management incentive plans implemented after the date of this Agreement.

5.10. ERISA. Except as disclosed on SCHEDULE 5.10, neither the Borrower nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability. Neither the Borrower nor any other member of the Controlled Group maintains, or is obligated to contribute to, any Multiemployer Plan or has incurred, or is reasonably expected to incur, any withdrawal liability to any Multiemployer Plan. Each Plan complies in all material respects with all applicable requirements of law and regulations other than any such failure to comply which could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any member of the Controlled Group has, with respect to any Plan, failed to make any contribution or pay any amount required under Section 412 of the Code or Section 302 of ERISA or the terms of such Plan. There are no pending or, to the knowledge of the Borrower, threatened claims, actions, investigations or lawsuits against any Plan, any fiduciary thereof, or the Borrower or any member of the Controlled Group with respect to a Plan. Neither the Borrower nor any member of the Controlled Group has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan which would subject such Person to any material liability. Within the last five (5) years neither the Borrower nor any member of the Controlled Group has engaged in a transaction which resulted in a Single Employer Plan with an Unfunded Liability being transferred out of the Controlled Group which could reasonably be expected to have a Material Adverse Effect. No Termination Event has occurred or is reasonably expected to occur with respect to any Plan which is subject to Title IV of ERISA which could reasonably be expected to have a Material Adverse Effect.

5.11. DEFAULTS. No Default or Unmatured Default has occurred and is continuing.

5.12. FEDERAL RESERVE REGULATIONS. Neither the Borrower nor any Subsidiary is engaged, directly or indirectly, principally, or as one of its important activities, in the business of extending, or arranging for the extension of, credit for the purpose of purchasing or carrying Margin Stock. No part of the proceeds of any Loan will be used in a manner which would violate, or result in a violation of, Regulation T, Regulation U or Regulation X. Neither the making of any Advance hereunder nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulation T, Regulation U or Regulation X.

5.13. INVESTMENT COMPANY. Neither the Borrower nor any Subsidiary is, or after giving effect to any Advance will be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

5.14. SOLVENCY. As of the date hereof, after giving effect to the consummation of the transactions contemplated by the Loan Documents (including the stock redemption referenced in

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Recital B to this Agreement) and the payment of all fees, costs and expenses payable by the Borrower or its Subsidiaries with respect to the transactions contemplated by the Loan Documents and the Loans incurred by the Borrower under this Agreement, each of the Borrower (both individually and on a consolidated basis) and Fund is Solvent.

5.15. INDEBTEDNESS. Attached hereto as SCHEDULE 5.15 is a complete and correct list of all Indebtedness of the Borrower and its Subsidiaries outstanding on the date of this Agreement (other than Indebtedness in a principal amount not exceeding \$500,000 for a single item of Indebtedness and \$2,000,000 in the aggregate for all such Indebtedness listed), showing the aggregate principal amount which was outstanding on such date after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date.

5.16. INSURANCE LICENSES. SCHEDULE 5.16 hereto lists, as of the date of this Agreement, (a) all of the jurisdictions in which any Insurance Subsidiary holds a License and is authorized to and does transact insurance business and (b) the line or lines of insurance in which each such Insurance Subsidiary is engaged. Such Licenses are sufficient for each such Insurance Subsidiary to conduct its insurance business. No such License, the loss of which could reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To the Borrower's knowledge, there is no sustainable basis for such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

5.17. REINSURANCE. Each reinsurance agreement to which any Significant Insurance Subsidiary is a party (collectively, the "EXISTING REINSURANCE AGREEMENTS") is in full force and effect and is valid and binding in all material respects in accordance with its terms, and, as of the date hereof, no Significant Insurance Subsidiary has, to the Borrower's knowledge, received notice (other than provisional notices of cancellation received in the ordinary course of business) that any other party to an in-force Existing Reinsurance Agreement will cancel or not renew such agreement, which cancellation or nonrenewal could reasonably be expected to have a Material Adverse Effect. Except as set forth on SCHEDULE 5.17, the Borrower does not have knowledge as of the date hereof that any amount recoverable by any Significant Insurance Subsidiary pursuant to any Existing Reinsurance Agreement is not fully collectible in due course. To the knowledge of the Borrower, no Significant Insurance Subsidiary is in default in any material respect as to any Existing Reinsurance Agreement. Except as disclosed in SCHEDULE 5.17, each Significant Insurance Subsidiary is entitled to take full credit in its statutory financial statements for ceded reinsurance under the Existing Reinsurance Agreements pursuant to applicable insurance laws. Except as disclosed in SCHEDULE 5.17, as of the date hereof there is no claim currently in litigation (or as to which litigation has been threatened in writing) under any Existing Reinsurance Agreement in excess of \$1,000,000.

5.18. DIVIDENDS. Except as set forth on SCHEDULE 5.18, no Significant Insurance Subsidiary is subject to any regulatory prohibition regarding the declaration or payment of dividends that is not generally applicable to all insurance companies which are domiciled in the same jurisdiction and are engaged in the same line of business as such Significant Insurance Subsidiary.

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5.19. SECURITY. The Pledge Agreement is effective to create and give the Agent, for the benefit of the Lenders, as security for the repayment of the obligations secured thereby, a legal, valid, perfected and enforceable first priority Lien upon and security interest in the capital stock pledged thereunder.

5.20. PLAN ASSETS; PROHIBITED TRANSACTIONS. The Borrower is not an entity deemed to hold "plan assets" within the meaning of 29 C.F.R. Section 2510.3-101 of an employee benefit plan (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA or any plan (within the meaning of Section 4975 of the Code), and neither the execution of this Agreement nor the making of Loans hereunder gives rise to a prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code.

5.21. MATERIAL AGREEMENTS. Except as set forth in SCHEDULE 5.21 and except for agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect or which restricts or imposes conditions upon the ability of any Subsidiary to (a) pay dividends or make other distributions on its capital stock (b) make loans or advances to the Borrower, (c) repay loans or advances from Borrower or (d) grant Liens to the Agent to secure the Obligations. Neither the Borrower nor any Subsidiary is in default in the performance,

observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect.

5.22. INSURANCE. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance on their Property in such amounts and covering such risks as is consistent with sound business practice.

5.23. YEAR 2000. The Borrower has made a reasonable assessment of the Year 2000 Issues and has a realistic and achievable program for remediating the Year 2000 Issues on a timely basis (the "Year 2000 Program"). Based on such assessment and on the Year 2000 Program the Borrower does not reasonably anticipate that Year 2000 Issues will have a Material Adverse Effect.

5.24. DISCLOSURE. No information, exhibit or report furnished by either Borrower or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially misleading. There is no fact known to the Borrower (other than matters of a general economic or political nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to the Lenders for use in connection with the transactions contemplated by this Agreement.

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ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1. FINANCIAL REPORTING. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, consistently applied, and furnish to the Lenders:

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows accompanied by any management letter prepared by said accountants and a certificate of said accountants that, in the course of the examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof.

(b) As soon as practicable and in any event within sixty (60) days after the close of each of the first three (3) Fiscal Quarters of each of its Fiscal Years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating statements of income, retained earnings and cash flows for the period from the beginning of such Fiscal Year to the end of such quarter, all certified by its chief financial officer.

(c) (i) Upon the earlier of (A) fifteen (15) days after the regulatory filing date or (B) seventy-five (75) days after the close of each fiscal year of each Significant Insurance Subsidiary of the Borrower, copies of the unaudited Annual Statement of such Insurance Subsidiary, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP and (ii) no later than each June 15, copies of financial statements prepared in accordance with SAP, or generally accepted accounting principles with a reconciliation to SAP, and certified by independent certified public accountants of recognized national standing.

(d) Upon the earlier of (i) ten (10) days after the regulatory filing date or (ii) sixty (60) days after the close of each of the first three (3) fiscal quarters of each fiscal year of each Significant Insurance Subsidiary of the Borrower, copies of the unaudited Quarterly Statement of such Insurance Subsidiary, certified by the chief financial officer

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or the treasurer of such Insurance Subsidiary, all such statements to be

prepared in accordance with SAP consistently applied through the period reflected herein.

(e) Promptly and in any event within ten (10) days after (i) learning thereof, notification of any changes after the date of this Agreement in the rating given by A.M. Best & Co. in respect of any Significant Insurance Subsidiary of the Borrower and (ii) receipt thereof, copies of any ratings analysis by A.M. Best & Co. relating to any Significant Insurance Subsidiary of the Borrower.

(f) Copies of any outside actuarial reports prepared with respect to any valuation or appraisal of any Significant Insurance Subsidiary of the Borrower, promptly after the receipt thereof.

(g) Together with the financial statements required by CLAUSES (a) and (b) above, a compliance certificate in substantially the form of EXHIBIT B hereto signed by the Borrower's chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(h) Promptly after the same becomes available after the close of each Fiscal Year, a statement of the Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(i) As soon as possible and in any event within ten (10) days after the Borrower knows that any Termination Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Borrower, describing said Termination Event and the action which the Borrower proposes to take with respect thereto.

(j) As soon as possible and in any event within ten (10) days after receipt by the Borrower, a copy of (i) any notice, claim, complaint or order to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a release of Hazardous Materials into the environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law by the Borrower or any of its Subsidiaries. Within ten (10) days of the Borrower or any of its Subsidiaries having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, the Borrower shall provide the Agent with written notice thereof.

(k) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished.

(l) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Borrower or any of its

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Subsidiaries files with the Securities and Exchange Commission, the National Association of Securities Dealers, any securities exchange, the NAIC or any insurance commission or department or analogous Governmental Authority (including any filing made by the Borrower or any of its Subsidiaries pursuant to any insurance holding company act or related rules or regulations), but excluding routine or non-material filings with the NAIC, any insurance commissioner or department or analogous Governmental Authority.

(m) Promptly and in any event within ten (10) days after learning thereof, notification of (i) any material tax assessment, demand, notice of proposed deficiency or notice of deficiency received by the Borrower or any other Consolidated Person or (ii) the filing of any tax Lien or commencement of any judicial proceeding by or against any such Consolidated Person, if any such assessment, demand, notice, Lien or judicial proceeding relates to tax liabilities in excess of ten percent (10%) of the net worth (determined according to generally accepted accounting standards and without reduction for any reserve for such liabilities) of the Borrower and its Subsidiaries taken as a whole.

(n) Promptly after reviewed by the relevant board of directors, a copy of the Borrower's investment policy compliance report.

(o) As soon as possible and in any event within two (2) Business Days after the Borrower obtains knowledge thereof, notice of any change in the S&P or Moody's credit rating of Fund.

(p) Such other information (including, without limitation, the annual Best's Advance Report Service report prepared with respect to each Insurance Subsidiary of the Borrower rated by A.M. Best & Co. and non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. USE OF PROCEEDS. The Borrower will, and will cause each Subsidiary to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower and its Subsidiaries, including, but not limited to, the making of (a) payments required by the Purchase Agreement, (c) payments to terminate the Existing Credit Agreement and (c) any Investments permitted by SECTION 6.14. The Borrower will not, nor will it permit any of its Subsidiaries to, use any of the proceeds of the Advances or any Facility Letters of Credit in any manner which would violate, or result in the violation of, Regulation T, Regulation U or Regulation X or to finance the Acquisition of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

6.3. NOTICE OF DEFAULT. The Borrower will, and will cause each Subsidiary to, give prompt notice in writing to the Lenders of (a) the occurrence of any Default or Unmatured Default, (b) the occurrence of any other development, financial or otherwise (including, without limitation, developments with respect to Year 2000 Issues) which could reasonably be expected to have a Material Adverse Effect, (c) the receipt of any notice from any Governmental Authority of the expiration without renewal, revocation or suspension of, or the institution of any

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proceedings to revoke or suspend, any License now or hereafter held by any Insurance Subsidiary which is required to conduct insurance business in compliance with all applicable laws and regulations and the expiration, revocation or suspension of which could reasonably be expected to have a Material Adverse Effect, (d) the receipt of any notice from any Governmental Authority of the institution of any disciplinary proceedings against or in respect of any Insurance Subsidiary, or the issuance of any order, the taking of any action or any request for an extraordinary audit for cause by any Governmental Authority which, if adversely determined, could reasonably be expected to have a Material Adverse Effect, (e) any judicial or administrative order limiting or controlling the insurance business of any Insurance Subsidiary (and not the insurance industry generally) which has been issued or adopted and which has had, or could reasonably be expected to have, a Material Adverse Effect, or (f) the commencement of any litigation of which the Borrower or any of its Subsidiaries is aware which could reasonably be expected to create a Material Adverse Effect.

6.4. CONDUCT OF BUSINESS. The Borrower will, and will cause each of its Subsidiaries to, (a) carry on and conduct its business in substantially the same manner and in substantially the same fields of business as it is presently conducted (except USF RE, when it becomes a Subsidiary, may consummate the USF RE Transaction), (b) not conduct any significant business except for insurance or insurance related services, (c) do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted except where the failure to maintain such authority could not reasonably be expected to have a Material Adverse Effect and (d) do all things necessary to renew, extend and continue in effect all Licenses which may at any time and from time to time be necessary for any Insurance Subsidiary to operate its insurance business in compliance with all applicable laws and regulations except for any License the loss of which could not reasonably be expected to have a Material Adverse Effect; PROVIDED, that any Insurance Subsidiary may withdraw from one or more states (other than its state of domicile) as an admitted insurer if such withdrawal is determined by the Borrower's Board of Directors to be in the best interest of the Borrower and could not reasonably be expected to have a Material Adverse Effect. No Insurance Subsidiary shall change its state of domicile or incorporation without the prior written consent of the Required Lenders. Each Wholly-Owned Subsidiary in existence as of the date of this Agreement which is a Significant Subsidiary shall continue to be a Wholly-Owned Subsidiary.

6.5. TAXES. The Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with Agreement Accounting Principles or SAP, as applicable.

6.6. INSURANCE. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to any Lender upon request full information as to the insurance carried.

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6.7. COMPLIANCE WITH LAWS. The Borrower will, and will cause each Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject including, without limitation, all Environmental Laws, the failure to comply

with which could reasonably be expected to have a Material Adverse Effect.

6.8. MAINTENANCE OF PROPERTIES. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times (except USF RE, when it becomes a Subsidiary, may consummate the USF RE Transaction).

6.9. INSPECTION. The Borrower will, and will cause each of its Subsidiaries to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower and such Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and such Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and such Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate. The Borrower will keep or cause to be kept, and cause each of its Subsidiaries to keep or cause to be kept, appropriate records and books of account in which complete entries are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles or SAP, as applicable.

6.10. DIVIDENDS. The Borrower will not, nor will it permit any Subsidiary to, declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock) or redeem, repurchase or otherwise acquire or retire any of its capital stock or options or other rights in respect thereof at any time outstanding, except that (a) any Subsidiary may declare and pay dividends or make distributions to the Borrower or to a Wholly-Owned Subsidiary and (b) so long as no Default or Unmatured Default exists before or after giving effect to the declaration or payment of such dividends or distributions or repurchase or redemption of such stock or other transaction, the Borrower may declare and pay dividends or make distributions, repurchase stock or make other capital distributions (i) as described on the Dividend Schedule hereto and (ii) in an amount equal to any amounts which have been contributed as equity to the Borrower and used to Defease Allowable Seller Paper but which is released from the Account because of a reduction in the principal amount of such Allowable Seller Paper other than as a result of the payment thereof.

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6.11. INDEBTEDNESS. The Borrower will not, nor will it permit any Subsidiary to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and described in SCHEDULE 5.15 hereto (it being understood and agreed that Indebtedness in a principal amount not exceeding \$500,000 for a single item of Indebtedness and \$2,000,000 in the aggregate for all such Indebtedness listed shall be permitted to exist pursuant to this SECTION 6.11(b) notwithstanding the absence thereof on SCHEDULE 5.15) and any renewals, extensions, refundings or refinancings of such Indebtedness (including any necessary pre-payment premium payments on such Indebtedness); PROVIDED that the amount thereof is not increased and the maturity or scheduled amortization of principal thereof is not shortened (unless to a maturity or scheduled amortization occurring after the Facility Termination Date);

(c) Indebtedness owing by (x) the Borrower to any Wholly-Owned Subsidiary and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary or the Borrower;

(d) Allowable Seller Paper in an aggregate principal amount not to exceed \$25,000,000 at any time;

(e) Indebtedness secured by Liens permitted pursuant to SECTION 6.16(f);

(f) Letters of Credit issued on behalf of Insurance Subsidiaries in the ordinary course of business and ordinary course reinsurance obligations of USF RE (when it becomes a Wholly-Owned Subsidiary) which are secured by Liens permitted by SECTION 6.16(h); PROVIDED that the sum of the acceptable face amount of such Letters of Credit and the amount of such reinsurance obligations shall not exceed \$25,000,000 at any time;

(g) Letters of Credit having an aggregate outstanding face amount at no time in excess of \$15,000,000 issued on behalf of the Borrower for the benefit of Insurance Subsidiaries in the ordinary course of business relating to tax sharing agreements and reinsurance agreements;

(h) Contingent Obligations permitted under SECTION 6.15; and

(i) other Indebtedness (including Contingent Obligations) to the

extent not otherwise included in subparagraphs (a) through (h) of this SECTION 6.11 or in SECTION 6.15, in an aggregate principal amount outstanding at any one time not to exceed \$10,000,000.

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6.12. MERGER. The Borrower will not, nor will it permit any Significant Subsidiary to, merge or consolidate with or into any other Person, except that:

(a) a Wholly-Owned Subsidiary may merge (i) into the Borrower, (ii) with any Wholly-Owned Subsidiary of the Borrower, (iii) with any other Person (excluding Fund and its Subsidiaries) so long as no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and the surviving entity of such merger is the Borrower (in the case of CLAUSE (i)) or a Wholly-Owned Subsidiary of the Borrower (in the case of either CLAUSE (ii) or (iii), except USF RE, when it becomes a Wholly-Owned Subsidiary, may pursuant to the USF RE Transaction merge with any Person so long as after giving effect thereto Fund will not, nor will any of its Subsidiaries, own any portion of the surviving entity);

(b) a Significant Subsidiary may merge or consolidate with any Person (including the Borrower and any of its Subsidiaries, but otherwise excluding Fund and its Subsidiaries) so long as (i) no Default or Unmatured Default shall have occurred or be continuing before or after giving effect to such merger or consolidation and (ii) a Significant Subsidiary is the continuing or surviving corporation; and

(c) the Borrower may merge or consolidate with any other Person (including the Borrower's Subsidiaries, but otherwise excluding Fund and its Subsidiaries), so long as immediately thereafter (and after giving effect thereto), (i) no Default or Unmatured Default exists, (ii) the Borrower is the continuing or surviving corporation and (iii) the covenants contained in SECTION 6.21 shall be complied with on a PRO FORMA basis on the date of, and after giving effect to, such merger or consolidation.

6.13. SALE OF ASSETS. The Borrower will not, nor will it permit any Subsidiary to, lease, sell or otherwise dispose of its Property to any other Person except for (a) sales of Cash Equivalents or Investments by the Borrower and Insurance Subsidiaries, in each case in the ordinary course of business, (b) sales of the stock or assets of Insurance Subsidiaries which are not Significant Subsidiaries as of the date of sale or as of the date hereof and (c) other leases, sales, transfers or other dispositions of Property which do not exceed (i) \$2,000,000 per calendar year in the aggregate for the Borrower or (ii) \$30,000,000 per calendar year in the aggregate for the Borrower's Subsidiaries.

6.14. INVESTMENTS AND ACQUISITIONS.

(a) The Borrower will not, nor will it permit any Subsidiary which is not an Insurance Subsidiary to, make or suffer to exist any Investments (including without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Acquisition of any Person, except:

(i) Cash and Cash Equivalents;

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(ii) Investments in debt securities rated BBB- or better by S&P, Baa3 or better by Moody's or NAIC-2 or better by the NAIC; PROVIDED, that any such Investment which, at any time after which it is made, ceases to meet such rating requirements shall remain permitted hereby until thirty (30) days after the date on which such rating requirement is no longer met;

(iii) Investments or commitments therefor (such commitments being set forth on SCHEDULE 6.14) in existence on the date hereof;

(iv) Investments made in Subsidiaries;

(v) Acquisitions of or Investments in businesses or entities engaged in the insurance and/or insurance services business or businesses reasonably incident thereto (including holding companies, the Subsidiaries of which on a consolidated basis are primarily engaged in such businesses) which do not constitute hostile takeovers (including the creation of Subsidiaries in connection therewith) so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Acquisition or Investment; and

(vi) loans made by (x) the Borrower to any Wholly-Owned Subsidiary of the Borrower and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary of the Borrower or the Borrower so long as, in all cases, no

Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such loan.

(b) The Borrower will not permit any Insurance Subsidiary to make or suffer to exist any Investments (including without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Acquisition of any Person, except for Investments permitted by law and so long as:

(i) any such Investment is materially consistent with the Borrower's investment policy guidelines as approved from time to time by the finance committee of the board of directors of the Borrower (a copy of the current version of such guidelines having been delivered to each Lender); PROVIDED that any change from the guidelines previously submitted to the Lenders shall not materially adversely affect the Lenders;

(ii) any Acquisitions or Investments of the type described in SECTION 6.14(a)(v) shall satisfy the requirements of such section; and

(iii) the following types of Investments shall not in the aggregate constitute at any time more than 30% in value of the Investments of any Insurance Subsidiary: (A) common equities of a Person other than a Subsidiary; (B) Investments rated below NAIC-2; and (C) debt instruments rated below BBB- by S&P or below Baa3 by Moody's.

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(c) Notwithstanding the foregoing, neither the Borrower nor any of its Subsidiaries shall make any loan to, or any other Investment in, Fund or in any Subsidiary of Fund which is not the Borrower or a Subsidiary of the Borrower nor shall the Borrower permit more than 25% in value of the assets of the Borrower or any of its Subsidiaries to consist of Margin Stock.

6.15. CONTINGENT OBLIGATIONS. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any material Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (a) the Contingent Obligations described on SCHEDULE 5.8, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course of business and (d) Contingent Obligations in respect of Facility Letters of Credit or Letters of Credit permitted by SECTION 6.11(f) or (g).

6.16. LIENS. The Borrower will not, nor will it permit any Subsidiary to, create, incur, or suffer to exist any Lien in, of or on the Property of the Borrower or any of its Subsidiaries, except:

(a) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with generally accepted principles of accounting shall have been set aside on its books;

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment of obligations not more than sixty (60) days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

(c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or any of its Subsidiaries;

(e) Liens existing on the date hereof and described in SCHEDULE 6.16 hereto;

(f) Liens in, of or on Property acquired after the date of this Agreement (by purchase, construction or otherwise) by the Borrower or any of their Subsidiaries, each of which Liens either (1) existed on such Property before the time of its acquisition and was not created in anticipation thereof, or (2) was created solely for the purpose of securing

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Indebtedness representing, or incurred to finance, refinance or refund,

the cost (including the cost of construction) of such Property; PROVIDED that no such Lien shall extend to or cover any Property of the Borrower or such Subsidiary other than the Property so acquired and improvements thereon; and PROVIDED, FURTHER, that the principal amount of Indebtedness secured by any such Lien shall at the time the Lien is incurred not exceed 75% of the fair market value (as determined in good faith by a financial officer of the Borrower and, in the case of such Property having a fair market value in excess of \$500,000, certified by such officer to the Agent, with a copy for each Lender) of the Property at the time it was so acquired;

(g) Liens on the Account in connection with Defeating any Allowable Seller Paper;

(h) Liens on assets of Insurance Subsidiaries securing Letters of Credit permitted by SECTION 6.11(f) and Liens on assets of USF RE, when it becomes a Wholly-Owned Subsidiary, securing ordinary course reinsurance obligations of USF RE permitted by SECTION 6.11(f);

(i) Liens on assets of the Borrower securing Letters of Credit permitted by SECTION 6.11(g); and

(j) Liens not otherwise permitted by the foregoing clauses (a) through (i) securing any Indebtedness of the Borrower, PROVIDED that the aggregate principal amount of Indebtedness secured by Liens permitted by this CLAUSE (j) shall not exceed \$5,000,000 at any time.

6.17. AFFILIATES. The Borrower will not, and will not permit any Subsidiary to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate (other than a Wholly-Owned Subsidiary) except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction.

6.18. CHANGE IN CORPORATE STRUCTURE; FISCAL YEAR. The Borrower shall not, nor shall it permit any Subsidiary to, (a) permit any amendment or modification to be made to its certificate or articles of incorporation or by-laws which is materially adverse to the interests of the Lenders or (b) change its Fiscal Year to end on any date other than December 31 of each year.

6.19. INCONSISTENT AGREEMENTS. The Borrower shall not, nor shall it permit any Subsidiary to, enter into any indenture, agreement, instrument or other arrangement which by its terms, (a) other than pursuant to agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, directly or indirectly contractually prohibits or restrains, or has the effect of contractually prohibiting or restraining, or contractually imposes materially adverse conditions upon, the incurrence of the Obligations, the granting of Liens to secure the Obligations, the amending of the Loan Documents or the ability of any Subsidiary to (i) pay

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dividends or make other distributions on its capital stock, (ii) make loans or advances to the Borrower or (iii) repay loans or advances from the Borrower or (b) contains any provision which would be violated or breached by the making of Advances or by the performance by the Borrower or any Subsidiary of any of its obligations under any Loan Document.

6.20. SUBORDINATED INDEBTEDNESS; PREPAYMENTS. The Borrower will not, and will not permit any Subsidiary to, make any amendment or modification to the indenture, note or other agreement evidencing or governing any Subordinated Indebtedness, or directly or indirectly voluntarily prepay, defease (other than the Defeating of Allowable Seller Paper) or in substance defease, purchase, redeem, retire or otherwise acquire, any Subordinated Indebtedness before the stated maturity thereof.

6.21. FINANCIAL COVENANTS

6.21.1 MINIMUM NET WORTH. The Borrower shall at all times maintain a minimum Net Worth at least equal to the sum of, without duplication, (a) \$201,420,000, PLUS (b) an amount equal to 50% of the cash and non-cash proceeds of any equity securities issued or capital contributions (other than capital contributions to the extent used to Defeat Allowable Seller Paper) received by the Borrower after September 30, 1998, PLUS (c) an amount equal to 50% of the Borrower's positive consolidated net income for each Fiscal Quarter ending after September 30, 1998.

6.21.2. MAXIMUM LEVERAGE RATIO. The Borrower shall at all times maintain a Leverage Ratio of (a) not greater than 35% through and including December 31, 1999, (b) not greater than 30% from January 1, 2000 through and including December 31, 2000, (c) not greater than 25% from January 1, 2001 through and including December 31, 2002 and (d) not greater than 20% at all times thereafter.

6.21.3. MINIMUM FIXED CHARGES COVERAGE RATIO. As of the end of each Fiscal Quarter, the Borrower shall maintain a Fixed Charges Coverage Ratio of not less than 1.5:1.0.

6.21.4. MINIMUM STATUTORY SURPLUS. The Borrower shall at all times maintain Statutory Surplus for each First-Tier Significant Insurance Subsidiary in an amount not less than an amount equal to (a) 90% of the Statutory Surplus of each such First-Tier Significant Insurance Subsidiary in existence on the date hereof as of September 30, 1998 (or, in the case of any First-Tier Significant Insurance Subsidiary acquired after the date hereof, 90% of the Statutory Surplus of each such acquired First-Tier Significant Insurance Subsidiary as of the most recently ended Fiscal Quarter preceding such acquisition) PLUS (b) an amount equal to 50% of the cash and non-cash proceeds of any equity securities issued or capital contributions received by each such First-Tier Significant Insurance Subsidiary.

6.21.5. MINIMUM RISK BASED CAPITAL RATIO. The Borrower shall at the end of each Fiscal Year cause each Significant Insurance Subsidiary to maintain a ratio of (a)

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total Adjusted Capital (as defined in the Risk-Based Capital Act or in the rules and procedures prescribed from time to time by the NAIC with respect thereto) to (b) the Company Action Level RBC (as defined in the Risk-Based Capital Act or in the rules and procedures prescribed from time to time by the NAIC with respect thereto) of at least 150%.

6.22. TAX CONSOLIDATION. The Borrower will not and will not permit any of its Subsidiaries to (a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than Fund, the Borrower and its Subsidiaries or (b) amend, terminate or fail to enforce any existing tax sharing agreement or similar arrangement if such action would cause a Material Adverse Effect.

6.23. ERISA COMPLIANCE.

With respect to any Plan, neither the Borrower nor any Subsidiary shall:

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the Code in excess of \$500,000 could be imposed;

(b) incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) in excess of \$500,000, whether or not waived, or permit any Unfunded Liability to exceed \$500,000;

(c) permit the occurrence of any Termination Event which could result in a liability to the Borrower or any other member of the Controlled Group in excess of \$500,000;

(d) be an "employer" (as such term is defined in Section 3(5) of ERISA) required to contribute to any Multiemployer Plan or a "substantial employer" (as such term is defined in Section 4001(a)(2) of ERISA) required to contribute to any Multiple Employer Plan; or

(e) permit the establishment or amendment of any Plan or fail to comply with the applicable provisions of ERISA and the Code with respect to any Plan which could result in liability to the Borrower or any other member of the Controlled Group which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.24. YEAR 2000. The Borrower will take and will cause each of its Subsidiaries to take all such actions as are reasonably necessary to successfully implement the Year 2000 Program and to assure that Year 2000 Issues will not have a Material Adverse Effect. At the request of the Agent or any Lender, the Borrower will provide a description of the Year 2000 Program, together with any updates or progress reports with respect thereto.

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6.25. SUBSIDIARY STOCK PLEDGE. Within five (5) Business Days of any Person becoming a Subsidiary of the Borrower, the Borrower shall pledge all of the stock or other equity interests thereof owned by the Borrower to the Agent for the benefit of the Lenders pursuant to documentation (including related certificates, opinions and financing statements) reasonably acceptable to the Agent.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Lenders or the Agent under or in connection with this Agreement, any Loan, any Facility Letter of Credit, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be false in any material respect on the date as of which made.

7.2. Nonpayment of principal of any Loan or any Reimbursement Obligation when due, or nonpayment of interest upon any Loan or of any commitment fee or other obligations under any of the Loan Documents within five (5) days after the same becomes due.

7.3. The breach by the Borrower of any of the terms or provisions of SECTION 6.2, SECTIONS 6.3(a) and (b) or SECTIONS 6.10 through 6.25.

7.4. The breach by the Borrower (other than a breach which constitutes a Default under SECTION 7.1, 7.2 or 7.3) of any of the terms or provisions of this Agreement which is not remedied within twenty (20) days after written notice from the Agent or any Lender.

7.5. The default by the Borrower or any of its Subsidiaries in the performance of any term, provision or condition contained in any agreement or agreements under which any Indebtedness aggregating in excess of \$2,000,000 was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Indebtedness to cause, such Indebtedness to become due prior to its stated maturity; any such Indebtedness of the Borrower or any of its Subsidiaries or of Fund or any of its Subsidiaries shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof; or the Borrower or any of its Subsidiaries shall not pay, or shall admit in writing its inability to pay, its debts generally as they become due.

7.6. The Borrower or any of its Subsidiaries or Fund or any of its Subsidiaries shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (d) institute any proceeding

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seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (e) take any corporate or partnership action to authorize or effect any of the foregoing actions set forth in this SECTION 7.6 or (f) fail to contest in good faith any appointment or proceeding described in SECTION 7.7.

7.7. Without the application, approval or consent of the Borrower or any of its Subsidiaries or Fund or any of its Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its Subsidiaries or Fund or any of its Subsidiaries or any Substantial Portion of its Property, or a proceeding described in SECTION 7.6(d) shall be instituted against the Borrower or any of its Subsidiaries or Fund or any of its Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of sixty (60) consecutive days.

7.8. Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of, all or any Substantial Portion of the Property of the Borrower and its Subsidiaries which, when taken together with all other Property of the Borrower and its Subsidiaries.

7.9. The Borrower or any of its Subsidiaries shall fail within thirty (30) days to pay, bond or otherwise discharge one or more (a) judgments or orders for the payment of money in excess of \$2,000,000 in the aggregate, or (b) nonmonetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, which judgment(s), in any such case, is/are not stayed on appeal or otherwise being appropriately contested in good faith.

7.10. There shall occur any Change in Control.

7.11. The occurrence of any "default", as defined in any Loan Document (other than this Agreement) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement), which default or breach continues beyond any period of grace therein provided.

7.12. The Pledge Agreement shall for any reason fail to create a valid and perfected, first priority security interest in any collateral purported to be covered thereby, except as permitted by the terms of such Pledge

Agreement, or the Pledge Agreement shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Pledge Agreement, or a default shall occur under such Pledge Agreement.

7.13. The Guaranty shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Guaranty, or Fund shall

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fail to comply with any of the material terms or provisions of the Guaranty or Fund denies that it has any further liability under the Guaranty or gives notice to such effect.

7.14. Any License of any Insurance Subsidiary of the Borrower (a) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced against such Insurance Subsidiary and shall not have been dismissed within thirty (30) days after the commencement thereof, (b) shall be suspended by such Governmental Authority for a period in excess of thirty (30) days or (c) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which, in any case, could reasonably be expected to have a Material Adverse Effect.

7.15. Any Insurance Subsidiary of the Borrower shall be the subject of a final non-appealable order imposing a fine by or at the request of any state insurance regulatory agency as a result of the violation by such Insurance Subsidiary of such state's applicable insurance laws or the regulations promulgated in connection therewith which could reasonably be expected to have a Material Adverse Effect.

7.16. Any Insurance Subsidiary of the Borrower shall become subject to any conservation, rehabilitation or liquidation order, directive or mandate issued by any Governmental Authority or any Insurance Subsidiary shall become subject to any other directive or mandate issued by any Governmental Authority in either case which could reasonably be expected to have a Material Adverse Effect and which is not stayed within thirty (30) days.

7.17. The representations and warranties set forth in SECTION 5.20 ("Plan Assets; Prohibited Transactions") shall at any time not be true and correct.

7.18. The Borrower or any other member of the controlled Group shall be obligated in respect of any Multiemployer Plan, the Unfunded Liabilities of all Single Employer Plans shall exceed in the aggregate \$500,000 or any Reportable Event shall occur in connection with any Plan.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1. ACCELERATION. If any Default described in SECTION 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Lenders to make Loans or issue Facility Letters of Credit hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs, the Required Lenders (or the Agent with the consent of the Required Lenders) may terminate or suspend the obligations of the Lenders to make Loans or issue Facility Letters of Credit hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives. In addition to the

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foregoing, following the occurrence and during the continuance of a Default, so long as any Facility Letter of Credit has not been fully drawn and has not been cancelled or expired by its terms, upon demand by the Agent, the Borrower shall deposit in an account (the "LETTER OF CREDIT CASH COLLATERAL ACCOUNT") maintained with First Chicago in the name of the Agent, for the ratable benefit of the Lenders and the Agent, cash in an amount equal to the aggregate undrawn face amount of all outstanding Facility Letters of Credit and all fees and other amounts due or which may become due with respect thereto. The Borrower shall have no control over funds in the Letter of Credit Cash Collateral Account, which funds shall be invested by the Agent from time to time in its discretion in certificates of deposit of First Chicago having a maturity not exceeding thirty days. Such funds shall be promptly applied by the Agent to reimburse the Issuer for drafts drawn from time to time under the Facility Letters of Credit. Such funds, if any, remaining in the Letter of Credit Cash Collateral Account following the payment of all Obligations in full or the earlier termination of all Defaults shall, unless the Agent is otherwise directed by a court of competent jurisdiction, be promptly paid over to the Borrower.

If, within ten (10) days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans hereunder as a result of any Default (other than any Default as described in SECTION 7.6 or 7.7 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2. AMENDMENTS. Subject to the provisions of this ARTICLE VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; PROVIDED, HOWEVER, that no such supplemental agreement shall, without the consent of all of the Lenders:

(a) Extend the final maturity of any Loan or reduce or forgive all or any portion of the principal amount thereof, or reduce the rate or extend the time of payment of interest or fees thereon.

(b) Reduce the percentage specified in the definition of Required Lenders.

(c) Extend the Facility Termination Date, or permit any Facility Letter of Credit to have an expiry date beyond the date five (5) Business Days prior to the Facility Termination Date, or reduce the amount or extend the payment date for, the mandatory payments required under SECTION 2.2, or reduce the amount or extend the effective date for, the mandatory reductions of the Aggregate Commitment required under SECTION 2.5.3(a), or increase the amount of the Commitment of any Lender hereunder without the consent of such Lender, or permit the Borrower to assign its rights under this Agreement.

(d) Amend this SECTION 8.2.

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(e) Release any guaranty of the Obligations or, except as provided in the Pledge Agreement, release all or substantially all of the assets pledged thereunder.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent. The Agent may waive payment of the fee required under SECTION 12.3.2 without obtaining the consent of any other party to this Agreement.

8.3. PRESERVATION OF RIGHTS. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to SECTION 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Lenders until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1. SURVIVAL OF REPRESENTATIONS. All representations and warranties of the Borrower contained in this Agreement shall survive the making of the Loans herein contemplated.

9.2. GOVERNMENTAL REGULATION. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. TAXES. Any stamp, documentary or similar taxes, assessments or charges payable or ruled payable by any governmental authority in respect of the Loan Documents shall be paid by the Borrower, together with interest and penalties, if any.

9.4. HEADINGS. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5. ENTIRE AGREEMENT. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof other than the fee letter

described in SECTION 10.13.

9.6. SEVERAL OBLIGATIONS; BENEFITS OF THIS AGREEMENT. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any

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other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns, PROVIDED, HOWEVER, that the parties hereto expressly agree that the Arranger shall enjoy the benefits of the provisions of SECTIONS 9.7, 9.11 and 10.11 to the extent specifically set forth therein and shall have the right to enforce such provisions on its own behalf and in its own name to the same extent as if it were a party to this Agreement.

9.7. EXPENSES; INDEMNIFICATION. (a) The Borrower shall reimburse the Agent and the Arranger for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent or the Arranger in connection with the preparation, negotiation, execution, delivery, syndication, review, actual or proposed amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Agent, the Arranger and the Lenders for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, the Arranger and the Lenders, which attorneys may be employees of the Agent, the Arranger or the Lenders) paid or incurred by the Agent, the Arranger or any Lender in connection with the collection and enforcement of the Loan Documents.

(b) The Borrower hereby further agrees to indemnify the Agent, the Arranger and each Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent, the Arranger or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder or the use or intended use of any Facility Letter of Credit, except to the extent that they are determined in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this SECTION 9.7 shall survive the termination of this Agreement.

9.8. NUMBERS OF DOCUMENTS. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. ACCOUNTING. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that

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jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. NONLIABILITY OF LENDERS. The relationship between the Borrower on the one hand and the Lenders and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent, the Arranger nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent, the Arranger nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower agrees that neither the Agent, the Arranger nor any Lender shall have liability to the Borrower, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

9.12. TREATMENT OF CERTAIN INFORMATION; CONFIDENTIALITY.

(a) The Borrower acknowledges that (i) services may be offered or provided to it (in connection with this Agreement or otherwise) by each Lender or by one or more subsidiaries or affiliates of such Lender and (ii) information delivered to each Lender by the Borrower and its

Subsidiaries may be provided to each such Subsidiary and Affiliate, it being understood that any such Subsidiary or Affiliate receiving such information shall be bound by the provisions of CLAUSE (b) below as if it were a Lender hereunder.

(b) Each Lender and the Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower pursuant to this Agreement, PROVIDED that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender as provided in CLAUSE (a) above, (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) agrees with the respective Lender to keep such information confidential on substantially the terms set forth in this SECTION 9.12(b), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of the Borrower or any of its Subsidiaries at any time during the continuance of a Default; PROVIDED that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by the Borrower.

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9.13. NONRELIANCE. Each Lender hereby represents that it is not relying on or looking to any Margin Stock for the repayment of the Loans provided for herein.

9.14. DISCLOSURE. The Borrower and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time may hold other investments in, make other loans to or have other relationships with the Borrower, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to the Borrower or any Lender, respectively, arising out of or resulting from any conflict of interest arising from such investments, loans or relationships.

ARTICLE X

THE AGENT

10.1. APPOINTMENT; NATURE OF RELATIONSHIP. The First National Bank of Chicago is hereby appointed by each of the Lenders as its contractual representative (herein referred to as the "Agent") hereunder and under each other Loan Document, and each of the Lenders irrevocably authorizes the Agent to act as the contractual representative of such Lender with the rights and duties expressly set forth herein and in the other Loan Documents. The Agent agrees to act as such contractual representative upon the express conditions contained in this ARTICLE X. Notwithstanding the use of the defined term "Agent," it is expressly understood and agreed that the Agent shall not have any fiduciary responsibilities to any Lender by reason of this Agreement or any other Loan Document and that the Agent is merely acting as the contractual representative of the Lenders with only those duties as are expressly set forth in this Agreement and the other Loan Documents. In its capacity as the Lenders' contractual representative, the Agent (i) does not hereby assume any fiduciary duties to any of the Lenders, (ii) is a "representative" of the Lenders within the meaning of Section 1-201 of the Uniform Commercial Code and (iii) is acting as an independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Lenders hereby agrees to assert no claim against the Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Lender hereby waives.

10.2. POWERS. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. GENERAL IMMUNITY. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower, the Lenders or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except to the extent such action or inaction is determined in a final non-

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appealable judgment by a court of competent jurisdiction to have arisen from the gross negligence or willful misconduct of such Person.

10.4. NO RESPONSIBILITY FOR LOANS, RECITALS, ETC. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in ARTICLE IV, except receipt of items required to be delivered solely to the Agent; (d) the existence or possible existence of any Default or Unmatured Default; (e) the validity, enforceability, effectiveness, sufficiency or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith; (f) the value, sufficiency, creation, perfection or priority of any Lien in any collateral security; or (g) the financial condition of the Borrower or any guarantor of any of the Obligations or of any of the Borrower's or any such guarantor's respective Subsidiaries. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. ACTION ON INSTRUCTIONS OF LENDERS. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders, and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders. The Lenders hereby acknowledge that the Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement or any other Loan Document unless it shall be requested in writing to do so by the Required Lenders. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. EMPLOYMENT OF AGENTS AND COUNSEL. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning the contractual arrangement between the Agent and the Lenders and all matters pertaining to the Agent's duties hereunder and under any other Loan Document.

10.7. RELIANCE ON DOCUMENTS; COUNSEL. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

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10.8. AGENT'S REIMBURSEMENT AND INDEMNIFICATION. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (a) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Loan Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents (including, without limitation, for any expenses incurred by the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders) and (c) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby (including, without limitation, for any such amounts incurred by or asserted against the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders), or the enforcement of any of the terms of the Loan Documents or of any such other documents, PROVIDED that (i) no Lender shall be liable for any of the foregoing to the extent any of the foregoing is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Agent and (ii) any indemnification required pursuant to SECTION 3.5(g) shall, notwithstanding the provisions of this SECTION 10.8, be paid by the relevant Lender in accordance with the provisions thereof. The obligations of the Lenders under this SECTION 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. NOTICE OF DEFAULT. The Agent shall not be deemed to have knowledge

or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. RIGHTS AS A LENDER. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document with respect to its Commitment and its Loans as any Lender and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. LENDER CREDIT DECISION. Each Lender acknowledges that it has, independently and without reliance upon the Agent, the Arranger or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and

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without reliance upon the Agent, the Arranger or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five (45) days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. Notwithstanding the previous sentence, the Agent may at any time without the consent of the Borrower or any Lender, appoint any of its Affiliates which is a commercial bank as a successor Agent hereunder. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least \$250,000,000 and with a Lending Installation in the United States of America. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this ARTICLE X shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents. In the event that there is a successor to the Agent by merger, or the Agent assigns its duties and obligations to an Affiliate pursuant to this SECTION 10.12, then the term "Corporate Base Rate" as used in this Agreement shall mean the prime rate, base rate or other analogous rate of the new Agent.

10.13. AGENT'S FEE. The Borrower agrees to pay to the Agent, for its own account, the fees agreed to by the Borrower and the Agent pursuant to that certain letter agreement dated as of February 23, 1999, or as otherwise agreed from time to time.

10.14. DELEGATION TO AFFILIATES. The Borrower and the Lenders agree that the Agent may delegate any of its duties under this Agreement to any of its Affiliates. Any such Affiliate (and such Affiliate's directors, officers, agents and employees) which performs duties in connection with this Agreement shall be entitled to the same benefits of the indemnification, waiver and other protective provisions to which the Agent is entitled under ARTICLES IX and X.

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10.15. EXECUTION OF COLLATERAL DOCUMENTS. The Lenders hereby empower and

authorize the Agent to execute and deliver to the Borrower on their behalf the Pledge Agreement and all related financing statements and any financing statements, agreements, documents or instruments as shall be necessary or appropriate to effect the purposes of the Pledge Agreement(s).

10.16. COLLATERAL RELEASES. The Lenders hereby empower and authorize the Agent to execute and deliver to the Borrower on their behalf any agreements, documents or instruments as shall be necessary or appropriate to effect any releases of collateral which shall be permitted by the terms hereof or of any other Loan Document or which shall otherwise have been approved by the Required Lenders (or, if required by the terms of SECTION 8.2, all of the Lenders) in writing. Without limiting the foregoing, the Agent is hereby authorized and directed by the Lenders to deliver releases of the Liens with respect to collateral sold in sales permitted by, and made in compliance with, the terms of SECTION 6.13 or sales which shall otherwise have been approved by the Required Lenders.

10.17. DOCUMENTATION AGENT. Each of Fleet National Bank and First Union National Bank is hereby appointed Documentation Agent of the Lenders hereunder and under each Loan Document. Each of Fleet National Bank and First Union National Bank shall not have any duties, responsibilities or liabilities in its capacity as Documentation Agent.

10.18. CO-AGENT. Deutsche Bank AG is hereby appointed Co-Agent of the Lenders hereunder and under each Loan Document. Deutsche Bank AG shall not have any duties, responsibilities or liabilities in its capacity as Co-Agent.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. SETOFF. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender or any Affiliate of any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. RATABLE PAYMENTS. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to SECTION 3.1, 3.2, 3.4 or 3.5) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such

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payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrower to a Lender other than Indebtedness comprised of Loans made by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness comprised of such Loans.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. SUCCESSORS AND ASSIGNS. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (a) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents and (b) any assignment by any Lender must be made in compliance with SECTION 12.3. Notwithstanding CLAUSE (b) of the preceding sentence, any Lender may at any time, without the consent of the Borrower or the Agent, assign all or any portion of its rights under this Agreement and any Note to a Federal Reserve Bank; PROVIDED, HOWEVER, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the Person which made any Loan or which holds any Note as the owner thereof for all purposes hereof unless and until such Person complies with SECTION 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of the rights to any Loan or any Note agrees by acceptance of such transfer or assignment to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the owner of the rights to any Loan (whether or not a Note has been issued in evidence thereof), shall be conclusive and binding on any subsequent holder, transferee or assignee of the rights to such Loan.

12.2. PARTICIPATIONS.

12.2.1. PERMITTED PARTICIPANTS; EFFECT. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Lender's interest in any Facility Letter of Credit Obligation, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the owner of its Loans and the holder of any Note issued to it in evidence thereof for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2. VOTING RIGHTS. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which effects any of the modifications referenced in CLAUSES (a) through (e) of SECTION 8.2.

12.2.3. BENEFIT OF SETOFF. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in SECTION 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, PROVIDED that each Lender shall retain the right of setoff provided in SECTION 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in SECTION 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with SECTION 11.2 as if each Participant were a Lender.

12.3. ASSIGNMENTS.

12.3.1. PERMITTED ASSIGNMENTS. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities, excluding the Borrower or an Affiliate thereof, ("Purchasers") all or any part of its rights and obligations under the Loan Documents. Such assignment shall be substantially in the form of EXHIBIT C or in such other form as may be agreed to by the parties thereto. The consent of the Borrower and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof; PROVIDED, HOWEVER, that if a Default has occurred and is continuing, the consent of the Borrower shall not be required. Such consent shall not be unreasonably withheld or delayed. Each such assignment shall (unless it is to a Lender or an Affiliate

thereof or each of the Borrower and the Agent otherwise consents) be in an amount not less than the lesser of (a) \$5,000,000 or (b) the remaining amount of the assigning Lender's Commitment (calculated as at the date of such assignment).

12.3.2. EFFECT; EFFECTIVE DATE. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to EXHIBIT C (a "Notice of Assignment"), together with any consents required by SECTION 12.3.1, and (b) payment of a \$3,500 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. The Notice of Assignment shall contain a representation by the Purchaser to the effect that none of the consideration used to make the purchase of the Commitment and Loans under the applicable assignment agreement are "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by or on behalf of the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Borrower, the Lenders or the Agent shall be required to release the transferor Lender with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser. Upon the consummation of any assignment to a Purchaser

pursuant to this SECTION 12.3.2, the transferor Lender, the Agent and the Borrower shall, if the transferor Lender or the Purchaser desires that its Loans be evidenced by Notes, make appropriate arrangements so that new Notes or, as appropriate, replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their respective Commitments, as adjusted pursuant to such assignment.

12.4. DISSEMINATION OF INFORMATION. The Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries, including without limitation any information contained in any Reports; PROVIDED that each Transferee and prospective Transferee agrees to be bound by SECTION 9.12 of this Agreement.

12.5. TAX TREATMENT. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of SECTION 3.5(d).

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ARTICLE XIII

NOTICES

13.1. NOTICES. Except as otherwise permitted by SECTION 2.14 with respect to borrowing notices, all notices, requests and other communications to any party hereunder shall be in writing (including electronic transmission, facsimile transmission or similar writing) and shall be given to such party: (a) in the case of the Borrower or the Agent, at its address or facsimile number set forth on the signature pages hereof, (b) in the case of any Lender, at its address or facsimile number set forth below its signature hereto or (c) in the case of any party, at such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Agent and the Borrower in accordance with the provisions of this SECTION 13.1. Each such notice, request or other communication shall be effective (i) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received, (ii) if given by mail, three (3) Business Days after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, or (iii) if given by any other means, when delivered (or, in the case of electronic transmission, received) at the address specified in this Section; PROVIDED that notices to the Agent under ARTICLE II shall not be effective until received.

13.2. CHANGE OF ADDRESS. The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XIV

COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent by facsimile transmission or telephone that it has taken such action.

ARTICLE XV

CHOICE OF LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL

15.1. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING, WITHOUT LIMITATION, 735 ILCS SECTION 105/5-1 ET SEQ, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF

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ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

15.2. CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO, ILLINOIS IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING

HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS.

15.3. WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

[Signature pages follow]

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IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

FOLKSAMERICA HOLDING COMPANY, INC.

By: _____

Name: _____

Title: _____

One Liberty Plaza
New York, New York 10006

Attention: Michael E. Tyburski
Executive Vice President &
Chief Financial Officer

Telephone: (212) 312-2503

FAX: (212) 346-0762

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PRICING SCHEDULE

EURODOLLAR RATE APPLICABLE MARGIN*
(AS A PER ANNUM RATE)

LEVERAGE RATIO -----	BEST'S RATING** KHI "A" -----	BEST'S RATING LESS THAN "A" -----
KHI 0.275 to 1.0	1.25%	1.50%
KHI 0.20 to 1.0 but LESS THAN 0.275 to 1.0	1.00%	1.25%
KHI 0.15 to 1.0 but LESS THAN 0.20 to 1.0	0.75%	1.00%
LESS THAN 0.15 to 1.0	0.625%	0.75%

* Beginning on the fourth anniversary of the Closing Date, and continuing through the Maturity Date, the Applicable Margins shown in the table above will increase by 0.50%.

** Means the rating of Folksamerica Reinsurance Company provided by A.M. Best & Co.

COMMITMENT FEE
(AS A PER ANNUM RATE)

LEVERAGE RATIO -----	APPLICABLE FEE RATE -----
KHI 0.20 to 1.0	0.25%
KHI 0.15 to 1.0 but LESS THAN 0.20 to 1.0	0.225%
LESS THAN 0.15 to 1.0	0.20%

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DIVIDEND SCHEDULE

I. APPLIES AT ALL TIMES PRIOR TO TERMINATION OR EXPIRATION OF THE FUND CREDIT AGREEMENT:

	No "default" has occurred and is continuing under the Fund Credit Agreement AND Fund owns directly or indirectly at least 80% of the fully-diluted common equity of the Borrower.	A "default" has occurred and is continuing under the Fund Credit Agreement OR Fund owns directly or indirectly less than 80% of the fully-diluted common equity of the Borrower.
Dividends, Repurchases or other Capital Distributions	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount) in an aggregate amount equal to the lesser of: (a) \$8,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%.	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount) in an aggregate amount equal to the lesser of: (a) \$2,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%.

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II. APPLIES AT ALL OTHER TIMES:

	Fund is in compliance with each of the Guarantor Ratios AND Fund owns directly or indirectly at least 80% of the fully-diluted common equity of the Borrower.	Fund is not in compliance with each of the Guarantor Ratios OR Fund owns directly or indirectly less than 80% of the fully-diluted common equity of the Borrower.
Dividends, Repurchases or other Capital Distributions	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount) in an aggregate amount equal to the lesser of: (a) \$8,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%.	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount) in an aggregate amount equal to the lesser of: (a) \$2,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%.

For the purposes of this Dividend Schedule, the following terms have the following meanings:

"FAE Amount" means a certain dividend, stock repurchase or other capital distribution by the Borrower in an aggregate amount not in excess of \$30,000,000 to FAE on February 24, 1999, the total amount of which is used to repay all indebtedness, liabilities and obligations under and to terminate the White Mountains Credit Agreement.

"Guarantor Ratios" shall mean:

GUARANTOR MINIMUM NET WORTH The Guarantor shall at all times maintain a minimum Net Worth at least equal to (a) the sum of (i) \$514,530,000, PLUS (ii) an amount equal to 90% of the cash and non-cash proceeds of any equity securities issued by Fund after September 30, 1998, MINUS (b) an amount equal to the lesser of (i) \$30,000,000 or (ii) the

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aggregate amount expended by Fund after September 30, 1998 to repurchase its capital stock in compliance with the Fund Credit Agreement.

GUARANTOR MAXIMUM LEVERAGE RATIO Fund shall at all times maintain a Leverage Ratio of not greater than 35%.

"Statutory Net Income" means, with respect to any First-Tier Significant Insurance Subsidiary for any computation period, the net income earned by such First-Tier Significant Insurance Subsidiary during such period, as determined in accordance with SAP.

AMENDMENT NO. 1 TO CREDIT AGREEMENT, CONSENT AND WAIVER

This Amendment, Consent and Waiver (this "Amendment") is entered into as of June 29, 1999 by and among Folksamerica Holding Company, Inc., a New York corporation (the "Borrower"), The First National Bank of Chicago, individually and as Agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

RECITALS

A. The Borrower, the Agent and the Lenders are party to that certain \$100,000,000 Credit Agreement dated as of February 24, 1999 (the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Agent and the undersigned Lenders wish to amend the Credit Agreement, provide certain consents thereunder and waive certain provisions thereof on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. Upon the Effective Date (as defined below), the Credit Agreement shall be amended as follows:

(a) ARTICLE I is amended by deleting the definitions of "Aggregate Available Commitment", "Fund" and "Unfunded Liabilities" and replacing each in its entirety to read as follows:

"`Aggregate Available Commitment' means, at any time, (a) the Aggregate Commitment at such time LESS (b) the outstanding Facility Letter of Credit Obligations at such time LESS (c) the outstanding Allowable Fund Indebtedness at such time."

"`Fund' means White Mountains Insurance Group, Inc., a Delaware corporation, formerly known as Fund American Enterprises Holdings, Inc."

"`Unfunded Liabilities' means the amount (if any) by which the present value of all vested and unvested accrued benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans and valued on a basis consistent with that used to prepare the Borrower's annual audited financial statements."

(b) ARTICLE I is amended by deleting the proviso at the end of the definition of "Allowable Seller Paper" and replacing such proviso in its entirety to read as follows:

"PROVIDED, that (i) to the extent such Indebtedness has been Defeased or (ii) during such time when there are no outstanding Advances and no Facility Letter of Credit Obligations, the condition set forth in CLAUSE (c) above shall not be applicable."

(c) ARTICLE I is amended by adding the following definition for "Allowable Fund Indebtedness" in its proper alphabetical order:

"`Allowable Fund Indebtedness' means Subordinated Indebtedness of the Borrower issued to Fund, in an aggregate principal amount not to exceed \$85,000,000, the proceeds of which are used to either (a) finance a mandatory prepayment of Advances pursuant to SECTION 2.2(c) or (b) so long as there are no outstanding Advances, finance the general corporate needs of the Borrower; PROVIDED, in either case such Indebtedness is issued on terms and conditions satisfactory to the Required Lenders, including (i) terms of subordination, (ii) default provisions, (iii) limitation on amortization of principal and payment of fees and cash interest, (iv) interest rates and (v) covenants."

(d) SECTION 2.2(c) is amended by adding the following at the end of the first parenthetical phrase of such section:

", excluding SECTION 6.11(i)"

(e) SECTION 2.5.3(b) is amended by adding the following proviso at the end of such section:

"PROVIDED, that issuance of Allowable Fund Indebtedness subject to the prepayment provisions of SECTION 2.2(c) shall not require that the Aggregate Commitment be reduced to the extent that Allowable

Fund Indebtedness is repaid on or prior to June 30, 2000."

(f) SECTION 5.10 is amended by deleting the first sentence in such section and replacing it in its entirety to read as follows:

"Except as disclosed on SCHEDULE 5.10 or as otherwise disclosed by the Borrower in writing to the Lenders, neither the Borrower nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability."

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(g) SECTION 6.11 is amended (i) by removing the word "and" at the end of SECTION 6.11(h), (ii) by moving the existing SECTION 6.11(i) to a new SECTION 6.11(j) and (iii) by replacing SECTION 6.11(i) in its entirety with the following:

"(i) Allowable Fund Indebtedness to the extent that it complies with the mandatory prepayment provisions of SECTION 2.2(c) and the reductions in the Aggregate Commitment provisions of SECTION 2.5.3(b); and"

(h) SECTION 6.16(g) is amended in its entirety to read as follows:

"(g) Liens on (1) the Account in connection with Defeasing Allowable Seller Paper or (2) escrow accounts in connection with Allowable Seller Paper;"

(i) SECTION 6.23(b) is amended by deleting the second reference contained therein to the dollar amount of "\$500,000" and replacing it with a reference to the dollar amount of "\$1,000,000".

(j) SECTION 7.18 is amended by deleting the reference contained therein to the dollar amount of "\$500,000" and replacing it with a reference to the dollar amount of "\$1,000,000".

(k) SCHEDULE 5.10 is amended in its entirety and replaced with SCHEDULE 5.10 attached hereto.

2. CONSENT AND WAIVER UNDER THE CREDIT AGREEMENT. Upon the Effective Date the Agent and the other Lenders signatory hereto hereby:

(a) consent to and approve the terms and conditions of the Subordinated Promissory Note, in substantially the form of EXHIBIT A hereto, to be issued by the Borrower to The Centris Group, Inc. (the "Centris Note") in an aggregate principal amount of \$20,750,000 and deem such Indebtedness to be Allowable Seller Paper to the extent such Indebtedness complies with the requirements described in the proviso to the definition of "Allowable Seller Paper" in the Credit Agreement;

(b) consent to and approve the terms and conditions of the Subordinated Promissory Note, in substantially the form of EXHIBIT B hereto, to be issued by the Borrower to Fund (the "Fund Note") in the aggregate principal amount of \$85,000,000 and deem such note to be Allowable Fund Indebtedness;

(c) waive any breach of Section 6.23(b) of the Credit Agreement to and including the Effective Date arising solely out of the Unfunded Liabilities of the Folksamerica Holding Company Employees Retirement Plan exceeding \$500,000 as disclosed on Schedule 5.10 attached to the Credit Agreement (the "Excess Unfunded Liability"); and

(d) waive any Default or Unmatured Default under Section 7.3 or 7.18 of the Credit Agreement which has heretofore arisen as a result of the Excess Unfunded Liability; PROVIDED, that such waiver shall only be valid through the Effective Date.

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3. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants that:

(a) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting the enforcement of creditors' rights generally;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

4. EFFECTIVE DATE. This Amendment shall become effective upon the execution and delivery hereof by the Borrower, the Agent and the Required Lenders (without respect to whether it has been executed and delivered by all the Lenders); provided that SECTIONS 1 and 2 hereof shall not become effective until the date (the "Effective Date") when the following additional conditions have also been satisfied:

(a) delivery of copies, certified by the Secretary or Assistant Secretary of the Borrower, of the fully executed Centris Note and Fund Note, each in substantially the form of EXHIBIT A and B, respectively;

(b) a certificate, executed by the Secretary or Assistant Secretary of the Borrower, certifying (i) an attached copy of the Borrower's Board of Directors' resolutions authorizing its execution, delivery and performance under the Centris Note, the Fund Note and this Amendment and (ii) that there has been no amendments, supplements or modifications to any of the Articles of Incorporation, Bylaws or certificate of incumbency of the Borrower delivered to the Agent on February 24, 1999;

(c) the execution and delivery of the Reaffirmation of Guaranty in the form of EXHIBIT C hereto;

(d) a certificate, executed by the Secretary or Assistant Secretary of Fund, certifying (i) an attached copy of Fund's Board of Directors' resolutions authorizing and directing any changes to Articles of Incorporation to effect a change in its corporate name and (ii) that there have been no amendments, supplements or modifications to any of the Articles of Incorporation, Bylaws or certificate of incumbency of Fund delivered to the Agent on February 24, 1999, or attached copies of such amendments, supplements or modifications; and

(e) such other documents as the Agent, any Lender or their counsel may have reasonably requested.

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In the event the Effective Date has not occurred on or before July 15, 1999, SECTIONS 1 and 2 hereof shall not become operative and shall be of no force or effect.

5. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

6. GOVERNING LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

7. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only, and shall not govern the interpretation of any of the provisions of this Amendment.

8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

[signature pages follow]

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

FOLKSAMERICA HOLDING COMPANY, INC.

By: _____

Name: _____

Title: _____

One Liberty Plaza
New York, NY 10006

Attention: Michael E. Tyburski

Telephone: (212) 312-2503
Telecopier: (212) 346-0762

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EXHIBIT C

REAFFIRMATION OF GUARANTY

The undersigned acknowledges receipt of a copy of Amendment No. 1 to Credit Agreement, Consent and Waiver (the "Amendment") dated as of June __, 1999, consents to such amendment and hereby reaffirms its obligations under the Guaranty dated as of February 24, 1999 in favor of The First National Bank of Chicago, as Agent, for the Lenders (as defined in the Amendment).

Dated as of June __, 1999
--

WHITE MOUNTAINS INSURANCE GROUP, INC.
(FORMERLY KNOWN AS FUND AMERICAN
ENTERPRISES HOLDINGS, INC.)

By: _____

Name: _____

Title: _____

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AMENDMENT NO. 2 TO CREDIT AGREEMENT

This AMENDMENT NO. 2 TO CREDIT AGREEMENT (this "Amendment") is entered into as of October 29, 1999 by and among Folksamerica Holding Company, Inc., a New York corporation (the "Borrower"), Bank One, NA (f/k/a The First National Bank of Chicago), individually and as agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

R E C I T A L S

A. The Borrower, the Agent, the Lenders and ABN AMRO Bank, NA are party to that certain \$100,000,000 Credit Agreement dated as of February 24, 1999 (as amended, the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Agent and the undersigned Lenders wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. Upon the Effective Date (as defined below), the Credit Agreement shall be amended as follows:

(a) ARTICLE I is amended as follows:

(i) by deleting the definitions of "Aggregate Commitment", "Commitment", "Corporate Base Rate", "Documentation Agent", "Eurodollar Base Rate", "Facility Termination Date", "Floating Rate" and "Lenders" and replacing each in its entirety to read as follows:

"`Aggregate Commitment' means the aggregate of the Commitments of all the Lenders, as reduced from time to time pursuant to the terms hereof. The Aggregate Commitment as of October 29, 1999 is \$120,000,000."

"`Commitment' means, for each Lender, the obligation of such Lender to make Loans and participate in Facility Letters of Credit not exceeding the amount set forth opposite its name on the Commitment Schedule or as set forth in any Notice of Assignment relating to any assignment which has become effective pursuant to SECTION 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof."

"`Corporate Base Rate' means a rate per annum equal to the corporate base rate or prime rate of interest announced by Bank One or by its parent, Bank One Corporation, from time to time, changing when and as said corporate base rate or prime rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate of interest actually charged to any customer. Bank One may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate."

"`Documentation Agent' means First Union National Bank, in its capacity as Documentation Agent for the Lenders pursuant to ARTICLE X, and not in its capacity as Lender."

"`Eurodollar Base Rate' means, with respect to a Eurodollar Advance for the relevant Interest Period, the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars appearing on Reuters Screen FRBD as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, PROVIDED that, (i) if Reuters Screen FRBD is not available to the Agent for any reason, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars as reported by any other generally recognized financial information service as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, and (ii) if no such British Bankers' Association Interest Settlement Rate is available to the Agent, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the rate determined by the Agent to be the rate at which Bank One or one of its Affiliate banks offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, in the approximate amount of Bank One's relevant Loan and having a maturity equal to such Interest Period."

"`Facility Termination Date' means February 24, 2005 or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof."

"`Floating Rate' means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day, and (b) the sum of the Federal Funds Effective Rate for such day PLUS 1/2% per annum; PROVIDED, that "`Floating Rate' means, for any day for the period from November 15, 1999 to January 15, 2000, a rate of interest per annum equal to the highest of (i) the Corporate Base Rate for such day, (ii) the sum of the Federal Funds Effective Rate for such day plus 1/2% per annum and (iii) the sum of the then current Federal Reserve Board Open Market Committee's "`Target Fed Funds Rate' for such day plus 1 1/2% per annum plus the Applicable Eurodollar Margin, in each case changing when and as the Corporate Base Rate, the Federal Funds Effective Rate or the Target Fed Funds Rate, as the case may be, changes."

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"`Lenders' means the lending institutions listed on the signature pages of Amendment No. 2 to Credit Agreement, dated as of October 29, 1999, and their respective successors and assigns."

(ii) by deleting the definition of "First Chicago" and replacing it in its entirety with the following definition of "Bank One" in its proper alphabetical order:

"`Bank One' means Bank One, NA, a national banking association having its principal office in Chicago, Illinois, in its individual capacity, and its successors."

(iii) by deleting the definition of "Fund" and replacing it in its entirety with the following definition of "WMIG" in its proper alphabetical order:

"`WMIG' means White Mountains Insurance Group, Inc., a Delaware corporation formerly known as Fund American Enterprises Holdings, Inc., and, subject to satisfaction of the applicable Reorganization Conditions, its successors pursuant to the Reorganization Transactions."

(iv) by adding the following definitions for "Commitment Schedule", "Medium Term Notes", "Medium Term Note Indenture", "Reorganization Conditions", "Reorganization Transactions", "Syndication Agent", "White Mountains-Arizona", "White Mountains-Bermuda" and "White Mountains-Delaware" each in its proper alphabetical order:

"`Commitment Schedule' means the Schedule attached hereto identified as such."

"`Medium Term Notes' means the securities issued by WMIG under the Medium Term Note Indenture in the original aggregate principal amount of \$150,000,000, of which approximately \$100,385,000 remains outstanding as of October 29, 1999."

"`Medium Term Note Indenture' means that certain indenture dated as January 1, 1993 between WMIG, as issuer, and Bank One Trust Company, NA (f/k/a The First National Bank of Chicago), as trustee, as amended and supplemented from time to time."

"`Reorganization Conditions' means: (a) with respect to the transaction described in CLAUSE (b) of the definition of Reorganization Transactions, WMIG shall have furnished to the Agent, with sufficient copies for the Lenders, the following documents, all of which shall be in form and substance reasonably satisfactory to the Lenders and their counsel: (i) the certificate of merger and all other merger documents, (ii) the articles of incorporation of the surviving entity, (iii) the bylaws of the surviving entity, (iv) a certificate of incumbency as to the authorized officers for the surviving entity, (v) an affirmation by the surviving entity of its Obligations under the Guaranty as successor to WMIG, (vi) opinions

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of counsel as to such matters as the Agent may reasonably request and (vii) a certificate of compliance by the surviving entity as to the matters described in SECTIONS 6.12(c) (i) and (iii) of the WMIG Credit Agreement; and (b) with respect to the transaction described in CLAUSE (c) of the definition of Reorganization Transactions, WMIG shall have furnished to the Agent, with sufficient copies for the Lenders, the following documents, all of which shall be in form and substance reasonably satisfactory to the Lenders and their counsel: (i) the memorandum of continuance filed with the Registrar of Companies in Bermuda and all other redomestication documents, (ii) the bye-laws of the continuing entity, (iii) a certificate of

incumbency as to the authorized officers for the continuing entity, (iv) an affirmation by the continuing entity of its Obligations under the Guaranty as successor to WMIG, (v) opinions of counsel as to such matters as the Agent may reasonably request and (vi) a certificate of compliance by the continuing entity as to the matters described in SECTIONS 6.12(c)(i) and (iii) of the WMIG Credit Agreement."

"`Reorganization Transactions' means the subsidiary formation, merger and change of domicile transactions, taken together, by which (a) White Mountains-Delaware has formed a Wholly-Owned Subsidiary, White Mountains Insurance Group (Arizona), Inc., (b) immediately preceding and for the purpose of consummating the transaction described in CLAUSE (c) below, White Mountains-Delaware merges with and into White Mountains-Arizona, which will be the surviving corporation in the merger, with each outstanding share of common stock of White Mountains-Delaware converted automatically into one share of common stock of White Mountains-Arizona, (c) White Mountains-Arizona is redomiciled and continues its existence as White Mountains-Bermuda upon registration of the memorandum of continuance by the Registrar of Companies in Bermuda, with each outstanding share of common stock of White Mountains-Arizona continuing automatically as one common share of White Mountains-Bermuda, (d) White Mountains forms a new subsidiary, White Mountains Properties (Barbados) SRL, a Barbados corporation (and Wholly-Owned Subsidiary of White Mountains-Delaware), and contributes all the shares of common stock of White Mountains Properties, Inc., a Delaware corporation and survivor of a merger with Fund American Enterprises, Inc., to such new subsidiary, after which White Mountains Properties (Barbados) SRL will merge White Mountains Properties, Inc. with and into the Borrower with the Borrower being the surviving entity and (e) White Mountains-Delaware forms a new Wholly-Owned Subsidiary, White Mountains Holdings (Barbados) SRL, a Barbados corporation, and contributes all the shares of common stock of White Mountains to such new subsidiary."

"`Syndication Agent' means Fleet National Bank, in its capacity as Syndication Agent for the Lenders pursuant to ARTICLE X, and not in its capacity as Lender."

"`White Mountains-Arizona' means White Mountains Insurance Group (Arizona), Inc., an Arizona corporation."

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"`White Mountains-Bermuda' means White Mountains Insurance Group, Ltd., a Bermuda company, following the registration of the memorandum of continuance by White Mountains-Arizona with the Registrar of Companies in Bermuda."

"`White Mountains-Delaware' means WMIG prior to the consummation of the Reorganization Transactions."

(v) by deleting the definition for "Alternate Base Rate".

(b) Each reference therein to "First Chicago" is deemed amended to be a reference to "Bank One".

(c) Each reference therein to "Alternate Base Rate" is deemed amended to be a reference to "Floating Rate".

(d) Each reference therein to "Fund" is deemed amended (including in other defined terms) to be a reference to "WMIG".

(e) SECTION 2.5.3(a) is amended by deleting the table therein and replacing it in its entirety with the following table:

"DATE ----	ANNUAL REDUCTION -----
February 24, 2000	\$ 5,000,000
February 24, 2001	\$15,000,000
February 24, 2002	\$20,000,000
February 24, 2003	\$20,000,000
February 24, 2004	\$25,000,000
February 24, 2005	\$35,000,000"

(f) ARTICLE IV is amended by adding the following Section 4.3:

"4.3. ADVANCES FOLLOWING REORGANIZATION TRANSACTIONS. The Lenders shall not be required to make any Advance and the Issuer shall not be obligated to issue any future Facility Letter of Credit after the consummation of any of the Reorganization Transactions unless on the applicable Borrowing Date the applicable

Reorganization Conditions have been satisfied."

(g) SECTION 6.4(a) is amended by adding the following at the end of the parenthetical phrase contained such section:

"and any Wholly-Owned Subsidiary may discontinue its business pursuant to a merger permitted pursuant to SECTION 6.12 (or by a liquidation into another entity if a merger into such entity would be permitted by SECTION 6.12)"

(h) SECTION 6.4(c) is amended by adding the following parenthetical phrase after the word "incorporation" on the second line of such section:

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"(except any Wholly-Owned Subsidiary may discontinue its business pursuant to a merger permitted pursuant to SECTION 6.12 (or by a liquidation into another entity if a merger into such entity would be permitted by SECTION 6.12))"

(i) SECTION 6.8 is amended by adding the following at the end of the parenthetical phrase contained in such section:

"and any Wholly-Owned Subsidiary may discontinue its business pursuant to a transaction permitted pursuant to SECTION 6.12 (or by a liquidation into another entity if a merger into such entity would be permitted by SECTION 6.12)"

(j) SECTION 6.11(j) is amended by deleting the reference contained therein to the dollar amount of "\$10,000,000" and replacing it with a reference to the dollar amount of "\$15,000,000".

(k) SECTION 6.12(c) is amended by adding the following to the parenthetical phrase after the words "Borrower's Subsidiaries" and before the comma:

"or pursuant to the Reorganization Transactions"

(l) SECTION 6.14(a)(v) is amended by inserting on the first line after the word "entities" contained therein, the parenthetical phrase reading as follows:

"(including the creation of Wholly-Owned Subsidiaries)"

(m) SECTION 6.21.1 is amended by adding the following clause "(d)" at the end of such section:

", MINUS (d) an amount equal to 90% of the Special Dividend (as defined in the Dividend Schedule)."

(n) Section 6.21.2 is amended in its entirety and replaced with the following:

"6.21.2 MAXIMUM LEVERAGE RATIO. The Borrower shall at all times maintain a Leverage Ratio of (a) not greater than 37.5% through and including March 31, 2000 (b) not greater than 35% from April 1, 2000 through and including December 31, 2000, (c) not greater than 30% from January 1, 2001 through and including December 31, 2001, (d) not greater than 25% from January 1, 2002 through and including December 31, 2002, and (e) not greater than 20% at all times thereafter."

(o) SECTION 6.21.4 is amended by adding the following clause "(c)" at the end of such section:

", MINUS (c) \$13,500,000."

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(p) SECTION 6.22(a) is amended in its entirety and replaced with the following:

"(a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than WMIG or the Borrower and its Wholly-Owned Subsidiaries or"

(q) SECTION 7.5 is amended by adding the following proviso at the end of such section:

"PROVIDED, HOWEVER, that in each case if any of the above described events arises with respect to WMIG and with respect to the Medium Term Notes or the Medium Term Notes Indenture and arises solely out of WMIG's consummation of the Reorganization Transactions, a Default shall not occur unless WMIG shall fail within ninety (90) days to pay in full any such Funded Indebtedness which has been declared to be due and payable or required to be

prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof."

(r) SECTION 10.17 is amended in its entirety and replaced with the following:

"10.17 SYNDICATION AGENT AND DOCUMENTATION AGENT.

(a) Fleet National Bank is hereby appointed Syndication Agent of the Lenders hereunder and under each Loan Document. Fleet National Bank shall not have any duties, responsibilities or liabilities in its capacity as Syndication Agent.

(b) First Union National Bank is hereby appointed Documentation Agent of the Lenders hereunder and under each Loan Document. First Union National Bank shall not have any duties, responsibilities or liabilities in its capacity as Documentation Agent."

(s) The DIVIDEND SCHEDULE is amended in its entirety and replaced with the DIVIDEND SCHEDULE attached hereto.

(t) The PRICING SCHEDULE is amended in its entirety and replaced with the PRICING SCHEDULE attached hereto.

(u) EXHIBIT C is amended in its entirety and replaced with EXHIBIT C attached hereto.

(v) The Credit Agreement is amended by adding the COMMITMENT SCHEDULE attached hereto.

2. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants that:

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(a) The execution, delivery and performance by the Borrower of this Amendment has been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

3. EFFECTIVE DATE. This Amendment shall become effective upon the execution and delivery hereof by the Borrower, the Agent and each of Lenders; provided that SECTION 1 hereof shall not become effective until the date (the "Effective Date") when the following additional conditions have also been satisfied:

(a) a certificate, executed by the Secretary or Assistant Secretary of the Borrower, certifying (i) an attached copy of the Borrower's Board of Directors' resolutions authorizing its execution, delivery and performance under this Amendment and (ii) that there have been no amendments, supplements or modifications to any of the Articles of Incorporation, Bylaws or certificate of incumbency of the Borrower delivered to the Agent on February 24, 1999;

(b) the execution and delivery of the Reaffirmation of Guaranty in the form of EXHIBIT A hereto;

(c) a certificate, executed by the Secretary or Assistant Secretary of WMIG, certifying that there have been no amendments, supplements or modifications to any of the Articles of Incorporation, Bylaws or certificate of incumbency of Fund delivered to the Agent on February 24, 1999, or attached copies of such amendments, supplements or modifications;

(d) Notes payable to the order of each of the Lenders in the amount of their respective increased Commitment duly executed by the Borrower;

(e) payment of all fees by the Borrower due to the Agent and the Lenders;

(f) ABN AMRO Bank, NA shall have consented to this Amendment and the reduction to \$0 of its commitment under the Credit Agreement, such consent to be in form and substance satisfactory to the Agent; and

(g) such other documents as the Agent or its counsel may have

reasonably requested.

In the event the Effective Date has not occurred on or before November 15, 1999, SECTION 1 hereof shall not become operative and shall be of no force or effect.

4. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

5. COSTS AND EXPENSES. The Borrower hereby affirms its obligations under Section 9.7 of the Credit Agreement to reimburse the Agent for all reasonable costs, internal charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.

6. CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING, WITHOUT LIMITATION, 735 ILCS SECTION 105/5-1 ET SEQ, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

7. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

[signature pages to follow]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

FOLKSAMERICA HOLDING COMPANY, INC.

By: _____

Name: _____

Title: _____

One Liberty Plaza
New York, NY 10006

Attention: Michael E. Tyburski

Telephone: (212) 312-2503
Telecopier: (212) 346-0762

BANK ONE, NA,
Individually and as Agent

By: _____

Print Name: _____

Title: _____

Address: One Bank One Plaza
Chicago, IL 60670
Attn: Samuel W. Bridges
First Vice President

Fax No.: (212) 373-1393
Tel. No.: (212) 373-1142

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FLEET NATIONAL BANK

By: _____

Print Name: _____

Title: _____

Address: One Federal Street-MAOFD06H
Boston, MA 02110-2010
Attn: David A. Bosselait
Vice President

Fax No.: (617) 346-5825
Tel. No.: (617) 346-5823

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FIRST UNION NATIONAL BANK

By: _____

Print Name: _____

Title: _____

Address: 1339 Chestnut Street, PA4819
Philadelphia, PA 19101-4819
Attn: Joseph DiFrancesco

Fax No.: 215-786-4114
Tel. No.: 215-973-2944

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DEUTSCHE BANK AG,
New York and/or Cayman Islands Branch

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Address: 31 West 52nd Street
New York, NY 10019
Attn: George Korchowsky

Fax No.: 212-469-8366
Tel. No.: 212-469-8242

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DRESDNER BANK AG, New York and
Grand Cayman Branches

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Address: 75 Wall Street, 34th Floor
New York, NY 10005
Attn: George Ferguson

Fax No.: 212-429-2524
Tel. No.: 212-429-3189

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EXHIBIT A

REAFFIRMATION OF GUARANTY

The undersigned acknowledges receipt of a copy of Amendment No. 2 to Credit Agreement (the "Amendment") dated as of October 29, 1999, consents to such amendment and hereby reaffirms its obligations under the Guaranty dated as of February 24, 1999 in favor of Bank One, NA (f/k/a The First National Bank of Chicago), as Agent, for the Lenders (as defined in the Amendment).

Dated as of _____, 1999

WHITE MOUNTAINS INSURANCE GROUP, LTD.

By: _____

Name: _____

Title: _____

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PRICING SCHEDULE

EURODOLLAR RATE APPLICABLE MARGIN* (AS A PER ANNUM RATE)		
LEVERAGE RATIO	BEST'S RATING** GREATER THAN OR EQUAL TO "A"	BEST'S RATING** LESS THAN "A"
GREATER THAN OR EQUAL TO 0.275 to 1.0	1.250%	1.50%
GREATER THAN OR EQUAL TO 0.20 to 1.0 but LESS THAN 0.275 to 1.0	1.000%	1.25%
GREATER THAN OR EQUAL TO 0.15 to 1.0 but LESS THAN 0.20 to 1.0	0.750%	1.00%
LESS THAN 0.15 to 1.0	0.625%	0.75%

* Beginning on February 24, 2003, and continuing through the Maturity Date, the Applicable Margins shown in the table above will increase by 0.50%.

** Means the rating of Folksamerica Reinsurance Company provided by A. M. Best & Co.

COMMITMENT FEE
(AS A PER ANNUM RATE)

LEVERAGE RATIO

APPLICABLE FEE RATE

LEVERAGE RATIO	APPLICABLE FEE RATE
GREATER THAN OR EQUAL TO 0.20 to 1.0	0.250%
GREATER THAN OR EQUAL TO 0.15 to 1.0 but LESS THAN 0.20 to 1.0	0.225%
LESS THAN 0.15 to 1.0	0.200%

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DIVIDEND SCHEDULE

I. APPLIES AT ALL TIMES PRIOR TO TERMINATION OR EXPIRATION OF THE WMIG CREDIT AGREEMENT:

	No "default" has occurred and is continuing under the WMIG Credit Agreement AND WMIG owns directly or indirectly at least 80% of the fully-diluted common equity of the Borrower.	A "default" has occurred and is continuing under the WMIG Credit Agreement OR WMIG owns directly or indirectly less than 80% of the fully-diluted common equity of the Borrower
Dividends, Repurchases or other Capital Distributions	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount and the Special Dividend) in an aggregate amount equal to the lesser of: (a) \$8,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%.	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount and the Special Dividend) in an aggregate amount equal to the lesser of: (a) \$2,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%.

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II. APPLIES AT ALL OTHER TIMES:

	WMIG is in compliance with each of the Guarantor Ratios AND WMIG owns directly or indirectly at least 80% of the fully-diluted common equity of the Borrower.	WMIG is not in compliance with each of the Guarantor Ratios OR WMIG owns directly or indirectly less than 80% of the fully-diluted common equity of the Borrower.
Dividends, Repurchases or other Capital Distributions	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount and the Special Dividend) in an aggregate amount equal to the lesser of: (a) \$8,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%	The Borrower will be permitted in any Fiscal Year to pay dividends, repurchase stock or make other capital distributions (excluding the FAE Amount and the Special Dividend) in an aggregate amount equal to the lesser of: (a) \$2,000,000; (b) Combined Statutory Net Income for all First-Tier Significant Insurance Subsidiaries for the most recently completed Fiscal Year; and (c) an amount equal to the excess of (i) the sum of (x) Cash Flow (determined as of December 31 of the preceding Fiscal Year) PLUS (y) cash and cash equivalents of the Borrower (determined as of December 31 of the preceding Fiscal Year), MINUS (ii) Fixed Charges (determined as of December 31 of the preceding Fiscal Year) multiplied by 125%

For the purposes of this Dividend Schedule, the following terms have the following meanings:

"FAE Amount" means a certain dividend, stock repurchase or other capital distribution by the Borrower in an aggregate amount not in excess of \$30,000,000 to Fund American Enterprises, Inc., a Delaware corporation, on February 24, 1999, the total amount of which is used to repay all indebtedness, liabilities and obligations under and to terminate the \$50,000,000 credit agreement of WMH.

"Guarantor Ratios" shall mean:

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WMIG MINIMUM NET WORTH WMIG shall at all times maintain a minimum Net

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

Worth at least equal to (a) the sum of (i) \$514,530,000, PLUS (ii) an amount equal to 90% of the cash and non-cash proceeds of any equity securities issued by WMIG after September 30, 1998, MINUS (b) an amount equal to the lesser of (i) \$30,000,000 or (ii) the aggregate amount expended by WMIG after September 30, 1998 to repurchase its capital stock in compliance with the WMIG Credit Agreement.

WMIG MAXIMUM LEVERAGE RATIO WMIG shall at all times maintain a Leverage Ratio of not greater than 35%.

"Special Dividend" means that certain one-time dividend (payable in two installments) made prior to December 31, 1999 by the Borrower to White Mountains Properties, Inc., a Delaware corporation and survivor of a merger with Fund American Enterprises, Inc., a Delaware corporation, and/or White Mountains Properties (Barbados) SRL, a Barbados corporation (or their successors) in an aggregate amount not to exceed \$30,000,000.

"Statutory Net Income" means, with respect to any First-Tier Significant Insurance Subsidiary for any computation period, the net income earned by such First-Tier Significant Insurance Subsidiary during such period, as determined in accordance with standard accounting practices.

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COMMITMENT SCHEDULE

LENDER -----	COMMITMENT AMOUNT -----
Bank One, NA	\$ 30,000,000
Fleet National Bank	\$ 27,000,000
First Union National Bank	\$ 24,000,000
Dresdner Bank AG, New York and Grand Cayman Branches	\$ 22,000,000
Deutsche Bank AG, New York and/or Cayman Islands Branch	\$ 17,000,000 -----
AGGREGATE COMMITMENT	\$120,000,000

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EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 1999

FULL NAME OF SUBSIDIARY -----	PLACE OF INCORPORATION -----
WHITE MOUNTAINS HOLDINGS (BARBADOS) SRL	BARBADOS, WEST INDIES
WM FACILITIES, LTD.	BERMUDA
BRITISH INSURANCE COMPANY OF CAYMAN	CAYMAN ISLANDS
WHITE MOUNTAINS PROPERTIES (BARBADOS) SRL	BARBADOS, WEST INDIES
WHITE MOUNTAINS HOLDINGS, INC.	DELAWARE, USA
WHITE MOUNTAINS SERVICES CORPORATION	DELAWARE, USA
WATERFORD INSURANCE COMPANY	KANSAS, USA
PENINSULA INSURANCE COMPANY	MARYLAND, USA
PENINSULA INDEMNITY COMPANY	MARYLAND, USA
AMERICAN CENTENNIAL HOLDINGS, INC.	DELAWARE, USA
AMERICAN CENTENNIAL INSURANCE COMPANY	DELAWARE, USA
FOLKSAMERICA HOLDING COMPANY, INC.	NEW YORK, USA
FOLKSAMERICA REINSURANCE COMPANY	NEW YORK, USA

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements, as amended, pertaining to the Long Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006), Common Stock Warrants (Form S-3, No. 33-54749), Folksamerica Holding Company 401(K) Savings and Investment Plan (Form S-8, No. 333-82563), the Executive Bonus Plan (Form S-8, No. 333-89381), the Deferred Benefit Plan (Form S-8, No. 333-89383), the Directors' Retirement Benefit Plan (Form S-8, No. 333- 89385) and the Voluntary Deferred Compensation Plan (Form S-8, No. 333-89387) of White Mountains Insurance Group, Ltd. of our report dated February 15, 2000, except for Note 17, which is as of March 14, 2000, relating to the 1999 financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers

Hamilton, Bermuda
March 27, 2000

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
White Mountains Insurance Group, Ltd.:

We consent to the incorporation by reference in the registration statements, as amended, No. 33-5297 on Form S-8 pertaining to the Long-Term Incentive Plan, No. 33-54006 on Form S-3 pertaining to the Medium-Term Notes Series A, No. 33-54749 on Form S-3 pertaining to Common Stock Warrants, No. 333-82563 on Form S-8 pertaining to Folksamerica Holding Company 401(k) Savings and Investment Plan, No. 333-89381 on Form S-8 pertaining to the Executive Bonus Plan, No. 333-89383 on Form S-8 pertaining to the Deferred Benefit Plan, No. 333-89385 on Form S-8 pertaining to the Directors Retirement Benefit Plan, No. 333-89387 on Form S-8 pertaining to the Voluntary Deferred Compensation Plan of our report dated February 12, 1999, with respect to the consolidated balance sheet of White Mountains Insurance Group, Ltd. and subsidiaries (formerly "Fund American Enterprises Holdings, Inc.") as of December 31, 1998, and the related consolidated statements of income and comprehensive income, statements of shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 1998, and all related schedules, in the December 31, 1999 annual report on Form 10-K of White Mountains Insurance Group, Ltd.

/s/ KPMG LLP

Providence, Rhode Island
March 27, 2000

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements, as amended, pertaining to the Long-Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006), Common Stock Warrants (Form S-3, No. 33-54749), Folksamerica Holding Company 401(K) Savings and Investment Plan (Form S-8, No. 333-82563), the Executive Bonus Plan (Form S-8, No. 333-89381), the Deferred Benefit Plan (Form S-8, No. 333-89383), the Directors' Retirement Benefit Plan (Form S-8, No. 333-89385) and the Voluntary Deferred Compensation Plan (Form S-8, No. 333-89387) of White Mountains Insurance Group, Ltd. of our report dated January 25, 2000, except for Note 22, as to which the date is March 14, 2000, with respect to the consolidated financial statements of Financial Security Assurance Holdings, Ltd. and Subsidiaries as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 and our report dated February 2, 1999, except for Note 17 as to which the date is February 24, 1999 with respect to the consolidated financial statements of Folksamerica Holding Company, Inc. and its subsidiaries as of and for the year ended December 31, 1998.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 27, 2000

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Terry L. Baxter does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ Terry L. Baxter

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Patrick M. Byrne does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ Patrick M. Byrne

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Howard L. Clark Jr. does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ Howard L. Clark Jr.

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Robert P. Cochran does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ Robert P. Cochran

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Steven E. Fass does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ Steven E. Fass

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that George J. Gillespie III does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd

day February 2000.

/s/ George J. Gillespie III

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that John D. Gillespie does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ John D. Gillespie

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that K. Thomas Kemp does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ K. Thomas Kemp

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Gordon S. Macklin does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ Gordon S. Macklin

WHITE MOUNTAINS INSURANCE GROUP, LTD.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Frank A. Olson does hereby make, constitute and appoint Raymond Barrette the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 22nd day February 2000.

/s/ Frank A. Olson

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors
of Financial Security Assurance Holdings Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Financial Security Assurance Holdings Ltd. and Subsidiaries (the Company) at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP
PRICEWATERHOUSECOOPERS LLP

New York, New York
January 25, 2000, except for
Note 22, as to which the date
is March 14, 2000

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FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	December 31,	December 31,
ASSETS	1999	1998
-----	----	----
Bonds at market value (amortized cost of \$1,919,677 and \$1,655,042)	\$ 1,852,669	\$ 1,708,040
Equity investments at market value (cost of \$30,104 and \$64,292)	23,606	68,243
Short-term investments	263,747	98,554
	-----	-----
Total investments	2,140,022	1,874,837
Cash	6,284	3,490
Deferred acquisition costs	198,048	199,559
Prepaid reinsurance premiums	285,105	217,096
Reinsurance recoverable on unpaid losses	9,492	6,421
Receivable for securities sold	40,635	1,655
Investment in unconsolidated affiliates	29,709	29,496
Other assets	196,349	119,712
	-----	-----
TOTAL ASSETS	\$ 2,905,644	\$ 2,452,266
	=====	=====
LIABILITIES AND MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Deferred premium revenue	\$ 844,146	\$ 721,699
Losses and loss adjustment expenses	87,309	72,007
Deferred federal income taxes	43,341	87,254
Ceded reinsurance balances payable	36,387	31,502
Payable for securities purchased	243,519	105,859
Notes payable	230,000	230,000
	-----	-----
Minority interest	32,945	20,388
Accrued expenses and other liabilities	135,313	117,421
	-----	-----
TOTAL LIABILITIES AND MINORITY INTEREST	1,652,960	1,386,130

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

COMMITMENTS AND CONTINGENCIES

Redeemable preferred stock (20,000,000 and 3,000,000 shares authorized; 2,000,000 issued and outstanding; par value of \$.01 per share)	20	20
Additional paid-in capital - preferred	680	680
REDEEMABLE PREFERRED STOCK	700	700
Common stock (200,000,000 and 50,000,000 shares authorized; 33,676,301 and 32,276,301 issued; par value of \$.01 per share)	337	323
Additional paid-in capital - common	836,853	733,442
Accumulated other comprehensive income (loss) [net of deferred income tax provision (benefit) of \$(25,727) and \$20,288]	(47,779)	37,678
Accumulated earnings	436,417	325,150
Deferred equity compensation	52,670	43,946
Less treasury stock at cost (961,418 and 2,372,839 shares held)	(26,514)	(75,103)
TOTAL SHAREHOLDERS' EQUITY	1,251,984	1,065,436
TOTAL LIABILITIES AND MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY	\$ 2,905,644	\$ 2,452,266

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

Year Ended December 31,
REVENUES:

	1999	1998	1997
Net premiums written	\$ 230,435	\$ 219,853	\$ 172,878
Increase in deferred premium revenue	(55,476)	(81,926)	(63,367)
Premiums earned	174,959	137,927	109,511
Net investment income	94,723	78,823	72,085
Net realized gains (losses)	(13,301)	20,890	11,522
Other income	1,323	474	9,303
TOTAL REVENUES	257,704	238,114	202,421
EXPENSES:			
Losses and loss adjustment expenses	8,829	3,949	9,156
Interest expense	16,614	10,625	5,325
Policy acquisition costs	39,809	35,439	27,962
Other operating expenses	26,429	30,006	30,430
TOTAL EXPENSES	91,681	80,019	72,873
Minority interest and equity in earnings of unconsolidated affiliates	(2,045)	(844)	--
INCOME BEFORE INCOME TAXES	163,978	157,251	129,548
Provision (benefit) for income taxes:			
Current	36,471	44,140	22,966
Deferred	2,102	(2,245)	11,898
Total provision	38,573	41,895	34,864
NET INCOME	125,405	115,356	94,684
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gains (losses) on securities:			
Holding gains (losses) arising during period [net of deferred income tax provision (benefit) of \$(51,221), \$14,024 and \$12,701]	(95,125)	26,045	23,587

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

Less: reclassification adjustment for losses (gains) included in net income [net of deferred income tax benefit (provision) of \$3,633, \$(7,311) and \$(4,033)]	9,668	(13,579)	(7,489)
Other comprehensive income (loss)	(85,457)	12,466	16,098
COMPREHENSIVE INCOME	\$ 39,948	\$ 127,822	\$ 110,782
As based upon net income:			
Basic earnings per common share	\$ 4.08	\$ 3.96	\$ 3.16
Diluted earnings per common share	\$ 3.89	\$ 3.77	\$ 3.06

The accompanying Notes to Consolidated Financial Statements
are an integral part of these statements.

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FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Dollars
in thousands, except per share data)

	Common Stock	Additional Paid-In Capital- Common	Unrealized Gain (Loss) on Investments	Accumulated Earnings	Deferred Equity Compensation	Treasury Stock	Total
BALANCE, December 31, 1996	\$ 323	\$ 695,118	\$ 9,114	\$ 139,986	\$ 12,069	\$ (58,785)	\$ 797,825
Net income for the year				94,684			94,684
Net change in accumulated comprehensive income (net of deferred income taxes of \$8,667)			16,098				16,098
Dividends paid on common stock (\$0.405 per share)				(12,099)			(12,099)
Deferred equity compensation					17,781		17,781
Deferred equity payout		187			(3,287)	56	(3,044)
Purchase of 162,573 shares of common stock						(5,434)	(5,434)
Issuance of 125,106 shares of treasury stock for options exercised		688			(382)	3,042	3,348
Forward share settlements with counterparties						(33,910)	(33,910)
BALANCE, December 31, 1997	323	695,993	25,212	222,571	26,181	(95,031)	875,249
Net income for the year				115,356			115,356
Net change in accumulated comprehensive income (net of deferred income taxes of \$6,713)			12,466				12,466
Dividends paid on common stock (\$0.44 per share)				(12,777)			(12,777)
Deferred equity compensation					23,970		23,970
Deferred equity payout		750			(6,371)	204	(5,417)
Purchase of 496,940 shares of common stock						(23,907)	(23,907)
Issuance of 1,632,653 shares of treasury stock for XL stock		36,721				43,279	80,000
Issuance of 13,295 shares of treasury stock for options exercised		(22)			166	352	496
BALANCE, December 31, 1998	323	733,442	37,678	325,150	43,946	(75,103)	1,065,436
Net income for the year				125,405			125,405
Net change in accumulated							

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

comprehensive income (net of deferred income tax benefit of \$46,015)			(85,457)			(85,457)
Dividends paid on common stock (\$0.465 per share)				(14,138)		(14,138)
Deferred equity compensation					19,822	19,822
Deferred equity payout	1,535			(11,087)	1,644	(7,908)
Purchase of 53,165 shares of common stock					(2,571)	(2,571)
Issuance of 450 shares of treasury stock for options exercised	3			(11)	18	10
Sale of 1,183,764 shares of treasury stock and 1,400,000 shares of unissued common stock	14	95,986			43,715	139,715
Sale of 221,100 shares of treasury stock		5,887			5,783	11,670
BALANCE, December 31, 1999	\$ 337	\$ 836,853	\$ (47,779)	\$ 436,417	\$ 52,670	\$ (26,514)
	=====	=====	=====	=====	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

Year Ended December 31,

	1999	1998	1997
	-----	-----	-----
Cash flows from operating activities:			
Premiums received, net	\$ 230,394	\$ 247,229	\$ 171,145
Policy acquisition and other operating expenses paid, net	(51,702)	(53,306)	(43,279)
Recoverable advances paid	(2,335)	(4,073)	(7,629)
Losses and loss adjustment expenses recovered (paid)	3,302	16,535	(6,463)
Net investment income received	80,803	70,146	65,662
Federal income taxes paid	(39,603)	(54,020)	(19,797)
Interest paid	(16,306)	(9,614)	(5,158)
Other	357	(1,623)	(2,017)
	-----	-----	-----
Net cash provided by operating activities	204,910	211,274	152,464
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sales of bonds	2,123,445	1,908,098	1,074,658
Proceeds from sales of equity investments	87,471	33,613	3,568
Proceeds from maturities of bonds	--	--	32,468
Purchases of bonds	(2,303,633)	(2,257,947)	(1,229,612)
Purchases of equity investments	(46,581)	(48,475)	(24,662)
Net gain on sale of subsidiaries	--	--	7,986
Purchases of property and equipment	(1,132)	(1,168)	(3,097)
Net decrease (increase) in short-term investments	(161,147)	39,513	(55,551)
Other investments	(5,894)	(14,610)	--
	-----	-----	-----
Net cash used for investing activities	(307,471)	(340,976)	(194,242)
	-----	-----	-----
Cash flows from financing activities:			
Issuance of notes payable, net	--	96,850	125,905
Repayment of notes payable	--	--	(30,000)
Dividends paid	(14,138)	(12,777)	(12,099)
Treasury stock, net	628	(23,686)	(36,246)
Sale of stock	151,385		

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

Issuance of stock for acquisition of subsidiary (a)	--	60,000	--
Other	(32,520)	330	(1,453)
	-----	-----	-----
Net cash provided by financing activities	105,355	120,717	46,107
	-----	-----	-----
Net increase (decrease) in cash	2,794	(8,985)	4,329
Cash at beginning of year	3,490	12,475	8,146
	-----	-----	-----
Cash at end of year	\$ 6,284	\$ 3,490	\$ 12,475
	=====	=====	=====

(a) The Company exchanged \$20,000 of its stock at fair market value for \$20,000 of XL stock at fair market value.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
(Dollars in thousands)

	Year Ended December 31,		
	1999	1998	1997
	-----	-----	-----
Reconciliation of net income to net cash flows from operating activities:			
Net income	\$ 125,405	\$ 115,356	\$ 94,684
Increase in accrued investment income	(4,136)	(3,613)	(2,504)
Increase in deferred premium revenue and related foreign exchange adjustment	54,438	82,530	62,101
Decrease (increase) in deferred acquisition costs	1,511	(28,461)	(24,865)
Increase (decrease) in current federal income taxes payable	6,166	(1,674)	7,891
Increase in unpaid losses and loss adjustment expenses	12,231	20,786	2,596
Increase in amounts withheld for others	--	82	133
Provision (benefit) for deferred income taxes	2,102	(2,245)	15,170
Net realized losses (gains) on investments	13,301	(20,890)	(11,522)
Deferred equity compensation	8,725	17,765	14,299
Depreciation and accretion of bond discount	(2,837)	(4,523)	(2,802)
Minority interest and equity in earnings of unconsolidated affiliates	2,045	844	--
Net gain on sale of subsidiaries	--	--	(7,986)
Change in other assets and liabilities	(14,041)	35,317	5,269
	-----	-----	-----
Cash provided by operating activities	\$ 204,910	\$ 211,274	\$ 152,464
	=====	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

[pages 30 through 44 of Annual Report]

FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

1. ORGANIZATION AND OWNERSHIP

Financial Security Assurance Holdings Ltd. (the Company) is a holding company incorporated in the State of New York. The Company is principally engaged, through its insurance company subsidiaries, in providing financial guaranty insurance on asset-backed and municipal obligations. The Company's underwriting policy is to insure asset-backed and municipal obligations that it determines would be of investment-grade quality without the benefit of the

Company's insurance. The asset-backed obligations insured by the Company are generally issued in structured transactions and are backed by pools of assets,

such as residential mortgage loans, consumer or trade receivables, securities or other assets having an ascertainable cash flow or market value. The municipal obligations insured by the Company consist primarily of general obligation bonds that are supported by the issuers' taxing power and of special revenue bonds and other special obligations of states and local governments that are supported by the issuers' ability to impose and collect fees and charges for public services or specific projects. Financial guaranty insurance written by the Company guarantees scheduled payments on an issuer's obligation. In the case of a payment default on an insured obligation, the Company is generally required to pay the principal, interest or other amounts due in accordance with the obligation's original payment schedule or, at its option, to pay such amounts on an accelerated basis.

The Company expects to continue to emphasize a diversified insured portfolio characterized by insurance of both asset-backed and municipal obligations, with a broad geographic distribution and a variety of revenue sources and transaction structures. The Company's insured portfolio consists primarily of asset-backed and municipal obligations originated in the United States, but the Company has also written and continues to pursue business in Europe and the Asia Pacific region.

At December 31, 1997, the Company was owned 42.1% by U S WEST Capital Corporation (U S WEST), 12.0% by Fund American Enterprises Holdings, Inc. (Fund American), 6.7% by The Tokio Marine and Fire Insurance Co., Ltd. (Tokio Marine) and 39.2% by the public and employees. On November 3, 1998, the Company issued 1,632,653 common shares out of treasury to XL Capital Ltd (XL), which was named EXEL Limited until February 1999, in exchange for \$80,000,000 of XL's common stock in conjunction with the creation of a new subsidiary (see Note 7). At December 31, 1998, the Company was owned 40.5% by MediaOne Capital Corporation (MediaOne), formerly U S WEST, 11.6% by Fund American, 6.4% by Tokio Marine, 5.5% by XL and 36.0% by the public and employees. At December 31, 1999, the Company was owned 5.3% by MediaOne, 21.2% by White Mountains Insurance Group, Ltd. (White Mountains), formerly Fund American, 8.0% by Tokio Marine, 7.8% by XL and 57.7% by the public and employees. These percentages are calculated based upon outstanding shares, which are reduced by treasury shares as presented in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), which, for the insurance company subsidiaries, differ in certain material respects from the accounting practices prescribed or permitted by insurance regulatory authorities (see Note 5). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the Company's consolidated balance sheets at December 31, 1999 and 1998 and the reported amounts of revenues and expenses in the consolidated statements of income during the years ended December 31, 1999, 1998 and 1997. Such estimates and assumptions include, but are not limited to, losses and loss adjustment expenses and the deferral and amortization of deferred policy acquisition costs. Actual results may differ from those estimates. Significant accounting policies under GAAP are as follows:

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries, FSA Portfolio Management Inc., Transaction Services Corporation, Financial Security Assurance Inc. (FSA), FSA Insurance Company, Financial Security Assurance International Ltd., Financial Security Assurance of Oklahoma, Inc. and Financial Security Assurance (U.K.) Limited (collectively, the Subsidiaries). All intercompany accounts and transactions have been eliminated. Certain prior-year balances have been reclassified to conform to the 1999 presentation.

Investments

Investments in debt securities designated as available for sale are carried at market value. Equity investments are carried at market value. Any resulting unrealized gain or loss is reflected as a separate component of shareholders' equity, net of applicable deferred income taxes. Except as specified in Note 20, all of the Company's long-term investments are classified as available for sale.

Bond discounts and premiums are amortized on the effective yield method over the remaining terms of the securities acquired. For mortgage-backed securities, and any other holdings for which prepayment risk may be significant, assumptions regarding prepayments are evaluated periodically and revised as necessary. Any adjustments required due to the resulting change in effective yields are recognized in current income. Short-term investments, which are those investments with a maturity of less than one year at time of purchase, are carried at market value, which approximates cost. Cash equivalents are amounts deposited in money market funds and investments with a maturity at time of purchase of three months or less and are included in short-term investments.

Realized gains or losses on sale of investments are determined on the basis of specific identification. Investment income is recorded as earned.

The Company holds derivative securities, including U.S. Treasury bond futures contracts and call option contracts, that are not accounted for as hedges and are marked to market on a daily basis. Any gains or losses are included in realized capital gains or losses.

Investments in unconsolidated affiliates are based on the equity method of accounting (see Note 20).

Premium Revenue Recognition

Gross and ceded premiums are earned in proportion to the amount of risk outstanding over the expected period of coverage. The amount of risk outstanding is equal to the sum of the par amount of debt insured. Deferred premium revenue and prepaid reinsurance premiums represent the portion of premium that is applicable to coverage of risk to be provided in the future on policies in force. When an insured issue is retired or defeased prior to the end of the expected period of coverage, the remaining deferred premium revenue and prepaid reinsurance premium, less any amount credited to a refunding issue insured by the Company, are recognized.

Losses and Loss Adjustment Expenses

A case basis reserve for unpaid losses and loss adjustment expenses is recorded at the present value of the estimated loss when, in management's opinion, the likelihood of a future loss is probable and determinable at the balance sheet date. The estimated loss on a transaction is discounted using current risk-free rates ranging from 5.5% to 6.1%.

The Company also maintains a non-specific general reserve, which is available to be applied against future additions or accretions to existing case basis reserves or to new case basis reserves to be established in the future. The general reserve is calculated by applying a loss factor to the total net par amount outstanding of the Company's insured obligations over the term of such insured obligations and discounting the result at risk-free rates. The loss factor used for this purpose has been determined based upon an independent rating agency study of bond defaults and the Company's portfolio characteristics and history.

Management of the Company periodically evaluates its estimates for losses and loss adjustment expenses and establishes reserves that management believes are adequate to cover the present value of the ultimate net cost of claims. The reserves are necessarily based on estimates, and there can be no assurance that the ultimate liability will not differ from such estimates. The Company will, on

an ongoing basis, monitor these reserves and may periodically adjust such reserves based on the Company's actual loss experience, its future mix of business, and future economic conditions.

Deferred Acquisition Costs

Deferred acquisition costs comprise those expenses that vary with, and are primarily related to, the production of business, including commissions paid on reinsurance assumed, compensation and related costs of underwriting and marketing personnel, certain rating agency fees, premium taxes and certain other underwriting expenses, reduced by ceding commission income on premiums ceded to reinsurers. Deferred acquisition costs and the cost of acquired business are amortized over the period in which the related premiums are earned. Recoverability of deferred acquisition costs is determined by considering anticipated losses and loss adjustment expenses.

Federal Income Taxes

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods reflected at current income tax rates.

Earnings per Common Share

In 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share (EPS), specifying the computation, presentation and disclosure requirements for EPS (see Note 19). The new standard defines "basic" and "diluted" earnings per share. Basic earnings per share are based on average basic shares outstanding, which is calculated by adding shares earned but not issued under the Company's equity bonus and performance share programs to the average common shares outstanding. Diluted earnings per share are based on average diluted shares outstanding, which is calculated by adding shares contingently issuable under stock options, the performance share program and the Company's redeemable preferred stock to the average basic shares outstanding.

Segment Reporting

As a monoline financial guaranty insurer, the Company has no reportable operating segments.

3. INVESTMENTS

Bonds at amortized cost of \$10,979,000 and \$11,481,000 at December 31, 1999 and 1998, respectively, were on deposit with state regulatory authorities as required by insurance regulations.

Consolidated net investment income consisted of the following (in thousands):

	Year Ended December 31,		
	1999	1998	1997
Bonds	\$ 88,867	\$ 71,888	\$ 65,422
Equity investments	1,495	1,075	1,393
Short-term investments	6,664	8,391	7,206
Investment expenses	(2,303)	(2,531)	(1,936)
Net investment income	\$ 94,723	\$ 78,823	\$ 72,085

The credit quality of bonds at December 31, 1999 was as follows:

Rating	Percent of Bonds
AAA	72.3%
AA	18.5
A	8.8
BBB	0.1
Other	0.3

The amortized cost and estimated market value of bonds were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 1999				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 80,446	\$ 27	\$ (568)	\$ 79,905
Obligations of states and political subdivisions	1,189,115	5,469	(58,571)	1,136,013
Foreign securities	2,277	1	(1)	2,277
Mortgage-backed securities	384,349	450	(9,339)	375,460
Corporate securities	222,703	2,123	(5,371)	219,455
Asset-backed securities	40,787	17	(1,245)	39,559
Total	\$1,919,677	\$ 8,087	\$ (75,095)	\$1,852,669
December 31, 1998				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 148,669	\$ 2,432	\$ (336)	\$ 150,765
Obligations of states and political subdivisions	1,041,718	42,265	(637)	1,083,346
Mortgage-backed securities	266,770	3,920	(190)	270,500
Corporate securities	164,697	5,539	(463)	169,773
Asset-backed securities	33,188	494	(26)	33,656
Total	\$1,655,042	\$54,650	\$ (1,652)	\$1,708,040

The change in net unrealized gains (losses) consisted of (in thousands):

	Year Ended December 31,		
	1999	1998	1997
Bonds	\$ (120,006)	\$ 15,319	\$ 23,657
Equity investments	(10,449)	2,842	1,109
Other	(1,017)	1,017	--
Change in net unrealized gains (losses)	\$ (131,472)	\$ 19,178	\$ 24,766

The amortized cost and estimated market value of bonds at December 31, 1999, by contractual maturity, are shown below (in thousands). Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
Due in one year or less	\$ 6,082	\$ 6,078
Due after one year through five years	189,461	188,584
Due after five years through ten years	154,121	153,523
Due after ten years	1,144,877	1,089,465
Mortgage-backed securities (stated maturities of 1 to 30 years)	384,349	375,460
Asset-backed securities (stated maturities of 3 to 30 years)	40,787	39,559
Total	\$ 1,919,677	\$ 1,852,669

Proceeds from sales of bonds during 1999, 1998 and 1997 were \$2,162,425,000, \$1,889,130,000 and \$1,127,749,000, respectively. Gross gains of \$17,896,000, \$27,439,000 and \$12,437,000 and gross losses of \$32,406,000, \$8,585,000 and \$1,433,000 were realized on sales in 1999, 1998 and 1997, respectively.

Proceeds from sales of equity investments during 1999, 1998 and 1997 were \$87,471,000, \$33,613,000 and \$3,568,000, respectively. Gross gains of \$11,707,000, \$2,684,000 and \$33,000 and gross losses of \$5,008,000, \$1,331,000 and \$7,000 were realized on sales in 1999, 1998 and 1997, respectively. Equity investments had gross unrealized gains of \$0 and \$4,504,000 and gross unrealized losses of \$6,498,000 and \$553,000 as of December 31, 1999 and 1998, respectively.

The Company held open positions in U.S. Treasury bond futures contracts with an aggregate notional amount of \$30,800,000 and \$57,700,000 as of December 31, 1999 and 1998, respectively. The Company held open positions in Eurodollar futures contracts with an aggregate notional amount of \$155,500,000 and \$1,000,000 as of December 31, 1999 and 1998, respectively. The Company also held open positions in municipal bond index futures with an aggregate notional amount of \$3,000,000 as of December 31, 1999. Such positions are marked to market on a daily basis and, for the years ended December 31, 1999, 1998 and 1997, resulted in net realized gains (losses) of \$(5,490,000), \$883,000 and \$190,000, respectively.

4. DEFERRED ACQUISITION COSTS

Acquisition costs deferred for amortization against future income and the related amortization charged to expenses are as follows (in thousands):

	Year Ended December 31,		
	1999	1998	1997
Balance, beginning of period	\$ 199,559	\$ 171,098	\$ 146,233
Costs deferred during the period:			
Ceding commission income	(52,376)	(27,693)	(18,956)
Assumed commission expense	44	22	31

Premium taxes	9,017	8,081	5,554
Compensation and other acquisition costs	81,613	83,490	66,198
	-----	-----	-----
Total	38,298	63,900	52,827
	-----	-----	-----
Costs amortized during the period	(39,809)	(35,439)	(27,962)
	-----	-----	-----
Balance, end of period	\$ 198,048	\$ 199,559	\$ 171,098
	=====	=====	=====

5. STATUTORY ACCOUNTING PRACTICES

GAAP for the Subsidiaries differs in certain significant respects from accounting practices prescribed or permitted by insurance regulatory authorities. The principal differences result from the following statutory accounting practices:

- Upfront premiums on municipal business are recognized as earned when related principal and interest have expired rather than over the expected coverage period;

- Acquisition costs are charged to operations as incurred rather than as related premiums are earned;

- A contingency reserve (rather than a general reserve) is computed based on the following statutory requirements:

- (i) For all policies written prior to July 1, 1989, an amount equal to 50% of cumulative earned premiums less permitted reductions, plus;

- (ii) For all policies written on or after July 1, 1989, an amount equal to the greater of 50% of premiums written for each category of insured obligation or a designated percentage of principal guaranteed for that category. These amounts are provided each quarter as either 1/60th or 1/80th of the total required for each category, less permitted reductions;

- Certain assets designated as "non-admitted assets" are charged directly to statutory surplus but are reflected as assets under GAAP;

- Federal income taxes are provided only on taxable income for which income taxes are currently payable;

- Accruals for deferred compensation are not recognized;

- Purchase accounting adjustments are not recognized;

- Bonds are carried at amortized cost;

- Surplus notes are recognized as surplus rather than a liability.

A reconciliation of net income for the calendar years 1999, 1998 and 1997 and shareholders' equity at December 31, 1999 and 1998, reported by the Company on a GAAP basis, to the amounts reported by the Subsidiaries on a statutory basis, is as follows (in thousands):

Net Income:	1999	1998	1997
	-----	-----	-----
GAAP BASIS	\$ 125,405	\$ 115,356	\$ 94,684
Non-insurance companies net loss	7,812	5,461	5,575
Premium revenue recognition	(19,397)	(16,411)	(23,130)
Losses and loss adjustment expenses incurred	4,171	12,938	4,653
Deferred acquisition costs	1,511	(28,461)	(24,865)
Deferred income tax provision	1,375	167	16,019
Current income tax	(9,266)	(8,206)	(7,994)
Amortization of bonds	--	--	56
Accrual of deferred compensation, net	22,119	33,268	26,681
Other	(124)	100	(61)
	-----	-----	-----
STATUTORY BASIS	\$ 133,606	\$ 114,212	\$ 91,618
	=====	=====	=====

	December 31,	
	-----	-----
Shareholders' Equity:	1999	1998
	-----	-----
GAAP BASIS	\$ 1,251,984	\$ 1,065,436
Non-insurance companies liabilities, net	42,962	39,155
Premium revenue recognition	(110,650)	(91,297)
Loss and loss adjustment expense reserves	54,971	47,250
Deferred acquisition costs	(198,048)	(199,559)
Contingency reserve	(473,387)	(367,454)
Unrealized loss (gain) on investments, net of tax	67,179	(55,851)

Deferred income taxes	53,357	95,398
Accrual of deferred compensation	80,811	70,022
Surplus notes	120,000	120,000
Other	(42,484)	(52,844)
	-----	-----
STATUTORY BASIS SURPLUS	\$ 846,695	\$ 670,256
	=====	=====
SURPLUS PLUS CONTINGENCY RESERVE	\$ 1,320,082	\$ 1,037,710
	=====	=====

6. FEDERAL INCOME TAXES

The Company and its Subsidiaries (except Financial Security Assurance International Ltd.) file a consolidated federal income tax return. The calculation of each member's tax benefit or liability is controlled by a tax-sharing agreement that bases the allocation of such benefit or liability upon a separate return calculation.

Federal income taxes have not been provided on substantially all of the undistributed earnings of non-U.S. subsidiaries, since it is the Company's practice and intent to reinvest such earnings in the operations of these subsidiaries. The cumulative amount of such untaxed earnings was \$6,537,000 and \$0 at December 31, 1999 and 1998, respectively.

The cumulative balance sheet effects of deferred tax consequences are (in thousands):

	December 31,	
	1999	1998
	-----	-----
Deferred acquisition costs	\$ 65,769	\$ 69,079
Deferred premium revenue adjustments	14,860	10,354
Unrealized capital gains	--	21,134
Contingency reserves	55,028	46,260
	-----	-----
Total deferred tax liabilities	135,657	146,827
	-----	-----
Loss and loss adjustment expense reserves	(18,219)	(16,613)
Deferred compensation	(48,975)	(41,545)
Unrealized capital losses	(24,882)	--
Other, net	(240)	(1,415)
	-----	-----
Total deferred tax assets	(92,316)	(59,573)
	-----	-----
Total deferred income taxes	\$ 43,341	\$ 87,254
	=====	=====

No valuation allowance was necessary at December 31, 1999 or 1998.

A reconciliation of the effective tax rate with the federal statutory rate follows:

	Year Ended December 31,		
	1999	1998	1997
	-----	-----	-----
Tax at statutory rate	35.0%	35.0%	35.0%
Tax-exempt interest	(10.1)	(8.6)	(8.4)
Income of foreign subsidiary	(1.4)	--	--
Other	--	0.3	0.3
	-----	-----	-----
Provision for income taxes	23.5%	26.7%	26.9%
	=====	=====	=====

7. SHAREHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK

On September 2, 1994, the Company issued to White Mountains 2,000,000 shares of Series A, non-dividend paying, voting, redeemable preferred stock having an aggregate liquidation preference of \$700,000. The preferred stock is redeemable, at the option of the holder upon payment of the conversion price therefor, into an equal number of shares of common stock (subject to anti-dilutive adjustment). The conversion price per share (subject to anti-dilutive adjustment) is \$29.65. The preferred stock will be redeemed (if then outstanding) on May 13, 2004 at a redemption price of \$0.35 per share. White Mountains is entitled to one vote per share of redeemable preferred stock,

voting together as a single class with the holders of common stock on all matters upon which holders of common stock are entitled to vote. As the holder of the redeemable preferred stock, White Mountains is not entitled to receive dividends or other distributions of any kind payable to shareholders of the Company, except that, in the event of the liquidation, dissolution or winding up of the Company, it is entitled to receive out of the assets of the Company available therefor, before any distribution or payment is made to the holders of

common stock or to any other class of capital stock of the Company ranking junior to the Company's preferred stock, liquidation payments in the amount of \$0.35 per share. White Mountains may not transfer the redeemable preferred stock, except to one of its majority-owned subsidiaries.

In May 1996, the Company repurchased 1,000,000 shares of its common stock from MediaOne for a purchase price of \$26.50 per share. At the same time, the Company also entered into forward agreements with two financial institutions (the Counterparties) in respect of 1,750,000 shares (the Forward Shares) of the Company's common stock. Under the forward agreements, the Company has the obligation either: (i) to purchase the Forward Shares from the Counterparties for a price equal to \$26.50 per share plus carrying costs or (ii) to direct the Counterparties to sell the Forward Shares, with the Company receiving any excess or making up any shortfall between the sale proceeds and \$26.50 per share plus carrying costs in cash or additional shares, at its option. At the same time it entered into the forward agreements, the Company made the economic benefit and risk of 750,000 of these shares available for subscription by certain of the Company's employees and directors. When an individual participant exercises Forward Shares under the subscription program, the Company settles with the participant but does not necessarily close out the corresponding Forward Share position with the Counterparties. These settlements during 1999, 1998 and 1997 were \$0, \$733,000 and \$2,142,000,

respectively. By the fourth quarter of 1997, such exercises by participants had increased the number of shares allocated to the Company from 1,000,000 shares to 1,187,800 shares. During the fourth quarter of 1997, the Company purchased 1,187,800 Forward Shares for \$33,910,000 by exercising rights under the forward agreements. At December 31, 1999, 562,200 Forward Shares remained in the program. Of these, 33,078 shares were held for the benefit of the Company as a result of the repurchase of Forward Shares from employees and directors, and 529,122 shares continued to be held for the benefit of employees and directors. In the fourth quarter of 1999, the Company entered into additional forward agreements with two counterparties to purchase 750,000 Forward Shares at an initial cost of \$53.50 per share. These agreements are similar to the Forward Share agreements described above, and the economic benefit and risk of these shares are for the account of the Company's employees and directors as described above. At December 31, 1999, all 750,000 shares were outstanding. In total, for both plans, net income will be affected by approximately \$831,000, or \$0.03 per share, for each dollar change in the Company's share price. The Company has recognized compensation expense for the difference between (i) the \$26.50 per-share price for the 1996 Forward Shares and \$53.50 per-share price for the 1999 Forward Shares, plus the carrying cost and (ii) the market value at December 31, 1999, 1998 and 1997 of \$(1,865,000), \$2,495,000 and \$8,951,000, respectively.

On November 3, 1998, the Company and XL closed a transaction to create two new Bermuda-based financial guaranty insurance companies. Each of the new companies was initially capitalized with approximately \$100,000,000. One company, Financial Security Assurance International Ltd., is an indirect subsidiary of FSA, and the other company, XL Financial Assurance Ltd, is a subsidiary of XL. The Company has a minority interest in the XL subsidiary, and XL has a minority interest in the FSA indirect subsidiary. In conjunction with forming the new companies, the Company and XL exchanged \$80,000,000 of their respective common shares, with the Company delivering to XL 1,632,653 common shares out of treasury. Prior to the closing of the transaction with XL, the Company had entered into an agreement with an unrelated third party to sell for cash, at no gain or loss, \$60,000,000 of the XL shares. This \$60,000,000 was used to fund, in part, the Company's investment in Financial Security Assurance International Ltd.

8. DIVIDENDS AND CAPITAL REQUIREMENTS

Under New York Insurance Law, FSA may pay a dividend to the Company without the prior approval of the Superintendent of the New York State Insurance Department only from earned surplus subject to the maintenance of a minimum

capital requirement. In addition, the dividend, together with all dividends declared or distributed by FSA during the preceding twelve months, may not exceed the lesser of 10% of its policyholders' surplus shown on FSA's last filed statement, or adjusted net investment income, as defined, for such twelve-month period. As of December 31, 1999, FSA had \$81,960,000 available for the payment of dividends over the next twelve months. In addition, the Company holds \$120,000,000 of surplus notes of FSA. Payments of principal or interest on such notes may be made with the approval of the New York Insurance Department. In 1998, FSA repurchased \$8,500,000 of its shares from its parent, representing the balance remaining of \$75,000,000 that had been approved for repurchase by the New York Insurance Department.

9. CREDIT ARRANGEMENTS AND ADDITIONAL CLAIMS-PAYING RESOURCES

FSA has a credit arrangement aggregating \$150,000,000 at December 31, 1999, which is provided by commercial banks and intended for general application to transactions insured by the Subsidiaries. At

December 31, 1999, there were no borrowings under this arrangement, which expires on April 28, 2000, if not extended. In addition, there are credit arrangements assigned to specific insured transactions. In August 1994, FSA entered into a facility agreement with Canadian Global Funding Corporation and Hambros Bank Limited. Under the agreement, which expires in August 2004, FSA can arrange financing for transactions subject to certain conditions. The amount of this facility was \$186,911,000, of which \$99,302,000 was unutilized at December 31, 1999.

FSA has a standby line of credit commitment in the amount of \$240,000,000 with a group of international banks to provide loans to FSA after it has incurred, during the term of the facility, cumulative municipal losses (net of any recoveries) in excess of the greater of \$230,000,000 or 5.75% of average annual debt service of the covered portfolio. The obligation to repay loans made under this agreement is a limited recourse obligation payable solely from, and collateralized by, a pledge of recoveries realized on defaulted insured obligations in the covered portfolio, including certain installment premiums and other collateral. This commitment has a term beginning on April 30, 1999 and expiring on April 30, 2006 and contains an annual renewal provision subject to approval by the banks. No amounts have been utilized under this commitment as of December 31, 1999.

10. LONG-TERM DEBT

On September 18, 1997, the Company issued \$130,000,000 of 7.375% Senior Quarterly Income Debt Securities (Senior QUIDS) due September 30, 2097 and callable without premium or penalty on or after September 18, 2002. Interest on these notes is paid quarterly beginning on December 31, 1997. Debt issuance costs of \$4,320,000 are being amortized over the life of the debt. The Company used the proceeds to repay \$30,000,000 of outstanding notes, to augment capital in the Subsidiaries, to repurchase Forward Shares (see Note 7) and for general corporate purposes.

On November 13, 1998, the Company issued \$100,000,000 of 6.950% Senior QUIDS due November 1, 2098 and callable without premium or penalty on or after November 1, 2003. Interest is paid quarterly beginning on February 1, 1999. Debt issuance costs of \$3,375,000 are being amortized over the life of the debt. The Company used the proceeds to augment capital in the Subsidiaries and for general corporate purposes.

11. EMPLOYEE BENEFIT PLANS

The Subsidiaries maintain both a qualified and a non-qualified, non-contributory defined contribution pension plan for the benefit of all eligible employees. The Subsidiaries' contributions are based upon a fixed percentage of employee compensation. Pension expense, which is funded as accrued, amounted to \$1,788,000 (net of forfeitures of \$1,316,000), \$2,584,000 and \$2,535,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

The Subsidiaries have an employee retirement savings plan for the benefit of all eligible employees. The plan permits employees to contribute a percentage of their salaries up to limits prescribed by the Internal Revenue Service [IRS Code, Section 401(k)]. The Subsidiaries' contributions are discretionary, and none have been made.

Pursuant to the 1993 Equity Participation Plan, 3,610,780 shares of common stock, subject to anti-dilutive adjustment, were reserved for awards of options, restricted shares of common stock, and

performance shares to employees for the purpose of providing, through the grant of long-term incentives, a means to attract and retain key personnel and to provide to participating officers and other key employees long-term incentives for sustained high levels of performance. The 1993 Equity Participation Plan also contains provisions that permit the Human Resources Committee to pay all or a portion of employees' bonuses in the form of shares of common stock credited to the employees at a 15% discount from current market value and paid to employees five years from the date of award. Up to an aggregate of 10,000,000 shares may be allocated to such equity bonuses.

Performance shares are awarded under the Company's 1993 Equity Participation Plan. The Plan authorizes the discretionary grant of performance shares by the Human Resources Committee to key employees of the Company and its subsidiaries. The number of shares of the Company's common stock earned for each performance share depends upon the attainment by the Company of certain growth rates of adjusted book value per outstanding share over a three-year period. At each payout date, each performance share is adjusted to pay out from zero up to two common shares. No common shares are paid out if the compound annual growth rate of the Company's adjusted book value per outstanding share was less than 7%. Two common shares per performance share are paid out if the compound annual growth rate was 19% or greater. Payout percentages are interpolated for compound annual growth rates between 7% and 19%.

Performance shares granted under the 1993 Equity Participation Plan were as follows:

	Outstanding at Beginning of Year -----	Granted During the Year -----	Earned During the Year -----	Forfeited During the Year -----	Outstanding at End of Year -----	Market Price at Grant Date -----
1997	1,374,340	253,057	201,769	59,253	1,366,375	\$35.5000
1998	1,366,375	273,656	229,378	26,145	1,384,508	46.0625
1999	1,384,508	236,915	352,726	45,672	1,223,025	53.6250

The Company applies APB Opinion 25 and related Interpretations in accounting for its performance shares. The Company estimates the final cost of these performance shares and accrues for this expense over the performance period. The accrued expense for the performance shares was \$33,442,000, \$40,862,000 and \$29,500,000 for the years ended December 31, 1999, 1998 and 1997, respectively. In tandem with this accrued expense, the Company estimates those performance shares that it expects to settle in stock and records this amount in shareholders' equity as deferred compensation. The remainder of the accrual, which represents the amount of performance shares that the Company estimates it will settle in cash, is recorded in accrued expenses and other liabilities. In 1996, the Company adopted disclosure provisions of SFAS No. 123. Had the compensation cost for the Company's performance shares been determined based upon the provisions of SFAS No. 123, there would have been no effect on the Company's reported net income and earnings per share.

In November 1994, the Company created a rabbi trust and appointed an independent trustee authorized to purchase shares of the Company's common stock in open-market transactions, at times and prices determined by the trustee. These purchases are intended to fund future obligations relating to equity bonuses, performance shares and stock options under the 1993 Equity Participation Plan and other employee benefit plans and are presented as treasury stock in these financial statements.

The Company does not currently provide post-retirement benefits, other than under its defined contribution plans, to its employees, nor does it provide post-employment benefits to former employees other than under its severance plans.

12. COMMITMENTS AND CONTINGENCIES

The Company and its Subsidiaries lease office space and equipment under non-cancelable operating leases, which expire at various dates through 2005.

Future minimum rental payments are as follows (in thousands):

Year Ended December 31,	
2000	\$3,228
2001	2,915
2002	2,660
2003	2,683
2004	2,683
Thereafter	2,459

Total	\$16,628
	=====

Rent expense for the years ended December 31, 1999, 1998 and 1997 was \$4,352,000, \$4,372,000 and \$4,067,000, respectively.

During the ordinary course of business, the Company and its Subsidiaries become parties to certain litigation. Management believes that these matters will be resolved with no material impact on the Company's financial position, results of operations or cash flows.

13. REINSURANCE

The Subsidiaries reinsure portions of their risks with affiliated (see Note 15) and unaffiliated reinsurers under quota share, first-loss and excess-of-loss treaties and on a facultative basis. The Subsidiaries' principal ceded reinsurance program consisted in 1999 of two quota share treaties, a combination quota share and aggregate excess-of-loss treaty, four first-loss treaties and seven automatic facultative facilities. One quota share treaty covered all of the Subsidiaries' approved regular lines of business, except U.S. municipal obligation insurance. Under this treaty in 1999, the Subsidiaries ceded 7.25% of each covered policy, up to a maximum of \$14,500,000 insured principal per policy. At their option, the Subsidiaries could have increased,

and in certain instances did increase, the ceding percentage to 14.5% up to \$29,000,000 of each covered policy. A second quota share treaty covered the Subsidiaries' U.S. municipal obligation insurance business. Under this treaty in 1999, the Subsidiaries ceded 6.5% of each covered policy that is classified by the Subsidiaries as providing U.S. municipal bond insurance as defined by Article 69 of the New York Insurance Law up to a limit of \$17,333,000 per single risk, which is defined by revenue source. At their option, the Subsidiaries could have increased, and in certain instances did increase, the ceding percentage to 35% up to \$93,333,000 per single risk. These cession percentages under both treaties were reduced on smaller sized transactions. The combination quota share and aggregate excess-of-loss treaty covers qualifying emerging-market collateralized debt obligations. This treaty reinsures (i) on a quota share basis 50% of such transactions insured in 1999 and 2000 and (ii) on

an aggregate excess-of-loss basis 90% of the Subsidiaries' net losses on qualifying transactions in excess of \$50,000,000, up to a limit of liability of \$200,000,000. The four first-loss treaties applied to qualifying U.S. mortgage-backed, U.S. auto loan-backed, U.S. multifamily housing and collateralized debt obligations. Under the seven automatic facultative facilities in 1999, the Subsidiaries, at their option, could allocate up to a specified amount for each reinsurer (ranging from

\$4,000,000 to \$100,000,000 depending on the reinsurer) for each transaction, subject to limits and exclusions, in exchange for which the Subsidiaries agreed to cede in the aggregate a specified percentage of gross par insured by the Subsidiaries. Each of the quota share treaties and automatic facultative facilities allowed the Subsidiaries to withhold a ceding commission to defray their expenses. The Subsidiaries also employed non-treaty quota share and first-loss facultative reinsurance on various transactions in 1999.

In the event that any or all of the reinsuring companies were unable to meet their obligations to the Subsidiaries, or contested such obligations, the Subsidiaries would be liable for such defaulted amounts. The Subsidiaries have also assumed reinsurance of municipal obligations from unaffiliated insurers.

Amounts reinsured were as follows (in thousands):

	Year Ended December 31,		
	1999	1998	1997
Written premiums ceded	\$ 132,236	\$ 99,413	\$63,513
Written premiums assumed	995	935	1,352
Earned premiums ceded	63,615	55,939	41,713
Earned premiums assumed	2,514	4,271	5,121
Loss and loss adjustment expense payments ceded	(2,461)	22,619	2,862
Loss and loss adjustment expense payments assumed	1	3	2
Incurred (recovered) losses and loss adjustment expenses ceded	3,124	(4,673)	3,605
Incurred (recovered) losses and loss adjustment expenses assumed	40	(139)	161

	December 31,	
	1999	1998
Principal outstanding ceded	\$45,313,349	\$32,914,844
Principal outstanding assumed	1,245,430	1,360,916
Deferred premium revenue ceded	285,105	217,096
Deferred premium revenue assumed	9,100	10,799
Loss and loss adjustment expense reserves ceded	9,492	6,421
Loss and loss adjustment expense reserves assumed	762	723

14. OUTSTANDING EXPOSURE AND COLLATERAL

The Company's policies insure the scheduled payments of principal and interest on asset-backed and municipal obligations. The principal amount insured

(in millions) as of December 31, 1999 and 1998 (net of amounts ceded to other insurers) and the terms to maturity are as follows:

Terms to Maturity	December 31, 1999		December 31, 1998	
	Asset-Backed	Municipal	Asset-Backed	Municipal

0 to 5 Years	\$10,272	\$ 3,351	\$ 8,468	\$ 2,756
5 to 10 Years	13,911	8,741	7,516	7,495
10 to 15 Years	8,956	15,441	5,661	12,427
15 to 20 Years	814	24,711	670	20,265
20 Years and Above	16,762	26,979	15,308	24,107
Total	\$50,715	\$79,223	\$37,623	\$67,050

The principal amount ceded as of December 31, 1999 and 1998 and the terms to maturity are as follows (in millions):

Terms to Maturity	December 31, 1999		December 31, 1998	
	Asset-Backed	Municipal	Asset-Backed	Municipal
0 to 5 Years	\$ 3,962	\$ 1,477	\$2,727	\$ 1,157
5 to 10 Years	4,055	2,307	1,859	2,143
10 to 15 Years	1,777	3,995	1,116	3,022
15 to 20 Years	769	7,423	591	4,852
20 Years and Above	3,313	16,235	3,230	12,218
Total	\$13,876	\$31,437	\$9,523	\$23,392

The Company limits its exposure to losses from writing financial guarantees by underwriting investment-grade obligations, diversifying its portfolio and maintaining rigorous collateral requirements on asset-backed obligations, as well as through reinsurance. The gross principal amounts of insured obligations in the asset-backed insured portfolio are backed by the following types of collateral (in millions):

Types of Collateral	Net of Amounts Ceded December 31,		Ceded December 31,	
	1999	1998	1999	1998
Residential mortgages	\$16,713	\$15,647	\$ 3,198	\$3,324
Consumer receivables	15,102	12,539	3,374	3,663
Government securities	1,010	821	483	267
Pooled corporate obligations	15,446	6,776	5,590	1,388
Commercial mortgage portfolio:				
Commercial real estate	12	15	38	49
Corporate secured	42	42	300	314
Investor-owned utility obligations	733	757	466	464
Other asset-backed obligations	1,657	1,026	427	54
Total asset-backed obligations	\$50,715	\$37,623	\$13,876	\$9,523

The gross principal amount of insured obligations in the municipal insured portfolio includes the following types of issues (in millions):

Types of Issues	Net of Amounts Ceded December 31,		Ceded December 31,	
	1999	1998	1999	1998
General obligation bonds	\$31,446	\$25,337	\$ 6,237	\$ 4,517
Housing revenue bonds	2,780	2,509	1,064	1,108
Municipal utility revenue bonds	11,293	9,218	7,326	5,489
Health care revenue bonds	5,950	5,812	4,674	3,348
Tax-supported bonds (non-general obligation)	17,719	14,731	7,095	5,238
Transportation revenue bonds	3,482	2,937	2,918	2,154
Other municipal bonds	6,553	6,506	2,123	1,538

Total municipal obligations	\$79,223	\$67,050	\$31,437	\$23,392
	=====	=====	=====	=====

In its asset-backed business, the Company considers geographic concentration as a factor in underwriting insurance covering securitizations of pools of such assets as residential mortgages or consumer receivables. However, after the initial issuance of an insurance policy relating to such securitization, the geographic concentration of the underlying assets may not remain fixed over the life of the policy. In addition, in writing insurance for other types of asset-backed obligations, such as securities primarily backed by government or corporate debt, geographic concentration is not deemed by the Company to be significant, given other more relevant measures of diversification, such as issuer or industry.

The Company seeks to maintain a diversified portfolio of insured municipal obligations designed to spread its risk across a number of geographic areas. The following table sets forth, by state, those states in which municipalities located therein issued an aggregate of 2% or more of the Company's net par amount outstanding of insured municipal securities as of December 31, 1999:

State	Number of Issues	Net Par Amount Outstanding (in millions)	Percent of Total Municipal Net Par Amount Outstanding	Ceded Par Amount Outstanding (in millions)
-----	-----	-----	-----	-----
California	575	\$11,543	14.6%	\$ 3,737
New York	428	7,006	8.8	4,918
Pennsylvania	403	5,509	7.0	1,313
Texas	469	5,095	6.4	2,075
Florida	147	4,696	5.9	1,966
New Jersey	317	4,444	5.6	2,500
Illinois	420	4,103	5.2	1,304
Massachusetts	132	2,568	3.2	1,356
Michigan	274	2,543	3.2	538
Wisconsin	298	2,184	2.8	253
Washington	167	1,736	2.2	665
All Other U.S. Jurisdictions	1,758	26,390	33.3	9,559
International	31	1,406	1.8	1,253
	-----	-----	-----	-----
Total	5,419	\$79,223	100.0%	\$31,437
	=====	=====	=====	=====

15. RELATED PARTY TRANSACTIONS

The Subsidiaries ceded premiums of \$28,388,000, \$23,838,000 and \$21,216,000 to Tokio Marine for the years ended December 31, 1999, 1998 and 1997, respectively. The amounts included in prepaid reinsurance premiums at December 31, 1999 and 1998 for reinsurance ceded to Tokio Marine were \$76,327,000 and \$62,422,000, respectively. Reinsurance recoverable on unpaid losses ceded to Tokio Marine was \$4,889,000 and \$612,000 at December 31, 1999 and 1998, respectively. The Subsidiaries ceded losses and loss adjustment expenses of \$3,376,000, \$603,000 and \$1,095,000 to Tokio Marine for the years ended December 31, 1999, 1998 and 1997, respectively. The Subsidiaries ceded premiums of \$19,840,000, \$7,297,000 and \$15,000 to XL Insurance Company Ltd and XL Financial Assurance Ltd, subsidiaries of XL, for the years ended December 31, 1999, 1998 and 1997, respectively. The amounts included in prepaid reinsurance premiums at December 31, 1999 and 1998 for reinsurance ceded to XL Insurance Company Ltd and XL Financial Assurance Ltd were \$15,813,000 and \$5,306,000, respectively.

The Subsidiaries ceded premiums of \$84,000, \$203,000 and \$351,000 on a quota share basis to Commercial Reinsurance Company, an affiliate of MediaOne, for the years ended December 31, 1999, 1998 and 1997, respectively. The amounts included in prepaid reinsurance premiums for reinsurance ceded to this affiliate were \$1,728,000 and \$2,464,000 at December 31, 1999 and 1998, respectively. The amounts of reinsurance recoverable on unpaid losses ceded to this affiliate at December 31, 1999 and 1998 were \$501,000 and \$519,000, respectively. The Subsidiaries ceded losses and loss adjustment expenses (recoveries) of \$(22,000), \$(7,822,000) and \$1,569,000 to this affiliate for the years ended December 31, 1999, 1998 and 1997, respectively.

The Subsidiaries ceded premiums of \$25,659,000 and \$16,539,000 on a quota share basis to Enhance Reinsurance Company and Asset Guaranty Insurance Company, former affiliates of MediaOne, for the years ended December 31, 1998 and 1997, respectively. The amount included in prepaid reinsurance premiums for reinsurance ceded to these former affiliates was \$58,624,000 at December 31, 1998. The amount of reinsurance recoverable on unpaid losses ceded to these

former affiliates at December 31, 1998 was \$1,236,000. The Subsidiaries ceded losses and loss adjustment expenses (recoveries) of \$(4,134,000) and \$536,000 to these affiliates for the years ended December 31, 1998 and 1997, respectively.

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following estimated fair values have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret the data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Bonds and equity investments -- The carrying amount represents fair value. The fair value is based upon quoted market price.

Short-term investments -- The carrying amount is fair value, which approximates cost due to the short maturity of these instruments.

Cash, receivable for investments sold and payable for investments purchased -- The carrying amount approximates fair value because of the short maturity of these instruments.

Investments in unconsolidated affiliates -- The carrying amount is fair value due to accounting for these investments on the equity method of accounting.

Deferred premium revenue, net of prepaid reinsurance premiums -- The carrying amount of deferred premium revenue, net of prepaid reinsurance premiums, represents the Company's future premium revenue, net of reinsurance, on policies where the premium was received at the inception of the insurance

contract. The fair value of deferred premium revenue, net of prepaid reinsurance premiums, is an estimate of the premiums that would be paid under a reinsurance agreement with a third party to transfer the Company's financial guaranty risk, net of that portion of the premiums retained by the Company to compensate it for originating and servicing the insurance contract.

Installment premiums -- Consistent with industry practice, there is no carrying amount for installment premiums since the Company will receive premiums on an installment basis over the term of the insurance contract. Similar to deferred premium revenue, the fair value of installment premiums is the estimated present value of the future contractual premium revenues that would be paid under a reinsurance agreement with a third party to transfer the Company's financial guaranty risk, net of that portion of the premium retained by the Company to compensate it for originating and servicing the insurance contract.

Losses and loss adjustment expenses, net of reinsurance recoverable on unpaid losses -- The carrying amount is fair value, which is the present value of the expected cash flows for specifically identified claims and potential losses in the Company's insured portfolio.

(In thousands)	December 31, 1999		December 31, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Bonds	\$1,852,669	\$1,852,669	\$1,708,040	\$1,708,040
Equity investments	23,606	23,606	68,243	68,243
Short-term investments	263,747	263,747	98,554	98,554
Cash	6,284	6,284	3,490	3,490
Receivable for securities sold	40,635	40,635	1,655	1,655
Investment in unconsolidated affiliates	29,709	29,709	29,496	29,496
Liabilities:				
Deferred premium revenue, net of prepaid reinsurance premiums	559,041	468,784	504,603	417,130
Losses and loss adjustment expenses, net of reinsurance recoverable on unpaid losses	77,817	77,817	65,586	65,586
Notes payable	230,000	188,576	230,000	232,736
Payable for investments purchased	243,519	243,519	105,859	105,859
Off-balance-sheet instruments:				
Installment premiums	--	237,802	--	163,239

17. LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company's liability for losses and loss adjustment expenses consists of the case basis and general reserves. Activity in the liability for losses and

loss adjustment expenses is summarized as follows (in thousands):

	Year Ended December 31,		
	1999	1998	1997
Balance at January 1	\$72,007	\$ 75,417	\$ 72,079
Less reinsurance recoverable	6,421	30,618	29,875
Net balance at January 1	65,586	44,799	42,204
Incurred losses and loss adjustment expenses:			
Current year	8,575	8,049	5,400
Prior years	254	(4,100)	3,756
Recovered (paid) losses and loss adjustment expenses:			
Current year	--	--	--
Prior years	3,402	16,838	(6,561)
Net balance December 31	77,817	65,586	44,799
Plus reinsurance recoverable	9,492	6,421	30,618
Balance at December 31	\$87,309	\$ 72,007	\$ 75,417

During 1997, the Company increased its general reserve by \$9,156,000, of which \$5,400,000 was for originations of new business and \$3,756,000 was to reestablish a portion of the general reserve that had been previously transferred to case basis reserves. During 1997, the Company transferred \$4,503,000 to case basis reserves. Giving effect to these transfers, the general reserve totaled \$34,313,000 at December 31, 1997.

During 1998, the Company increased its general reserve by \$3,949,000, of which \$8,049,000 was for originations of new business offset by a \$4,100,000 decrease in the amount needed to fund the general loss reserve primarily because of recoveries on certain commercial mortgage transactions. During 1998, the Company transferred \$18,403,000 to its general reserve from case basis reserves due to those recoveries on commercial mortgage transactions. Also during 1998, the Company transferred \$9,414,000 from its general reserve to case basis reserves associated predominantly with certain consumer receivable transactions. Giving effect to these transfers, the general reserve totaled \$47,251,000 at December 31, 1998.

During 1999, the Company increased its general reserve by \$8,829,000, of which \$8,575,000 was for originations of new business and \$254,000 was for the reestablishment of the general reserve. Also during 1999, the Company transferred to the general reserve \$3,549,000 representing recoveries received on prior-year transactions and transferred from the general reserve to case basis reserves \$4,580,000. Giving effect to these transfers, the general reserve totaled \$54,971,000 at December 31, 1999.

Reserves for losses and loss adjustment expenses are discounted at risk-free rates for the general reserve and for the case basis reserves at rates between 5.5% and 6.1%. The amount of discount taken was approximately \$31,113,000, \$28,564,000 and \$19,779,000 at December 31, 1999, 1998 and 1997, respectively.

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In thousands, except share data)	First	Second	Third	Fourth	Full Year
	-----	-----	-----	-----	-----
1999					
Gross premiums written	\$78,334	\$71,925	\$111,959	\$100,453	\$362,671
Net premiums written	49,910	51,835	70,853	57,837	230,435
Net premiums earned	41,294	42,774	42,701	48,190	174,959
Net investment income	22,024	22,736	24,432	25,531	94,723
Losses and loss adjustment expenses	2,175	1,825	1,950	2,879	8,829
Income before taxes	42,849	29,296	38,396	53,437	163,978
Net income	32,157	23,472	29,707	40,069	125,405
Basic earnings per common share	1.05	0.77	0.97	1.28	4.08
Diluted earnings per common share	1.01	0.73	0.93	1.22	3.89
1998					
Gross premiums written	\$54,338	\$89,242	\$77,024	\$98,662	\$319,266
Net premiums written	37,947	62,121	54,462	65,323	219,853
Net premiums earned	31,921	32,452	32,618	40,936	137,927

Source: WHITE MOUNTAINS INSU, 10-K, March 28, 2000

Net investment income	18,683	19,255	19,710	21,175	78,823
Losses and loss adjustment expenses	1,047	1,047	1,046	809	3,949
Income before taxes	32,817	36,184	48,016	40,234	157,251
Net income	24,314	26,739	34,604	29,699	115,356
Basic earnings per common share	0.84	0.92	1.20	1.00	3.96
Diluted earnings per common share	0.81	0.88	1.15	0.96	3.77

19. EARNINGS PER SHARE

The calculations of average basic and diluted common shares outstanding are as follows (in thousands):

	Year Ended December 31,		
	1999	1998	1997
Average common shares outstanding	30,322	28,854	29,858
Shares earned but unissued under equity-based compensation plans	398	248	170
Average basic common shares outstanding	30,720	29,102	30,028
Shares contingently issuable under:			
Equity-based compensation plans	656	622	395
Redeemable preferred stock	874	875	490
Average diluted common shares outstanding	32,250	30,599	30,913

20. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

In June 1998, the Company invested \$10,000,000 to purchase 1,000,000 shares of common stock, representing a 25% interest, in Fairbanks Capital Holding Corp. (Fairbanks), which buys, sells and services residential mortgages. In October 1999, the Company invested \$4,517,000 to purchase 361,333 shares of preferred stock in Fairbanks and holds an approximate 22.2% interest in Fairbanks as of

December 31, 1999. The Company's investment in Fairbanks is accounted for using the equity method of accounting. Amounts recorded by the Company in connection with Fairbanks as of December 31, 1999 and 1998 are as follows (in thousands):

	1999	1998
Investment in Fairbanks	\$ 13,078	\$ 9,263
Equity in earnings (losses) from Fairbanks, net of goodwill amortization	(702)	(788)

At December 31, 1999 and 1998, the Company's retained earnings included \$(1,490,000) and \$(788,000), respectively, of accumulated undistributed earnings (losses) of Fairbanks (net of goodwill amortization).

In November 1998, the Company invested \$19,900,000 to purchase a 19.9% interest in XL Financial Assurance Ltd (XLFA), a financial guaranty insurance subsidiary of XL (see Note 7). In February 1999, the Company sold \$4,900,000 of its interest back to XLFA, giving the Company a 15.0% interest in XLFA as of December 31, 1999. The Company's investment in XLFA is accounted for using the equity method of accounting because the Company has significant influence over XLFA's operations. Amounts recorded by the Company in connection with XLFA as of December 31, 1999 and 1998 are as follows (in thousands):

	1999	1998
Investment in XLFA	\$16,631	\$20,233
Equity in earnings from XLFA	1,372	333
Dividends received from XLFA	74	--

At December 31, 1999 and 1998, the Company's retained earnings included \$1,631,000 and \$333,000, respectively, of accumulated undistributed earnings of XLFA.

21. MINORITY INTEREST IN SUBSIDIARY

In November 1998, Financial Security Assurance International Ltd. (International), a Bermuda-based financial guaranty subsidiary of FSA (see Note 7), sold to XL \$20,000,000 of preferred shares representing a minority interest in International. In December 1999, International sold to XL an additional \$10,000,000 of preferred shares to maintain its minority ownership percentage. The preferred shares are Cumulative Participating Voting Preferred Shares, which in total have a minimum fixed dividend of \$1,500,000 per annum. For the years ended December 31, 1999 and 1998, the Company recognized minority interest of \$2,715,000 and \$388,000, respectively.

22. SUBSEQUENT EVENT

On March 14, 2000, the Company announced that it had entered into a merger agreement pursuant to which the Company would become a wholly owned subsidiary of Dexia S.A., a publicly held Belgian corporation, subject to shareholder approval and satisfaction of regulatory and other closing conditions. Pursuant to the merger, each outstanding share of the Company's common stock will be converted into the right to receive \$76.00 in cash. Dexia S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries.

In conjunction with this transaction, the Company anticipates, at closing, valuing its liabilities under the Company's equity-based compensation plans at the transaction price and changing its assumption regarding those plans by assuming all future payments will be settled in cash or, as the case may be, exchanged at the cash value for alternative investments and settled upon expiration of any applicable deferral period. It also intends to settle its Forward Share agreements at the merger price.

While the effect on the Company's consolidated operating results and financial position between December 31, 1999 and the closing date (assuming the transaction closes) cannot be accurately predicted, had the above transaction been effective at December 31, 1999, the pro forma effect would have been to decrease reported 1999 net income and December 31, 1999 stockholders' equity by \$44,700,000 and \$18,800,000, respectively.

There can be no assurance that this transaction will close or that it will close without modification.

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Common Stock Data

	Dividends per Share	Market Price		
		High	Low	Close
1999				
Quarter ended March 31	\$0.1125	\$55.4375	\$46.1250	\$49.6250
Quarter ended June 30	\$0.1125	59.1250	47.8125	52.0000
Quarter ended September 30	\$0.1200	55.5000	46.6875	51.6875
Quarter ended December 31	\$0.1200	60.2500	47.8750	52.1250
1998				
Quarter ended March 31	\$0.1075	\$56.4375	\$44.0000	\$54.6250
Quarter ended June 30	\$0.1075	60.3750	54.6250	58.7500
Quarter ended September 30	\$0.1125	61.1250	45.2500	48.7500
Quarter ended December 31	\$0.1125	56.7500	38.8750	54.2500

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