WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K
February 28, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

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 ý No o

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

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

Indicate by check mark 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

(§232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 ý

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2013, was $3,324,933,214.

As of February 28, 2014, 6,179,986 common shares, par value of $1.00 per share, were outstanding (which includes 81,325 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 22, 2014 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 insurance and reinsurance subsidiaries and affiliates. Within this report, the term “White Mountains” is used to refer to one or more entities within the consolidated organization, as the context requires. The Company’s headquarters 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, HG Global/BAM and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (“OneBeacon Ltd.”), an exempted Bermuda limited liability company that owns a family of property and casualty insurance companies (collectively, “OneBeacon”). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products in the United States primarily through independent agencies, regional and national brokers, wholesalers and managing general agencies. During the third quarter of 2013, OneBeacon formed Split Rock Insurance, Ltd. (“Split Rock”), a Bermuda-based reinsurance company. As of December 31, 2013, White Mountains owned 75.2% of OneBeacon Ltd.’s outstanding common shares. OneBeacon entered into a definitive agreement to sell its runoff business in October 2012 (the “Runoff Transaction”) and sold its AutoOne Insurance business (“AutoOne”) in February 2012. Accordingly, the runoff business and AutoOne are presented as discontinued operations in White Mountains’ financial statements.

The Sirius Group segment consists of Sirius International Insurance Group, 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, agriculture and certain other exposures on a worldwide basis through its primary 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 runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division.

The HG Global/BAM segment consists of White Mountains’ investment in HG Global Ltd. (“HG Global”) and the consolidated results of Build America Mutual Assurance Company (“BAM”). BAM is a municipal bond insurer domiciled in New York that was established in 2012 to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503 million of surplus notes issued by BAM (the “BAM Surplus Notes”). HG Global, through its wholly-owned subsidiary, HG Re Ltd. (“HG Re”), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of December 31, 2013, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, generally accepted accounting principles in the United States (“GAAP”) require White Mountains to consolidate BAM's results in its financial statements. BAM's results do not affect White Mountains' adjusted book value per share and are attributed to non-controlling interests.

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”), White Mountains’ variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (“Life Re Bermuda”), which is in runoff, and Life Re Bermuda’s U.S.-based service provider, White Mountains Financial Services LLC (collectively, “WM Life Re”), as well as various other entities and investments not included in other segments.

In October 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.

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White Mountains' Operating Principles

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

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

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

Invest for Total Return. Historically, GAAP accounting has tended to hide unrealized gains and losses on 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.

ONEBEACON

OneBeacon, with its U.S. corporate headquarters in Minnetonka, Minnesota, is a specialty property and casualty insurance writer that offers a wide range of insurance products in the United States primarily through independent agencies, regional and national brokers, wholesalers and managing general agencies. As a specialty underwriter, OneBeacon believes that it will generate superior returns as compared to an underwriter that takes a more "generalist" underwriting approach and that its knowledge regarding its specialized insurance products, targeted industries, classes of business and risk characteristics provides it with a competitive edge when determining the terms and conditions on individual accounts.

During 2013, OneBeacon received approval to provide multiple peril crop insurance through the federal crop insurance program administered by the U.S. Department of Agriculture's Risk Management Agency. OneBeacon has entered into an exclusive agreement with a managing general agency, Climate Crop Insurance Agency, LLC ("The Climate Corporation"), to provide coverages through the federal program and other supplemental coverages, including crop-hail. OneBeacon began writing crop business in the fourth quarter of 2013.

At December 31, 2013 and 2012, OneBeacon had $5.2 billion and $5.4 billion of total assets and $1.1 billion and $1.0 billion of common shareholders' equity, respectively. At December 31, 2013 and 2012, White Mountains reported $274 million and $251 million of non-controlling interest related to its ownership in OneBeacon. As of both December 31, 2013 and 2012, White Mountains owned 75.2% of OneBeacon Ltd.'s outstanding common shares. OneBeacon wrote $1.1 billion and $1.2 billion in net written premiums in 2013 and 2012, respectively.

OneBeacon also has assets, liabilities and capital related to non-specialty business that it no longer writes, principally non-specialty commercial lines and certain other runoff business, including the vast majority of its asbestos and environmental reserves ("Runoff Business"). In October 2012, OneBeacon entered into a definitive agreement (as amended, the "Runoff SPA") to sell the Runoff Business. Upon completion of the Runoff Transaction, which is expected to close in mid-2014, subject to regulatory approval, OneBeacon will be focused exclusively on specialty business. See Discontinued Operations on page 25 for a description of the Runoff Transaction.

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The following table presents the financial strength ratings assigned to OneBeacon's principal insurance operating subsidiaries that support its ongoing specialty insurance operations (the "Ongoing Subsidiaries"), and OneBeacon's subsidiaries that contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the Runoff Business (the "Runoff Subsidiaries") as of February 28, 2014:

	A.M. Best[(1)]	Fitch[(2)]	Moody's[(3)]	Standard & Poor's[(4)]
Ongoing Subsidiaries:				
Rating	"A" (Excellent)	"A" (Strong)	"A2" (Good)	"A-" (Strong)
Outlook	Stable	Stable	Stable	Stable
Runoff Subsidiaries:				
Rating	"A" (Excellent)	"A" (Strong)	"A2" (Good)	Unrated
Outlook	Under Review - Negative	Rating Watch - Negative	Negative	N/A

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

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 or a third party claimant that are covered under the contract. Such contracts often are subject to subsequent legal interpretation by courts, legislative action and arbitration.

OneBeacon writes both property insurance and casualty insurance. 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. Premiums from ocean and inland marine, certain commercial multiple peril, fire and allied lines and private passenger auto policies generally represent OneBeacon's property lines of business, and claims from such business are typically reported and settled in a relatively short period of time. Premiums from general liability, workers compensation, commercial and personal auto liability and certain commercial multiple peril policies generally represent OneBeacon's casualty lines of business, and claims from such business can take years, even decades, to settle.

OneBeacon's net written premiums by line of business for the years ended December 31, 2013, 2012 and 2011 consist of the following:

Net written premiums by line of business	Year Ended December 31,		
Millions	2013	2012	2011
Property lines:			
Ocean and inland marine	$ 187.1	$ 214.2	$ 210.7
Commercial multi-peril and auto	70.1	52.7	39.7
Fire and allied	51.9	50.5	57.7
Private passenger auto [(1)]	2.4	99.7	92.8
Total property lines	311.5	417.1	400.9
Casualty lines:			
General liability	428.6	418.1	372.7
Workers compensation	79.4	71.9	50.8
Automobile liability	55.8	74.8	63.9

Other casualty	53.1	38.2	30.7
Total casualty lines	616.9	603.0	518.1
Other lines			
Accident and health	104.6	105.8	92.4
Credit and other	55.6	53.3	51.3
Total other lines	160.2	159.1	143.7
Total	$ 1,088.6	$ 1,179.2	$ 1,062.7

(1) The decline in Private Passenger Auto net written premiums in 2013 is due to OneBeacon's exit from the collector car and boat business on January 1, 2013.

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 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.

Insurance Business

OneBeacon's insurance business is comprised of fourteen underwriting units that are aggregated into two insurance divisions: Specialty Products and Specialty Industries. OneBeacon's Specialty Products division offers distinct products and tailors coverages and services to a broad customer base across the United States. OneBeacon's Specialty Industries division focuses on solving the unique needs of targeted industry groups on a national scale. 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 net written premiums by division for the years ended December 31, 2013, 2012 and 2011 consist of the following:

Division	Year Ended December 31,		
Millions	2013	2012	2011
Specialty Products	$509.6	$630.9	$571.2
Specialty Industries	579.0	548.3	491.5
Total	$1,088.6	$1,179.2	$1,062.7

Specialty Products

For the years ended December 31, 2013, 2012 and 2011, OneBeacon's Specialty Products net written premiums by underwriting unit were as follows:

Underwriting Unit	Year Ended December 31,		
Millions	2013	2012	2011
Professional Insurance	$348.9	$340.7	$314.9
Tuition Reimbursement	65.9	65.1	60.6
Specialty Property	40.4	34.0	25.6
Programs	20.5	.3	—
Collector Cars and Boats	(.6)	179.7	166.6
Other Specialty Products	34.5	11.1	3.5
Total Specialty Products	$509.6	$630.9	$571.2

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A description of business written by each underwriting unit in OneBeacon’s Specialty Products follows:

OneBeacon Professional Insurance (“Professional Insurance”)
Professional Insurance specializes in professional liability products for a specialized customer base, including hospitals, managed care organizations, long-term care facilities, medical facilities, physician groups, media organizations, lawyers, design professionals, financial services and technology providers. Additionally, Professional Insurance provides employment practices liability, management liability and other 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. Professional Insurance 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, regardless of when the event causing the loss occurred. This coverage differs from “claims occurrence” basis policies, which generally cover losses on events that occur during a period specified in the policy, regardless of when the claim is reported.

Tuition Reimbursement
A.W.G. Dewar, Inc. (“Dewar”) has been a leading provider of tuition reimbursement insurance since 1930. Dewar’s product, classified as credit insurance, protects both schools and parents from the financial consequences of a student's withdrawal or dismissal from school. OneBeacon owns 82% of Dewar.

OneBeacon Specialty Property (“Specialty Property”)
Specialty Property provides excess property and inland marine solutions that augment primary policies or provide coverage in excess of self-insured retentions. Target classes of business include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale, education and public entities. Specialty Property products are sold primarily through surplus lines wholesalers.

OneBeacon Program Group (“Programs”)
Formed in 2012, Programs provides multi-line package insurance for select specialty programs overseen by dedicated agencies that perform all policy administration functions. Products are available on an admitted and nonadmitted basis with sufficient capacity to match most programs. Programs works primarily with managing general agents and managing general underwriters, commonly referred to as program administrators.

Collector Cars and Boats
Prior to January 1, 2013, OneBeacon offered tailored coverages for collectible vehicles and wooden boats, automotive museums and restoration shops through an exclusive partnership with Hagerty. Notable features included agreed value for the insured vehicle or boat, flexible usage, and overseas shipping/foreign touring coverage supported by in-house claims expertise. In January 2013, OneBeacon and Hagerty terminated their relationship and OneBeacon sold Essentia Insurance Company (“Essentia”), an indirect wholly-owned subsidiary that wrote OneBeacon’s Hagerty collector cars and boats business, to Markel Corporation. OneBeacon recognized a $23 million pre-tax gain on sale ($15 million after-tax) in the first quarter of 2013.

Other Specialty Products:

OneBeacon Environmental (“Environmental”)
Environmental specializes in environmental risk solutions designed to address a variety of exposures for a broad range of businesses, including multiline casualty placements for the environmental industry. The product suite includes commercial general liability, contractors environmental liability, professional services liability, environmental premises liability, products pollution liability, follow-form excess and business auto.

OneBeacon Surety Group (“Surety”)

Surety offers a broad range of commercial bonds targeting Fortune 2500 companies and large private companies written through a network of independent agencies, brokers and wholesalers. Business is serviced through eight regions throughout the United States.

OneBeacon Crop Insurance (“Crop”)

Beginning in 2013, through OneBeacon’s exclusive relationship with The Climate Corporation, Crop offers multi-peril crop insurance through the federal crop insurance program administered by the U.S. Department of Agriculture’s Risk Management Agency. OneBeacon and The Climate Corporation also offer crop-hail products to supplement the federal crop insurance program.

Specialty Industries

For the years ended December 31, 2013, 2012 and 2011, OneBeacon's Specialty Industries net written premiums by underwriting unit were as follows:

Underwriting Unit	Year Ended December 31,		
Millions	2013	2012	2011
International Marine Underwriters	$181.0	$160.1	$180.0
Technology	131.8	121.0	94.3
Accident	105.9	102.0	86.8
Government Risks	83.4	62.3	48.8
Entertainment	76.8	71.4	61.2
Energy	.1	31.5	20.4
Total Specialty Industries	$579.0	$548.3	$491.5

A description of business written by each underwriting unit in OneBeacon's Specialty Industries follows:

International Marine Underwriters ("IMU")

IMU traces its roots to the early 1900s, and offers a full range of ocean and inland marine insurance solutions. Ocean marine products include, but are 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. Inland marine solutions include builders' risks, contractors' equipment, energy, installation floaters, fine arts, motor truck cargo, transportation, miscellaneous articles floaters, warehousemen's legal liability and other inland marine opportunities. During 2012, OneBeacon merged its Property Inland Marine underwriting unit into IMU.

OneBeacon Technology Insurance ("Technology")

OneBeacon's Technology unit provides insurance solutions for specific technology segments including: information technology, telecommunications, electronic manufacturing, integration contractors, instrument manufacturers and clean tech/solar. Tailored products and coverages include property, general liability, business auto, commercial umbrella, workers compensation, international, technology errors or omissions, data privacy and communications liability. Specialized technology insurance expertise, innovation and service are delivered through dedicated underwriting, risk control and claims staff.

OneBeacon Accident Group ("Accident")

OneBeacon Accident focuses on analyzing and developing unique accident solutions for the transportation, non-subscription and corporate accident marketplace, while also developing specialized accident insurance programs. The Accident product suite includes accidental death and dismemberment, occupational accident, sports accident, non-truckers liability, vehicle physical damage and other accident coverages. Accident also provides employers and affinity groups with access to unique services including a discounted prescription drug program, identity theft management services and travel assistance services.

OneBeacon Government Risks ("Government Risks")

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

OneBeacon Entertainment ("Entertainment")

Entertainment provides specialized commercial insurance, including professional liability protection, for the entertainment, sports and leisure industries. Coverages include film and television portfolio, producers portfolio, theatrical package, event cancellation, premises liability, event liability and participant liability.

OneBeacon Energy Group (“Energy”)
Energy, a business OneBeacon exited (except for certain inland marine accounts that were transferred to IMU) in the fourth quarter of 2012, focused on middle-market upstream and midstream conventional energy businesses, alternative and renewable energy producers, alternative fuel producers and related service and manufacturing enterprises. Energy offered a full array of property, inland marine and casualty insurance, including property damage, boiler and machinery breakdown, general liability, auto liability and umbrella liability. Energy did not offer offshore energy products.

Geographic Concentration
Substantially all of OneBeacon’s net written premiums are derived from business produced in the United States. For the years ended December 31, 2013, 2012 and 2011, business was produced in the following states:

	Year Ended December 31,					
Net written premiums by state	2013		2012		2011	
California	16	%	16	%	14	%
New York	10		9		9	
Texas	7		7		7	
District of Columbia	6		5		4	
Florida	5		5		5	
Massachusetts	4		4		5	
Other	52		54		56	
Total	100	%	100	%	100	%

Marketing and Distribution
OneBeacon offers its products and services through a network of approximately 2,500 independent agents, regional and national brokers, wholesalers and managing general agencies. OneBeacon selectively enters these relationships with producers who demonstrate an understanding of OneBeacon’s target markets, capabilities and the specialized needs of clients. OneBeacon believes this selective distribution approach creates greater insight into the underwriting and management of the risks associated with OneBeacon’s particular lines of business. Further, OneBeacon believes that agents and brokers will continue to represent a significant share of the business OneBeacon desires going forward.

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.
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 27 and “Risk Factors—Regulation may restrict our ability to operate” on page 39), 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. In general terms, OneBeacon competes in one or more of its businesses with most of the large multi-line insurance companies, such as ACE, AIG, Chubb Group, CNA, Liberty Mutual, Travelers and Zurich Insurance Group. OneBeacon also competes with most of the specialty companies, such as Allied World Assurance

Company, HCC Insurance Holdings, Inc., The Navigators Group, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. Lastly, OneBeacon competes in certain of its businesses with various local and regional insurance companies.

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 market needs and relying on agents and brokers who value its targeted expertise, superior claims service, and disciplined underwriting, it establishes a competitive advantage.

Claims Management

Effective claims management is a critical factor in achieving satisfactory underwriting results. OneBeacon maintains an experienced staff of claims handlers and managers 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.

OneBeacon's claims operations are organized into ongoing claims and runoff 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 prevent the 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.

Catastrophe Risk Management and Reinsurance Protection

In the normal course of business, OneBeacon seeks to limit losses that may arise from catastrophes or other events by reinsuring with third-party reinsurers. OneBeacon remains liable for risks reinsured even if the reinsurer does not honor its obligations under reinsurance contracts.

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 condition. 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") Classic/2 version 15.0) to estimate the potential losses from catastrophes. 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, 2013, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2014. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first $20 million of losses resulting from any single catastrophe are retained and $117 million of the next $130 million of losses resulting from the catastrophe are reinsured in three layers. OneBeacon retains 50% of losses from $20 million to $30 million, 10% of losses from $30 million to $70 million, and 5% of losses from $70 million to $150 million. Thus, for a $150 million loss, OneBeacon would retain $33 million. Losses above $150 million are not covered by the property catastrophe program. 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 $150 million limit is more than sufficient to cover the maximum hurricane and earthquake losses with a modeled 0.4% probability of occurrence (1-in-250-year). This $150 million limit was reduced from the $180 million limit that our previous catastrophe reinsurance program provided, as a result of lower catastrophe exposure as a specialty-focused company.

OneBeacon's property catastrophe reinsurance program does not cover property losses resulting from any nuclear events or biological, chemical or radiological terrorist attacks. Also excluded are losses resulting from acts of terrorism committed by an individual or individuals acting on behalf of any foreign person or foreign interest as defined under the Terrorism Risk Insurance Program Reauthorization Act (the "Terrorism Act", or "TRIPRA"), as amended. See "Terrorism" on page 9.

In addition to the corporate catastrophe reinsurance protection, OneBeacon also purchases dedicated reinsurance protection for certain specific lines of business and 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 on certain risks. Individual risk facultative reinsurance is purchased above $100 million. OneBeacon retains 5% of losses in excess of $20 million up to $40 million and 10% of losses in excess of $40 million. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of $10 million up to $100 million for acts of foreign terrorism. 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 general liability, automobile liability, professional liability or umbrella liability. OneBeacon’s healthcare professional liability treaty covers losses in excess of $5 million up to $20 million in two layers. The first layer, $5 million in excess of $5 million, has a 10% co-participation. All other casualty business is covered in a separate treaty covering losses in excess of $5 million up to $21 million. This treaty has a 10% co-participation in the first layer ($6 million in excess of $5 million) as well as a $3 million annual aggregate deductible, and a 5% co-participation in the second layer ($10 million in excess of $11 million). OneBeacon also purchases a treaty to protect against large workers compensation losses that covers 100% of the loss in excess of $1 million up to $10 million per occurrence. Additionally, for casualty and/or workers compensation catastrophe losses, OneBeacon maintains a dedicated clash treaty, which provides coverage in the event that one loss event results in two or more claims, that covers up to $60 million in excess of a $10 million retention.

OneBeacon purchases a per occurrence treaty for inland and ocean marine business that protects against large occurrences, whether a single large claim or a catastrophe. The marine treaty attaches at $2 million per occurrence. The first layer of the marine treaty is $5 million in excess of $2 million, with annual aggregate deductibles of $2 million for individual ocean marine large claims, $2 million for individual inland marine large claims and $5 million for catastrophe losses. OneBeacon retains 60% of the loss from $2 million up to $7 million. Catastrophe coverage is provided up to $60 million. Retained catastrophe losses are subject to the corporate catastrophe treaty. Individual risk losses from inland marine exceeding $20 million are subject to the corporate property per risk treaty. Reinstatement premiums are paid in full or in part depending on the layer and the occurrence if the coverage is attached. OneBeacon also purchases reinsurance for the Surety underwriting unit, which covers 100% of losses in excess of $5 million up to $30 million per bond and up to $60 million in aggregate.

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.

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 Terrorism Act: 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 2014. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon’s or the industry’s retention levels in 2014, up to a total of $100 billion.

OneBeacon’s current reinsurance programs provide varying degrees of coverage for “certified” and “non-certified” terrorism events as defined under the Terrorism Act. All losses that result from a nuclear, biological, chemical or radiological terrorist attack are excluded. OneBeacon’s property catastrophe treaty also excludes “certified” acts of terrorism committed by an individual or individuals acting on behalf of any foreign person or foreign interest. OneBeacon’s casualty clash treaty provides coverage for both “certified” and “non-certified” terrorism losses on an aggregated basis, subject to a maximum of one full treaty limit. OneBeacon’s property per risk, casualty and workers compensation treaties each provide full coverage for “certified” acts of terrorism on behalf of a non-foreign person or interest, but are sublimited to one full treaty limit for “certified” acts of terrorism committed on behalf of any foreign person or foreign interest. OneBeacon’s healthcare treaty is sublimited to one full treaty limit of coverage for all acts of terrorism. See “Catastrophe Risk Management and Reinsurance Protection” on page 8.

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 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. 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 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 — OneBeacon" on page 80 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 per claim 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, 2013. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2013. 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, 2013.

	OneBeacon Loss and LAE[1] Year Ended December 31,									
($ in millions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
I. Liability for unpaid loss and LAE:										
Gross balance	$130.3	$211.4	$376.7	$436.1	$480.2	$627.1	$702.1	$835.1	$868.5	$1,000.0
Less reinsurance recoverable on unpaid losses and LAE	(15.7)	(14.5)	(46.8)	(30.6)	(24.3)	(49.6)	(43.8)	(53.6)	(61.6)	(107.3)
Net balance	$114.6	$196.9	$329.9	$405.5	$455.9	$577.5	$658.3	$781.5	$806.9	$892.7
II. Cumulative amount of net liability paid through:										
1 year later	48.7	58.1	126.8	96.6	97.8	154.8	219.4	306.3	339.0	332.7
2 years later	62.3	76.6	168.7	132.3	159.4	235.2	357.0	474.4	505.7	
3 years later	74.3	95.4	185.4	167.2	197.3	294.4	436.3	560.1		
4 years later	81.2	101.2	205.1	183.9	230.3	331.4	477.1			
5 years later	82.5	105.0	214.1	195.3	244.7	346.8				
6 years later	84.1	106.6	218.7	199.6	252.6					
7 years later	84.5	106.9	221.4	201.9						
8 years later	84.3	108.7	222.2							
9 years later	82.8	109.0								
10 years later	83.1									
III. Net Liability re-estimated as of:										
1 year later	109.7	179.9	325.9	308.1	391.1	492.9	630.2	751.7	799.5	892.7
2 years later	102.3	152.4	269.6	267.8	335.4	459.3	595.8	743.8	806.9	
3 years later	100.0	128.1	243.1	243.2	318.8	416.1	589.6	733.2		
4 years later	91.7	119.1	238.8	227.1	297.4	413.5	576.9			
5 years later	87.2	118.2	228.8	224.8	294.3	396.9				
6 years later	86.2	111.8	229.5	221.6	280.8					
7 years later	86.3	110.1	230.2	216.0						
8 years later	86.1	111.2	227.6							
9 years later	84.5	109.9								
10 years later	83.7									
IV. Cumulative net redundancy/ (deficiency)	$30.9	$87.0	$102.3	$189.5	$175.1	$180.6	$81.4	$48.3	$—	$—
Percent redundant/(deficient)	27.0 %	44.2 %	31.0 %	46.7 %	38.4 %	31.3 %	12.4 %	6.2 %	— %	— %
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):										
	$102.9	$129.4	$303.0	$245.5	$316.7	$443.4	$618.3	$776.0	$849.4	$1,016.1

Gross re-estimated liability										
Less: gross re-estimated reinsurance recoverable	(19.2)	(19.5)	(75.4)	(29.5)	(35.9)	(46.5)	(41.4)	(42.8)	(42.5)	(123.4)
Net re-estimated liability	$83.7	$109.9	$227.6	$216.0	$280.8	$396.9	$576.9	$733.2	$806.9	$892.7
VI. Cumulative gross (deficiency)/ redundancy	$27.4	$82.0	$73.7	$190.6	$163.5	$183.7	$83.8	$59.1	$19.1	($16.1)
Percent (deficient)/redundant	21.0 %	38.8 %	19.6 %	43.7 %	34.0 %	29.3 %	11.9 %	7.1 %	2.2 %	(1.6)%

(1) The 10-year table consists of activity related to OneBeacon's loss and LAE reserves from Specialty Products and Specialty Industries. As a result, the 10-year table excludes the Runoff Business, AutoOne and loss and LAE reserves related to the personal lines business that OneBeacon sold in 2010, which are treated as Discontinued Operations in the GAAP financial statements.

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

	December 31,	
Millions	2013	2012
Regulatory reserves	$2,199.9	$2,299.1
Reinsurance recoverable on unpaid losses and LAE[1]	80.2	107.3
Runoff Business[2]	(1,225.8)	(1,406.4)
GAAP reserves	$1,054.3	$1,000.0

(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 the Runoff Business which are presented as liabilities held for sale in the December 31, 2013 and 2012 balance sheets and have been excluded from this table and the 10-year table to conform to the current presentation. Also includes adjustments made for certain reinsurance recoverables on unpaid losses that have a different presentation for statutory than for GAAP.

OneBeacon's Senior Notes

2012 OBH Senior Notes

In November 2012, OneBeacon U.S. Holdings, Inc. ("OBH"), an intermediate holding company of OneBeacon, issued $275 million face value of senior unsecured notes (the "2012 OBH Senior Notes") through a public offering, at an issue price of 99.9%. The net proceeds from the issuance of the 2012 OBH Senior Notes were used to repurchase OBH's existing outstanding senior notes that were issued in May 2003. The OBH 2012 Senior Notes, which are fully and unconditionally guaranteed as to the payment of principal and interest by OneBeacon Ltd., bear an annual interest rate of 4.6%, payable semi-annually in arrears on May 9 and November 9 until maturity on November 9, 2022. See Note 6 - "Debt" for more details regarding the 2012 OBH Senior Notes.

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, owns Sirius America and sponsors Syndicate 1945. Sirius Group also specializes in the acquisition and management of runoff 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 14. In 2013, Sirius Group formed a dedicated team to lead its strategic initiative in the Insurance Linked Securities ("ILS") and reinsurance capital markets convergence arena. See "Sirius Capital Markets" on page 15.

Sirius Group has offices in Australia, Belgium, Bermuda, Connecticut, Copenhagen, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich. At December 31, 2013 and 2012, the Sirius Group segment had $5.1 billion and $6.0 billion of total assets and $1.5 billion and $1.6 billion of common shareholder's equity, respectively. The Sirius Group segment wrote $877 million and $948 million in net written premiums in 2013 and 2012, respectively.

The following table presents the financial strength ratings assigned to Sirius Group's principal reinsurance operating subsidiaries as of February 28, 2014:

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

(1) "A" is the third highest of sixteen financial strength ratings assigned by A.M. Best.
(2) "A" is the sixth highest of nineteen international financial strength ratings assigned by Fitch.
(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 Standard & Poor's.

Reinsurance Overview

Reinsurance is an arrangement in which a reinsurance company (the ''reinsurer'') agrees to indemnify an insurance company (the ''ceding company'') for insurance risks underwritten by the ceding company. 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 risks assumed from ceding companies. Reinsurance companies often enter into retrocessional agreements for many of the same reasons that ceding companies enter into reinsurance agreements.

Reinsurance is generally written on a treaty or facultative basis. Treaty reinsurance is an agreement whereby the reinsurer assumes a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of the agreement, usually one year. When underwriting treaty reinsurance, the reinsurer does not evaluate each individual risk and generally accepts the original underwriting decisions made by the ceding company. Treaty reinsurance is typically written on either a 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 2013 amounted to 63% and 17%, respectively, of its total net written premiums, while primary direct business represented 20% of total net written premiums. In 2013, Sirius Group obtained $120 million, or 11%, of its gross written premiums through International Medical Group, Inc. (“IMG”), which is the largest agent writing medical business on Sirius Group’s behalf. 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 following 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, 2013, 2012 and 2011:

Business class	Year Ended December 31,		
Millions	2013	2012	2011
Other property	$275.2	$248.5	$216.8
Property catastrophe excess	231.3	236.5	201.5
Accident and health	203.1	270.0	245.8
Trade credit	50.4	62.5	79.6
Aviation and space	46.4	53.8	60.8
Marine	45.3	42.2	45.3
Agriculture	13.9	21.5	32.8
Contingency	8.8	11.3	15.1
Casualty	2.2	1.4	18.0
Total	$876.6	$947.7	$915.7

For each of the years ended December 31, 2013, 2012 and 2011, 80%, 82%, and 85%, respectively, of Sirius Group’s net written premiums were for reinsurance products, with the remainder being insurance products. Sirius Group expanded its primary direct business capabilities in the United States for the accident and health line, which could result in increased direct insurance business beginning in 2014.

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 excess of loss 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.

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 U.S. book written in Bermuda has a national account focus supporting principally the lower and/or middle layers of large capacity programs. Additionally, Stockholm writes a U.S. portfolio mainly consisting of select small regional and standard lines carriers. The exposures written in the international portfolio are diversified across many countries, regions, perils and layers.

Accident and Health

Sirius Group is an insurer of accident and health ("A&H") insurance business in the United States, either on an admitted or surplus lines basis, as well as international business written through IMG. Sirius Group also writes proportional and excess treaties covering employer medical stop loss for per person (specific) and per employer (aggregate) exposures. In addition, Sirius Group writes some medical, health and personal accident coverages written on a treaty and facultative basis.

Trade Credit

Sirius Group writes credit and bond reinsurance, mostly on companies with worldwide operations. Most debtors are based in Europe, representing approximately 57% of Sirius Group's net 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 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 excess of loss 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. Sirius Group also writes yacht business, both on a reinsurance and a direct basis. The marine portfolio is diversified across many countries and regions.

Agriculture

Sirius Group primarily provides 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 some agriculture business outside of the United States.

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 is also offered. The contingency portfolio is diversified across many countries and regions.

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 the low global interest rates, the overall casualty book of business had 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.

Lloyd's Syndicate 1945

Sirius Group established Syndicate 1945 in 2011, with licenses for writing accident and health and contingency business. Effective in 2013, Syndicate 1945 licenses were expanded to include property and marine business. Syndicate 1945 began writing business effective July 1, 2011 and had gross written premiums net of commissions of $80 million, $58 million and $5 million in 2013, 2012 and 2011, respectively. Syndicate 1945 has Lloyd's approved net capacity for 2014 of $150 million and the license has been further expanded to include both the bloodstock (which principally covers the value of an animal if it dies as a result of accident, disease or illness) and terrorism lines. Sirius Group expects that the Syndicate 1945 will have its own Managing Agency in 2014 with a planned commencement date of July 1, 2014, subject to Lloyd's and UK regulatory approval.

White Mountains Solutions

White Mountains Solutions is a Connecticut-based division of Sirius Group specializing in the acquisition and management of runoff 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. Sirius Group can derive value from these acquisitions not only from the discounted purchase price, but also from the investment income on insurance float, the potential settlement of claims below the carried level of reserves and the harvesting of other embedded assets, including the value of shell companies and licenses.

Since its formation in 2000, White Mountains Solutions has executed thirteen transactions, which have resulted in approximately $178 million of cumulative after-tax income through December 31, 2013. A description of the transactions that White Mountains Solutions has executed since January 1, 2009 follows below.

In 2013, White Mountains Solutions completed the acquisitions of Ashmere Insurance Company ("Ashmere", formerly known as American Fuji Fire and Marine Insurance Company) from American International Group, Inc. ("AIG") for an after-tax gain of $7 million and Empire Insurance Company ("Empire") from Leucadia National Corporation for an after-tax gain of $7 million.

In 2012, White Mountains Solutions completed the acquisitions of four runoff entities, including the acquisition of 100% of the stock of Physicians Insurance Company of Ohio ("PICO") and Citation Insurance Company ("Citation") from PICO Holdings for $15 million and the acquisition of 100% of the stock of two AIG runoff subsidiaries, Woodridge Insurance Company ("Woodridge", formerly known as American General Indemnity Company) and Oakwood Insurance Company ("Oakwood", formerly known as American General Property Insurance Company) for $35 million. In 2013, the net assets of PICO were transferred to Oakwood and PICO was subsequently dissolved. In July 2013, White Mountains Solutions entered into an agreement to sell Citation as a "shell company" to CopperPoint Mutual Insurance Company for $1 million in excess of statutory surplus. The sale was completed on January 2, 2014 following the transfer of the Citation reserves to a Sirius Group affiliate.

In 2011, Sirius Group completed a transaction led by White Mountains Solutions to acquire the runoff loss reserve portfolio of Old Lyme Insurance Company Ltd. ("Old Lyme"), a Bermuda reinsurer in runoff since 2008. Old Lyme's loss reserves of approximately $23 million were transferred via novation agreements into White Shoals Re Ltd. ("White Shoals"), a wholly-owned Bermuda reinsurance company established by Sirius Group earlier in 2011. The transaction resulted in an after-tax gain of $7 million.

In 2010, White Mountains Solutions completed the acquisition of Central National Insurance Company of Omaha ("Central National") from Drum Financial Corporation for $5 million. Central National ceased writing business in 1989 and had operated under the control of the Nebraska Department of Insurance since 1990. The transaction resulted in an after-tax gain of $13 million.

Sirius Capital Markets

In response to the growing trend of capital markets participation in business traditionally written by the reinsurance industry, in May 2013, Sirius Group formed Sirius Capital Markets to offer products linked to property catastrophe risk to institutional investors. Sirius Capital Markets (Bermuda) Ltd., (the "Investment Manager") was licensed in August 2013 as an insurance manager under Section 10 of the Bermuda Insurance Act. The Investment Manager is responsible for managing the investment portfolio of certain ILS funds and also serves as the insurance manager for Alstead Reinsurance (SAC) Ltd., a Bermuda exempted company through which the ILS funds will transact collateralized reinsurance and retrocessional transactions. The ILS funds may also invest directly in risk-linked securities such as catastrophe bonds, principal-at-risk event-linked notes, and/or swaps and derivatives linked to catastrophe insurance risk. Sirius Capital Markets, LLC, a Delaware limited liability company (the "Advisor") that together with the Investment Manager is registered as an investment adviser with the SEC (with effect in November 2013), provides portfolio, investment and strategic advice and other services to the Investment Manager. Both the Investment Manager and the Advisor are indirect wholly-owned subsidiaries of Sirius Group.

The Investment Manager and Advisor, as affiliates of Sirius International, will have access to and rely on the resources of Sirius International, seeking to leverage its market access expertise, proprietary modeling processes and tools and active risk management in furtherance of their execution of the ILS funds investment strategy. The Investment Manager was seeded with $25 million of capital in December 2013.

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, 2013, 2012 and 2011:

Geographic region	Year Ended December 31,		
Millions	2013	2012	2011
United States	$371.9	$433.2	$436.3

Europe	313.0	293.4	271.8
Canada, the Caribbean, Bermuda and Latin America	94.9	104.7	100.7
Asia and Other	96.8	116.4	106.9
Total	$876.6	$947.7	$915.7

Marketing and Distribution

Sirius Group obtains most of its reinsurance submissions from reinsurance 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. Sirius Group has developed strong business relationships over a long period of time with the management of many of its ceding companies and reinsurance intermediaries.

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 on a per treaty or certificate basis.

During the year ended December 31, 2013, Sirius Group obtained $120 million, or 11%, of its gross written premiums through IMG. During the years ended December 31, 2012 and 2011, Sirius Group received no more than 10% of its gross written premiums from any individual ceding company. During the years ended December 31, 2013, 2012 and 2011, 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	2013		2012		2011	
AON Re/Benfield	29	%	32	%	31	%
Guy Carpenter	20		19		19	
Willis Re	11		8		10	
	60	%	59	%	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.

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. Additionally, Sirius Group’s staff reviews the financial stability and creditworthiness of ceding companies. 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 Alleghany Corporation, Allied World Assurance Company Holdings AG, Arch Capital Group Ltd., Aspen Insurance Holdings Ltd., Axis Capital Holdings, Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., 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, Validus Holdings, Ltd., and XL Capital Ltd.

In addition, in recent years the persistent low interest rate environment and ease of entry into the reinsurance sector has led to increased third-party alternative capital competition in the property catastrophe excess reinsurance line. This alternative capital provides collateralized property catastrophe protection in the form of catastrophe bonds, industry loss warranties, sidecars and other vehicles that facilitate the ability for non-reinsurance entities, such as hedge funds and pension funds, to compete for property catastrophe excess reinsurance business outside of the traditional treaty market. Sirius Group has observed reduced pricing and/or reduced shares in certain property catastrophe excess reinsurance markets as a result. This alternative capacity may expand into lines of business other than property catastrophe.

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 third-party administrators (“TPAs”) for certain claims, including claims arising from certain of Sirius Group’s runoff claims related to certain acquired companies. In addition, Sirius Group uses agents that manage the administration for direct accident and health claims. 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 available.

Sirius Group licenses third-party global property catastrophe models from AIR, EQECAT, Inc. (“EQE”) and Risk Management Solutions Inc. (“RMS”), which are three 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 property natural catastrophe scenarios. Sirius Group prices its property catastrophe contracts using the aforementioned third-party software and internal models and other methods. In 2012, Sirius Group started using a new proprietary property underwriting and pricing tool (“GPI”), which consolidates and reports on all its worldwide property exposures. GPI is used to calculate individual and aggregate PMLs by statistically blending multiple third-party and proprietary models for property, A&H and marine. For business that Sirius Group determines to have exposure to natural catastrophic perils, as part of its underwriting process it models and assesses the exposure to assess whether there is an appropriate premium for the exposure.

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The following table provides an estimate of Sirius Group’s three largest PML zones on a per occurrence basis for 1-in-100 and 1-in-250 year events at January 2014 as measured by net after-tax exposure:

					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 Adjusted GAAP Capital[(1)]	Net After-Tax as % of Adjusted GAAP Common Shareholder’s Equity[(1)]
	1-in-100 year event					
Southeast U.S.	$59,477	$382	$349	$263	10 %	16 %
West Coast U.S.	$43,123	$254	$235	$175	7 %	11 %
Europe	$45,550	$474	$220	$172	6 %	10 %
	1-in-250 year event					
Southeast U.S.	$338,713	$511	$477	$361	14 %	22 %
West Coast U.S.	$76,867	$432	$408	$306	11 %	18 %
Northeast U.S.	$72,612	$440	$376	$288	11 %	17 %

(1) Adjusted GAAP capital and common shareholder’s equity at December 31, 2013 for Sirius Group is determined on a legal-entity basis and excludes $36 of equity in net unrealized losses from Symetra’s fixed maturity portfolio, net of taxes.

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

AIR, EQE and RMS provide new versions of their models on a periodic basis, usually annually or every other year, which Sirius Group may implement for use after having engaged in appropriate testing and achieving comfort with the model enhancements. With GPI, Sirius Group’s PML reporting methodology for exposures in the United States approximates an averaging of AIR and RMS, further adjusted for each treaty by underwriting judgment regarding the specific exposures underlying each cedent's portfolio. For exposures in countries other than the United States, Sirius Group chooses either AIR, EQE, 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 in GPI for each treaty by underwriting judgment regarding the specific exposures underlying each cedent's portfolio.

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 follows 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 A&H, aviation, trade credit, and certain property exposures. Sirius Group’s core proportional property reinsurance programs provide protection for parts of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East, and Australia. These reinsurance protections are 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, 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). An additional $15 million of reinsurance protection in excess of the $20 million coverage is in place for the facultative and direct property portfolios written by the Hamburg and Stockholm branches. In addition, Syndicate 1945 has a reinsurance cover of $10 million in excess of $5 million for the facultative and direct property portfolio. At January 1, 2014, an additional $3 million of second loss coverage was purchased for the facultative and direct property portfolios written by the Hamburg, Stockholm, and London branches in excess of a retention of $3 million. Sirius Group also has $5 million of protection in excess of a retention of $5 million for the London branch and Syndicate 1945 for facultative and direct U.S.-catastrophe exposed business, which was renewed through June 30, 2014.

Sirius Group has in place excess of loss retrocessional coverage for its non-U.S. and non-Japan earthquake-related exposures. This cover was renewed for one year at April 1, 2013, providing $40 million of reinsurance protection in excess of Sirius Group’s retention of $35 million and a further $16 million of partially placed coverage in excess of $75 million.

In addition, Sirius Group periodically purchases industry loss warranty (“ILW”) contracts to augment its overall retrocessional program. A European windstorm and flood ILW totaling $8 million in coverage and attaching at a market event level of €5 billion or greater ($7 billion based on the December 31, 2012 EUR to USD exchange rate) was purchased in October 2013 and remains in force throughout 2014. Two additional ILWs were purchased at January 1, 2014, in force through March 31, 2014, totaling $10 million in coverage for European windstorm and flood attaching at a market event level of $8 billion.

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 2014, for the proportional and facultative aviation portfolios, reinsurance protection purchases were generally for coverage on losses from events that cause a market loss in excess of $150 million up to a full policy limit of $2 billion. This program is in effect through November 2014. For the non-proportional aviation portfolio, reinsurance protection includes a 15% quota share treaty. In addition, the non-proportional portfolio is protected by ILWs with a limit of $31 million. The ILWs attach at industry loss levels between $350 million and $1 billion.

For the marine yacht portfolio written by the London branch and Syndicate 1945, reinsurance coverage is in place for $10 million in excess of a retention of $0.3 million.

For accident and health, Sirius Group has excess of loss protection covering personal accident and life of €10 million ($14 million based on the December 31, 2013 EUR to USD exchange rate) of protection in excess of a €5 million ($7 million based on the December 31, 2013 EUR to USD exchange rate) retention for the Stockholm, Hamburg, Liege and Singapore branches. In addition, the Sirius America’s direct insurance portfolio includes quota share reinsurance of various percentages.

For 2013, Sirius Group ceded 20% and 50% of its trade credit and bond business, respectively, under a quota share retrocession, which supported growth in this line. The treaty was renewed for 2014 at the same cession percentages. For 2013, Sirius Group also ceded 30% of the direct contingency business written by the London branch and Syndicate 1945 on a proportional basis. The treaty was renewed at January 1, 2014.

Almost all of Sirius Group's excess of loss reinsurance protections, excluding ILWs which tend to only cover one loss event, include provisions that reinstate coverage at a cost of 100% or more of the original reinsurance premium.

At December 31, 2013, Sirius Group had $16 million of reinsurance recoverables on paid losses and $348 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. 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 90 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, 2013. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2013. 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, 2013.

	Sirius Group Loss and LAE Year Ended December 31,							
($ in millions)	2003	2004	2005	2006	2007	2008	2009	2010
I. Liability for unpaid loss and LAE:								
Gross balance	$1,699.4	$3,864.3	$4,308.8	$3,708.8	$3,252.3	$2,735.5	$2,444.4	$2,441.3
Less reinsurance recoverable on unpaid losses and LAE	(741.1)	(1,149.8)	(1,633.6)	(1,142.5)	(806.4)	(555.0)	(578.6)	(450.5)
Net balance	$958.3	$2,714.5	$2,675.2	$2,566.3	$2,445.9	$2,180.5	$1,865.8	$1,990.8
II. Cumulative amount of net liability paid through:								
1 year later	321.5	941.0	949.4	721.7	726.2	637.4	276.2	475.3
2 years later	521.8	1,369.4	1,442.9	1,302.0	1,164.5	760.8	533.0	794.6
3 years later	710.8	1,684.9	1,942.5	1,645.2	1,207.4	972.5	789.2	945.1
4 years later	834.7	2,052.4	2,225.6	1,649.2	1,486.6	1,200.3	910.6	
5 years later	941.0	2,246.0	2,192.3	1,804.3	1,693.8	1,307.0		
6 years later	1,015.7	2,170.9	2,325.5	1,997.3	1,784.8			
7 years later	901.6	2,265.1	2,499.2	2,077.8				
8 years later	910.7	2,430.7	2,570.5					
9 years later	997.3	2,495.5						
10 years later	1,049.1							
III. Net Liability re-estimated as of:								
1 year later	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	1,059.6	2,802.9	3,032.5	2,775.8	2,539.8	2,140.6	1,797.5	1,966.8
3 years later	1,148.1	2,917.9	3,164.9	2,749.3	2,517.2	2,124.6	1,790.4	1,965.0
4 years later	1,270.2	3,063.6	3,133.3	2,743.4	2,510.7	2,129.6	1,795.2	
5 years later	1,425.0	3,021.4	3,124.8	2,741.7	2,527.0	2,136.5		

6 years later	1,382.7	3,013.1	3,134.3	2,774.4	2,533.2			
7 years later	1,379.8	3,017.9	3,174.0	2,782.9				
8 years later	1,383.3	3,065.0	3,184.6					
9 years later	1,437.6	3,076.3						
10 years later	1,449.0							
IV. Cumulative net (deficiency)/ redundancy	($490.7)	($361.8)	($509.4)	($216.6)	($87.3)	$44.0	$70.6	$25.8
Percent (deficient)/redundant	(51.2)%	(13.3)%	(19.0)%	(8.4)%	(3.6)%	2.0%	3.8%	1.3%
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):								
Gross re-estimated liability	$2,338.2	$4,437.7	$5,054.0	$3,945.6	$3,353.2	$2,696.0	$2,353.2	$2,368.2
Less: gross re-estimated reinsurance recoverable	(889.2)	(1,361.4)	(1,869.4)	(1,162.8)	(820.0)	(559.5)	(558.0)	(403.3)
Net re-estimated liability	$1,449.0	$3,076.3	$3,184.6	$2,782.8	$2,533.2	$2,136.5	$1,795.2	$1,964.9
VI. Cumulative gross (deficiency)/ redundancy	$(638.8)	$(573.4)	$(745.2)	$(236.8)	$(100.9)	$39.5	$91.2	$73.1
Percent (deficient)/redundant	(37.6)%	(14.8)%	(17.3)%	(6.4)%	(3.1)%	1.4%	3.7%	3.0%

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The cumulative net (deficiency)/redundancy in the table above includes adverse development from asbestos and environmental ("A&E") claims. Sirius Group's exposure to A&E claims results mainly from asbestos claims arising from treaty and facultative contracts written prior to 1985 at two companies acquired by Sirius America—MONY Reinsurance Corporation in 1991 and Christiania General Insurance Corporation in 1996. As a result, the table above reflects reserve development on A&E business that was not underwritten by Sirius Group.

Sirius Group's net incurred losses from A&E claims have totaled $230 million over the past ten years. Although losses arising from A&E claims were on contracts that were not underwritten by Sirius Group, Sirius Group is liable for any additional losses arising from such contracts. Accordingly, Sirius Group cannot guarantee that it will not incur additional A&E losses in the future. Refer to "CRITICAL ACCOUNTING ESTIMATES" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further details of Sirius Group's A&E reserves.

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

	December 31,	
Millions	2013	2012
Regulatory reserves	$1,673.4	$1,847.0
Reinsurance recoverable on unpaid losses and LAE[(1)]	349.3	760.4
Discount on loss reserves	2.5	3.5
WM Life Re reserves[(2)]	—	(437.8)
Purchase accounting and other	(.2)	(4.2)
GAAP reserves	$2,025.0	$2,168.9

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under regulatory accounting. Includes recoverables from WM Life Re business in 2012 and recoverables on intercompany treaties that are eliminated in consolidation.

(2) Sirius Group fronted the reinsurance contracts for, and was 100% reinsured by, WM Life Re until October 17, 2013, at which time White Mountains and Tokio Marine completed a novation whereby Sirius Group's obligations under these contracts were transferred to WM Life Re. These instruments were reported as reinsurance contracts under Swedish statutory regulations. For GAAP purposes, the liabilities were transferred to WM Life Re and are reported as derivative instruments.

Sirius Group's Preference Shares and Senior Notes

In May 2007, Sirius International Group, Ltd. ("SIG"), an intermediate holding company of Sirius Group, issued $250 million non-cumulative perpetual preference shares, with a $1,000 per share liquidation preference (the "SIG Preference Shares"), and received $246 million of proceeds, net of $4 million of issuance costs and commissions. These shares were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. Holders of the SIG Preference Shares receive dividends on a non-cumulative basis when and if declared by SIG. See Note 1 - "Significant Accounting Policies - Non-controlling Interest" for more details regarding the SIG Preference Shares.

The SIG Preference Shares included an initial fixed annual dividend rate of 7.506%. In June 2017, the fixed rate will move to a floating rate equal to the greater of (i) 7.506% and (ii) 3-month LIBOR plus 320 bps. In July 2013, SIG executed a 5-year forward LIBOR cap (the "Interest Rate Cap") for the period from June 2017 to June 2022 to protect against a significant increase in interest rates during that 5-year period. The Interest Rate Cap economically fixes the annual dividend rate on the SIG Preference Shares from June 2017 to June 2022 at 8.30%. The cost of the Interest Rate Cap was an upfront premium of 395 bps of the $250 million notional value, or $10 million for the full notional amount. See Note 8 - "Derivatives - Interest Rate Cap" for more details regarding the Interest Rate Cap.

In March 2007, SIG issued $400 million face value of senior unsecured notes (the "SIG Senior Notes") at an issue price of 99.715%. The SIG Senior Notes, which were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933, bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017. See Note 6 - "Debt" for more details regarding the SIG Senior Notes.

HG GLOBAL/BAM

BAM is domiciled in New York and was established to provide insurance on municipal bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. Members of BAM's senior management team have more than 25 years on average of experience in the municipal bond insurance industry.

HG Global is domiciled in Bermuda and was established to fund the startup of BAM, and through its subsidiary, HG Re, to provide reinsurance to BAM. In 2012, HG Global was capitalized with $609 million to purchase surplus notes from BAM and to fund HG Re.

White Mountains believes that municipal bonds insured by BAM have strong appeal to retail investors, who buy smaller, less liquid issues, have less portfolio diversification and have fewer credit differentiation skills and analytical resources. BAM focuses on underwriting small-to-medium sized investment grade bonds, primarily in the AA-, A and BBB categories. BAM seeks to provide insurance to the municipal bond market while building a relatively low risk insurance portfolio with conservative single risk limits (initially the aggregate par value of the insured bonds with a common revenue stream is limited to $100 million or less, depending on rating).

BAM launched in July 2012 after securing an "AA/stable" rating from Standard & Poor's ("AA" is the third highest of twenty-one financial strength ratings assigned by Standard & Poor's). HG Global, together with its subsidiaries, funded the initial capitalization of BAM through the purchase of $503 million of BAM Surplus Notes. BAM and HG Re entered into a first loss reinsurance treaty ("FLRT"), under which HG Re will provide first loss protection up to 15% of par outstanding on each bond insured by BAM in exchange for 60% of the risk premium, net of a ceding commission, charged by BAM.

HG Re's obligations under the FLRT are satisfied by the assets in two collateral trusts: a Regulation 114 Trust and a Supplemental Trust. Losses required to be reimbursed to BAM by HG Re are subject to an aggregate limit equal to the assets held in the collateral trusts at any point in time. The Regulation 114 Trust target balance is equal to ceded unearned premiums and unpaid ceded loss and LAE expenses, if any. The Supplemental Trust target balance is equal to approximately $400 million. The collateral trust balances must be at target levels before excess capital can be distributed out of the Supplemental Trust to HG Re. At any point in time, if the sum of the Regulation 114 Trust balance and the Supplemental Trust balance equal zero, BAM may choose to terminate the FLRT on a runoff basis. However, HG Re can elect to continue the FLRT by depositing into the Regulation 114 Trust assets with a fair market value not less than the greater of (i) $100 million or (ii) 10% of the then Regulation 114 Trust target balance. At inception, the Supplemental Trust contained $300 million of BAM Surplus Notes and $100 million of cash and fixed income securities. As the BAM Surplus Notes are repaid over time, the BAM Surplus Notes will be replaced in the Supplemental Trust by cash and fixed income securities.

The FLRT is perpetual with an initial term of 10 years. The FLRT can be amended after the first 10-year period and after each subsequent 5-year period on a prospective basis. If the parties are unable to mutually agree to amended terms, the dispute is resolved through arbitration, with the arbitrator determining amendments that would best achieve BAM and HG Global's joint expectation of certain basic principles including maintenance of BAM's rating, the provision to BAM of reliable first loss reinsurance, and HG Global achieving an equitable rate of return. Amended contract terms must be approved by the New York State Department of Financial Services ("NYDFS"). Should BAM consider the amended terms to be unacceptable, it has the option to purchase HG Re, or cause another reinsurer to purchase HG Re, at fair value. Pursuant to the FLRT, BAM's underwriting guidelines may only be amended with the consent of HG Re. In addition, HG Global has the right to designate two directors for election to BAM's board of directors.

As of December 31, 2013 and 2012, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. At December 31, 2013 and 2012, HG Global had $675 million and $624 million of total assets and $606 million and $623 million of shareholders' equity, $17 million and $17 million of which is included in non-controlling interest. At December 31, 2013 and 2012, BAM had $486 million and $493 million of total assets and $(98) million and $(36) million of members' equity, all of which is included in non-controlling interest.

Insured Portfolio

The following tables present BAM's insured portfolio by asset class. It includes all financial guaranty insurance contracts outstanding as of December 31, 2013 and 2012:

Gross Par Outstanding and Average Credit Rating by Asset Class

Millions	December 31, 2013		December 31, 2012	
Sector	Gross Par Outstanding	Average Credit Rating(1)	Gross Par Outstanding	Average Credit Rating(1)
General Obligation	$3,191.8	A	$20.0	A
Utility	671.9	A	5.8	BBB
General Fund	388.6	A+	—	

Dedicated Tax	192.4	A-	—	
Transportation	154.9	A-	—	
Public Higher Education	73.6	A	—	
Other Public Finance	30.5	A	—	
Total gross par outstanding	$4,703.7	A	$25.8	A-

(1) The average credit ratings are based on Standard & Poor's credit ratings, or if unrated by Standard & Poor's, the Standard & Poor's equivalent of credit ratings provided by Moody's

The following tables presents BAM's ten largest direct exposures based upon gross par outstanding, the percentage of total gross par outstanding, and Standard & Poor's credit ratings, or if unrated by Standard & Poor's, credit ratings provided by Moody's, as of December 31, 2013:

Millions	Gross Par Outstanding	Percent of Total Gross Par Outstanding		Credit Rating
Sweetwater Union High School District Public Financing Authority, CA, (San Diego County)	$ 72.1	1.5	%	A [1]
Plum Borough SD, PA (Allegheny County)	67.4	1.4	%	A+ [1]
Allegheny County Sanitary Authority, PA, (Allegheny County), Sewer Revenue	64.8	1.4	%	A [1]
Roosevelt UFSD, NY (Nassau County)	59.4	1.3	%	A+ [1]
Chicago Board of Education, IL (Cook County)	58.6	1.2	%	A+ [1]
Tehachapi Valley Healthcare District, CA (Kern County)	57.9	1.2	%	A2 [2]
Texas Southern University System, TX (state-wide)	54.8	1.2	%	Baa1 [2]
Hesperia USD, CA (San Bernardino County)	52.7	1.1	%	A- [1]
Polk County, FL, (Polk County), Combined Water & Sewer	51.1	1.1	%	A+ [1]
Palmdale SD, CA (Los Angeles County)	45.1	1.0	%	A+ [1]
Total of top ten exposures	$ 583.9	12.4	%	

(1) "A+" is the fifth highest, "A" is the sixth highest and "A-" is the seventh highest of twenty-eight credit ratings assigned by Standard & Poor's.

(2) "A2" is the sixth highest and "Baa1" is the eighth highest of twenty-one credit ratings assigned by Moody's.

The following table presents the geographic distribution of the BAM's insured portfolio as of December 31, 2013:

Millions	Number of Risks	Gross Par Outstanding	Percent of Total Gross Par Outstanding	
California	85	$ 1,231.6	26.2	%
Texas	157	1,010.4	21.5	%
Pennsylvania	99	912.0	19.4	%
New York	62	550.2	11.7	%
Illinois	17	220.9	4.7	%
Michigan	10	110.4	2.3	%
Florida	2	86.3	1.8	%
Arizona				