

WHITE MOUNTAINS INSURANCE GROUP LTD

Form 10-Q

October 31, 2008

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2008

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

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

**80 South Main Street,
Hanover, New Hampshire**
(Address of principal executive offices)

03755-2053
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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 ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of October 30, 2008, 10,441,964 common shares with a par value of \$1.00 per share were outstanding (which includes 53,200 restricted common shares that were not vested at such date).

Table of Contents

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Table of Contents

	Page No.
<u>PART I.</u>	
	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>
	3
	<u>Consolidated Balance Sheets, September 30, 2008 and December 31, 2007</u>
	3
	<u>Consolidated Statements of Operations and Comprehensive (Loss) Income, Three and Nine Months Ended September 30, 2008 and 2007</u>
	4
	<u>Consolidated Statements of Common Shareholders' Equity, Nine Months Ended September 30, 2008 and 2007</u>
	5
	<u>Consolidated Statements of Cash Flows, Nine Months Ended September 30, 2008 and 2007</u>
	6
	<u>Notes to Consolidated Financial Statements</u>
	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	38
	<u>Results of Operations - Three and Nine Months Ended September 30, 2008 and 2007</u>
	38
	<u>Liquidity and Capital Resources</u>
	55
	<u>Fair Value Considerations</u>
	63
	<u>Non-GAAP Financial Measures</u>
	66
	<u>Critical Accounting Estimates</u>
	67
	<u>Forward-Looking Statements</u>
	67
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	67
<u>Item 4.</u>	<u>Controls and Procedures</u>
	68
<u>PART II.</u>	<u>OTHER INFORMATION</u>
	68
<u>Items 1 through 6.</u>	68
<u>SIGNATURES</u>	69

Table of Contents**PART I. FINANCIAL INFORMATION.****Item 1. Financial Statements****WHITE MOUNTAINS INSURANCE GROUP, LTD.****CONSOLIDATED BALANCE SHEETS**

(Millions, except share and per share amounts)	September 30, 2008 Unaudited	December 31, 2007
Assets		
Fixed maturity investments, at fair value (amortized cost: \$6,233.3 and \$7,193.0)	\$ 6,160.1	\$ 7,371.5
Common equity securities, at fair value (cost: \$1,450.4 and \$1,298.8)	1,393.4	1,550.7
Short-term investments, at amortized cost (which approximates fair value)	2,256.6	1,327.3
Other investments (cost: \$546.4 and \$539.2)	583.9	603.3
Convertible fixed maturity investments, at fair value (cost: \$372.4 and \$482.1)	353.0	490.6
Trust account investments, at amortized cost (fair value \$ and \$307.0)		305.6
Total investments	10,747.0	11,649.0
Cash (restricted: \$50.8 and \$8.5)	220.8	171.3
Reinsurance recoverable on unpaid losses	1,501.8	1,702.9
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	1,763.6	1,765.0
Reinsurance recoverable on paid losses	50.8	59.5
Insurance and reinsurance premiums receivable	929.0	877.0
Securities lending collateral	341.2	661.6
Funds held by ceding companies	203.3	231.1
Investments in unconsolidated affiliates	195.0	406.3
Deferred acquisition costs	350.4	326.0
Deferred tax asset	484.9	236.6
Ceded unearned premiums	134.3	123.1
Accrued investment income	80.0	83.2
Accounts receivable on unsettled investment sales	27.0	201.1
Other assets	735.3	611.9
Total assets	\$ 17,764.4	\$ 19,105.6
Liabilities		
Loss and loss adjustment expense reserves	\$ 7,936.8	\$ 8,062.1
Unearned insurance and reinsurance premiums	1,743.6	1,605.2
Debt	1,367.1	1,192.9
Securities lending payable	349.6	661.6
Deferred tax liability	369.2	353.2
Incentive compensation payable	160.3	224.2
Funds held under reinsurance treaties	75.1	103.0
Ceded reinsurance payable	100.4	124.8
Accounts payable on unsettled investment purchases	17.4	46.4
Other liabilities	904.5	873.1
Preferred stock subject to mandatory redemption:		
Held by Berkshire Hathaway Inc. (redemption value \$ and \$300.0)		278.3
Total liabilities	13,024.0	13,524.8

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Minority interest - OneBeacon Ltd.	337.1	517.2
Minority interest - WMRe Group Preference Shares	250.0	250.0
Minority interest - consolidated limited partnerships	91.4	100.2
Total minority interest	678.5	867.4
Common shareholders' equity		
Common shares at \$1 par value per share - authorized 50,000,000 shares; issued and outstanding 10,441,964 and 10,553,572 shares	10.4	10.5
Paid-in surplus	1,676.7	1,680.7
Retained earnings	2,495.4	2,718.5
Accumulated other comprehensive income, after-tax:		
Net unrealized gains on investments		208.9
Equity in unrealized losses from investments in unconsolidated affiliates	(147.2)	(1.9)
Net unrealized foreign currency translation gains	28.7	99.3
Other	(2.1)	(2.6)
Total common shareholders' equity	4,061.9	4,713.4
Total liabilities, minority interest and common shareholders' equity	\$ 17,764.4	\$ 19,105.6

See Notes to Consolidated Financial Statements

Table of Contents**WHITE MOUNTAINS INSURANCE GROUP, LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME****Unaudited**

(Millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Earned insurance and reinsurance premiums	\$ 935.7	\$ 936.3	\$ 2,786.5	\$ 2,835.0
Net investment income	105.7	128.9	334.2	373.6
Net realized investment (losses) gains	(129.0)	29.9	(146.9)	192.9
Net unrealized investment losses	(300.7)		(480.1)	
Other revenue	6.3	60.3	101.4	130.6
Total revenues	618.0	1,155.4	2,595.1	3,532.1
Expenses:				
Loss and loss adjustment expenses	697.6	591.9	1,969.0	1,797.3
Insurance and reinsurance acquisition expenses	190.5	183.9	556.0	580.1
Other underwriting expenses	120.4	103.6	364.6	377.5
General and administrative expenses	65.3	43.0	181.3	158.3
Accretion of fair value adjustment to loss and loss adjustment expense reserves	4.3	5.4	12.6	16.0
Interest expense on debt	20.4	19.8	61.5	54.9
Interest expense - dividends on preferred stock subject to mandatory redemption		7.1	11.8	22.2
Interest expense - accretion on preferred stock subject to mandatory redemption		9.2	21.6	26.2
Total expenses	1,098.5	963.9	3,178.4	3,032.5
Pre-tax (loss) income	(480.5)	191.5	(583.3)	499.6
Income tax benefit (provision)	150.8	(64.3)	187.1	(151.3)
(Loss) income before equity in earnings of unconsolidated affiliates, extraordinary item, and minority interest	(329.7)	127.2	(396.2)	348.3
Equity in earnings of unconsolidated affiliates	.8	8.2	7.2	27.3
Excess of fair value of acquired assets over cost			4.2	
Minority interest	52.2	(24.0)	42.1	(69.4)
Net (loss) income	(276.7)	111.4	(342.7)	306.2
Change in net unrealized gains and losses for investments held		28.8		102.4
Change in equity in net unrealized losses from investments in unconsolidated affiliates	(80.8)	14.3	(141.8)	(19.1)
Change in foreign currency translation and other	(133.2)	24.4	(83.0)	38.5
Recognition of net unrealized losses for investments sold		(2.8)		(93.0)
Comprehensive net (loss) income	\$ (490.7)	\$ 176.1	\$ (567.5)	\$ 335.0
Basic (loss) earnings per share	\$ (26.55)	\$ 10.33	\$ (32.69)	\$ 28.40
Diluted (loss) earnings per share	(26.55)	10.32	(32.69)	28.35
Dividends declared and paid per common share	\$	\$ 2.00	\$ 4.00	\$ 6.00

See Notes to Consolidated Financial Statements

[Table of Contents](#)
WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY
Unaudited

(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income, after-tax
Balances at January 1, 2008	\$ 4,713.4	\$ 1,691.2	\$ 2,718.5	\$ 303.7
Cumulative effect adjustment - FAS 157	(.3)		(.3)	
Cumulative effect adjustment - FAS 159			199.6	(199.6)
Net loss	(342.7)		(342.7)	
Other comprehensive loss, after-tax	(224.7)			(224.7)
Dividends declared on common shares	(42.3)		(42.3)	
Issuances of common shares	8.6	8.6		
Repurchases and retirements of common shares	(59.3)	(21.9)	(37.4)	
Amortization of restricted share and option awards	9.2	9.2		
Balances at September 30, 2008	\$ 4,061.9	\$ 1,687.1	\$ 2,495.4	\$ (120.6)

(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income, after-tax
Balances at January 1, 2007	\$ 4,455.3	\$ 1,727.5	\$ 2,496.0	\$ 231.8
Cumulative effect adjustment - taxes (FIN 48)	.2		.2	
Net income	306.2		306.2	
Other comprehensive income, after-tax	28.8			28.8
Dividends declared on common shares	(65.1)		(65.1)	
Issuances of common shares	1.8	1.8		
Repurchases and retirements of common shares	(2.5)	(2.5)		
Amortization of restricted share and option awards	7.9	7.9		
Balances at September 30, 2007	\$ 4,732.6	\$ 1,734.7	\$ 2,737.3	\$ 260.6

See Notes to Consolidated Financial Statements

Table of Contents**WHITE MOUNTAINS INSURANCE GROUP, LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited**

(Millions)	Nine Months Ended September 30,	
	2008	2007
Cash flows from operations:		
Net (loss) income	\$ (342.7)	\$ 306.2
Charges (credits) to reconcile net (loss) income to net cash used for operations:		
Net realized investment losses (gains)	146.9	(192.9)
Net unrealized investment losses	480.1	
Excess of fair value of acquired assets over cost	(4.2)	
Minority interest	(42.1)	69.4
Other operating items:		
Net change in loss and loss adjustment expense reserves	(76.2)	(572.1)
Net change in reinsurance recoverable on paid and unpaid losses	202.4	544.5
Net change in unearned insurance and reinsurance premiums	163.0	136.6
Net change in funds held by ceding companies	10.4	110.1
Net change in deferred acquisition costs	(27.3)	(34.0)
Net change in ceded unearned premiums	(16.5)	(38.7)
Net change in funds held under reinsurance treaties	(28.1)	(42.4)
Net change in insurance and reinsurance premiums receivable	(59.2)	(45.1)
Net change in other assets and liabilities, net	(271.3)	(78.9)
Net cash provided from operations	135.2	162.7
Cash flows from investing activities:		
Net change in short-term investments	(938.8)	(267.7)
Sales of fixed maturity and convertible fixed maturity investments	3,333.4	3,940.6
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	1,205.5	980.2
Maturities of trust account investments	305.6	33.8
Sales of common equity securities	367.5	365.9
Sales of other investments	44.4	120.6
Sales of consolidated and unconsolidated affiliates, net of cash sold	4.2	47.2
Sale of shares of OneBeacon Ltd.		16.7
Purchases of other investments	(50.4)	(47.1)
Purchases of common equity securities	(518.6)	(622.4)
Purchases of fixed maturity and convertible fixed maturity investments	(3,410.1)	(4,823.1)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(224.4)	(51.6)
Net change in unsettled investment purchases and sales	145.1	5.5
Net acquisitions of property and equipment	(9.3)	(19.9)
Net cash provided from (used for) investing activities	254.1	(321.3)
Cash flows from financing activities:		
Issuance of White Mountains Re Group, Ltd. Preference Shares, net of issuance costs		246.6
Issuance of debt	475.0	394.4
Repayment of debt	(277.0)	(322.0)
Repurchase of debt	(22.3)	
Redemption of mandatorily redeemable preferred stock	(300.0)	(20.0)
Interest rate swap agreements		(2.4)
Cash dividends paid to the Company's common shareholders	(42.3)	(65.1)
Cash dividends paid to OneBeacon Ltd.'s minority common shareholders	(64.6)	(17.8)
Cash dividends paid to preferred shareholders	(11.8)	(22.2)
Cash dividends paid on White Mountains Re Group Ltd. Preference Shares	(9.4)	(1.9)

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OneBeacon Ltd. common shares repurchased and retired	(68.8)	(5.8)
Common shares repurchased	(59.3)	(2.5)
Proceeds from option exercises	.4	1.8
Net cash (used for) provided from financing activities	(380.1)	183.1
Effect of exchange rate changes on cash	(2.0)	2.1
Net increase in cash during the period	7.2	26.6
Cash balances at beginning of period (excludes restricted cash balances of \$8.5 and \$0)	162.8	159.0
Cash balances at end of period (excludes restricted cash balances of \$50.8 and \$0)	\$ 170.0	\$ 185.6
Supplemental cash flows information:		
Interest paid	\$ (54.0)	\$ (30.0)
Net payments to national governments	\$ (86.2)	\$ (81.7)

See Notes to Consolidated Financial Statements

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the Company or the Registrant) and its subsidiaries (collectively, with the Company, White Mountains) and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company's headquarters is located at Bank of Butterfield Building, 42 Reid Street, Hamilton, Bermuda HM 12, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains' reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations. Significant transactions among White Mountains' segments have been eliminated in this report.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S.-based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the OneBeacon Acquisition). During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd.'s common shares in an initial public offering (the OneBeacon Offering). At September 30, 2008, White Mountains owned 75.5% of OneBeacon Ltd.'s outstanding common shares.

The White Mountains Re segment consists of White Mountains Re Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, White Mountains Re). White Mountains Re offers reinsurance capacity for property, casualty, accident & health, agriculture, aviation and space and certain other exposures on a worldwide basis through its subsidiaries, White Mountains Reinsurance Company of America (WMRe America), which was formerly known as Folksamerica Reinsurance Company, Sirius International Insurance Corporation (WMRe Sirius), and White Mountains Re Bermuda Ltd. (WMRe Bermuda), which was formerly known as Fund American Reinsurance Company, Ltd. White Mountains Re also provides reinsurance advisory services, specializing primarily in property and other short-tailed lines of reinsurance, through White Mountains Re Underwriting Services Ltd. (WMRUS). White Mountains Re also includes Scandinavian Reinsurance Company, Ltd. (Scan Re) and Commercial Casualty Insurance Company (CCIC), both of which are in run off, and the consolidated results of the Tuckerman Capital II, LP fund (Tuckerman Fund II), which was transferred to White Mountains Re from Other Operations, effective June 30, 2008.

The Esurance segment consists of Esurance Holdings, Inc., its subsidiaries and Answer Financial Inc. (AFI and, collectively, Esurance). Esurance sells personal auto insurance directly to customers online and through select online agents. During the first quarter of 2008, White Mountains acquired 42% of the outstanding debt and equity of AFI, an online personal insurance agency, for \$30.2 million. White Mountains also contributed an additional \$2.6 million to AFI during the first quarter of 2008 and accounted for its investment in AFI under the equity method. On April 1, 2008, White Mountains increased its ownership share in AFI to 68.9% and began accounting for its investment in AFI as a consolidated subsidiary. On July 30, 2008, White Mountains acquired the remaining equity and debt interests from the minority owner of AFI for \$44.4 million. As a result, White Mountains now owns 100% of AFI. (see Note 2).

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White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its weather risk management business (Galileo), its variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), as well as the International American Group, Inc. (the International American Group) and various other entities not included in other segments. The International American Group includes American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (BICC), both of which are in run-off. The Other Operations segment also includes White Mountains investments in Lightyear Delos Acquisition Corporation (Delos), common shares and warrants to purchase common shares of Symetra Financial Corporation (Symetra) and the consolidated results of the Tuckerman Capital, LP fund (Tuckerman Fund I) and Tuckerman Fund II until its transfer to White Mountains Re, effective June 30, 2008.

Table of Contents

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains and are of a normal recurring nature. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company's 2007 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation. Refer to the Company's 2007 Annual Report on Form 10-K for a complete discussion regarding White Mountains' significant accounting policies.

Minority Interest

Minority interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of comprehensive income attributable to minority interests is presented net of related income taxes in the statement of operations and comprehensive income. The change in unrealized investment gains (losses) prior to the January 1, 2008 adoption of FAS 159, foreign currency translation and the change in the fair value of the interest rate swap to hedge OneBeacon's exposure to variability in the interest rate on its mortgage note are presented in accumulated other comprehensive income net of minority interest. The percentage of the noncontrolling shareholders' ownership interest in OneBeacon Ltd. at September 30, 2008 and December 31, 2007 was 24.5% and 27.1%.

On May 24, 2007, White Mountains Re Group, Ltd. ("WMRe Group"), an intermediate holding company of White Mountains Re, issued 250,000 non-cumulative perpetual preference shares with a \$1,000 per share liquidation preference (the "WMRe Preference Shares"). Proceeds of \$245.7 million, net of \$4.3 million of issuance costs and commissions, were received from the issuance. The WMRe Preference Shares and dividends thereon are included in minority interest on the balance sheet and as minority interest expense on the statement of operations and comprehensive income, respectively.

At June 30, 2008, White Mountains owned 68.9% of AFI, while the noncontrolling shareholders of AFI held 31.1% of its common equity shares and a \$29.6 million Secured Senior Note from AFI (see **Note 6**). On July 30, 2008, White Mountains acquired the remaining equity and debt interests in AFI from the minority owner (see **Note 2**).

Recently Adopted Changes in Accounting Principles

Fair Value Measurements

On January 1, 2008, White Mountains adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157 provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under FAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). The Statement establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). The fair value hierarchy in FAS 157 prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for

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identical assets or liabilities have the highest priority (Level 1), followed by prices determined based on observable inputs including prices for similar but not identical assets or liabilities (Level 2) and followed by prices based on assumptions that include significant unobservable inputs, having the lowest priority (Level 3).

White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by the outside pricing service to determine fair value. The outside pricing services used by White Mountains have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted prices are unavailable, White Mountains utilizes fair value estimates based upon other observable inputs including matrix pricing, benchmark interest rates, market comparables and other relevant inputs.

White Mountains process to validate the market prices obtained from outside pricing sources include, but are not limited to, periodic evaluation of model pricing methodologies and monthly analytical reviews of certain prices. White Mountains also periodically performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price.

Table of Contents

Other investments, which comprises limited partnerships, hedge funds and private equity interests for which the FAS 159 fair value option has been elected are carried at fair value based upon White Mountains' proportionate interest in the underlying partnership's or fund's net asset value, which is deemed to approximate fair value. In circumstances where the partnership net asset value is deemed to differ from fair value due to illiquidity or other factors, net asset value is adjusted accordingly.

Where appropriate, assets and liabilities measured at fair value have been adjusted for the effect of counterparty credit risk.

Fair Value Option

On January 1, 2008, White Mountains adopted SFAS No.159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 allows companies to make an election on an individual instrument basis to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. White Mountains has made the fair value election for its portfolio of available for sale (AFS) securities, its investments in investment partnerships and for its assumed variable annuity Guaranteed Minimum Death Benefits (GMDB) liabilities.

Upon adoption of FAS 159, White Mountains' portfolio of AFS securities were reclassified as trading. Realized and unrealized investment gains and losses on trading securities are reported, pre-tax in revenues. Prior to adoption, unrealized investment gains and losses on AFS securities were reported net, after-tax, as a separate component of shareholders' equity. Changes in net unrealized investment gains and losses on AFS securities, net of the effect of adjustment for minority interest and after-tax, were reported as a component of other comprehensive income.

White Mountains' investments in limited partnerships comprises investments in hedge funds, private equity funds and other investment limited partnerships. Prior to January 1, 2008, changes in White Mountains' interests in limited partnerships accounted for under the equity method were included in net realized investment gains and changes in interests in limited partnerships not accounted for under the equity method were reported, after-tax, as a component of other comprehensive income. Effective January 1, 2008, White Mountains has made the fair value election for most of its limited partnership investments in hedge funds and private equity funds. For the limited partnership investments for which White Mountains has made the fair value election, changes in fair value are reported in revenues on a pre-tax basis. For those investment limited partnerships for which White Mountains has not made the fair value election, White Mountains continues to account for its interests under the equity method.

Upon adoption, White Mountains recorded an adjustment to increase opening retained earnings and decrease accumulated other comprehensive income by \$199.6 million to reclassify net unrealized gains and net unrealized foreign currency translation gains related to AFS securities and investments in limited partnerships.

In addition, White Mountains recorded an adjustment to decrease opening retained earnings and increase other liabilities by \$0.3 million for the change in the GMDB liabilities arising from measurement at fair value. White Mountains believes that making the election for its portfolio of investment securities and investments in hedge funds and private equity funds will result in reporting its investment results on a basis consistent with one of its operating principles, namely to manage investments for total return. With respect to the variable annuity GMDB guarantees, making the election will result in recognition of changes in fair value on the same basis used by White Mountains to economically hedge its variable annuity guarantee liabilities.

Recent Accounting Pronouncements

Derivatives Disclosures

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FAS 133* (FAS 161). FAS 161 requires companies that use derivatives to provide expanded qualitative and quantitative information about their use of derivative instruments, including the objectives and strategies for using derivatives, details of credit-risk related contingent features, the amounts of derivatives used, where they have been reported in the financial statements and the effect of such instruments on a company's financial position, results of operations and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 with early adoption encouraged. White Mountains plans to adopt FAS 161 January 1, 2009 and is still evaluating the effect of adoption.

Table of Contents

Participating Securities Granted in Share-Based Payment Transactions

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Transactions are Participating Securities*. The FSP addresses whether instruments granted in share-based payment transactions should be considered participating securities prior to vesting. The FSP requires that such instruments that hold unforfeitable rights to dividends or dividend equivalents, regardless of whether paid or unpaid, should be considered participating securities and accordingly should be included in the calculation of earnings per share under the two-class method instead of the treasury stock method. Unvested restricted stock issued under employee incentive compensation plans containing such dividend participation features would be considered participating securities. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Upon adoption, all prior period earnings per share data must be adjusted retrospectively to conform to the provisions of the FSP. Early application is not permitted. White Mountains is currently evaluating the potential impact of adopting this FSP.

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (FAS 141R). FAS 141R is effective for fiscal years beginning after December 15, 2008. White Mountains is in the process of evaluating the potential effect of adoption. FAS 141R requires an acquiring company to recognize the fair value of all assets acquired and liabilities assumed at their fair values at the acquisition date, with certain exceptions. This represents a basic change in approach from the cost allocation method originally described in SFAS 141, *Business Combinations* (FAS 141). In addition, FAS 141R changes the accounting for step acquisitions since it requires recognition of all assets acquired and liabilities assumed, regardless of the acquirer's percentage of ownership in the acquired company. This means that the acquirer will measure and recognize all of the assets, liabilities and goodwill, not just the acquirer's share. Assets and liabilities arising from contractual contingencies are to be recognized at the acquisition date, at fair value. Non-contractual contingencies are to be recognized when it is more likely than not that they meet the FASB Concepts Statement No. 6, *Elements of Financial Statements*, criteria for an asset or liability. Acquisition related costs, such as legal fees and due diligence costs would be expensed and would not be recognized as part of goodwill. Changes in the amount of deferred taxes arising from a business combination are to be recognized in either income or through a change in contributed capital, depending on the circumstances. Previously under SFAS No. 109, *Accounting for Income Taxes* (FAS 109), such changes were recognized through goodwill. The classification of insurance and reinsurance contracts are re-evaluated at the acquisition date only if their terms were changed in connection with the acquisition.

Non-controlling interests

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests-an amendment to ARB 51* (FAS 160). FAS 160 is effective for fiscal years beginning after December 15, 2008. FAS 160 requires all companies to account for minority interests in subsidiaries as equity, clearly identified and presented separately from parent company equity. Once a controlling interest has been acquired, any subsequent acquisitions or dispositions of noncontrolling interest that do not result in a change of control are to be accounted for as equity transactions. Assets and liabilities acquired are measured at fair value only once; at the original acquisition date, i.e., the date at which the acquirer gained control. Upon adoption, White Mountains would be required to reflect the ownership interests in its consolidated subsidiaries within equity.

Note 2. Significant Transactions and Agreements

Berkshire Exchange

During the first quarter of 2008, White Mountains entered into an exchange agreement with Berkshire Hathaway Inc. (Berkshire) to transfer certain run-off businesses and a substantial amount of cash to Berkshire in exchange for substantially all of the common shares of White Mountains owned by Berkshire (the Berkshire Exchange).

Under the terms of the agreement, Berkshire will exchange substantially all of its 16.3% stake in White Mountains (1,633,787 of its 1,724,200 common shares) for 100% of a White Mountains subsidiary, which will hold CCIC, International American Group, and \$707.4 million in cash. (See **Note 15**).

Table of Contents

Helicon

On January 7, 2008, White Mountains Re acquired Helicon Re Holdings, Ltd. for approximately \$150.2 million, which resulted in the recognition of an extraordinary gain of \$4.2 million. Helicon Re Holdings, Ltd. is the parent of Helicon Reinsurance Company, Ltd. (Helicon), which in 2006 and 2007 provided quota share retrocessional coverage to White Mountains Re.

Answer Financial

During the first quarter of 2008, White Mountains acquired 42% of the outstanding debt and equity of AFI, an online personal insurance agency, for \$30.2 million. White Mountains also contributed an additional \$2.6 million to AFI during the first quarter of 2008 and accounted for its investment in AFI under the equity method.

On April 1, 2008, AFI emerged from a pre-packaged bankruptcy reorganization. In the reorganization, the debt held by White Mountains was exchanged for additional shares of common equity, thus increasing White Mountains' ownership share to 68.9%. Effective April 1, 2008, White Mountains accounts for its investment in AFI as a consolidated subsidiary. In connection with the reorganization, which was accounted for as an acquisition under the purchase method of accounting, White Mountains recorded the identifiable assets and liabilities of AFI at their fair values as of April 1, 2008. Significant assets and liabilities acquired included cash of \$9.4 million, debt of \$29.6 million (see **Note 6**), accrued liabilities of \$7.5 million and a deferred tax asset of \$64.2 million, which was offset by a full valuation allowance prior to purchase accounting adjustments. After allocating the purchase price to identifiable tangible assets and liabilities, White Mountains also recorded adjustments to allocate the remaining acquisition cost, consisting of a \$53.2 million intangible asset related to the value of business in force at the acquisition date, an adjustment to property and equipment of \$4.0 million to reflect the fair value of AFI's information technology infrastructure, and a related deferred tax liability of \$20.0 million. Upon recording the deferred tax liability, the valuation allowance was reduced by \$20.0 million resulting in a valuation allowance of \$44.2 million and a deferred tax asset of \$20.0 million.

On July 30, 2008, White Mountains acquired the remaining equity and debt interests from the minority owner of AFI for \$44.4 million. In connection with the acquisition, White Mountains repaid the AFI note of \$29.6 million. White Mountains recorded the identifiable assets and liabilities of AFI at their fair values as of July 30, 2008. Significant assets and liabilities acquired included cash of \$6.6 million, accrued liabilities of \$6.1 million and a deferred tax asset of \$25.4 million, which was offset by a full valuation allowance prior to purchase accounting adjustments. After allocating the purchase price to identifiable tangible assets and liabilities, White Mountains also recorded adjustments to allocate the remaining acquisition cost consisting of a \$20.8 million intangible asset related to the value of business in force at acquisition date, an adjustment to property and equipment of \$1.8 million to reflect the fair value of AFI's information technology infrastructure and a related deferred tax liability of \$25.4 million.

The intangible asset associated with the acquired business in force will be amortized over an 8-year period, consistent with the expected term of the related business in force. For the three and nine months ended September 30, 2008, White Mountains recognized \$5.4 million and \$9.8 million of amortization expense related to the intangible asset associated with the acquired business in force. The purchase adjustment related to the information technology infrastructure will be amortized over a 3-year period, consistent with White Mountains' amortization period for similar assets. For the three and nine months ended September 30, 2008, White Mountains recognized \$0.5 million and \$0.8 million of amortization expense related to AFI's information technology infrastructure.

Table of Contents**Note 3. Loss and Loss Adjustment Expense Reserves**

The following table summarizes the loss and loss adjustment expense (LAE) reserve activities of White Mountains insurance subsidiaries for the three and nine months ended September 30, 2008 and 2007:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Gross beginning balance	\$ 7,946.4	\$ 8,364.7	\$ 8,062.1	\$ 8,777.2
Less beginning reinsurance recoverable on unpaid losses	(3,327.6)	(3,693.2)	(3,467.9)	(4,015.7)
Net loss and LAE reserves	4,618.8	4,671.5	4,594.2	4,761.5
Loss and LAE reserves acquired - Helicon			13.7	
Loss and LAE incurred relating to:				
Current year losses	714.2	592.8	1,915.9	1,850.7
Prior year losses	(16.6)	(.9)	53.1	(53.4)
Total incurred losses and LAE	697.6	591.9	1,969.0	1,797.3
Net change in loss reserves - Sierra Insurance Group (1)		(9.0)		(9.0)
Accretion of fair value adjustment to loss and LAE reserves	4.3	5.4	12.6	16.0
Foreign currency translation adjustment to loss and LAE reserves	(33.1)	24.1	(8.7)	31.3
Loss and LAE paid relating to:				
Current year losses	(249.5)	(304.2)	(668.4)	(685.5)
Prior year losses	(366.7)	(312.3)	(1,241.0)	(1,244.2)
Total loss and LAE payments	(616.2)	(616.5)	(1,909.4)	(1,929.7)
Net ending balance	4,671.4	4,667.4	4,671.4	4,667.4
Plus ending reinsurance recoverable on unpaid losses	3,265.4	3,581.9	3,265.4	3,581.9
Gross ending balance	\$ 7,936.8	\$ 8,249.3	\$ 7,936.8	\$ 8,249.3

(1) During the three months ended September 30, 2007, White Mountains Re recorded a \$9.0 decrease on its workers compensation loss reserves relating to its Sierra Insurance Group acquisition, which was offset dollar-for-dollar by an increase in the principal amount of the Sierra Note that White Mountains Re issued as part of that acquisition.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2008

White Mountains experienced \$16.6 million of net favorable loss reserve development and \$53.1 million of net adverse loss reserve development during the three and nine months ended September 30, 2008, respectively.

For the three and nine months ended September 30, 2008, White Mountains Re had net adverse loss reserve development of \$4.0 million and \$87.7 million. The net adverse loss reserve development in the nine months ended September 30, 2008 primarily resulted from a comprehensive loss reserve review performed in the second quarter of 2008, as described below, and \$40.5 million of construction defect losses from accident

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years 2001 and prior recorded in the first quarter of 2008, offset by net favorable loss reserve development from recent accident years.

White Mountains Re management commenced a comprehensive loss reserve review (the "Reserve Review") in the second quarter of 2008, primarily as a result of the \$40.5 million adverse loss reserve development recorded in the first quarter of 2008 referred to above. The Reserve Review was conducted by management, including internal underwriting, claims and actuarial personnel, with assistance from external consultants. The Reserve Review included all of WMRe America's non-asbestos and environmental ("A&E") casualty loss reserves as well as certain lines of business at WMRe Sirius. The Reserve Review resulted in \$140.0 million of additional adverse loss reserve development at WMRe America, partially offset by \$85.0 million of favorable loss reserve development at WMRe Sirius during the second quarter of 2008. The adverse loss reserve development at WMRe America was predominantly attributable to its casualty reinsurance book written in the 1996-2002 underwriting years, whereas the favorable loss reserve development at WMRe Sirius was predominantly attributable to its property reinsurance book.

For the three and nine months ended September 30, 2008, OneBeacon had net favorable loss reserve development of \$20.8 million and \$33.0 million that primarily related to professional liability in specialty lines and package business in commercial lines, partially offset by adverse loss reserve development at AutoOne in personal lines and in run-off.

Table of Contents

For the three and nine months ended September 30, 2008, Esurance did not record any net loss reserve development.

For the nine months ended September 30, 2008, the Other Operations segment had \$1.6 million of net favorable loss reserve development.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2007

White Mountains experienced \$0.9 million and \$53.4 million of net favorable loss reserve development during the three and nine months ended September 30, 2007. For the three months ended September 30, 2007, OneBeacon had net favorable loss reserve development of \$16.5 million that was offset primarily by \$15.0 million of net adverse loss reserve development at Esurance. For the nine months ended September 30, 2007, OneBeacon, White Mountains Re, and Other Operations had net favorable loss reserve development of \$41.2 million, \$25.1 million and \$10.5 million, respectively, offset by \$23.4 million of net adverse loss reserve development at Esurance. OneBeacon's net favorable loss reserve development in 2007 primarily related to professional liability and tuition reimbursement in specialty lines, property and general liability in commercial lines and automobile liability in traditional personal lines and at AutoOne. Esurance experienced net adverse loss reserve development in 2007 that primarily related to bodily injury claims from prior accident years. Net favorable loss reserve development at White Mountains Re in 2007 primarily related to property lines. The Other Operations segment experienced \$10.5 million of favorable loss reserve development during 2007 primarily due to the settlement of a large claim at British Insurance Company.

Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for the acquisitions of OneBeacon, WMRe Sirius and Stockbridge Insurance Company, White Mountains was required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on their respective acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled. Accordingly, White Mountains recognized \$4.3 million and \$12.6 million of such charges for the three and nine months ended September 30, 2008, and \$5.4 million and \$16.0 million for the three and nine months ended September 30, 2007. As of September 30, 2008, the outstanding pre-tax unaccreted adjustment was \$46.0 million.

Table of Contents**Note 4. Third Party Reinsurance**

In the normal course of business, White Mountains insurance and reinsurance subsidiaries may seek to limit losses that may arise from catastrophes or other events by reinsuring with third party reinsurers. White Mountains remains liable for risks reinsured in the event that the reinsurer does not honor its obligations under reinsurance contracts.

OneBeacon

At September 30, 2008, OneBeacon had \$19.4 million of reinsurance recoverables on paid losses and \$2,754.0 million (gross of \$209.1 million in purchase accounting adjustments) that will become recoverable if claims are paid in accordance with current reserve estimates. The collectibility of balances due from OneBeacon's reinsurers is critical to OneBeacon's financial strength because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have historically not been significant. The following table provides a listing of OneBeacon's top reinsurers, excluding industry pools and associations, based upon recoverable amounts, the percentage of total paid and unpaid reinsurance recoverables and the reinsurer's A.M. Best rating.

Top Reinsurers (Millions)	Balance at September 30, 2008	% of Total	A.M. Best Rating (1)
Subsidiaries of Berkshire (NICO and GRC) (2)	\$ 2,001.4	72.2%	A++
Tokio Marine and Nichido Fire (3)	56.4	2.0%	A++
Munich Re America	45.2	1.6%	A+
QBE Insurance Corporation	41.5	1.5%	A
Swiss Re	27.1	1.0%	A+

(1) A.M. Best ratings as detailed above are: A++ (Superior, which is the highest of fifteen ratings), A+ (Superior, which is the second highest of fifteen ratings), and A (Excellent, which is the third highest of fifteen ratings).

(2) Includes \$320.2 of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover (as defined below) if they are unable to collect from third party reinsurers. OneBeacon also has an additional \$277.7 of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) Excludes \$46.7 of reinsurance recoverables from various reinsurers that are guaranteed by Tokio Marine and Nichido Fire under the terms of a 100% quota share reinsurance agreement between Houston General Insurance Company and Tokio Marine and Nichido Fire.

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In connection with the OneBeacon Acquisition, the seller caused OneBeacon to purchase two reinsurance contracts: a full risk-transfer cover from National Indemnity Company (NICO) for up to \$2.5 billion in old A&E claims and certain other exposures (the NICO Cover) and an adverse loss reserve development cover (the GRC Cover) from General Reinsurance Corporation (GRC) for up to \$570.0 million, comprised of \$400.0 million of adverse loss reserve development on losses occurring in years 2000 and prior in addition to \$170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for as a seller guarantee under GAAP in accordance with Emerging Issues Task Force Technical Matter Document No. D-54 (EITF Topic D-54). NICO and GRC are wholly-owned subsidiaries of Berkshire.

Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables (Third Party Recoverables) from certain of OneBeacon's third party reinsurers in existence at the time the NICO Cover was executed. As a result, the Third Party Recoverables serve to protect the \$2.5 billion limit of NICO coverage for the benefit of OneBeacon. White Mountains estimates that on an incurred basis, net of Third Party Recoverables, as of September 30, 2008 it has used approximately \$2.2 billion of the coverage provided by NICO. Through September 30, 2008 \$1.1 billion of these incurred losses have been paid by NICO. Since entering into the NICO Cover, \$41.6 million of the \$2.2 billion of utilized coverage from NICO related to uncollectible Third Party Recoverables. To the extent that actual experience differs from White Mountains' estimate of ultimate A&E losses and Third Party Recoverables, future losses could utilize some or all of the protection remaining under the NICO Cover.

Table of Contents

In September 2008, OneBeacon completed a study of its A&E exposures. Based on the study, OneBeacon increased its best estimate of its incurred losses ceded to NICO under the NICO Cover, net of underlying reinsurance, by \$83.4 million to \$2.2 billion, which is within the \$2.5 billion coverage provided by the NICO Cover. Due to the NICO Cover, there was no impact to income or equity from the change in estimate. (See **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** specifically **A&E Exposures** in the OneBeacon segment discussion for a detailed discussion of the results of this study).

Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be nominal.

Effective, July 1, 2008, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2009. The program provides coverage for all OneBeacon property business including automobile physical damage, as well as acts of terrorism unless committed on behalf of a foreign interest (or utilizing nuclear, biological, chemical or radiological devices). Under the program, the first \$150 million of losses resulting from a single catastrophe are retained by OneBeacon and \$650 million of the next \$700 million of losses resulting from the catastrophe are reinsured. Any loss above \$850 million would be retained by OneBeacon. 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.

White Mountains Re

At September 30, 2008, White Mountains Re had \$30.2 million of reinsurance recoverables on paid losses and \$691.4 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies, the collectibility of balances due from its reinsurers is critical to White Mountains Re's financial strength. White Mountains Re monitors the financial strength of its reinsurers on an ongoing basis. The following table provides a listing of White Mountains Re's top reinsurers based upon recoverable amounts, the percentage of total paid and unpaid reinsurance recoverables and the reinsurers' A.M. Best ratings.

Top Reinsurers (Millions)	Balance at September 30, 2008	% of Total	A.M. Best Rating (2)	% Collateralized
Imagine Re (1)	\$ 146.6	20%	A-	100%
Olympus (1)(3)	133.6	19%	NR-5	100%
General Re	82.5	11%	A++	1%
London Life (1)	70.8	10%	A	100%
St. Paul Travelers Group	57.7	8%	A+	%

1) Non-U.S. insurance entities. Balances are fully collateralized through funds held, letters of credit or trust agreements.

2) A.M. Best ratings as detailed above are: NR-5 (Not formally followed), A++ (Superior, which is the highest of fifteen ratings), A+ (Superior, which is the second highest of fifteen ratings), A (Excellent, which is the third highest of fifteen ratings), and A- (Excellent, which is the fourth highest of fifteen ratings).

3) Gross of \$79.4 due to Olympus Reinsurance Company Ltd. (Olympus) under an indemnity agreement with WMRe America.

During the third quarter 2008, White Mountains Re purchased two Industry Loss Warranty Covers (ILW) for a total cost of \$2.1 million. This reinsurance protection has a total limit of \$40.0 million from two retrocessionaires. The ILW was purchased to protect White Mountains Re's balance sheet from the adverse impact of the occurrence of wind and flood catastrophic events in the Northeastern United States, defined as Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont (Loss Event), primarily through December 31, 2008. The ILW covers all the White Mountains Re operating subsidiaries, who can only recover losses incurred as a result of a Loss Event.

Table of Contents

Note 5. Investment Securities

White Mountains' invested assets comprise securities and other investments held for general investment purposes. Until May 31, 2008, OneBeacon also held securities in a segregated trust account established in connection with the OneBeacon Offering to economically defease the \$300.0 million mandatorily redeemable preferred stock held by Berkshire (the "Berkshire Preferred Stock"). The Berkshire Preferred Stock was redeemed in May 2008 using the proceeds from the segregated trust account.

White Mountains' portfolio of fixed maturity investments and common equity securities held for general investment purposes were classified as AFS for the year ended December 31, 2007. Effective January 1, 2008, the portfolio of fixed maturity investments and common equity securities held for general investment purposes were reclassified as trading. AFS and trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Prior to January 1, 2008, changes in net unrealized investment gains and losses on AFS securities, net of the effect of adjustment for minority interest and after-tax, were reported as a component of other comprehensive income. Realized and unrealized investment gains and losses on trading securities are reported pre-tax in revenues. See ***Recently Adopted Changes in Accounting Principles*** section of **Note 1** for further discussion.

Prior to January 1, 2008, White Mountains accounted for its convertible bonds in accordance with FAS 155, *Accounting for Certain Hybrid Instruments, an amendment to Statements No. 133 and 140* ("FAS 155"). Convertible bonds were recorded at fair value which changes therein recorded as realized investment gains or losses. On January 1, 2008, White Mountains has elected the fair value option under FAS 159 for its investment in convertible bonds, which continue to be recorded at fair value. Upon adoption of FAS 159, changes in fair value are recorded in revenues through unrealized investment gains (losses).

White Mountains has invested in mortgage backed and asset-backed securities which are carried at fair value within fixed maturity investments. White Mountains' investments in asset-backed securities are generally valued using matrix and other pricing models. Key inputs in a typical valuation are benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life. At September 30, 2008, the market for White Mountains' investments in asset-backed securities remained active and accordingly, White Mountains did not adjust the fair value estimates for the effect of illiquidity.

The portfolio of fixed maturity investments that were held in the segregated trust account were classified as held to maturity as White Mountains had the ability and intent to hold the investments until maturity. Securities classified as held to maturity are recorded at amortized cost.

Realized gains and losses resulting from sales of investment securities are accounted for using the weighted average method. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of September 30, 2008 and December 31, 2007. Short-term investments held in the segregated trust account were included in the total of investments held in trust.

Other investments comprise White Mountains' investments in limited partnerships, hedge fund and private equity interests.

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

Table of Contents

Pre-tax net investment income for the three and nine months ended September 30, 2008 and 2007 consisted of the following:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Investment income:				
Fixed maturity investments	\$ 91.0	\$ 101.0	\$ 278.0	\$ 301.2
Short-term investments	9.9	15.7	34.8	51.9
Common equity securities	6.9	5.6	25.2	17.1
Other	1.1	8.4	3.2	9.6
Convertible fixed maturity investments	2.0	2.1	5.8	5.7
Total investment income	110.9	132.8	347.0	385.5
Less investment expenses	(5.2)	(3.9)	(12.8)	(11.9)
Net investment income, pre-tax	\$ 105.7	\$ 128.9	\$ 334.2	\$ 373.6

Pre-tax realized investment (losses) gains consisted of the following:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Fixed maturity investments	\$ (75.1)	\$ (8.4)	\$ (105.6)	\$ (3.2)
Common equity securities	(38.4)	2.2	(19.6)	96.4
Other investments	(10.3)	28.7	(14.1)	88.5
Convertible fixed maturity investments	(5.2)	7.4	(7.6)	11.2
Net realized investment (losses) gains, pre-tax	\$ (129.0)	\$ 29.9	\$ (146.9)	\$ 192.9

For the three and nine months ended September 30, 2008, White Mountains recognized \$92.1 million and \$101.1 million of after-tax realized losses. During the three and nine months ended September 30, 2007, White Mountains recognized after-tax realized gains of \$18.2 million and \$129.7 million.

White Mountains recognizes declines in fair value deemed to be other-than-temporary impairments as realized losses. During the three and nine months ended September 30, 2008 White Mountains recognized realized losses of \$91.9 million and \$160.6 million for declines in fair value deemed to be other than temporary. The \$91.9 million of realized losses from other-than-temporary impairments recognized during the nine months ended September 30, 2008 included following investments: \$10.2 million on preferred stocks held with Fannie Mae and Freddie Mac, \$18.4 million on USB Capital IX, \$16.6 million on Post Properties Inc, \$10.3 million on Wachovia, \$10.5 million relating to AIG and its subsidiaries, \$9.4 million relating to Gold Fields Limited, and \$6.9 million relating to CIT Group Inc. The \$160.6 million of realized loss from other-than-temporary impairments recognized during the nine months ended September 30, 2008 also includes \$10.6 million on Meredith Corporation, \$12.4 million on BAC Capital Trust XIV, \$5.0 million on Pfizer Inc, an additional \$9.8 million relating to Wachovia and an additional \$8.9 million relating to CIT Group Inc. For the three and nine months ended September 30, 2007 White Mountains recognized \$11.3 million of realized losses from other than temporary impairment charges. Effective January 1, 2008, upon adoption of FAS 159, for all investment securities for which the fair value election has been made, all changes in fair value are included in revenues.

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Table of Contents

White Mountains' ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated affiliates at September 30, 2008 and December 31, 2007 were as follows:

Millions	September 30, 2008	December 31, 2007
Investment securities, available for sale:		
Gross unrealized investment gains	\$	\$ 396.8
Gross unrealized investment losses		(85.7)
Net unrealized gains from investment securities		311.1
Net unrealized losses from investments in unconsolidated affiliates	(147.2)	(1.9)
Total net unrealized investment (losses) gains, before tax	(147.2)	309.2
Deferred income taxes on net unrealized gains		(99.0)
Minority interest		(3.2)
Total net unrealized investment (losses) gains, after-tax	\$ (147.2)	\$ 207.0

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' fixed maturity investments as of September 30, 2008 and December 31, 2007, were as follows:

Millions	Cost or amortized cost	Gross unrealized gains	September 30, 2008 Gross unrealized losses	Net foreign currency gains(losses)	Carrying value
U.S. Government obligations	\$ 760.5	\$ 14.2	\$ (3.8)	\$	\$ 770.9
Debt securities issued by industrial corporations	1,946.5	22.0	(66.5)	3.7	1,905.7
Municipal obligations	11.1	.2			11.3
Mortgage-backed and asset-backed securities	2,625.2	9.8	(45.3)	(1.1)	2,588.6
Foreign government obligations	793.0	8.0	(3.6)	1.2	798.6
Preferred stocks	97.0	10.2	(27.6)	5.4	85.0
Total fixed maturity investments	\$ 6,233.3	\$ 64.4	\$ (146.8)	\$ 9.2	\$ 6,160.1

Millions	Cost or amortized cost	Gross unrealized gains	December 31, 2007 Gross unrealized losses	Net foreign currency gains(losses)	Carrying value
U.S. Government obligations	\$ 1,250.9	\$ 30.5	\$ (1.7)	\$	\$ 1,279.7
Debt securities issued by industrial corporations	2,095.8	30.7	(31.1)	35.3	2,130.7
Municipal obligations	11.9	.5			12.4
Mortgage-backed and asset-backed securities	2,882.6	21.4	(7.3)	1.9	2,898.6
Foreign government obligations	792.3	2.6	(5.2)	86.6	876.3
Preferred stocks	159.5	8.2	(2.3)	8.4	173.8
Total fixed maturity investments	\$ 7,193.0	\$ 93.9	\$ (47.6)	\$ 132.2	\$ 7,371.5

Table of Contents

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains' common equity securities, convertible fixed maturities, and other investments as of September 30, 2008 and December 31, 2007, were as follows:

Millions	September 30, 2008				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	\$ 1,450.4	\$ 91.9	\$ (155.8)	\$ 6.9	\$ 1,393.4
Convertible fixed maturities	\$ 372.4	\$.3	\$ (19.7)	\$	\$ 353.0
Other investments	\$ 546.4	\$ 82.6	\$ (46.5)	\$ 1.4	\$ 583.9

Millions	December 31, 2007(2)				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	\$ 1,298.8	\$ 269.9	\$ (34.8)	\$ 16.8	\$ 1,550.7
Other investments (1)	\$ 539.2	\$ 68.1	\$ (3.3)	\$ (.7)	\$ 603.3

(1) Prior to the adoption of FAS 159, equity changes in White Mountains' interest in limited partnerships accounted for using the equity method were reported as realized gains (losses) through earnings and a corresponding increase (decrease) in the cost of the investment. Effective with the adoption of FAS 159 on January 1, 2008, White Mountains now reports equity changes in limited partnership interests through net unrealized investment gains (losses) in earnings. Consequently, on January 1, 2008, White Mountains reduced the cost and increased the gross unrealized gains of its investments in limited partnerships by \$48.8.

(2) Prior to the adoption of FAS 159, changes in the fair value of convertible fixed maturities were included in realized gains and losses.

Fair value measurements at September 30, 2008

White Mountains adopted FAS 157 on January 1, 2008. FAS 157 established a hierarchy of fair value measurements based upon the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments;

Level 3 Valuations based on unobservable inputs.

White Mountains uses observable inputs for the vast majority of its investment portfolio. Fair value measurements for securities for which quoted prices are unavailable are estimated based upon reference to observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes and other relevant inputs. In circumstances where quoted prices or observable inputs are adjusted to reflect management's best estimate of fair value, such fair value measurements are considered a lower level measurement in the FAS 157 fair value hierarchy. Other investments, which comprises limited partnerships, hedge fund and private equity interests for which the SFAS 159 fair value option has been elected are carried at fair value based upon White Mountains' proportionate interest in the underlying partnership's or fund's net asset value, which is deemed to approximate fair value. In circumstances where the partnership net asset value is deemed to differ from fair value due to illiquidity or other factors, net asset value is adjusted accordingly. At September 30, 2008 and December 31, 2007, White Mountains did not adjust the net asset values used to determine fair value because an active secondary market for such investments exists.

Table of Contents

The following table summarizes White Mountains' fair value measurements for investments at September 30, 2008, by level:

Millions	September 30, 2008			
	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturities	\$ 6,160.1	\$ 748.6	\$ 5,324.2	\$ 87.3
Common equity securities	1,393.4	1,140.7	130.8	121.9
Convertible fixed maturity investments	353.0		353.0	
Short-term investments	2,256.6	2,249.8	6.8	
Other investments (1)	571.8			571.8
Total investments	\$ 10,734.9	\$ 4,139.1	\$ 5,814.8	\$ 781.0

(1) The fair value of other investments excludes carrying value of \$12.1 associated with other investment limited partnerships accounted for using the equity method.

As of September 30, 2008, White Mountains has consolidated \$59.7 million of short sale investment securities due to White Mountains consolidation of certain limited partnership investments under FIN 46. These investments are included in other liabilities.

The following table summarizes the changes in White Mountains' Level 3 fair value measurements for the three and nine months ended September 30, 2008:

Millions	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other investments	Total
Balance at January 1, 2008	\$ 297.9	\$ 308.6	\$ 23.2	\$ 596.4	\$ 1,226.1
Total realized and unrealized losses	(3.9)	(2.1)		(16.0)	(22.0)
Purchases	16.0	8.5	2.8	35.7	63.0
Sales	(88.4)	(23.3)	(23.2)	(35.0)	(169.9)
Transfers in				52.4	52.4
Transfers out	(34.9)	(158.3)			(193.2)
Balance at March 31, 2008	\$ 186.7	\$ 133.4	\$ 2.8	\$ 633.5	\$ 956.4
Total realized and unrealized (losses) gains	(18.0)	(1.3)		17.1	(2.2)
Purchases	62.9	1.2		4.6	68.7
Sales	(2.6)	(.8)		(2.0)	(5.4)
Transfers in	5.2				5.2
Transfers out	(81.0)	(.1)	(2.8)		(83.9)
Balance at June 30, 2008	\$ 153.2	\$ 132.4	\$	\$ 653.2	\$ 938.8
Total realized and unrealized losses	(12.2)	(16.3)		(81.1)	(109.6)
Purchases	4.0	.8		4.9	9.7
Sales	(.6)	(1.4)		(5.2)	(7.2)
Transfers in	10.5	45.5			56.0
Transfers out	(67.6)	(39.1)			(106.7)
Balance at September 30, 2008	\$ 87.3	\$ 121.9	\$	\$ 571.8	\$ 781.0

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Transfers into Level 3 measurements for fixed maturities relate primarily to securities recently acquired as of the quarter end for which observable inputs were unavailable. Such securities were manually priced using a combination of market inputs such as benchmark interest rates, market comparables and/or broker quotes. Transfers into Level 3 measurements for common equity securities related to securities for which pricing information did not represent current market inputs at the quarter end. This was deemed to render the fair value measurements as based upon unobservable inputs and were accordingly classified within Level 3. When observable pricing inputs subsequently became available, the fair value measurements for these fixed maturity and common equity securities were reclassified to Levels 1 and/or 2 and are reflected in transfers out of Level 3 measurements for the quarter ended June 30, 2008. Transfers into Level 3 for the three-month period ended March 31, 2008 for other investments relate to White

Table of Contents

Mountains investment in Pentelia which was previously accounted for under the equity method (see **Note 12**). When White Mountains investment fell below the threshold for equity method accounting, White Mountains began accounting for Pentelia as an other investment, classified as trading.

The following table summarizes the amount of total gains (losses) included in earnings attributable to the change in unrealized gains (losses) for Level 3 assets for the three and nine months ended September 30, 2008:

Millions	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Fixed maturities	\$ (2.1)	\$ (23.3)
Common equity securities	(12.3)	(16.4)
Convertible fixed maturities		
Other investments	(83.7)	(85.7)
Total change in unrealized losses - Level 3 assets	\$ (98.1)	\$ (125.4)

Changes in fair value for the three and nine months ended September 30, 2008

The following table summarizes changes in the carrying value of investments measured at fair value:

Millions	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings
Fixed maturities	\$ (50.1)	\$ 79.1	\$ 29.0	\$ (128.7)	\$ 63.9	\$ (64.8)
Common equity securities	(231.4)	(4.2)	(235.6)	(301.6)	(5.1)	(306.7)
Short-term investments	(.1)	(.8)	(.9)	(.1)	.7	.6
Convertible fixed maturities	(8.8)		(8.8)	(27.9)		(27.9)
Other investments	(85.0)	.6	(84.4)	(81.5)	.2	(81.3)
Net unrealized investment (losses) gains	\$ (375.4)	\$ 74.7	\$ (300.7)	\$ (539.8)	\$ 59.7	\$ (480.1)

White Mountains recognized after-tax unrealized losses of \$200.3 million and \$334.0 million for the three and nine months ended September 30, 2008.

Securities Lending

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White Mountains participates in a securities lending program whereby it loans investment securities to other institutions for short periods of time. White Mountains receives a fee from the borrower in return for the use of its assets and its policy is to require collateral equal to approximately 102% of the fair value of the loaned securities, which is held by a third party. All securities loaned can be redeemed on short notice. White Mountains has recorded an asset of \$341.2 million for the value of the collateral held and a liability of \$349.6 million for the amount that is contractually due to the security lending counterparties upon the return of the loaned securities. White Mountains has recorded losses of \$7.0 million and \$8.4 million for the three and nine months ended September 30, 2008 for the amount the liability exceeds the assets held.

Table of Contents**Note 6. Debt**

White Mountains debt outstanding as of September 30, 2008 and December 31, 2007 consisted of the following:

Millions	September 30, 2008	December 31, 2007
OBH Senior Notes, at face value	\$ 676.0	\$ 700.0
Unamortized original issue discount	(.9)	(1.1)
OBH Senior Notes, carrying value	675.1	698.9
WMRe Senior Notes, at face value	400.0	400.0
Unamortized original issue discount	(1.0)	(1.1)
WMRe Senior Notes, carrying value	399.0	398.9
WTM Bank Facility	200.0	
OBH Bank Facility		
Mortgage Note	40.8	40.8
Sierra Note	36.2	36.3
Atlantic Specialty Note	16.0	18.0
Total debt	\$ 1,367.1	\$ 1,192.9

Bank Facilities

White Mountains has a \$475 million revolving credit facility that matures in June 2012 (the WTM Bank Facility). During the first quarter of 2008, White Mountains drew the full \$475 million available under the WTM Bank Facility. In April and August 2008, the Company repaid \$175 million and \$100 million, respectively, of the borrowings. Outstanding borrowings under the WTM Bank Facility at September 30, 2008 have an effective interest rate of 3.3%. White Mountains recorded \$5.3 million and \$2.1 million in interest expense on the WTM Bank Facility for the three and nine months ended September 30, 2008.

OneBeacon, through its wholly-owned subsidiary OneBeacon U.S. Holdings, Inc. (OBH), formerly Fund American Companies, Inc., has a \$75 million revolving credit facility that matures in November 2011 (the OBH Bank Facility), which was undrawn as of September 30, 2008.

The WTM Bank Facility and the OBH Bank Facility contain various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings and include maintaining certain minimum net worth and maximum debt to capitalization standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under these facilities and result in acceleration of principal repayment on any amounts outstanding. At September 30, 2008, White Mountains was in compliance with all of the covenants under the WTM Bank Facility and the OBH Bank Facility, and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

OBH Senior Notes

During the third quarter of 2008, OneBeacon repurchased \$24.0 million face value of its outstanding OBH Senior Notes for \$22.3 million, which resulted in a \$1.6 million gain on extinguishment of debt.

AFI Note

At June 30, 2008, the noncontrolling shareholders of AFI held a \$29.6 million Senior Secured Note (the AFI Note). On July 30, 2008, White Mountains repaid this note in connection with its acquisition of the remaining debt and equity interests of AFI from the minority owner (see **Note 2**).

Table of Contents

Note 7. Income Taxes

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

White Mountains' income tax provision (benefit) for the nine months ended September 30, 2008 and 2007 represented an effective tax rate of (32.1)% and 30.3%. White Mountains' effective tax rates are different from the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States, withholding taxes and non-deductible dividends and accretion on the Berkshire Preferred Stock.

In arriving at the effective tax rate for the nine months ended September 30, 2008, White Mountains is treating the change in unrealized investment gains (losses) and realized investment gains (losses) as discrete items separate from the other components of pre-tax income (loss). Therefore, the benefit of these net losses is calculated at the statutory rate applicable to the jurisdiction in which the losses are recorded. The majority of investment assets incurring current period net losses for the nine months ended September 30, 2008 are in the U.S. and Sweden, and are taxed at the statutory rates of 35% and 28%. The changes in unrealized investment gains (losses) and realized investment gains (losses) are treated as discrete items due to the inability to reliably estimate these amounts for the full year.

White Mountains records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the income tax provision in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carry-back and carry-forward periods and strategies that if executed would result in the realization of a deferred tax asset. As of September 30, 2008, the net U.S. deferred tax assets were approximately \$484.9 million. During the next twelve months, it is possible that certain planning strategies will no longer be sufficient to utilize the entire deferred tax asset, which could result in material changes to White Mountains' deferred tax assets and tax provision.

On January 1, 2007, White Mountains adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes when the benefit of a given tax position should be recognized and how it should be measured. In connection with the adoption of FIN 48, White Mountains has recognized a \$0.2 million decrease in the liability for unrecognized tax benefits, primarily as a result of reductions in its estimates of accrued interest. The effect of adoption has been recorded as an adjustment to opening retained earnings.

Under FIN 48, White Mountains classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. With few exceptions, White Mountains is no longer subject to U.S. federal, state or non-U.S. income tax examinations for years before 2003.

In the second quarter of 2006, the Internal Revenue Service (IRS) commenced an examination of income tax returns for 2003 through 2004 for certain U.S. subsidiaries of OneBeacon, White Mountains Re and Esurance. On June 30, 2008, the Company received Form 4549-A (Income Tax Examination Changes) from the IRS relating to the examination of tax years 2003 and 2004. The IRS is asserting that subsidiaries of the Company owe an additional \$90.0 million of tax. The estimated total assessment, including interest, withholding tax and utilization of tax credits is \$174.0 million. The Company disagrees with the

adjustments proposed by the IRS and intends to vigorously defend its position. The timing of the resolution of these issues is uncertain, however it is reasonably possible that the resolution could occur within the next 12 months. An estimate of the range of potential outcomes cannot be made at this time. The Company does not expect the resolution of this examination to result in a material change to its financial position. In October 2008, the IRS commenced an examination of certain of White Mountains U.S. subsidiaries' income tax returns for 2005 through 2006.

Table of Contents**Note 8. Weather Contracts**

For the three and nine months ended September 30, 2008, Galileo recognized \$0.1 million of net losses and \$6.6 million of net gains on its weather and weather contingent derivatives portfolio. For the three and nine months ended September 30, 2007, Galileo recognized \$0.3 million and \$0.4 million of net gains on its weather derivatives portfolio. As of September 30, 2008 and 2007, Galileo had unamortized deferred gains of \$4.5 million and \$2.8 million.

The fair values of Galileo's risk management products are subject to change in the near-term and reflect management's best estimate based on various factors including, but not limited to, realized and forecasted weather conditions, changes in interest or foreign currency exchange rates and other market factors. Estimating the fair value of derivative instruments that do not have quoted market prices requires management's judgment in determining amounts that could reasonably be expected to be received from or paid to a third party to settle the contracts. Such amounts could be materially different from the amounts that might be realized in an actual transaction to settle the contract with a third party. Because of the significance of the unobservable inputs used to estimate the fair value of Galileo's weather risk contracts, the fair value measurements of the contracts are deemed to be Level 3 measurements in the FAS 157 fair value hierarchy.

Galileo's weather risk management contracts are summarized in the following table:

Millions	Nine Months Ended September 30,			
	2008		2007	
Net liability for weather derivative contracts as of January 1 (1)	\$	17.9	\$	12.1
Net consideration received during the period for new contracts		16.5		10.8
Net payments made on contracts settled during the period		(10.9)		(10.6)
Net decrease in fair value on settled and unsettled contracts		(6.6)		(.4)
Net liability for weather derivative contracts as of September 30 (2)	\$	16.9	\$	11.9

(1) Includes unamortized deferred gains of \$2.9 and \$4.7 as of January 1, 2008 and 2007.

(2) Includes unamortized deferred gains of \$4.5 and \$2.8 as of September 30, 2008 and 2007.

The following table summarizes the maturity of contracts outstanding as of September 30, 2008:

Millions	< 1 Year		1-3 Years		3-5 Years		> 5 Years		Total
Net asset for contracts actively quoted	\$		\$		\$		\$		\$
Net liability for contracts using internal pricing models		12.2		4.7					16.9
Total net liability for weather contracts outstanding	\$	12.2	\$	4.7	\$		\$		\$ 16.9(1)

(1) Includes \$4.5 in unamortized deferred gains.

Table of Contents**Note 9. Variable Annuity Reinsurance**

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan through its wholly owned subsidiary, WM Life Re. The accounting for benefit guarantees differs depending on whether or not the guarantee is classified as a derivative or an insurance liability.

At September 30, 2008 and December 31, 2007, the liability recorded for the variable annuity benefit guarantees that is included in other liabilities, was \$116.1 million and \$12.7 million, of which \$6.8 million and \$0.4 million were life insurance liabilities.

At September 30, 2008 and December 31, 2007, the fair value of WM Life Re's derivative contracts was \$93.2 million and \$43.7 million, which are included in other assets. For the three and nine months ended September 30, 2008 WM Life Re had gains from its derivative contracts of \$47.5 million and \$62.6 million. For the three and nine months ended September 30, 2007 WM Life Re had gains (losses) from its derivative contracts of \$6.3 million and \$(9.7) million.

The following table summarizes the pre-tax operating results of WM Life Re for the three and nine months ended September 30, 2008:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Fees, included in other revenues	\$ 6.3	\$ 5.9	\$ 19.3	\$ 16.6
Change in fair value of variable annuity liability, included in other revenues	(64.2)	(15.7)	(97.0)	(6.2)
Change in fair value of derivatives, included in other revenues	47.5	6.3	62.6	(9.7)
Other investment income and gains (losses)	(.4)	.1	(.9)	
Total revenues	(10.8)	(3.4)	(16.0)	.7
Change in fair value of variable annuity liabilities, included in other expenses	(4.2)	(.1)	(6.1)	(.2)
General and administrative expenses	.6	(1.6)	(1.6)	(5.7)
Pre-tax income (loss)	\$ (14.4)	\$ (5.1)	\$ (23.7)	\$ (5.2)

WM Life Re enters into both over-the-counter (OTC) and exchange traded derivatives to economically hedge the liability from the variable annuity benefit guarantee. In the case of OTC derivatives, WM Life Re has exposure to credit risk for amounts that are uncollateralized by counterparties. The following summarizes collateral held by WM Life Re with respect to OTC derivative contracts recorded within other assets:

Millions	September 30, 2008	December 31, 2007
Fair value of OTC derivative instruments	\$ 79.5	\$ 38.9
Collateral held	(18.7)	
Net exposure on fair value of OTC instruments	\$ 60.8	\$ 38.9

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The WM Life Re's internal risk management guidelines establish net counterparty exposure thresholds and also require that over-the-counter counterparties have a credit rating of at least AA- on the date of contract execution. The following table summarizes uncollateralized amounts due under WM Life Re's OTC derivative contracts as of September 30, 2008:

Counterparty (Millions)	Uncollateralized balance as of September 30, 2008		S&P Rating (1)
Bank of America	\$	29.3	AA-
Barclays		20.1	AA-
Other		11.4	(2)
Total	\$	60.8	

(1) AA- is the fourth highest of twenty-two creditworthiness ratings.

(2) The ratings of the counterparties included in Other ranged from AA- (57%); A+ (23%) to AA+ (20%).

Table of Contents

The OTC derivative contracts are subject to restrictions over liquidation of the instruments and distribution of proceeds under collateral agreements.

The following summarizes cash and investments collateral deposited by WM Life Re with counterparties:

Millions	September 30, 2008	December 31, 2007
Collateral held in cash	\$ 50.8	\$ 8.5
Collateral held in fixed maturities		5.0
Collateral held in other assets	12.0	
Total	\$ 62.8	\$ 13.5

WM Life Re has an OTC derivative contract with a subsidiary of Lehman, Lehman Brothers Special Financing Inc. (LBSF), that is approximately \$2 million in-the-money. At September 30, 2008 the carrying value of the derivative has been written down to \$0.

All of White Mountains variable annuity reinsurance liabilities (\$116.1 million) were classified as Level 3 measurements at September 30, 2008.

The following table summarizes the changes in White Mountains variable annuity reinsurance liabilities and derivative contracts for the three and nine months ended September 30, 2008:

Millions	(Liabilities) Level 3	Derivative Instruments Level 3	Derivative Instruments Level 1	Net Assets (Liabilities)
Balance at January 1, 2008	\$ (12.7)	\$ 38.9	\$ 4.8	\$ 31.0
Cumulative effect adjustment - FAS 157	(.3)			(.3)
Purchases		10.9		10.9
Realized and unrealized gains (losses)	(83.0)	23.1	32.6	(27.3)
Transfers in (out)				
Sales/settlements			(30.0)	(30.0)
Balance at March 31, 2008	\$ (96.0)	\$ 72.9	\$ 7.4	\$ (15.7)
Purchases		1.8		1.8
Realized and unrealized gains (losses)	48.3	(13.9)	(26.8)	7.6
Transfers in (out)				
Sales/settlements			31.0	31.0
Balance at June 30, 2008	\$ (47.7)	\$ 60.8	\$ 11.6	\$ 24.7
Purchases		1.9		1.9
Realized and unrealized gains (losses)	(68.4)	16.8	30.7	(20.9)
Transfers in (out)				
Sales/settlements			(28.6)	(28.6)
Balance at September 30, 2008	\$ (116.1)	\$ 79.5	\$ 13.7	\$ (22.9)

Table of Contents**Note 10. (Loss) Earnings Per Share**

Basic (loss) earnings per share amounts are based on the weighted average number of common shares outstanding excluding unvested restricted common shares (Restricted Shares). Diluted (loss) earnings per share amounts are based on the weighted average number of common shares and the net effect of potentially dilutive common shares outstanding, based on the treasury stock method. The following table outlines the Company's computation of (loss) earnings per share for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic (loss) earnings per share numerators (in millions):				
(Loss) income before extraordinary item	\$ (276.7)	\$ 111.4	\$ (346.9)	\$ 306.2
Extraordinary item - excess of fair value of acquired net assets over cost			4.2	
Net (loss) income	\$ (276.7)	\$ 111.4	\$ (342.7)	\$ 306.2
Diluted (loss) earnings per share numerators (in millions):				
(Loss) income before extraordinary item	\$ (276.7)	\$ 111.4	\$ (346.9)	\$ 306.2
Extraordinary item - excess of fair value of acquired net assets over cost			4.2	
Net (loss) income	\$ (276.7)	\$ 111.4	\$ (342.7)	\$ 306.2
Basic (loss) earnings per share denominators (in thousands):				
Average common shares outstanding during the period	10,476	10,842	10,536	10,834
Average unvested Restricted Shares (1)	(53)	(54)	(53)	(52)
Basic (loss) earnings per share denominator	10,423	10,788	10,483	10,782
Diluted (loss) earnings per share denominator (in thousands):				
Average common shares outstanding during the period	10,476	10,842	10,536	10,834
Average unvested Restricted Shares (1)	(53)	(49)	(53)	(49)
Average outstanding dilutive options to acquire common shares (2)		10		15
Diluted (loss) earnings per share denominator	10,423	10,803	10,483	10,800
Basic (loss) earnings per share (in dollars):				
(Loss) income before extraordinary item	\$ (26.55)	\$ 10.33	\$ (33.10)	\$ 28.40
Extraordinary item - excess of fair value of acquired assets over cost			.41	
Net (loss) income	\$ (26.55)	\$ 10.33	\$ (32.69)	\$ 28.40
Diluted (loss) earnings per share (in dollars)				
(Loss) income before extraordinary item	\$ (26.55)	\$ 10.32	\$ (33.10)	\$ 28.35
Extraordinary item - excess of fair value of acquired assets over cost			.41	
Net (loss) income	\$ (26.55)	\$ 10.32	\$ (32.69)	\$ 28.35

(1) Restricted Shares outstanding vest either in equal annual installments, upon a stated date or upon the occurrence of a specified event (see **Note 14**). In accordance with SFAS No. 123 (revised 2004) Share-Based Payment (FAS No. 123(R)), the diluted earnings per share denominator is to be reduced by the number of Restricted Shares that represent the unamortized compensation cost at the end of the period. The diluted loss per share denominator for the three and nine months ended September 30, 2008 is not reduced by the number of Restricted Shares that represent the

unamortized compensation cost as doing so would be anti-dilutive to the calculation. The diluted loss per share denominator for the three and nine months ended September 30, 2007 is reduced by the number of Restricted Shares that represent the unamortized compensation cost, which is computed using the treasury stock method.

(2) The diluted loss per share denominator for the three and nine months ended September 30, 2008 does not include common shares issuable upon exercise of incentive options as they are anti-dilutive to the calculation. The diluted earnings per share denominator for the three and nine months ended September 30, 2007 includes 14,400 and 20,925 common shares issuable upon exercise of incentive options at an average strike price of \$164.08 and \$161.70 per common share. The non-qualified options were not included in the diluted (loss) earnings per share denominator as their inclusion would be anti-dilutive for the periods presented (see **Note 14**).

Table of Contents**Note 11. Segment Information**

White Mountains has determined that its reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations. White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board of Directors. Significant intercompany transactions among White Mountains' segments have been eliminated herein. Financial information for White Mountains' segments follows:

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Three months ended September 30, 2008					
Earned insurance and reinsurance premiums	\$ 471.2	\$ 255.3	\$ 209.2	\$	\$ 935.7
Net investment income	43.1	44.0	8.7	9.9	105.7
Net realized investment losses	(61.2)	(48.3)	(2.7)	(16.8)	(129.0)
Net unrealized (losses) gains on investments	(294.7)	6.1	(13.0)	.9	(300.7)
Other revenue - foreign currency translation loss		(43.9)			(43.9)
Other revenue	4.4	15.3	12.5	18.0	50.2
Total revenues	162.8	228.5	214.7	12.0	618.0
Losses and LAE	303.4	241.7	152.4	.1	697.6
Insurance and reinsurance acquisition expenses	92.6	56.9	41.0		190.5
Other underwriting expenses	74.3	24.6	20.9	.6	120.4
General and administrative expenses	5.7	16.8	11.7	25.2	59.4
Amortization of AFI purchase accounting adjustments			5.9		5.9
Accretion of fair value adjustment to loss and LAE reserves	3.0	1.3			4.3
Interest expense on debt	11.0	6.9	.1	2.4	20.4
Interest expense - dividends on preferred stock					
Interest expense - accretion on preferred stock					
Total expenses	490.0	348.2	232.0	28.3	1,098.5
Pre-tax loss	\$ (327.2)	\$ (119.7)	\$ (17.3)	\$ (16.3)	\$ (480.5)

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Three months ended September 30, 2007					
Earned insurance and reinsurance premiums	\$ 473.6	\$ 265.8	\$ 196.9	\$	\$ 936.3
Net investment income	51.5	54.6	7.9	14.9	128.9
Net realized investment gains (losses)	30.7	2.8	.3	(3.9)	29.9
Other revenue - foreign currency translation gain		13.1			13.1
Other revenue	10.8	1.9	3.0	31.5	47.2
Total revenues	566.6	338.2	208.1	42.5	1,155.4
Losses and LAE	255.8	170.3	165.8		591.9
Insurance and reinsurance acquisition expenses	74.9	53.3	55.7		183.9
Other underwriting expenses	66.4	25.2	11.3	.7	103.6
General and administrative expenses	2.4	5.5		35.1	43.0
Accretion of fair value adjustment to loss and LAE reserves	4.0	1.4			5.4

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Interest expense on debt	11.4	8.2		.2	19.8
Interest expense - dividends on preferred stock	7.1				7.1
Interest expense - accretion on preferred stock	9.2				9.2
Total expenses	431.2	263.9	232.8	36.0	963.9
Pre-tax income (loss)	\$ 135.4	\$ 74.3	\$ (24.7)	\$ 6.5	\$ 191.5

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Table of Contents

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Nine months ended September 30, 2008					
Earned insurance and reinsurance premiums	\$ 1,390.3	\$ 769.0	\$ 627.2	\$	\$ 2,786.5
Net investment income	137.8	141.9	25.1	29.4	334.2
Net realized investment losses	(59.2)	(57.4)	(4.6)	(25.7)	(146.9)
Net unrealized losses on investments	(354.7)	(96.0)	(23.4)	(6.0)	(480.1)
Other revenue - foreign currency translation loss		(29.8)			(29.8)
Other revenue	10.6	16.0	28.3	76.3	131.2
Total revenues	1,124.8	743.7	652.6	74.0	2,595.1
Losses and LAE	878.7	611.4	479.5	(.6)	1,969.0
Insurance and reinsurance acquisition expenses	261.6	163.7	130.7		556.0
Other underwriting expenses	223.6	80.6	58.5	1.9	364.6
General and administrative expenses	16.0	25.8	22.4	106.5	170.7
Amortization of AFI purchase accounting adjustments			10.6		10.6
Accretion of fair value adjustment to loss and LAE reserves	9.0	3.6			12.6
Interest expense on debt	33.9	20.8	.5	6.3	61.5
Interest expense - dividends on preferred stock	11.8				11.8
Interest expense - accretion on preferred stock	21.6				21.6
Total expenses	1,456.2	905.9	702.2	114.1	3,178.4
Pre-tax loss	\$ (331.4)	\$ (162.2)	\$ (49.6)	\$ (40.1)	\$ (583.3)

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Nine months ended September 30, 2007					
Earned insurance and reinsurance premiums	\$ 1,407.5	\$ 870.9	\$ 556.6	\$	\$ 2,835.0
Net investment income	156.7	155.7	21.5	39.7	373.6
Net realized investment gains	142.7	44.9	2.8	2.5	192.9
Other revenue - foreign currency translation gain		3.9			3.9
Other revenue	16.3	5.6	9.1	95.7	126.7
Total revenues	1,723.2	1,081.0	590.0	137.9	3,532.1
Losses and LAE	827.1	537.7	443.2	(10.7)	1,797.3
Insurance and reinsurance acquisition expenses	231.5	197.9	150.7		580.1
Other underwriting expenses	246.9	86.4	41.9	2.3	377.5
General and administrative expenses	7.5	21.7	.2	128.9	158.3
Accretion of fair value adjustment to loss and LAE reserves	12.0	4.0			16.0
Interest expense on debt	34.1	16.2		4.6	54.9
Interest expense - dividends on preferred stock	22.2				22.2
Interest expense - accretion on preferred stock	26.2				26.2
Total expenses	1,407.5	863.9	636.0	125.1	3,032.5
Pre-tax income (loss)	\$ 315.7	\$ 217.1	\$ (46.0)	\$ 12.8	\$ 499.6

Table of Contents**Note 12. Investments in Unconsolidated Affiliates**

White Mountains' investments in unconsolidated affiliates represent investments in other companies in which White Mountains has a significant voting and economic interest but does not control the entity.

Symetra

At September 30, 2008, White Mountains owned 24% of the common shares of Symetra Financial Corporation (Symetra) on a fully converted basis, consisting of 17.4 million common shares and warrants to acquire an additional 9.5 million common shares. White Mountains accounts for its investment in common shares of Symetra using the equity method of accounting and accounts for its Symetra warrants under FAS No. 133,

Accounting for Derivative Instruments and Hedging Activities, recording the warrants at fair value with changes in fair value recognized through the income statement as a realized investment gain or loss. Symetra's warrants are not publicly traded. Accordingly, the fair value measurement of the warrants is based on unobservable inputs and is classified as a Level 3 measurement.

For the three and nine months ended September 30, 2008, the value of White Mountains' investment in Symetra warrants decreased by \$13.3 million and \$24.6 million. The decrease in both periods was due to a decline in the valuation of stocks in the life insurance sector during the period.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra:

Millions	2008			2007		
	Common Shares	Warrants	Total	Common Shares	Warrants	Total
Carrying value of investment in Symetra as of January 1	\$ 241.3	\$ 77.3	\$ 318.6	\$ 249.3	\$ 54.0	\$ 303.3
Equity in earnings of Symetra (1)	.7		.7	10.3		10.3
Net unrealized gains from Symetra's equity portfolio and other				.5		.5
Net unrealized (losses) gains from Symetra's fixed maturity portfolio	(20.7)		(20.7)	5.9		5.9
(Decrease) Increase in value of warrants		(4.3)	(4.3)		3.7	3.7
Carrying value of investment in Symetra as of March 31 (2)	\$ 221.3	\$ 73.0	\$ 294.3	\$ 266.0	\$ 57.7	\$ 323.7
Equity in earnings of Symetra (1)	5.3		5.3	8.3		8.3
Net unrealized gains from Symetra's equity portfolio and other				.1		.1
Net unrealized losses from Symetra's fixed maturity portfolio	(39.0)		(39.0)	(40.2)		(40.2)
(Decrease) Increase in value of warrants		(7.0)	(7.0)		4.6	4.6
	\$ 187.6	\$ 66.0	\$ 253.6	\$ 234.2	\$ 62.3	\$ 296.5

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Carrying value of investment in Symetra as of June 30 (2)										
Equity in earnings of Symetra (1)	.2		.2		7.9					7.9
Net unrealized losses from Symetra's equity portfolio and other					(1.2)					(1.2)
Net unrealized (losses) gains from Symetra's fixed maturity portfolio	(81.4)		(81.4)		15.6					15.6
(Decrease) Increase in value of warrants		(13.3)	(13.3)			.4				.4
Carrying value of investment in Symetra as of September 30 (2)	\$ 106.4	\$ 52.7	\$ 159.1	\$ 256.5	\$ 62.7	\$ 319.2				

(1) Equity in earnings is net of tax of \$0.

(2) Includes White Mountains' equity in net unrealized gains and (losses) from Symetra's fixed maturity portfolio of \$(26.3), \$(65.3) and \$(146.7) as of March 31, 2008, June 30, 2008 and September 30, 2008 and \$1.8, \$(38.5) and \$(22.9) as of March 31, 2007, June 30, 2007 and September 30, 2007.

Table of Contents

Pentelia

In April 2007, White Mountains invested \$50 million in common equity of Pentelia Limited (Pentelia). White Mountains has determined that Pentelia is a variable interest entity but that White Mountains is not the primary beneficiary. At December 31, 2007, the investment was accounted for as an equity method investment. During the first quarter of 2008, Pentelia raised additional equity capital. Subsequent to the capital raise, White Mountains ownership interest in Pentelia was reduced from 17% to approximately 13%. Accordingly, White Mountains investment in Pentelia is now accounted for as a trading security in other investments. Changes in the fair value of White Mountains investment in Pentelia are recognized in the net change in unrealized investment losses.

White Mountains also obtained a 33% equity interest in Pentelia Capital Management (PCM) for \$1.6 million in April 2007. This investment is accounted for under the equity method. For the three and nine months ended September 30, 2008, White Mountains had recorded \$0.1 million of equity in earnings in its investment in PCM. White Mountains investment in PCM as of September 30, 2008 was \$1.6 million.

Delos

White Mountains owns approximately 18% of Delos and accounts for its investment in Delos under the equity method. For the three and nine months ended September 30, 2008, White Mountains recorded \$0.5 million and \$0.8 million of after-tax equity in earnings and \$0.2 million and \$0.4 million of after-tax equity in unrealized investment losses from its investment in Delos. White Mountains investment in Delos at September 30, 2008 totaled \$34.3 million.

AFI

In January 2008, White Mountains acquired 42% of the outstanding debt and equity of AFI. During the first quarter of 2008, White Mountains accounted for its investment in AFI under the equity method. For the three months ended March 31, 2008, White Mountains recorded \$(0.1) million of after-tax equity in earnings from its investment in AFI. As of April 1, 2008, White Mountains ownership in AFI increased to 68.9%. As a result, White Mountains now accounts for its investment in AFI as a consolidated subsidiary. On July 30, 2008, White Mountains acquired the remaining equity and debt interests in AFI from the minority owner (see **Note 2**).

Note 13. Retirement and Postretirement Plans

OneBeacon sponsors qualified and non-qualified, non-contributory, defined benefit pension plans covering substantially all employees who were employed as of December 31, 2001 and remain actively employed with OneBeacon. Current plans include a OneBeacon qualified pension plan (the Qualified Plan) and a OneBeacon non-qualified pension plan (the Non-qualified Plan and, collectively, the Plans). OneBeacon's Plans were frozen and curtailed in the fourth quarter of 2002.

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The components of net periodic benefit costs for the three and nine months ended September 30, 2008 and 2007 were as follows:

Millions	Pension Benefits					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008		2007	2008		2007
Service cost	\$.2	\$.5	\$	1.6
Interest cost		1.7		1.9		15.2
Expected return on plan assets		(2.1)		(1.9)		(15.5)
Amortization of unrecognized loss		.1		.1		.3
Net periodic pension cost before settlements, curtailments and special termination benefits		(.1)		.6		1.6
Settlement gain				(25.6)		(25.6)
Special termination benefits expense (1)				.8		.8
Net periodic benefit income	\$	(.1)	\$	(24.2)	\$	(23.2)

(1) Special termination benefits are additional payments made from the pension plan when a vested participant terminates employment due to a reduction in force.

Table of Contents

OneBeacon does not expect to make a contribution to its Qualified Plan in 2008. OneBeacon anticipates contributing \$2.8 million to the Non-qualified Plan, for which OneBeacon has assets held in rabbi trusts. As of September 30, 2008, \$2.3 million in contributions have been made to the Non-qualified Plan.

On July 11, 2007, OneBeacon settled approximately 80% of the Qualified Plan liabilities through the purchase of two group annuity contracts for \$398.5 million from Transamerica Life Insurance Company and Hartford Life Insurance Company. In accordance with SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, the Qualified Plan's obligations were re-measured in connection with this settlement. In accordance with SFAS No. 87, Employers' Accounting for Pensions, and consistent with the methodology applied at December 31, 2006, OneBeacon's discount rate assumption reflects the rate at which benefit obligations could effectively be settled. Based on consideration of published yields for high quality long-term corporate bonds and U.S. Treasuries as of the re-measurement date, as well as consideration of settlement rates from insurance company annuity contracts, the discount rate utilized for the revaluation of the Qualified Plan obligations was 5.45% as compared to 5.0% at December 31, 2006. In addition, other assumptions (e.g., mortality, retirement age and form of payment) were updated to reflect more recent experience and revised expectations of behavior for the remaining population, as well as to consider information learned through the settlement process. As a result of the partial settlement and re-measurement, OneBeacon recognized a gain of \$25.6 million through pre-tax income (\$19.3 million as a reduction to other underwriting expenses and \$6.3 million as a reduction to loss and LAE) and a pre-tax loss of \$2.5 million through other comprehensive income. The remaining Qualified Plan liabilities, which are primarily attributable to Qualified Plan participants who remain actively employed by OneBeacon, are approximately \$97.6 million.

During the third quarter of 2008, the Qualified Plan received reimbursements from Transamerica and Hartford Life in the amounts of \$0.8 million and \$0.6 million, respectively, due to the final reconciliation of the partial pension settlement. These amounts represented changes in participants and benefits between the time of purchase and the settlement plus any related interest, and resulted in a pre-tax \$1.4 million gain recognized through other comprehensive income.

Note 14. Employee Share-Based Incentive Compensation Plans

White Mountains Long-Term Incentive Plan (the "WTM Incentive Plan") provides for granting various types of share-based and non share-based incentive awards to key employees of the Company and certain of its subsidiaries. White Mountains' share-based compensation expense consists primarily of performance share expense. Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. In general, awards vest, subject to the attainment of performance goals, at the end of a three-year period and are valued based on the market value of common shares at the time awards are paid.

The OneBeacon Long-Term Incentive Plan (the "OneBeacon Incentive Plan") provides for granting to key employees of OneBeacon Ltd., and certain of its subsidiaries, various types of share-based incentive awards, including performance shares. Prior to February 2007, OneBeacon granted White Mountains performance shares. In February 2007, all of OneBeacon's White Mountains performance shares outstanding were replaced with an equivalent value of OneBeacon performance shares from the OneBeacon Incentive Plan. The value of a OneBeacon performance share is based upon the market value of a OneBeacon Ltd. common share.

Table of Contents**Share-Based Compensation Based on White Mountains Common Shares***WTM Performance Shares*

The following table summarizes performance share activity for the three and nine months ended September 30, 2008 and 2007 for WTM performance shares granted under the WTM Incentive Plan and phantom WTM performance shares granted under subsidiary plans (WTM Phantom Share Plans):

Millions, except share amounts	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	163,643	\$ 36.5	146,263	\$ 57.1	146,742	\$ 47.3	185,363	\$ 102.4
Payments and deferrals (1)					(43,608)	(15.5)	(63,300)	(56.0)
New awards			1,012		61,998		54,943	
Forfeitures and cancellations			(416)	(.1)	(1,489)	.1	(17,337)	(4.4)
Transfers out (2)							(12,810)	(4.4)
Expense recognized		(5.4)		(4.8)		(.8)		(14.6)
Ending September 30,	163,643	\$ 31.1	146,859	\$ 52.2	163,643	\$ 31.1	146,859	\$ 52.2

(1) WTM performance share payments in 2008 for the 2005-2007 performance cycle ranged from 64% to 101% of target. WTM performance share payments in 2007 for the 2004-2006 performance cycle ranged from 145% to 186% of target. Amounts include deposits into White Mountains deferred compensation plan.

(2) In February 2007, the WTM performance shares of OneBeacon employees were replaced with an equivalent value of OneBeacon performance shares issued under the OneBeacon Incentive Plan.

If 100% of the outstanding WTM performance shares had been vested on September 30, 2008, the total additional compensation cost to be recognized would have been \$28.2 million, based on current accrual factors (common share price and payout assumptions).

For the 2005-2007 performance cycle, the Company issued common shares for 1,700 performance shares earned and all other performance shares earned were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company or its subsidiaries. For the 2004-2006 performance cycle, all performance shares earned were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company or its subsidiaries.

Performance shares granted under the WTM Incentive Plan

The following table summarizes performance shares outstanding and accrued expense for performance shares awarded under the Incentive Plan at September 30, 2008 for each performance cycle:

Millions, except share amounts	Target WTM Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2006 - 2008	49,918	\$ 15.5
2007 - 2009	46,811	7.3
2008 - 2010	53,772	6.4
Sub-total	150,501	29.2
Assumed forfeitures	(3,763)	(.7)
Total at September 30, 2008	146,738	\$ 28.5

Table of Contents

Phantom Performance Shares granted under WTM Phantom Share Plans

The following table summarizes phantom WTM performance shares outstanding and accrued expense for awards made under the WTM Phantom Share Plans at September 30, 2008 for each performance cycle:

Millions, except share amounts	Target WTM Phantom Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2006 - 2008	2,042	\$.7
2007 - 2009	7,081	1.0
2008 - 2010	8,215	1.0
Sub-total	17,338	2.7
Assumed forfeitures	(433)	(.1)
Total at September 30, 2008	16,905	\$ 2.6

Restricted Shares

At September 30, 2008 and 2007, the Company had 53,200 and 54,000 unvested Restricted Shares outstanding under the WTM Incentive Plan. The following outlines the unrecognized compensation cost associated with the outstanding Restricted Share awards made under the WTM Incentive Plan for the three and nine months ended September 30, 2008 and 2007:

Millions, except share amounts	Three Months Ended September 30,				Nine Months Ended September 30,			
	Restricted Shares	Unamortized Grant Date Fair Value	Restricted Shares	Unamortized Grant Date Fair Value	Restricted Shares	Unamortized Grant Date Fair Value	Restricted Shares	Unamortized Grant Date Fair Value
Non-vested, beginning of period	53,200	\$ 27.1	54,000	\$ 29.1	54,000	\$ 26.7	10,000	\$.3
Granted					6,200	3.1	54,000	31.0
Vested					(7,000)		(10,000)	
Forfeited								
Expense recognized		(1.4)		(1.2)		(4.1)		(3.4)
Non-vested at September 30	53,200	\$ 25.7	54,000	\$ 27.9	53,200	\$ 25.7	54,000	\$ 27.9

During the first quarter of 2008, White Mountains awarded 4,200 Restricted Shares that vest in equal annual installments over three years and 2,000 Restricted Shares that cliff vest in February 2011 based on continuous service throughout the award period.

During the first quarter of 2007, White Mountains made the following grants of Restricted Shares to the Company's Chairman and CEO: (1) 35,000 Restricted Shares that vest in equal annual installments over five years; (2) 15,000 Restricted Shares that vest in the event of a change in control of the Company before January 20, 2012. During the first quarter of 2007, White Mountains also awarded 4,000 Restricted Shares to other employees that cliff vest in February 2010 based on continuous service by the employee throughout the award period.

Of the unrecognized compensation cost at September 30, 2008, \$17.1 million is expected to be recognized ratably over the remaining vesting periods and \$8.6 million would be recognized in the event of a change in control before January 20, 2012. Upon vesting, all restrictions initially placed upon the Restricted Shares lapse.

Table of Contents*Non-Qualified Options*

In January 2007, the Company issued 200,000 seven-year Non-Qualified Options to the Company's Chairman and CEO that vest in equal annual installments over five years and that have an initial exercise price of \$650 per common share that escalates at an annual rate of 5% less the annual regular dividend rate (the "Escalator"). The fair value of the Non-Qualified Options at the grant date was estimated using a closed-form option model using an expected volatility assumption of 29.7%, a risk-free interest rate assumption of 1.1% (or 4.7% less the Escalator), a forfeiture assumption of 0%, an expected dividend rate assumption of 1.4% and a term assumption of seven years. The fair value of the Non-Qualified Options was \$27.2 million at the grant date and will be recognized ratably over the five year vesting period. For the three and nine months ended September 30, 2008 White Mountains recognized \$1.4 million and \$4.1 million of expense associated with its Non-Qualified Options. For the three and nine months ended September 30, 2007, White Mountains recognized \$1.4 million and \$3.8 million of expense associated with its Non-Qualified Options. At September 30, 2008, 40,000 Non-Qualified Options were exercisable at a strike price of \$693.90.

Incentive Options

At September 30, 2008 and 2007, the Company had 7,800 and 14,400 Incentive Options outstanding which were granted to certain key employees on February 28, 2000 (the grant date) under the WTM Incentive Plan. The 81,000 Incentive Options originally granted were issued at an exercise price equal to the market price of the Company's underlying common shares on February 27, 2000. The exercise price escalates by 6% per annum over the life of the Incentive Options. The Incentive Options vest ratably over a ten-year service period. Upon the adoption of FAS 123R, the grant date fair value of the awards as originally disclosed for FAS 123, adjusted for estimated future forfeitures, became the basis for recognition of compensation expense for the Incentive Options. The fair value of each Incentive Option award at the grant date was estimated using a closed-form option model using an expected volatility assumption of 18.5%, a risk-free interest rate assumption of 6.4% and an expected term of ten years.

The following table summarizes the Company's Incentive Option activity for the three and nine months ended September 30, 2008 and 2007:

Millions, except share and per share amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Opening balance - outstanding Options	8,700	14,400	9,900	29,550
Forfeited			(600)	(5,400)
Exercised	(900)		(1,500)	(9,750)
Ending balance - outstanding Options	7,800	14,400	7,800	14,400
Outstanding Options - exercisable	1,800	1,800	1,800	1,800
Exercise price - outstanding Options at beginning of period	\$ 172.64	\$ 162.87	\$ 167.70	\$ 158.21
Value of Options exercised (1)	\$.3	\$	\$.5	\$ 4.1
Exercise price - outstanding Options at September 30,	\$ 175.20	\$ 165.28	\$ 175.20	\$ 165.28

(1) Amount is equal to the number of options exercised multiplied by amount the ending market value exceeds the strike price on the date of exercise.

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The total in-the-money value of all outstanding Incentive Options and those Incentive Options currently exercisable at September 30, 2008 was \$2.3 million and \$0.5 million. The Incentive Options expire in February 2010. White Mountains expects 3,000 Incentive Options to become exercisable in 2008 and will issue common shares when the Incentive Options are exercised.

Table of Contents
Share-Based Compensation Based on OneBeacon Ltd. Common Shares
OneBeacon Performance Shares

The following table summarizes performance share activity for the three and nine months ended September 30, 2008 and 2007 for OneBeacon performance shares granted under the OneBeacon Incentive Plan:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	Target Performance Shares	Accrued Expense	Target Performance Shares	Accrued Expense	Target Performance Shares	Accrued Expense	Target Performance Shares	Accrued Expense
Millions, except share amounts	Outstanding		Outstanding		Outstanding		Outstanding	
Beginning of period	2,186,208	\$ 9.7	1,127,837	\$ 10.4	1,063,690	\$ 9.2		\$
Payments and deferrals					(122,859)	(1.6)		
New awards	29,518		25,671		1,426,618		934,131	
Forfeitures and cancellations	(4,090)	(.3)	(18,222)	(.4)	(155,813)	(.9)	(87,042)	(.7)
Transfers from the WTM								
Incentive plan							288,197	4.4
Expense recognized		5.1		1.7		7.8		8.0
Ending September 30,	2,211,636	\$ 14.5	1,135,286	\$ 11.7	2,211,636	\$ 14.5	1,135,286	\$ 11.7

(1) OneBeacon performance share payments in 2008 for the 2007 performance cycle were at 62.9% of target. Amounts include deposits into OneBeacon's deferred compensation plan.

(2) In February 2007, the WTM performance shares of OneBeacon employees were replaced with an equivalent value of OneBeacon performance shares issued under the OneBeacon Incentive Plan.

If 100% of the outstanding OneBeacon performance shares had been vested on September 30, 2008, the total additional compensation cost to be recognized would have been \$24.8 million, based on current accrual factors (common share price and payout assumptions).

The following table summarizes OneBeacon performance shares outstanding awarded under the OneBeacon Incentive Plan at September 30, 2008 for each performance cycle:

Millions, except share amounts	Target OneBeacon Performance Shares Outstanding	Accrued Expense
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Performance cycle:			
2006 - 2008	137,400	\$	2.4
2007 - 2009	767,206		5.3
2008 - 2010	1,363,739		7.2
Sub-total	2,268,345		14.9
Assumed forfeitures	(56,709)		(.4)
Total at September 30, 2008	2,211,636	\$	14.5

Table of Contents*Non-Qualified Options*

In November 2006, in connection with its initial public offering, OneBeacon Ltd. issued to its key employees 1,420,000 fixed-price Non-Qualified Options to acquire OneBeacon Ltd. common shares. The following tables summarize option activity for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30, 2008		2007		Nine Months Ended September 30, 2008		2007	
	Target Options Outstanding	Accrued Expense	Target Options Outstanding	Accrued Expense	Target Options Outstanding	Accrued Expense	Target Options Outstanding	Accrued Expense
Millions, except share amounts								
Beginning of period	1,237,872	\$ 2.2	1,349,000	\$.8	1,324,306	\$ 1.4	1,420,000	\$.2
New awards								
Forfeitures and cancellations					(86,434)		(71,000)	
Exercised								
Expense recognized		.4		.4		1.2		1.0
Ending September 30,	1,237,872	\$ 2.6	1,349,000	\$ 1.2	1,237,872	\$ 2.6	1,349,000	\$ 1.2

The options vest in equal installments on each of the third, fourth and fifth anniversaries of their issuance and expire five and a half years from the date of issuance. The fair value of each option award at grant was estimated using a Black-Scholes option pricing model using an expected volatility assumption of 30%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. The options originally had a per share exercise price of \$30.00. On May 27, 2008, the Compensation Committee of the Board of Directors (the Compensation Committee) amended the exercise price to \$27.97 as a result of the \$2.03 per share special dividend paid in the first quarter of 2008. The compensation expense associated with the options and the incremental fair value of the award modification is being recognized ratably over the remaining period.

Restricted Stock Units

The Non-Qualified Options granted by OneBeacon Ltd., in connection with its initial public offering, did not include a mechanism in the options to reflect the contribution to total return from the regular quarterly dividend. As a result, during the first quarter of 2008, OneBeacon granted 116,270 Restricted Stock Units (RSUs) to actively employed option holders. The RSUs vest one-third on each of November 9, 2009, 2010 and 2011 subject to, for each vesting tranche of units, the attainment of 4% growth in OneBeacon's adjusted book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date. Upon vesting, the RSUs will be mandatorily deferred into one of OneBeacon's non-qualified deferred compensation plans and will be paid out in 2012 in cash or shares at the discretion of the Compensation Committee. The expense associated with the RSUs is being recognized over the vesting period. For the three and nine months ended September 30, 2008, OneBeacon recognized expense of \$0.3 million and \$0.7 million.

Note 15. Subsequent Events*Investment Performance*

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In October, equity markets have continued to decline, credit spreads on fixed income securities have further widened, and the U.S. dollar has strengthened against the Swedish Krona and the Euro. These factors have led to continued losses in White Mountains' investment portfolio, which have had a negative impact on White Mountains' book value since the end of the third quarter.

Berkshire Exchange

On October 29, 2008, White Mountains received the requested private letter ruling from the IRS relating to the Berkshire Exchange. As a result, White Mountains expects to close the transaction on October 31, 2008.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

The following discussion also includes four non-GAAP financial measures - adjusted comprehensive net income, White Mountains' adjusted book value per share, total adjusted capital and OneBeacon's adjusted book value per share - that have been reconciled to their most comparable GAAP financial measures (see page 66). White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains' financial performance and condition.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Overview

White Mountains ended the third quarter of 2008 with an adjusted book value per share of \$405, which represented decreases of 9%, 9% and 6% for the three, nine and twelve months ended September 30, 2008, including dividends. The reduction is due mainly to a -5.1% total return on invested assets during the third quarter of 2008. In addition, underwriting results for the quarter were impacted by after tax catastrophe losses of \$109 million. The strengthening of the U.S. dollar in comparison to the Swedish Krona also generated significant foreign currency translation losses during the quarter. White Mountains reported adjusted comprehensive net losses of \$409 million and \$426 million for the third quarter and first nine months 2008, compared to adjusted comprehensive net income of \$161 million and \$354 million in the same periods of 2007.

OneBeacon ended the third quarter of 2008 with an adjusted book value per share of \$14.44, which represented decreases of 13%, 11%, and 8% for the three, nine, and twelve months ended September 30, 2008, including dividends. The reduction is due mainly to a -7.1% total return on OneBeacon's invested assets during the third quarter of 2008. OneBeacon reported GAAP combined ratios of 100% and 98% for the third quarter and first nine months 2008 compared to 84% and 93% in the third quarter and first nine months 2007. These increases were primarily due to (\$28 million) of catastrophe losses reported in the third quarter of 2008 and the impact of non-recurring items that benefited OneBeacon's combined ratio by 7 points in the third quarter of 2007. White Mountains Re reported GAAP combined ratios of 127% and 111% for the third quarter and first nine months 2008, compared to 94% for both the third quarter and first nine months 2007. These increases were primarily due to \$112 million and \$145 million of catastrophe losses (44 points and 19 points) reported in the third quarter and first nine months of 2008 and \$55 million of net adverse loss reserve development recorded by White Mountains Re in the

second quarter of 2008 resulting from a comprehensive review of its loss and LAE reserves (see **Summary of Operations by Segment** below for further discussion). Esurance reported GAAP combined ratios of 102% and 107% in the third quarter and first nine months 2008 compared to 118% and 114% in the third quarter and first nine months 2007, as selective rate increases and lower claims frequency have offset rising severity costs. White Mountains GAAP pre-tax total return on invested assets was -5.1% and -3.8% for the third quarter and first nine months 2008 compared to 2.1% and 5.6% for the third quarter and first nine months 2007.

Total net written premiums increased to \$955 million for the third quarter of 2008 compared to \$942 million in the comparable 2007 period, as increases at OneBeacon and Esurance were partially offset by a decrease at White Mountains Re. Total net written premiums for the nine months ended September 30, 2008 decreased to \$2,913 million compared to \$2,944 million in the 2007 period, as increases at OneBeacon and Esurance were more than offset by a decrease at White Mountains Re. OneBeacon's net written premiums were \$534 million for the quarter and \$1,489 million for the first nine months of 2008, increases of 4% over both comparable periods of 2007. The increase for both periods was driven by premiums from its new collector car and boat business. White Mountains Re's net written premiums were \$208 million for the quarter and \$783 million for the first nine months of 2008, decreases of 6% and 13% from the comparable periods of 2007. These decreases occurred in most lines of business, especially in casualty, and were primarily due to pricing, terms and conditions for certain accounts that no longer met White Mountains Re's underwriting guidelines. Esurance's net written premiums increased by 2% and 7% for the third quarter and first nine months 2008, to \$213 million and \$641 million, respectively, when compared to the same periods in 2007. Esurance's growth rate has slowed due to a decline in shopping for personal auto insurance and due to selective rate increases implemented over the first nine months of 2008.

Table of Contents**Adjusted Book Value Per Share**

In the second quarter of 2008, White Mountains changed its principal financial reporting measure from fully diluted tangible book value per share to adjusted book value per share. The difference between the two measures is that adjusted book value per share includes unamortized intangible assets, while fully diluted tangible book value per share does not. White Mountains determined adjusted book value per share to be a better financial reporting measure than fully diluted tangible book value per share principally because it includes the value of business in force from its investment in AFI, which was first recorded as an intangible asset during the second quarter of 2008 and totaled \$56.2 million as of September 30, 2008. Adjusted book value per share is a non-GAAP financial measure and has been presented retroactively for all periods herein. (See **NON-GAAP FINANCIAL MEASURES** on page 66).

The following table presents White Mountains' adjusted book value per share and reconciles this non-GAAP measure to the most comparable GAAP measure.

	Sept. 30, 2008	June 30, 2008	Dec. 31, 2007	Sept. 30, 2007
Book value per share numerators (in millions):				
Common shareholders' equity	\$ 4,061.9	\$ 4,597.3	\$ 4,713.4	\$ 4,732.6
Benefits to be received from share obligations under employee benefit plans	1.3	1.5	1.7	2.4
Remaining accretion of subsidiary preferred stock to face value (1)			(15.8)	(22.7)
Book value per share numerator	4,063.2	4,598.8	4,699.3	4,712.3
Equity in net unrealized losses from Symetra's fixed maturity portfolio	146.7	65.3	5.6	22.9
Adjusted book value per share numerator	\$ 4,209.9	\$ 4,664.1	\$ 4,704.9	\$ 4,735.2
Book value per share denominators (in thousands of shares):				
Common shares outstanding	10,442.0	10,552.4	10,553.6	10,842.6
Share obligations under employee benefit plans	7.8	8.7	9.9	14.4
Book value per share denominator	10,449.8	10,561.1	10,563.5	10,857.0
Unearned restricted shares	(45.3)	(47.8)	(46.5)	(48.5)
Adjusted book value per share denominator	10,404.5	10,513.3	10,517.0	10,808.5
Book value per share	\$ 388.84	\$ 435.45	\$ 444.86	\$ 434.03
Adjusted book value per share	\$ 404.62	\$ 443.64	\$ 447.36	\$ 438.09

(1) Remaining adjustment of subsidiary preferred stock to face value, which is based on White Mountains ownership interest in OneBeacon Ltd. of 72.9% and 71.9% as of December 31, 2007 and September 30, 2007, respectively.

[Table of Contents](#)

Review of Consolidated Results

White Mountains consolidated financial results for the three and nine months ended September 30, 2008 and 2007 follow:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Gross written premiums	\$ 1,032.9	\$ 1,037.4	\$ 3,236.9	\$ 3,285.0
Net written premiums	\$ 955.1	\$ 942.2	\$ 2,913.4	\$ 2,943.7
Revenues				
Earned insurance and reinsurance premiums	\$ 935.7	\$ 936.3	\$ 2,786.5	\$ 2,835.0
Net investment income	105.7	128.9	334.2	373.6
Net realized investment (losses) gains	(129.0)	29.9	(146.9)	192.9
Net unrealized investment losses	(300.7)		(480.1)	
Other revenue	6.3	60.3	101.4	130.6
Total revenues	618.0	1,155.4	2,595.1	3,532.1
Expenses				
Losses and LAE	697.6	591.9	1,969.0	1,797.3
Insurance and reinsurance acquisition expenses	190.5	183.9	556.0	580.1
Other underwriting expenses	120.4	103.6	364.6	377.5
General and administrative expenses	59.4	43.0	170.7	158.3
Amortization of AFI purchase accounting adjustments	5.9		10.6	
Accretion of fair value adjustment to loss and LAE reserves	4.3	5.4	12.6	16.0
Interest expense - debt	20.4	19.8	61.5	54.9
Interest expense - dividends on preferred stock		7.1	11.8	22.2
Interest expense - accretion on preferred stock		9.2	21.6	26.2
Total expenses	1,098.5	963.9	3,178.4	3,032.5
Pre-tax income (loss)	\$ (480.5)	\$ 191.5	\$ (583.3)	\$ 499.6
Income tax benefit (provision)	150.8	(64.3)	187.1	(151.3)
Equity in earnings of unconsolidated affiliates	.8	8.2	7.2	27.3
Excess of fair value of acquired assets over cost			4.2	
Minority interest	52.2	(24.0)	42.1	(69.4)
Net (loss) income	\$ (276.7)	\$ 111.4	\$ (342.7)	\$ 306.2
Other comprehensive (loss) income	(214.0)	64.7	(224.8)	28.8
Comprehensive net (loss) income	\$ (490.7)	\$ 176.1	\$ (567.5)	\$ 335.0
Change in net unrealized (gains) losses from Symetra's fixed maturity portfolio	81.4	(15.6)	141.1	18.8
Adjusted comprehensive net (loss) income	\$ (409.3)	\$ 160.5	\$ (426.4)	\$ 353.8

Effective January 1, 2008, White Mountains adopted FAS 159 and elected to record the changes in unrealized gains and losses from nearly all of its investment portfolio in net income. In prior periods, these changes have been included in other comprehensive income. Accordingly, net income (loss) and pre-tax income (loss) for 2008 periods are not directly comparable to such measures for 2007 periods.

Table of Contents

Consolidated Results Three Months Ended September 30, 2008 versus Three Months Ended September 30, 2007

White Mountains' total revenues decreased by 47% to \$618 million for the third quarter of 2008 compared to \$1,155 million for the third quarter of 2007. Earned premiums were essentially flat for the third quarter of 2008 when compared to the third quarter of 2007, as earned premium decreases at OneBeacon and White Mountains Re were almost entirely offset by an increase in earned premiums at Esurance. Net investment income decreased by 18% to \$106 million for the third quarter of 2008 compared to \$129 million for the third quarter of 2007. White Mountains reported net realized investment losses of \$129 million for the third quarter of 2008 compared to net realized investment gains of \$30 million for the third quarter of 2007. White Mountains also reported \$301 million of net unrealized losses through net income for the third quarter of 2008 as a result of the FAS 159 election compared to \$68 million of net unrealized investment gains reported in other comprehensive income for the third quarter of 2007 (see **Summary of Investment Results** below). Other revenues decreased by \$54 million to \$6 million for the third quarter of 2008 compared to the third quarter of 2007, due mainly to \$44 million of foreign currency translation losses at White Mountains Re in the third quarter of 2008 compared to \$13 million of foreign currency gains reported in the third quarter of 2007. Other revenues also included \$10 million and \$4 million in losses in the third quarter of 2008 and 2007 from WM Life Re primarily as a result of the mark-to-market valuation of WM Life Re's derivative assets and liabilities.

White Mountains' total expenses increased by 14% to \$1,099 million for the third quarter of 2008 compared to \$964 million for the third quarter of 2007. Underwriting expenses (loss and LAE, insurance and reinsurance acquisition expenses and other underwriting expenses) increased by \$129 million, or 15%, on relatively flat earned premiums for the third quarter of 2008, due primarily to higher catastrophe losses in the third quarter of 2008 as compared to the third quarter of 2007. General and administrative expenses increased by 38% to \$59 million for the third quarter of 2008 compared to the third quarter of 2007, due primarily to the acquisition of AFI in the second quarter of 2008 and the inclusion of its \$13 million in expenses during the third quarter of 2008.

The income tax (benefit) provision related to pre-tax (loss) income for the third quarter of 2008 and 2007 represented effective tax rates of 31% and 34%, respectively. Although the majority of White Mountains' worldwide operations are taxed in the United States, the Company is domiciled in Bermuda and has subsidiaries domiciled in several countries. Earnings or losses incurred by non-U.S. companies are generally subject to a lower effective tax rate than that imposed by the United States.

In the second quarter of 2006, the IRS commenced an examination of certain of White Mountains' U.S. subsidiaries' income tax returns for 2003 through 2004. On June 30, 2008, the Company received Form 4549-A (Income Tax Examination Changes) from the IRS relating to the examination of tax years 2003 and 2004. The IRS is asserting that subsidiaries of the Company owe an additional \$90 million of tax. The estimated total assessment, including interest, withholding tax and utilization of tax credits is \$174 million. The Company disagrees with the adjustments proposed by the IRS and intends to vigorously defend its position. The timing of the resolution of these issues is uncertain, however it is reasonably possible that the resolution could occur within the next 12 months. An estimate of the range of potential outcomes cannot be made at this time. The Company does not expect the resolution of this examination to result in a material change to its financial position.

White Mountains' results for the third quarter of 2008 included \$134 million of unrealized foreign currency exchange losses reported as other comprehensive losses, resulting primarily from the strengthening of the U.S. dollar in comparison to the Swedish Krona.

Table of Contents

Consolidated Results Nine Months Ended September 30, 2008 versus Nine Months Ended September 30, 2007

White Mountains' total revenues decreased by 27% to \$2,595 million for the nine months ended September 30, 2008 compared to \$3,532 million for the nine months ended September 30, 2007. Earned premiums decreased by 2% for the nine months ended September 30, 2008 when compared to the nine months ended September 30, 2007, as earned premium decreases at OneBeacon and White Mountains Re were partially offset by an increase in earned premiums at Esurance. Net investment income decreased by 11% to \$334 million for the nine months ended September 30, 2008 compared to \$374 million for the nine months ended September 30, 2007. White Mountains also reported net realized investment losses of \$147 million for the nine months ended September 30, 2008 compared to net realized investment gains of \$193 million for the nine months ended September 30, 2007. White Mountains reported \$480 million of net unrealized losses through net income for the nine months ended September 30, 2008 as a result of the FAS 159 election compared to \$51 million net unrealized investment gains reported in other comprehensive income for the nine months ended September 30, 2007 (see **Summary of Investment Results** below). Other revenues decreased by \$29 million to \$101 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, due mainly to \$30 million of foreign currency translation losses at White Mountains Re in the first nine months of 2008 compared to \$4 million of foreign currency translation gains reported in the comparable 2007. Other revenues also included \$15 million of losses in the first nine months of 2008 and a \$1 million gain in the first nine months of 2007 from WM Life Re, primarily as a result of the mark-to-market valuation of WM Life Re's derivative assets and liabilities.

White Mountains' total expenses increased by 5% to \$3,178 million for the nine months ended September 30, 2008 compared to \$3,033 million for the nine months ended September 30, 2007. Loss and LAE increased by 10% to \$1,969 million for the nine months ended September 30, 2008, due primarily to higher catastrophe losses reported in the third quarter of 2008 and higher net adverse loss reserve development reported during the first nine months of 2008 compared to the similar 2007 periods. These increases were slightly offset by decreases in insurance and reinsurance acquisition expenses and other underwriting expenses due to the overall decline in premium volume. General and administrative expenses increased by 12% to \$171 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, due primarily to the acquisition of AFI in the second quarter of 2008 and the inclusion of its \$25 million in expenses during the nine months ended September 30, 2008.

The income tax (benefit) provision related to pre-tax (loss) income for the nine months ended September 30, 2008 and 2007 represented effective tax rates of (32%) and 30%, respectively. Although the majority of White Mountains' worldwide operations are taxed in the United States, the Company is domiciled in Bermuda and has subsidiaries domiciled in several countries. Earnings or losses incurred by non-U.S. companies are generally subject to a lower effective tax rate than that imposed by the United States.

White Mountains' results for the nine months ended September 30, 2008 included \$84 million of unrealized foreign currency exchange losses reported as other comprehensive losses, resulting primarily from the strengthening of the U.S. dollar in comparison to the Swedish Krona.

I. Summary of Operations By Segment

White Mountains conducts its operations through four segments: (1) OneBeacon, (2) White Mountains Re, (3) Esurance and (4) Other Operations. White Mountains manages all of its investments through its wholly-owned subsidiary, WM Advisors, therefore, a discussion of White Mountains' consolidated investment operations is included after the discussion of operations by segment. White Mountains' segment information is presented in **Note 11** to the Consolidated Financial Statements.

Table of Contents
OneBeacon

Financial results for OneBeacon for the three and nine months ended September 30, 2008 and 2007 follow:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Gross written premiums	\$ 595.5	\$ 566.9	\$ 1,681.5	\$ 1,607.1
Net written premiums	\$ 534.1	\$ 511.9	\$ 1,489.4	\$ 1,437.0
Earned insurance and reinsurance premiums	\$ 471.2	\$ 473.6	\$ 1,390.3	\$ 1,407.5
Net investment income	43.1	51.5	137.8	156.7
Net realized investment (losses) gains	(61.2)	30.7	(59.2)	142.7
Net unrealized investment losses	(294.7)		(354.7)	
Other revenue	4.4	10.8	10.6	16.3
Total revenues	162.8	566.6	1,124.8	1,723.2
Losses and LAE	303.4	255.8	878.7	827.1
Insurance and reinsurance acquisition expenses	92.6	74.9	261.6	231.5
Other underwriting expenses	74.3	66.4	223.6	246.9
General and administrative expenses	5.7	2.4	16.0	7.5
Accretion of fair value adjustment to loss and LAE reserves	3.0	4.0	9.0	12.0
Interest expense on debt	11.0	11.4	33.9	34.1
Interest expense - dividends on preferred stock		7.1	11.8	22.2
Interest expense - accretion on preferred stock		9.2	21.6	26.2
Total expenses	490.0	431.2	1,456.2	1,407.5
Pre-tax (loss) income	\$ (327.2)	\$ 135.4	\$ (331.4)	\$ 315.7

The following table presents OneBeacon's adjusted book value per common share and reconciles this non-GAAP measure to book value per common share, the most comparable GAAP measure.

Millions, except per share amounts	Sept. 30, 2008	June 30, 2008	Dec. 31, 2007	Sept 30, 2007
OneBeacon book value per share numerators:				
OneBeacon common shareholders' equity	\$ 1,373.4	\$ 1,609.1	\$ 1,906.5	\$ 1,910.9
Remaining accretion of subsidiary preferred stock to face value				