WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K
February 28, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

None

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o

Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2011, was $2,888,052,532.

As of February 27, 2012, 7,454,585 common shares, par value of $1.00 per share, were outstanding (which includes 100,460 restricted common shares that were not vested at such date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement to be filed with the Securities and Exchange Commission (SEC) pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), relating to the Registrant s Annual General Meeting of Members scheduled to be held May 24, 2012 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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PART I

Item 1. Business

GENERAL

White Mountains Insurance Group, Ltd. (the Company or the Registrant) is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries. Within this report, the term White Mountains is used to refer to one or more entities within the consolidated organization, as the context requires. The Company s headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, Sirius Group, and Other Operations. On October 7, 2011, White Mountains completed its sale of Esurance Holdings, Inc. and its subsidiaries (Esurance Insurance) and Answer Financial Inc. and its subsidiaries (AFI) (collectively, Esurance). Accordingly, Esurance is no longer a reportable segment and is included in discontinued operations in White Mountains financial statements.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies (collectively, OneBeacon), most of which operate in a multi-company pool. OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. During 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd. s common shares in an initial public offering. As of December 31, 2011, White Mountains owned 75.5% of OneBeacon Ltd. s outstanding common shares. On August 30, 2011, OneBeacon entered into a definitive agreement to sell its AutoOne Insurance business (AutoOne). Accordingly, AutoOne is included in discontinued operations in White Mountains financial statements. The sale of AutoOne closed in February 2012.

The Sirius Group segment consists of Sirius International Insurance Group, Ltd. (formerly White Mountains Re Ltd.), an exempted Bermuda limited liability company, and its subsidiaries (collectively, Sirius Group). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, casualty, agriculture and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation (Sirius International), Sirius America Insurance Company (Sirius America) and Lloyd s Syndicate 1945 (Syndicate 1945). Sirius Group also specializes in the acquisition and management of run-off insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division. On December 30, 2011, Sirius Group completed a transaction led by White Mountains Solutions to acquire the run-off loss reserve portfolio of Old Lyme Insurance Company Ltd. (Old Lyme). Sirius Group also includes Scandinavian Reinsurance Company, Ltd. (Scandinavian Re), which is in run-off, and Central National Insurance Company of Omaha (Central National), which was acquired during the first quarter of 2010 and is in run-off.

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), the consolidated results of the Tuckerman Capital, LP fund (Tuckerman Fund I), White Mountains variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), which is in run-off, as well as various other entities not included in other segments.

White Mountains Operating Principles

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

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

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

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

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

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ONEBEACON

OneBeacon, whose U.S. corporate headquarters are in Minnetonka, Minnesota, is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. As a specialty company, OneBeacon is guided by a focus on certain customer groups and/or geographic territories where it believes its targeted products and expertise deliver a competitive advantage. OneBeacon believes specialization will result in superior returns as compared to a more generalist underwriting approach and that its knowledge regarding its targeted industries, classes and risk characteristics provides it with a competitive edge when determining the terms and conditions on individual accounts. OneBeacon s products relate to: professional liability, marine, collector cars and boats, energy, entertainment, sports and leisure, group accident, property and inland marine, public entities, technology, tuition refund and excess and surplus lines.

At December 31, 2011 and 2010, OneBeacon had $5.8 billion and $6.1 billion of total assets and $1.1 billion and $1.2 billion of common shareholders equity, respectively. At December 31, 2011 and 2010, White Mountains reported $273 million and $295 million of noncontrolling interest related to its ownership in OneBeacon. OneBeacon wrote $1.1 billion and $1.2 billion in net written premiums in 2011 and 2010, respectively.

The following table presents the financial strength ratings assigned to OneBeacon s principal insurance operating subsidiaries as of February 28, 2012:

	A.M. Best(1)	**Standard & Poor s(2)**	**Moody s(3)**	**Fitch(4)**
Rating	A (Excellent)	A- (Strong)	A2 (Good)	A (Strong)
Outlook	Stable	Stable	Stable	Stable

(1) A is the third highest of fifteen financial strength ratings assigned by A.M. Best Company (A.M. Best).
(2) A- is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor s Financial Services LLC (Standard & Poor s).
(3) A2 is the sixth highest of twenty-one financial strength ratings assigned by Moody s Investor Service (Moody s).
(4) A is the sixth highest of twenty-one financial strength ratings assigned by Fitch Ratings (Fitch).

Property and Casualty Insurance Overview

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

OneBeacon derives substantially all of its revenues from earned premiums, investment income and net realized and unrealized investment gains and losses on investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, OneBeacon invests the premiums, earns investment income and generates net realized and unrealized gains and losses on investment activities.

Insurance companies incur a significant amount of their total expenses from policyholder losses, which are commonly referred to as claims. In settling policyholder losses, various loss adjustment expenses (LAE) are incurred such as insurance adjusters fees and litigation expenses. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including their employees compensation and benefits. The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company s combined ratio under accounting principles generally accepted in the United States (GAAP) is calculated by adding the ratio of incurred loss and LAE to earned premiums (the loss and LAE ratio) and the ratio of policy acquisition and other underwriting expenses to earned premiums (the expense ratio). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

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Lines of Business

Historically, OneBeacon offered a range of specialty, commercial and personal products. However, as a result of recent transactions, OneBeacon is now focused exclusively on specialty business. The transactions freed up significant capital, increased OneBeacon s financial flexibility and substantially reduced its catastrophe exposure. On December 3, 2009, OneBeacon sold the renewal rights to its non-specialty commercial lines business to the Hanover Insurance Group Ltd. (The Hanover), beginning with January 1, 2010 effective dates (the Commercial Lines Transaction) and on July 1, 2010, OneBeacon completed the sale of its traditional personal lines business to Tower Group Inc. (Tower) (the Personal Lines Transaction). In addition, on August 30, 2011, OneBeacon entered into a definitive agreement to sell its AutoOne business, which closed in February 2012 (the AutoOne Sale).

OneBeacon s net written premiums for the years ended December 31, 2011, 2010 and 2009 consist of on-going specialty insurance operations and other insurance operations, which are primarily businesses that are now in run-off or have been sold as a result of the Commercial Lines Transaction and the Personal Lines Transaction.

Net written premiums by line of business	**Year Ended December 31,**		
Millions	**2011**	**2010**	**2009**
Specialty insurance operations	**$ 1,062.7**	$ 988.0	$ 946.2
Other insurance operations	**.2**	171.0	871.6
Total	**$ 1,062.9**	$ 1,159.0	$ 1,817.8

Specialty Insurance Operations

OneBeacon s specialty insurance operations include a collection of niche businesses that focus on solving the unique needs of particular customer or industry groups on a national scale. OneBeacon provides distinct products and offers tailored coverages and services, managed by seasoned teams of market specialists. Some of these businesses maintain stand-alone operations and distribution channels targeting their specific customer groups. The majority of these businesses are focused on smaller property-casualty insurance segments where particular expertise and relationships with similarly focused distribution partners have resulted historically in strong operating results. These businesses maintain their competitive advantage through a deep knowledge of their respective customers and markets. OneBeacon has added, and expects to continue to add, new businesses both organically and through acquisition, guided by its focus on profitable growth while prudently managing underwriting risk. OneBeacon s specialty insurance businesses are described below.

Collector Cars and Boats

Through its exclusive partnership with Hagerty Insurance Agency (Hagerty), OneBeacon offers tailored coverages for collectible vehicles and wooden boats, automotive museums and restoration shops. Notable features include agreed value for the insured vehicle or boat, flexible usage, and overseas shipping/foreign touring coverage supported by in-house claims expertise. OneBeacon s relationship with Hagerty has an initial term of five years and will be up for renewal in the second quarter of 2013.

A.W.G. Dewar (Dewar)

Dewar has been a leading provider of tuition reimbursement insurance since 1930. Dewar s product protects both schools and parents from the financial consequences of a student s withdrawal or dismissal from school. OneBeacon owns approximately 83% of the Dewar agency.

OneBeacon Entertainment (OBE)

OBE is an underwriting facility that includes the managing general agency, Entertainment Brokers International Insurance Services (EBI), which OneBeacon acquired in July 2008. OBE s primary focus is providing specialized commercial insurance products, including professional liability coverages, for the entertainment, sports, and leisure industries, through a network of independent agents and brokers.

International Marine Underwriters (IMU)

IMU, which traces its roots to the early 1900s, offers a full range of ocean marine insurance products including, but not limited to, commercial hull and marine liabilities at both the primary and excess levels; ocean and air cargo with coverage extensions such as inland transit, warehousing, and processing; yachts; and several marine package products with comprehensive property, auto, and liability coverage.

OneBeacon Technology Insurance (OBTI)

OBTI delivers targeted insurance solutions for specific Technology segments including InfoTech, MedTech, Telecommunications, Electronic Manufacturing, Integration Contractors, Instrument Manufacturers and Clean Tech/Solar. OBTI s tailored products and coverages include property, general liability, business auto, commercial umbrella, workers compensation, international, technology errors or omissions, data privacy and communications liability. OBTI delivers specialized expertise, innovation and service through dedicated underwriting, risk control and claims staff.

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OneBeacon Accident Group (OBA   )

OBA focuses on providing solutions for the transportation, non-subscription and corporate accident marketplace. OBA   s product suite includes accidental death and dismemberment, occupational accident, sports accident, non-truckers liability, vehicle physical damage and other accident coverages. OBA also manages OneBeacon Services, which provides employers and affinity groups with access to services including a discounted prescription drug program, identity theft management services and travel assistance services.

OneBeacon Government Risks (OBGR   )

OBGR provides solutions for midsized municipalities and counties, special districts including water and sanitation, non-rail transit authorities and other publicly funded agencies. Products include property, casualty and professional liability comprised of law enforcement, public officials and employment practices liability offered on a fully insured, deductible, self-insured retention or assumed reinsurance basis.

OneBeacon Energy Group (OBEG   )

OBEG focuses on middle-market upstream and midstream conventional energy business, alternative and renewable energy producers, alternative fuel producers and related service and manufacturing enterprises. OBEG offers a full array of property, inland marine and casualty insurance, including property damage, boiler and machinery breakdown, general liability, auto liability and umbrella liability. OBEG continues to develop and expand product offerings to serve its customers   needs. OBEG does not offer offshore energy products.

OneBeacon Professional Insurance (OBPI   )

OBPI specializes in professional liability solutions for targeted industries including hospitals, managed care organizations, long-term care facilities, medical facilities, physician groups, media organizations, lawyers, real estate professionals, design professionals, financial services and technology providers. Additionally, OBPI provides employment practices liability, management liability and tailored products for complex organizations including health care provider excess insurance and HMO reinsurance. General liability, property and workers   compensation coverages are also available for financial institutions. OBPI   s policies are primarily issued on a   claims made   basis, which generally covers claims that are made against an insured during the time period when a liability policy is in effect. This coverage differs from the typical   occurrence basis policies, which generally cover losses that occur while the policy is in force, regardless of when the claim is reported.

OneBeacon Property and Inland Marine (PIM   )

PIM provides monoline property and inland marine products for targeted classes of business. The business focuses on builders   risks, contractors equipment, installation floaters, fine arts, motor truck cargo, transportation, miscellaneous articles floaters, warehousemen   s legal liability, and other inland marine opportunities. For property, the target is nursing homes, assisted living, and independent living as well as cultural institutions and related property to support inland marine accounts, including property for contracting accounts.

OneBeacon Specialty Property (OBSP)

OBSP provides excess property and inland marine solutions that augment primary policies or self-insured retentions. Target classes of business include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale, education and public entities. OBSP products are provided primarily through surplus lines wholesalers.

OneBeacon Excess and Surplus (OBES)

OneBeacon s newest business, OBES was established in July 2010 to support its current businesses and write selectively in the excess and surplus market. OBES includes OneBeacon Environmental, which offers specialized environmental insurance products designed to address a broad range of exposures faced by businesses. Capabilities include commercial general liability, contractors environmental liability, professional liability, environmental premises liability, products pollution liability and follow-form excess.

Other Insurance Operations

OneBeacon s other insurance operations consist of run-off business, primarily non-specialty commercial lines business, the renewal rights to which were sold in 2009 as described below, as well as national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group in 2001. Additionally, OneBeacon s other insurance operations included the traditional personal lines business until the business was sold in 2010 as described below.

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On December 3, 2009, OneBeacon sold the renewal rights to its non-specialty commercial lines business to The Hanover. The transaction included small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates. OneBeacon continues to manage claims from its non-specialty commercial lines policies written prior to the Commercial Lines Transaction. Through June 30, 2010, OneBeacon also managed claims from business fronted by OneBeacon and reinsured to The Hanover. OneBeacon continues to provide claims system access and first notice of loss service to The Hanover. The Hanover reimburses OneBeacon for its expenses incurred to provide the claims administration services.

On July 1, 2010, OneBeacon completed the sale of its traditional personal lines business to Tower. The transaction primarily included two insurance companies containing the personal lines business and two attorneys-in-fact managing the reciprocal exchanges that write the personal lines business in New York and New Jersey. OneBeacon also entered into a Transition Services Agreement (TSA), pursuant to which it provides certain services to Tower during the three-year term of the TSA. Tower reimburses OneBeacon for its expenses incurred to provide these services.

Discontinued Operations

On August 30, 2011, OneBeacon entered into a definitive agreement (the AutoOne Purchase Agreement) to sell its AutoOne business to Interboro Holdings, Inc. (Interboro). OneBeacon formed AutoOne in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey. AutoOne had previously been included within OneBeacon s other insurance operations, however, as a result of entering into the AutoOne Purchase Agreement, AutoOne is now presented as a discontinued operation. Upon closing in February 2012, OneBeacon transferred to Interboro AutoOne Insurance Co. and AutoOne Select Insurance Co., which contained the assets, liabilities, and the capital of the business, and transferred substantially all of the AutoOne infrastructure including systems and office space as well as certain staff.

Geographic Concentration

Substantially all of OneBeacon s net written premiums are derived from business produced in the United States. Business from specialty insurance operations was produced in the following states:

Specialty insurance operations	**Year Ended December 31,**		
Net written premiums by state	**2011**	**2010**	**2009**
California	**14%**	13%	13%
New York	**9**	9	9
Texas	**7**	7	7
Florida	**5**	6	6
Massachusetts	**5**	5	5
Other(1)	**60**	60	60
Total	**100%**	100%	100%

(1) No individual state is greater than 5% of specialty net written premiums for the years ended December 31, 2011, 2010 and 2009.

Marketing and Distribution

OneBeacon offers its products through a network of select independent agents, regional and national brokers and wholesalers. Overall, OneBeacon has approximately 2,700 distribution relationships across the country. In recent years, OneBeacon has expanded its distribution channels to include select managing general agencies (MGAs), either through acquisitions or exclusive relationships. These MGAs focus on a particular customer group with tailored products and services, and related expertise.

OneBeacon protects the integrity of its franchise value by selectively appointing distribution partners that demonstrate business and industry knowledge and geographic profiles that align with its target markets and specialized capabilities. OneBeacon believes in the added value provided by independent distribution partners as they conduct more complete assessments of their clients needs, which result in more appropriate coverages and prudent risk management. OneBeacon also believes that agents and brokers will continue to be a significant force in overall industry premium production.

Underwriting and Pricing

OneBeacon believes there must be a realistic expectation of attaining an underwriting profit on all the business it writes, as well as a demonstrated fulfillment of that expectation over time. Consistent with the underwriting comes first operating principle, adequate pricing is a critical component for achieving an underwriting profit. OneBeacon underwrites its book with a disciplined approach towards pricing its insurance products and is willing to forgo a business opportunity if it believes it is not priced appropriately to the exposure.

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OneBeacon actively monitors pricing activity and measures usage of tiers, credits, debits and limits. In addition, OneBeacon regularly updates base rates to achieve targeted returns on capital and attempts to shift writings away from lines and classes where pricing is inadequate. To the extent changes in premium rates, policy forms or other matters are subject to regulatory approval (see **REGULATION United States** on page 22 and **Risk Factors** ***Regulation may restrict our ability to operate*** on page 32), OneBeacon proactively monitors its pending regulatory filings to facilitate, to the extent possible, their prompt processing and approval. Lastly, OneBeacon expends considerable effort to measure and verify exposures and insured values.

Competition

Property and casualty insurance is highly competitive. OneBeacon s businesses each compete against a different subset of companies. OneBeacon competes with most specialty companies, such as Allied World Assurance Company, HCC Insurance Holdings, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. OneBeacon also competes in certain of its businesses with various local and regional insurance companies. OneBeacon also competes to varying degrees in one or more of its businesses with most of the large multi-line insurance companies, such as ACE Limited, Chartis Insurance, Chubb Group of Insurance Companies, CNA Insurance, Liberty Mutual Insurance Group, Travelers Insurance Group Holdings Inc. and Zurich Financial Services Ltd.

The more significant competitive factors for most insurance products OneBeacon offers are price, product terms and conditions, agency and broker relationships and claims service. OneBeacon s underwriting principles and dedication to independent distribution partners are unlikely to make it the low-cost provider in most markets. While it is often difficult for insurance companies to differentiate their products, OneBeacon believes that by providing superior specialty products to satisfy well-defined market needs and relying on agents and brokers who value its targeted expertise, superior claims service, and disciplined underwriting, they establish their competitive advantage. The continued existence of carriers operating with lower cost structures places ongoing pressure on OneBeacon s pricing and terms and conditions, which may impact its ability to compete.

Claims Management

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

Following the Commercial Lines and Personal Lines Transactions, claims operations are now organized into ongoing claims and run-off claims, with specific claims resources supporting the respective operations. This approach allows OneBeacon to better identify and manage claims handling costs. In addition, a shared claims service unit manages costs related to all claims staff and vendors. OneBeacon has adopted a total claims cost management approach that gives equal importance to controlling claims handling expenses, legal expenses and claims payments, enabling it to lower the sum of the three. This approach requires the utilization of a considerable number of conventional metrics to monitor the effectiveness of various programs implemented to lower total loss costs. OneBeacon utilizes the metrics to guard against implementation of expense containment programs that will cost more than it expects to save.

OneBeacon s claims department utilizes a claims workstation to record reserves, payments and adjuster activity and, with support from expert tools, assists each claim handler in identifying recovery potential, estimating property damage, evaluating claims and identifying fraud. OneBeacon s commitment and performance in fighting insurance fraud has reduced claim costs and aided law enforcement investigations.

OneBeacon has a reinsurance contract with National Indemnity Company (NICO) to help protect against potential asbestos and environmental (A&E) claims (the NICO Cover). See **Catastrophe Risk Management and Reinsurance Protection** below. NICO has retained a third-party administrator (TPA), Resolute New England (Resolute) to manage the claims processing for A&E claims reinsured under the NICO Cover. OneBeacon s claims department personnel are consulted by NICO and Resolute on major claims. As with all TPAs, claims department personnel continually monitor Resolute to ensure its controls, processes and settlements are appropriate.

Catastrophe Risk Management and Reinsurance Protection

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

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon s operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in the area affected by the event as well as the severity of the event. OneBeacon uses models (primarily AIR Worldwide (AIR) Version 12) to estimate the probability of the occurrence of a catastrophic event as well as potential losses under various scenarios. OneBeacon uses this model output in conjunction with other data to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures.

OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective May 1, 2011, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2012. The program provides coverage for OneBeacon s property business for losses resulting from natural catastrophes, as well as certain acts of terrorism. Under the program, the first $50 million of losses resulting from any single catastrophe are retained and the next $175 million of losses resulting from the catastrophe are reinsured, although OneBeacon retains a co-participation of 26% of losses from $50 million to $100 million and 10% of losses from $100 million to $175 million. Losses from $175 million to $225 million are fully reinsured. Any loss above $225 million would be retained in full. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium. OneBeacon anticipates that the $225 million limit is sufficient to cover its largest single event natural catastrophe exposure with a modeled 0.4%-0.5% probability of occurrence (1-in-250-year event to 1-in-200-year event). This $225 million limit was reduced from the $275 million limit that our previous catastrophe reinsurance program provided. This reduction was in response to lower catastrophe exposure as OneBeacon s run-off business winds down.

OneBeacon s property catastrophe reinsurance program does not cover property losses resulting from any nuclear events or biological, chemical or radiological terrorist attacks or losses resulting from acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002 (the Terrorism Act or TRIA), as amended, committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as well as domestic acts of terrorism. Such losses are subject to coverage provided to insurance companies by TRIA (See **Terrorism** on page 7).

OneBeacon also purchases property-per-risk reinsurance coverage to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of $10 million up to $100 million. Individual risk facultative reinsurance may be purchased above $100 million where OneBeacon deems it appropriate. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of $10 million up to $100 million on an individual risk basis for terrorism losses. However, any nuclear events, or biological, chemical or radiological terrorist attacks are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual policies involving workers compensation, general liability, automobile liability, professional liability or umbrella liability in excess of $5 million up to $21 million ($20 million for healthcare professional liability). Casualty losses involving more than one insured are covered by a dedicated treaty up to $40 million in excess of a retention of $10 million.

In addition, OneBeacon has reinsurance contracts with two reinsurance companies rated AA+ (Very Strong, the second highest of twenty-one financial strength ratings) by Standard & Poor s and A++ (Superior, the highest of fifteen financial strength ratings) by A.M. Best. One contract is the reinsurance cover with NICO, which entitles OneBeacon to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to claims arising from business written by OneBeacon prior to 1992 for asbestos claims and prior to 1987 for environmental claims and certain other exposures. As of December 31, 2011, OneBeacon has ceded estimated incurred losses of approximately $2.3 billion to the NICO Cover. Net losses paid totaled $1.4 billion as of December 31, 2011. The other contract is a reinsurance cover with General Reinsurance Corporation (GRC) for up to $570 million of additional losses on all claims arising from accident years 2000 and prior (the GRC Cover). Through December 31, 2011, OneBeacon had ceded estimated incurred losses of $562 million to the GRC Cover. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting OneBeacon s recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be nominal. During the year ended December 31, 2011, OneBeacon collected $74 million under the GRC Cover.

Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectibility of balances due from reinsurers is critical to OneBeacon s financial strength. See **Note 4 Third-Party Reinsurance** of the accompanying consolidated financial statements.

Terrorism

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

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In December 2007, the U.S. government extended the Terrorism Act until December 31, 2014. The Terrorism Act established a federal backstop for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended, the law now also covers domestic acts of terrorism. The law limits the industry s aggregate liability by requiring the federal government to share 85% of certified losses once a company meets a specific retention or deductible as determined by its prior year s direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at $100 billion. In exchange for this backstop, primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage.

OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $100 million in 2012. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon s or the industry s retention levels in 2012, up to a total of $100 billion.

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

Loss and Loss Adjustment Expense Reserves

OneBeacon establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See **CRITICAL ACCOUNTING ESTIMATES Loss and LAE Reserves OneBeacon** on page 67 for a full discussion regarding OneBeacon s loss reserving process.

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

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

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year.
Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency (the average number of claims submitted per policy during a given period of time) and severity (the average value of claims submitted per policy during a given period of time) patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2011. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2011. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2011.

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OneBeacon Loss and LAE(1)(2)
Year ended December 31,

($ in millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
I. Liability for unpaid loss and LAE:											
Gross balance	$ 8,424.8	$ 7,531.4	$ 6,104.8	$ 5,298.0	$ 5,530.7	$ 4,926.0	$ 4,587.2	$ 4,402.4	$ 4,029.5	$ 3,394.7	$ 3,521.9
Less reinsurance recoverable on unpaid losses and LAE	(3,609.7)	(3,560.6)	(2,980.4)	(2,704.5)	(3,382.0)	(3,079.7)	(2,850.6)	(2,708.4)	(2,383.4)	(2,069.7)	(2,330.8)
Net balance	4,815.1	$ 3,970.8	$ 3,124.4	$ 2,593.5	$ 2,148.7	$ 1,846.3	$ 1,736.6	$ 1,694.0	$ 1,646.1	$ 1,325.0	$ 1,191.1
II. Cumulative amount of net liability paid through:											
1 year later	1,891.2	1,617.2	1,408.8	1,164.8	922.7	689.1	620.0	605.7	737.4	493.4	
2 years later	3,100.2	2,775.3	2,287.5	1,817.6	1,430.4	1,098.7	990.0	1,008.8	1,043.8		
3 years later	4,039.2	3,523.6	2,804.4	2,228.6	1,751.0	1,382.6	1,232.1	1,176.8			
4 years later	4,633.3	3,967.0	3,119.8	2,482.2	1,965.9	1,526.0	1,328.7				
5 years later	4,979.4	4,230.9	3,319.6	2,648.5	2,063.3	1,577.8					
6 years later	5,195.7	4,401.3	3,453.3	2,736.1	2,094.5						
7 years later	5,337.0	4,521.6	3,487.5	2,732.0							
8 years later	5,446.2	4,541.3	3,514.0								
9 years later	5,520.4	4,554.7									
10 years later	5,482.8										
III. Net Liability re-estimated as of:											
1 year later	4,872.4	4,137.1	3,232.6	2,688.9	2,176.5	1,815.2	1,663.6	1,577.3	1,588.9	1,322.1	
2 years later	5,154.5	4,253.0	3,344.6	2,692.2	2,219.7	1,763.8	1,558.5	1,509.8	1,599.6		
3 years later	5,243.5	4,358.4	3,358.0	2,786.9	2,182.7	1,688.2	1,513.1	1,517.2			
4 years later	5,326.0	4,377.0	3,468.1	2,768.6	2,133.4	1,642.6	1,547.5				
5 years later	5,347.4	4,509.8	3,485.6	2,762.0	2,123.7	1,703.2					
6 years later	5,475.9	4,513.6	3,480.1	2,756.3	2,175.3						
7 years later	5,475.9	4,524.0	3,486.5	2,796.9							
8 years later	5,489.1	4,531.9	3,529.8								
9 years later	5,495.8	4,570.9									
10 years later	5,531.3										
IV. Cumulative net (deficiency)/redundancy	$ (716.2)	$ (600.1)	$ (405.4)	$ (203.4)	$ (26.6)	$ 143.1	$ 189.1	$ 176.8	$ 46.5	$ 2.9	$
Percent (deficient)/redundant	(14.9)%	(15.1)%	(13.0)%	(7.8)%	(1.2)%	7.8%	10.9%	10.4%	2.8%	.2%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):											
Gross re-estimated liability	$ 10,689.9	$ 9,675.8	$ 7,952.1	$ 6,851.4	$ 6,111.7	$ 5,302.2	$ 4,923.5	$ 4,769.4	$ 4,508.2	$ 3,911.2	$
Less: gross re-estimated reinsurance recoverable	(5,158.6)	(5,104.9)	(4,422.3)	(4,054.5)	(3,936.4)	(3,599.0)	(3,376.0)	(3,252.2)	(2,908.6)	(2,589.1)	
Net re-estimated liability	$ 5,531.3	$ 4,570.9	$ 3,529.8	$ 2,796.9	$ 2,175.3	$ 1,703.2	$ 1,547.5	$ 1,517.2	$ 1,599.6	$ 1,322.1	$
VI. Cumulative gross (deficiency)/redundancy	$ (2,265.1)	$ (2,144.4)	$ (1,847.3)	$ (1,553.4)	$ (581.0)	$ (376.2)	$ (336.3)	$ (367.0)	$ (478.7)	$ (516.5)	$
Percent (deficient)/redundant	(26.8)%	(28.4)%	(30.2)%	(29.3)%	(10.5)%	(7.6)%	(7.3)%	(8.3)%	(11.9)%	(15.2)%	

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(1) Amounts reported in the table do not include adjustments for purchase accounting related to the acquisition of OneBeacon.

(2) For purposes of the 10-year table, loss and LAE reserves related to AutoOne have been excluded for all periods presented to conform to the current presentation of assets and liabilities associated with the AutoOne business, which are presented as held for sale in the December 31, 2011 balance sheet.

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

	Year Ended December 31,		
Millions	**2011**	**2010**	**2009**
Regulatory reserves	**$ 2,604.6**	$ 2,681.7	$ 3,285.4
Reinsurance recoverable on unpaid losses and LAE(1)	**997.2**	813.1	866.9
AutoOne(2)	**(64.7)**	(77.3)	(95.8)
Discount on loss reserves(3)	**(15.2)**	(22.8)	(27.0)
Reserves before purchase accounting	**3,521.9**	3,394.7	4,029.5
Purchase accounting	**(163.3)**	(176.5)	(190.5)
GAAP reserves	**$ 3,358.6**	$ 3,218.2	$ 3,839.0

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

(2) Represents loss and LAE reserves related to AutoOne, which are presented as liabilities held for sale in the December 31, 2011 balance sheet and have been excluded from the 10-year table for all periods presented.

(3) Represents long-term workers compensation loss and LAE reserve discount recorded in excess of statutorily defined discount.

OneBeacon s Senior Notes

In May 2003, OneBeacon U.S. Holdings, Inc. (OBH), an intermediate holding company of OneBeacon, issued $700 million face value of senior unsecured notes through a public offering, at an issue price of 99.7% (the OBH Senior Notes). The OBH Senior Notes bear an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, until maturity in May 2013. Since their issuance through December 31, 2011, OneBeacon has repurchased $430 million face value of the OBH Senior Notes. As a result, at December 31, 2011, $270 million face value of the OBH Senior Notes remained outstanding.

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White Mountains provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the OBH Senior Notes. In consideration of this guarantee OneBeacon pays White Mountains a guarantee fee equal to 25 basis points per annum on the outstanding principal amount of the OBH Senior Notes. If White Mountains voting interest in OneBeacon Ltd. s common shares ceases to represent more than 50% of all of OneBeacon Ltd. s voting securities, OneBeacon Ltd. is obligated to redeem, exchange or otherwise modify the OBH Senior Notes in order to fully and permanently eliminate White Mountains obligations under the guarantee. In the event that White Mountains guarantee is not eliminated, the guarantee fee will increase over time up to a maximum of 450 basis points.

SIRIUS GROUP

Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture, and certain other exposures on a worldwide basis through its subsidiary, Sirius International. Sirius International, which is the largest reinsurance company domiciled in Scandinavia based on gross written premiums, also owns Sirius America and Syndicate 1945. Sirius Group also specializes in the acquisition and management of run-off liabilities for insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division (See **White Mountains Solutions**) on page 12.

In 2011, Sirius Group established Syndicate 1945, which is currently focused on writing accident and health and contingency business. Syndicate 1945 began writing business effective July 1, 2011 and had gross written premiums net of commissions of $5 million in 2011. Syndicate 1945 has Lloyd s approved net capacity for 2012 of £67 million ($104 million based on the December 31, 2011 GBP to USD exchange rate).

During the fourth quarter of 2011, White Mountains completed a rebranding and reorganization (the Reorganization) of its reinsurance business. As part of the Reorganization, White Mountains reinsurance businesses adopted the Sirius name globally and Sirius America (formerly WMRe America) became a wholly owned subsidiary of Sirius International (formerly WMRe Sirius).

Sirius Group has offices in Australia, Belgium, Bermuda, Connecticut, Copenhagen, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich. At December 31, 2011 and 2010, the Sirius Group segment had $5.3 billion and $5.6 billion of total assets and $1.3 billion and $1.5 billion of common shareholder s equity, respectively. The Sirius Group segment wrote $916 million and $866 million in net written premiums in 2011 and 2010, respectively.

The following table presents the financial strength ratings assigned to the principal reinsurance operating subsidiaries of Sirius Group as of February 28, 2012:

	A.M. Best(1)	**Standard & Poor s(2)**	**Moody s(3)**	**Fitch(4)**
Rating	A (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable

(1) A is the third highest of fifteen financial strength ratings assigned by A.M. Best.

(2) A- is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor s.

(3) A3 is the seventh highest of twenty-one financial strength ratings assigned by Moody s.

(4) A- is the seventh highest of twenty-one financial strength ratings assigned by Fitch.

In connection with the Reorganization, A.M. Best upgraded the financial strength rating of Sirius America from A- (Excellent, the fourth highest of fifteen ratings) to a group A (Excellent, the third highest of fifteen ratings), consistent with Sirius International s rating, and all financial strength ratings from the four major ratings agencies were affirmed with stable outlooks.

Reinsurance Overview

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

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

Sirius Group writes treaty and facultative reinsurance, as well as primary direct business. The majority of Sirius Group s premiums are derived from excess of loss and proportional reinsurance contracts, which in 2011 amounted to 66% and 19%, respectively, of its total net written premiums, while primary direct business represented 15% of total net written premiums.

A significant period of time normally elapses between the receipt of reinsurance premiums and the payment of reinsurance claims. While premiums are generally paid to the reinsurer upon inception of the underlying coverage, the claims process is delayed and generally begins upon the occurrence of an event causing an insured loss followed by: (1) the reporting of the loss by the insured to its broker or agent; (2) the reporting by the broker or agent to the ceding company; (3) the reporting by the ceding company to its reinsurance intermediary or agent; (4) the reporting by the reinsurance intermediary or agent to the reinsurer; (5) the ceding company s adjustment and payment of the loss; and (6) the payment to the ceding company by the reinsurer. During this time, reinsurers invest the premiums and earn investment income and generate net realized and unrealized investment gains and losses on investments. The period of time between the receipt of premiums and the payment of claims is typically longer for a reinsurer than for a primary insurer.

Classes of Business

The following table shows Sirius Group s net written premiums by class of business for the years ended December 31, 2011, 2010 and 2009:

Business class		**Year Ended December 31,**	
Millions	**2011**	**2010**	**2009**
Accident and health	**$ 245.8**	$ 211.4	$ 184.3
Other property	**217.0**	243.7	260.5
Property catastrophe excess	**201.5**	185.4	188.0
Trade credit	**79.6**	51.5	6.7
Aviation and space	**60.8**	58.1	58.4
Marine	**45.3**	41.8	39.5
Agriculture	**32.8**	27.2	25.7
Casualty	**18.0**	32.8	30.4
Contingency	**15.1**	13.9	13.3
Total	**$ 915.9**	$ 865.8	$ 806.8

For each of the years ended December 31, 2011, 2010, and 2009, 85%, 86%, and 87%, respectively, of Sirius Group s net written premiums were for reinsurance products, with the remainder being insurance products.

Accident and Health

Sirius Group s accident and health business is composed of three major classes of business. In the largest class of business, Sirius Group is a surplus lines insurer of international medical expenses written through International Medical Group, Inc., which is the agent writing on Sirius Group s behalf. The second major class of business comprises proportional treaties covering employer medical stop loss for per person (specific) and per employer (aggregate) exposures. The third major class of business comprises medical, health and personal accident coverages written on an excess treaty and facultative basis.

Other Property

Sirius Group is a leader in the broker market for property treaties written on a proportional and excess of loss basis. For its international business, the book consists of treaty, written on both a proportional and non-proportional basis, facultative, and direct business, primarily in Europe. In the United States, the book predominantly centers on significant participations on proportional and excess of loss treaties for carefully chosen partners in the excess & surplus lines segment of the market.

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Property Catastrophe Excess

Property catastrophe excess of loss treaties cover losses from catastrophic events. Sirius Group writes a worldwide portfolio with the largest concentration of exposure in Europe and the United States, and seeks to set prices and terms on treaties wherever possible. The current U.S. book has a national account focus supporting the lower and/or middle layers of large capacity programs. The catastrophe portfolio mainly consists of select large national, small regional and standard lines carriers. The exposures written in the international portfolio are diversified across many countries, regions and perils.

Trade Credit

Sirius Group writes credit and bond reinsurance, mostly on companies with worldwide operations. Most debtors are based in Europe, representing approximately 62% of Sirius Group s exposure. The bulk of the business is traditional short term commercial credit insurance, covering pre-agreed domestic and export sales of goods and services with typical coverage periods of 60 to 120 days. Losses under these policies (protection of undisputed debts against declared insolvency and protracted default) are closely correlated to adverse changes in a respective country s gross national product.

Aviation and Space

Aviation insurance covers loss of or damage to an aircraft and the aircraft operations liability to passengers, cargo and hull as well as to third parties. Additionally, liability arising out of non-aircraft operations such as hangars, airports and aircraft products can be covered. Space insurance covers loss of or damage to a satellite during launch and in orbit. The book consists of treaty, written on both on a proportional and non-proportional basis, facultative, and direct business.

Marine

Sirius Group provides marine reinsurance, primarily written on an excess of loss and proportional basis. Coverage offered includes damage to ships and goods in transit, marine liability lines, and offshore energy industry insurance. The marine portfolio is diversified across many countries and regions.

Agriculture

Sirius Group primarily provides proportional and stop loss coverage to companies writing U.S. government-sponsored Multi-Peril Crop Insurance (MPCI). Sirius Group s participation is net of the government s stop loss reinsurance protection. Sirius Group also provides coverage for crop-hail and certain named perils when bundled with MPCI business. Sirius Group also writes a small amount of agriculture business outside of the United States.

Casualty

Through 2011, Sirius Group s casualty treaty division accepted reinsurance submissions for all lines of general casualty and professional liability business. Due to insufficient U.S. casualty premium rates and global interest rates, the overall casualty book of business has decreased over time and effective January 1, 2012, Sirius Group no longer writes casualty business other than incidental exposures. Sirius Group could resume writing casualty business if premium rates and contract terms improve to favorable levels.

Contingency

Sirius Group underwrites contingency insurance, primarily for event cancellation and non-appearance, primarily on a direct policy and facultative reinsurance basis. Additionally, coverage for liabilities arising from contractual bonus, prize redemption and over redemption are also offered. The contingency portfolio is diversified across many countries and regions.

White Mountains Solutions

White Mountains Solutions is a Connecticut-based division of Sirius Group specializing in the acquisition and management of run-off liabilities for insurance and reinsurance companies both in the United States and internationally. The White Mountains Solutions team is comprised of a dedicated group of financial, actuarial and claims professionals experienced in the management and resolution of complex insurance liabilities as well as the structuring of transactions designed to enable owners to exit an insurance business and extract trapped capital. Acquisitions typically involve purchases at a significant discount to book value and undergo an extensive due diligence process. Value to the Sirius Group is derived not only from the discount purchase price, but also from the investment income on insurance float on reserves under management, the settlement of claims below the carried level of reserves and the harvesting of other embedded assets, including the value of shell companies and licenses.

Cumulative net income, after-tax, related to seven transactions executed by White Mountains Solutions from the formation of the division through December 31, 2011 is approximately $149 million.

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On December 30, 2011, Sirius Group completed a transaction led by White Mountains Solutions to acquire the run-off loss reserve portfolio of Old Lyme, a Bermuda reinsurer in run-off since 2008. Old Lyme s loss reserves of approximately $23 million were transferred via novation agreements into White Shoals Re Ltd., a wholly-owned Bermuda reinsurance company established by Sirius Group earlier in 2011. The transaction resulted in a gain of $7 million recorded in other revenues.

On February 26, 2010, White Mountains Solutions completed the acquisition of Central National from Drum Financial Corporation for $5 million. Central National ceased writing business in 1989 and has operated under the control of the Nebraska Department of Insurance since 1990. The transaction resulted in a gain of $13 million recorded in other revenues.

Geographic Concentration

The following table shows Sirius Group s net written premiums by geographic region based on the location of the ceding company or reinsurer for the years ended December 31, 2011, 2010 and 2009:

Geographic region	Year Ended December 31,					
Millions		**2011**		**2010**		**2009**
United States	**$**	**436.5**	$	398.9	$	443.7
Europe		**271.8**		284.7		265.5
Canada, the Caribbean, Bermuda and Latin America		**100.7**		102.8		40.3
Asia and Other		**106.9**		79.4		57.3
Total	**$**	**915.9**	$	865.8	$	806.8

Marketing and Distribution

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

Sirius Group pays ceding companies a ceding commission under most proportional reinsurance treaties and some excess of loss reinsurance treaties. The ceding commission is generally based on the ceding company s cost of acquiring and administering the business being reinsured (e.g., agent commissions, premium taxes and certain miscellaneous expenses). The ceding commissions paid to ceding companies constitute the majority of Sirius Group s total acquisition costs. Additionally, Sirius Group pays reinsurance intermediaries commissions based on negotiated percentages of the premium they produce by treaty or certificate.

During the years ended December 31, 2011, 2010, and 2009, Sirius Group received no more than 10% of its gross written premiums from any individual ceding company. During the years ended December 31, 2011, 2010, and 2009, Sirius Group received a majority of its gross reinsurance premiums written from three major, third-party reinsurance intermediaries as detailed in the following table:

	Year Ended December 31,		
Gross written premium by intermediary	**2011**	**2010**	**2009**
AON Re/Benfield	**31%**	35%	37%
Guy Carpenter	**19**	19	16
Willis Re	**10**	10	7
	60%	64%	60%

Underwriting and Pricing

Sirius Group maintains a disciplined underwriting strategy which, while considering overall exposure, focuses on writing more business when market terms and conditions are favorable and reducing business volume during soft markets when terms and conditions become less favorable. Sirius Group offers clients a wide range of reinsurance products across multiple lines of business to satisfy their risk management needs.

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Sirius Group derives its reinsurance business from a broad spectrum of ceding companies, including national, regional, specialty, and excess and surplus lines writers, both internationally and in the United States. Sirius Group prices its products by assessing the desired return on the expected capital needed to write a given contract and on the expected underwriting results of the contract. Sirius Group s pricing indications are based on a number of underwriting factors including historical results, analysis of exposure and estimates of future loss costs, a review of other programs displaying similar exposure characteristics and the ceding company s underwriting and claims experience. Additionally, in the United States, Sirius Group s underwriters, actuaries and claims personnel perform audits of certain ceding companies. Generally, ceding company audits are not customary outside the United States. Sirius Group s staff reviews the financial stability and creditworthiness of all ceding companies globally. Such reviews provide important input to support underwriting decisions.

Reinsurers do not have the stringent regulations with respect to contract terms and policy exclusions that are generally imposed on primary insurers. For example, the Terrorism Act is not applicable to reinsurers. As a result, terrorism exclusions on reinsurance contracts are dictated by the marketplace. Sirius Group evaluates terrorism exposure from its ceding companies and applies exclusions as it deems appropriate and as are permitted by market conditions. Reinsurance on U.S. commercial risks written by Sirius Group subsequent to the terrorist acts of September 11, 2001 generally contains clauses that exclude acts of terrorism certified under the Terrorism Act. Reinsurance on personal risks written by Sirius Group subsequent to the terrorist acts of September 11, 2001 generally contains exclusions related to nuclear, biological, radiological and chemical attacks.

Competition

The worldwide insurance and reinsurance markets are highly competitive. Competition is influenced by a variety of factors, including price charged and other terms and conditions offered, financial strength ratings, prior history and relationships, as well as expertise and the speed at which the company has historically paid claims.

Sirius Group competes for business in Europe, Bermuda, the United States, and other international markets with numerous global competitors. Sirius Group s competitors include other insurance and reinsurance companies and underwriting syndicates at Lloyd s of London. Some of the companies that Sirius Group competes directly with include Alterra Capital Holdings, Ltd., Arch Capital Group Ltd., Aspen Insurance Holdings Ltd., Axis Capital Holdings, Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., Flagstone Re Holdings SA, General Reinsurance Corporation, Hannover Ruckversicherung AG, Montpelier Re Holdings, Ltd., Munich Re Group, Odyssey Re Holdings Corp., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., Renaissance Re Holdings Ltd., Scor Global P&C, Swiss Re Group, Transatlantic Holdings, Inc., Validus Holdings, Ltd., and XL Capital Ltd.

Claims Management

Sirius Group maintains a staff of experienced insurance and reinsurance claim specialists. Its reinsurance claims specialists work closely with intermediaries to obtain specific claims information from ceding companies. Where customary and appropriate, Sirius Group s claims staff performs selective on-site claim reviews to assess ceding companies claim handling abilities and reserve techniques. In addition, Sirius Group s claims specialists review loss information provided by ceding companies for adequacy and accuracy. The results of these claim reviews are shared with the underwriters and actuaries to assist them in pricing products and establishing loss reserves.

Sirius Group also uses TPAs for certain claims, including claims arising from certain of Sirius Group s run-off claims related to certain acquired companies. Sirius Group s claims staff performs on-site claim audits of certain TPAs to ensure the propriety of the controls and processes over claims serviced by the TPAs.

Catastrophe Risk Management

Sirius Group has exposure to losses caused by hurricanes, earthquakes, tornadoes, winter storms, windstorms, floods, tsunamis, terrorist acts and other catastrophic events. In the normal course of business, Sirius Group regularly manages its concentration of exposures to catastrophic events, primarily by limiting concentrations of exposure to what it deems acceptable levels and, if necessary, purchasing reinsurance. In addition, Sirius Group seeks to limit losses that might arise from acts of terrorism in its insurance and reinsurance contracts by exclusionary provisions, where applicable. Sirius Group licenses third-party global property catastrophe models from AIR and Risk Management Solutions Inc. (RMS), which are two of the leading vendors of industry-standard catastrophe modeling software, as well as utilizing its own proprietary models to calculate expected probable maximum loss (PML) from various natural property catastrophe scenarios. Sirius Group prices its property catastrophe contracts using the aforementioned third-party software and internal models and other methods. For contracts that Sirius Group determines to have exposure to natural catastrophic perils, it models and assesses the exposure using the results in its underwriting process to assess that the contracts it writes have an appropriate premium for the exposure.

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In addition, to better manage its aggregate exposure to very large catastrophic events, Sirius Group monitors the largest modeled net financial impact (NFI) it would suffer in the worst aggregate loss year as calculated by third-party models (i.e., the 10,000-year global annual aggregate PML). The calculation of the NFI begins with the modeled 10,000-year global annual aggregate PML and takes account of estimated reinstatement premiums, reinsurance recoverables (net of estimated uncollectible balances) and tax benefits. This amount is deducted from Sirius Group s planned legal entity comprehensive income for the year (before any planned losses for catastrophe events) to arrive at the NFI. The NFI does not include the potential impact of the loss events on Sirius Group s investment portfolio. The NFI calculation is subject to future fluctuation from a variety of factors, including available interest rates, foreign currency movements, changes in third-party models, insurance market pricing, terms and conditions, as well as the availability and pricing of retrocessional protections.

Sirius Group s NFI at January 31, 2012 was under $750 million. The $750 million amount represents approximately 37% and 56% of Sirius Group s total legal entity GAAP capital and common shareholder s equity at December 31, 2011, respectively. During 2011, Sirius Group had targeted its NFI to be under $700 million. The $700 million amount represented approximately 29% and 40% of Sirius Group s total legal entity GAAP capital and common shareholder s equity at December 31, 2010, respectively. The increase in 2012 reflects the impact of model changes and lower forecasted comprehensive net income principally reflecting a lower interest rate environment in 2012 combined with moderate growth in exposures. The 10,000-year Sirius Group annual aggregate PML produced by the AIR model at January 31, 2012 is the most conservative estimate at the tail among AIR, RMS and Sirius Group s internal models. However, AIR and RMS do not have all-perils models for every territory where Sirius Group writes business and Sirius Group does not use both AIR and RMS in every territory where it writes business. Sirius Group s NFI is driven principally by three potential large earthquakes in the United States New Madrid zone occurring within a short period of time, events that would generate almost $400 billion of insured losses for the industry per AIR.

The following table provides an estimate of Sirius Group s three largest PML zones on a per occurrence basis at January 31, 2012:

				Sirius Group Net After-Tax Loss		
($ in millions)	**Modeled Industry Loss**	**Sirius Group Gross Loss**	**Net After Reinsurance and Reinstatements**	**Net After Tax**	**Net After-Tax as % of GAAP Capital(1)**	**Net After-Tax as % of GAAP Common Shareholder s Equity(1)**
			1 in 250 year event			
Southeast U.S.	$ 227,758	$ 396	$ 350	$ 254	13%	19%
Northeast U.S.	61,240	405	324	236	12%	17%
Europe	28,896	703	308	227	11%	17%
			1 in 10,000 year event			
Northeast U.S.	$ 237,577	$ 619	$ 495	$ 361	18%	27%
Europe	101,815	1,067	478	352	18%	26%
Southeast U.S.	351,383	546	481	350	17%	26%

(1) GAAP capital and common shareholder s equity at December 31, 2011 for Sirius Group is determined on a legal-entity basis.

In addition to the above, Sirius Group also has significant exposure to United States Gulf Coast windstorms (i.e., Florida to Texas), California and New Madrid earthquakes, and, to a lesser extent, Japanese and Latin American windstorms and earthquakes.

Third party catastrophe modelers provide new versions of their models on a periodic basis, usually annually or bi-annually. In 2011, RMS released Version 11, which significantly increased expected losses to the wind models in the United States and Europe. For example, United States and European RMS insured industry annual aggregate expected wind loss increased 35% and 65%, respectively, versus the prior RMS version. Two of the main drivers of the United States wind increases were slower inland decay of winds from the coast, which would cause larger losses farther inland, and updates to structure and contents vulnerability, especially for commercial lines. Key drivers of the European model change include a full spectrum of smaller storm events which significantly increase short term losses and annual aggregate losses, and an improved clustering model. Clustering is defined as the heightened risk that many losses might occur in a single year based on atmospheric conditions.

Prior to January 2012, Sirius Group used AIR Version 12 to estimate its PMLs in the United States. In 2011, Sirius Group enhanced its PML reporting methodology for exposures in the United States to approximate an averaging of AIR and RMS, further adjusted for each treaty by underwriting judgment regarding the specific exposures underlying each cedent s portfolio. This change in PML methodology for exposures in the United States increased Sirius Group s Florida 250-year and 10,000-year all perils occurrence PMLs at January 31, 2012 by approximately $40 million and $4 million, respectively. The smaller increase for the 10,000 year PML reflects the fact that U.S. catastrophe exposed treaties include occurrence caps that limit the upwards loss exposure.

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For exposures in countries other than the United States, Sirius Group chooses either AIR or RMS for PML reporting based on underwriting and actuarial assessment as to the integrity of the model by territory and underlying data availability. The model of choice is then further adjusted for each treaty by underwriting judgment regarding the specific exposures underlying each cedent s portfolio.

For Europe, which is Sirius Group s most significant PML zone outside the United States, Sirius Group uses RMS. Prior to January 2012, Sirius Group used RMS Version 10 to estimate its PMLs for European exposures. RMS Version 10 was predominantly used by insurers and reinsurers for January 1, 2012 renewals. However, to produce its PMLs at January 31, 2012, Sirius Group adjusted the RMS Version 10 loss scenarios for each treaty by applying underwriting judgment regarding the specific exposures underlying each cedent s portfolio. Sirius Group believes its Eurpoean PMLs at January 31, 2012 would approximate PMLs produced by using RMS Version 11. Sirius Group s 250-year and 10,000-year all perils occurrence PMLs for European exposures at January 31, 2012 are 29% and 18% higher, respectively, than at January 2011 reflecting both actual exposure growth and the impact of adjusting loss scenarios produced by RMS Version 10.

Sirius Group also monitors its global annual aggregate tail value at risk (TVaR) at the 100, 250, 500, and 1,000 year periods. TVaR represents the average loss for the named period through 10,000 years (e.g., TVaR 250 represents the average loss for the worst forty modeled years).

Catastrophe modeling is dependent upon several broad economic and scientific assumptions, such as storm surge (the water that is pushed toward the shore by the force of a windstorm), demand surge (the localized increase in prices of goods and services that often follow a catastrophe) and zone density (the percentage of insured perils that would be affected in a region by a catastrophe). Third-party modeling software also does not provide information for all territories or perils (e.g. tsunami) for which Sirius Group writes business.

Catastrophe modeling is inherently uncertain due to process risk (i.e., the probability and magnitude of the underlying event) and parameter risk (i.e., the probability of making inaccurate model assumptions). In particular, obtaining geographic and policy coverage data on the primary policies reinsured by Sirius Group is essential. Accordingly, Sirius Group s ability to develop its catastrophe exposure is dependent on the quality and accuracy of data obtained from its clients.

If Sirius Group s assumptions about any of the above variables are incorrect, the potential incurred losses from an actual catastrophe could be materially higher than the expectation of losses generated from modeled catastrophe scenarios; as a result, Sirius Group s results of operations and financial condition could be materially adversely affected.

Sirius Group does not believe that it can rely solely upon catastrophe modeling to measure its exposure to natural catastrophe risk. For example, the losses arising from hurricane Katrina for both Sirius Group and the industry were substantially in excess of losses previously predicted by third-party models from such an event. This was due to issues such as inadequate storm surge and demand surge assumptions in the models, as well as flooding from levees breaking which was not fully contemplated in these models. Sirius Group monitors gross and net property catastrophe occurrence limits by country and region globally. Occurrence limits for peak zones in Europe, Japan, and the United States are assessed versus modeled catastrophe risk as another measure in understanding total property catastrophe exposure to large events.

Reinsurance Protection

Sirius Group s reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain property exposures. Sirius Group s proportional reinsurance programs provide protection for part of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East, and Australia. This reinsurance is designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events. Attachment points and coverage limits vary by region around the world. In addition to its proportional reinsurance purchases, Sirius Group also purchases excess of loss reinsurance protection for $15 million in excess of a retention of $5 million for the facultative and direct property portfolios written by the Stockholm, Hamburg and London branches (excluding business written in the United States). For the London branch, an additional $5 million of protection in excess of a retention of $5 million for facultative and direct U.S.-catastrophe exposed business was also purchased. Industry loss warranties (ILW) purchased in 2011 for European wind exposures and floods were not renewed, and subsequently expired on January 25, 2012.

In 2011, 2010 and 2009, Sirius Group purchased group excess of loss retrocessional coverage for its non-U.S. and non-Japan earthquake-related exposures. The non-U.S. and non-Japan earthquake cover was renewed for one year at April 1, 2011, providing $61 million of reinsurance protection through partially placed coverage layers in excess of Sirius Group s retention of $35 million. Sirius Group will recognize the full $61 million recovery if a covered earthquake loss reaches $110 million. At April 1, 2010, Sirius Group purchased coverage for $65 million in excess of $45 million. At December 31, 2011, losses incurred for the February 2011 New Zealand earthquake totaled $44 million, which is less than the $45 million retention; accordingly, Sirius Group has not recovered any losses from this coverage. At April 1, 2009, Sirius Group purchased coverage for $65 million in excess of $35 million, and this coverage applies to losses incurred from the Chile earthquake. During 2010, Sirius Group recovered the full $65 million limit under the earthquake cover as a result of the Chile Earthquake in February 2010.

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Sirius Group s aviation reinsurance program is intended to reduce exposure to a frequency of small losses, a single large loss, or a combination of both. In 2012, for the proportional and facultative aviation portfolios, reinsurance protection was purchased based on average in excess of a market loss of $150 million up to a full airline policy limit of $2.25 billion. For the non-proportional aviation portfolio, reinsurance protection includes a 15% quota share treaty and several excess of loss covers with varying attachment points and limits. In addition, the non-proportional portfolio is protected by $30 million in the form of first event ILWs, and $6 million of available limit in the form of second event ILWs. The first event ILWs attach at industry event levels between $400 million and $900 million. The second event ILWs attach at industry levels between $300 million and $600 million.

For accident and health, Sirius Group has excess of loss protection covering personal accident and life of 10 million ($13 million based on the December 31, 2011 EUR to USD exchange rate) of protection in excess of a 5 million ($7 million based on the December 31, 2011 EUR to USD exchange rate) retention for the Stockholm, Hamburg, Liege and Singapore branches.

For 2011, Sirius Group ceded 19% of its trade credit business under a quota share retrocession, which supported growth in this line. The treaty was renewed for 2012 at a 20% cession percentage for credit business and 50% for bond business.

All of Sirius Group s excess of loss reinsurance protections include provisions that reinstate coverage at a cost of 100% or more of the original reinsurance premium.

At December 31, 2011, Sirius Group had $14 million of reinsurance recoverables on paid losses and $340 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. The combined reinsurance recoverable on losses of $354 million is down significantly from the December 31, 2009 balance of $596 million, as a result of paid loss commutations and other settlement activities. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group s reinsurers is critical to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis. See **Note 4- Third-party Reinsurance** to the accompanying consolidated financial statements for a discussion of Sirius Group s top reinsurers.

Loss and Loss Adjustment Expense Reserves

Sirius Group establishes loss and LAE reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See **CRITICAL ACCOUNTING ESTIMATES Loss and LAE Reserves Sirius Group** on page 76 for a full discussion regarding Sirius Group s loss reserving process.

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

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

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year.
Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2011. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2011. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2011.

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					Sirius Group Loss and LAE Year ended December 31,						
($ in millions)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
I. Liability for unpaid loss and LAE:											
Gross balance	$ 1,581.4	$ 1,588.4	$ 1,699.4	$ 3,864.3	$ 4,308.8	$ 3,708.8	$ 3,252.3	$ 2,735.5	$ 2,444.4	$ 2,441.3	$ 2,343.7
Less reinsurance recoverable on unpaid losses and LAE	(879.5)	(809.8)	(741.1)	(1,149.8)	(1,633.6)	(1,142.5)	(806.4)	(545.6)	(578.6)	(450.5)	(339.7)
Net balance	$ 701.9	$ 778.6	$ 958.3	$ 2,714.5	$ 2,675.2	$ 2,566.3	$ 2,445.9	$ 2,189.9	$ 1,865.8	$ 1,990.8	$ 2,004.0
II. Cumulative amount of net liability paid through:											
1 year later	230.6	250.7	321.5	941.0	949.4	721.7	726.2	637.4	276.2	475.3	
2 years later	391.2	420.8	521.8	1,369.4	1,442.9	1,302.0	1,164.5	760.8	533.0		
3 years later	501.4	559.1	710.8	1,684.9	1,942.5	1,645.2	1,207.4	972.5			
4 years later	602.7	690.9	834.7	2,052.4	2,225.6	1,649.2	1,486.6				
5 years later	739.3	804.5	941.0	2,246.0	2,192.3	1,804.3					
6 years later	830.6	885.7	1,015.7	2,170.9	2,325.5						
7 years later	895.8	926.5	901.6	2,265.1							
8 years later	922.1	807.1	910.7								
9 years later	799.7	812.3									
10 years later	796.7										
III. Net Liability re-estimated as of:											
1 year later	704.9	828.9	984.9	2,771.9	2,893.2	2,575.4	2,525.7	2,159.4	1,808.5	1,943.9	
2 years later	758.7	856.9	1,059.6	2,802.9	3,032.5	2,775.8	2,539.8	2,140.6	1,797.5		
3 years later	800.5	929.8	1,148.1	2,917.9	3,164.9	2,749.3	2,517.2	2,124.6			
4 years later	872.2	1,023.8	1,270.2	3,063.6	3,133.3	2,743.4	2,510.7				
5 years later	968.4	1,138.6	1,425.0	3,021.4	3,124.8	2,741.7					
6 years later	1,077.8	1,280.5	1,382.7	3,013.1	3,134.3						
7 years later	1,196.4	1,228.5	1,379.8	3,017.9							
8 years later	1,150.4	1,226.0	1,383.3								
9 years later	1,142.9	1,230.5									
10 years later	1,145.2										
IV. Cumulative net (deficiency)/redundancy	$ (443.3)	$ (451.9)	$ (425.0)	$ (303.4)	$ (459.1)	$ (175.4)	$ (64.8)	$ 65.4	$ 68.3	$ 46.9	$
Percent (deficient)/redundant	(63.2)%	(58.0)%	(44.3)%	(11.2)%	(17.2)%	(6.8)%	(2.6)%	3.0%	3.7%	2.4%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):											
Gross re-estimated liability	$ 2,228.9	$ 2,173.5	$ 2,271.8	$ 4,379.9	$ 5,011.5	$ 3,931.8	$ 3,344.1	$ 2,677.5	$		