

WHITE MOUNTAINS INSURANCE GROUP LTD

Form 10-Q

October 29, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2010

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

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Bermuda
(State or other jurisdiction of
incorporation or organization)

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

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

03755-2053
(Zip Code)

Registrant's telephone number, including area code: **(603) 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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes 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 26, 2010, 8,298,947 common shares with a par value of \$1.00 per share were outstanding (which includes 99,470 restricted common shares that were not vested at such date).

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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, 2010 Unaudited	December 31, 2009
Assets		
Fixed maturity investments, at fair value	\$ 6,085.4	\$ 6,101.2
Short-term investments, at amortized cost (which approximates fair value)	1,348.3	2,098.4
Common equity securities, at fair value	636.0	458.5
Convertible fixed maturity investments, at fair value	156.0	233.1
Other long-term investments	429.7	341.3
Total investments	8,655.4	9,232.5
Cash (restricted: \$273.1 and \$217.1)	401.2	366.0
Reinsurance recoverable on unpaid losses	2,621.4	2,790.9
Reinsurance recoverable on paid losses	31.9	35.0
Insurance and reinsurance premiums receivable	842.2	785.5
Funds held by ceding companies	120.4	123.1
Investments in unconsolidated affiliates	440.0	344.8
Deferred acquisition costs	241.7	303.8
Deferred tax asset	483.5	564.0
Ceded unearned insurance and reinsurance premiums	252.3	111.1
Accrued investment income	61.6	67.4
Accounts receivable on unsettled investment sales	147.4	27.6
Other assets	694.9	691.5
Total assets	\$ 14,993.9	\$ 15,443.2
Liabilities		
Loss and loss adjustment expense reserves	\$ 6,415.9	\$ 6,802.1
Unearned insurance and reinsurance premiums	1,361.6	1,498.5
Debt	818.7	1,050.7
Deferred tax liability	368.1	355.3
Accrued incentive compensation	150.9	204.9
Funds held under reinsurance treaties	83.9	97.4
Ceded reinsurance payable	293.3	92.0
Accounts payable on unsettled investment purchases	110.0	9.1
Other liabilities	1,119.9	991.7
Total liabilities	10,722.3	11,101.7
Shareholders' equity and noncontrolling interests		
White Mountains common shareholders' equity		
White Mountains common shares at \$1 par value per share - authorized 50,000,000 shares; issued and outstanding 8,343,050 and 8,860,150 shares	8.3	8.9
Paid-in surplus	1,370.8	1,436.1
Retained earnings	2,125.9	2,215.9
Accumulated other comprehensive income, after-tax:		

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Equity in unrealized gains (losses) from investments in unconsolidated affiliates	111.4	(9.0)
Net unrealized foreign currency translation gains	57.4	11.5
Other	(6.0)	(6.0)
Total White Mountains common shareholders equity	3,667.8	3,657.4
Noncontrolling interests		
Noncontrolling interest - OneBeacon Ltd.	292.6	351.0
Noncontrolling interest - WMRe Preference Shares	250.0	250.0
Noncontrolling interest - consolidated limited partnerships and A.W.G Dewar	61.2	83.1
Total noncontrolling interests	603.8	684.1
Total equity	4,271.6	4,341.5
Total liabilities and equity	\$ 14,993.9	\$ 15,443.2

See Notes to Consolidated Financial Statements

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

(Millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Earned insurance and reinsurance premiums	\$ 732.7	\$ 902.0	\$ 2,456.5	\$ 2,711.7
Net investment income	54.7	66.2	172.8	204.5
Net realized and unrealized investment (losses) gains	(2.5)	170.7	86.3	362.3
Other revenue	36.6	63.8	78.4	109.6
Total revenues	821.5	1,202.7	2,794.0	3,388.1
Expenses:				
Loss and loss adjustment expenses	426.1	544.1	1,683.9	1,616.2
Insurance and reinsurance acquisition expenses	153.4	181.9	521.4	543.9
Other underwriting expenses	96.4	122.7	312.8	366.8
General and administrative expenses	48.1	78.6	167.1	196.4
Interest expense on debt	13.2	17.1	44.2	54.3
Total expenses	737.2	944.4	2,729.4	2,777.6
Pre-tax income	84.3	258.3	64.6	610.5
Income tax expense	(17.2)	(73.9)	(16.2)	(174.8)
Income before equity in earnings of unconsolidated affiliates	67.1	184.4	48.4	435.7
Equity in earnings of unconsolidated affiliates	7.9	8.3	1.6	17.8
Net income	75.0	192.7	50.0	453.5
Net income attributable to noncontrolling interests	(24.3)	(33.1)	(36.4)	(83.3)
Net income attributable to White Mountains common shareholders	50.7	159.6	13.6	370.2
Comprehensive income, net of tax:				
Change in equity in net unrealized gains from investments in unconsolidated affiliates	43.1	127.6	126.4	207.0
Change in foreign currency translation and other	126.9	80.8	45.9	98.8
Comprehensive income	220.7	368.0	185.9	676.0
Comprehensive income attributable to noncontrolling interests		.9		(.9)
Comprehensive income attributable to White Mountains common shareholders	\$ 220.7	\$ 368.9	\$ 185.9	\$ 675.1
Earnings per share attributable to White Mountains common shareholders				
Basic earnings per share	\$ 6.01	\$ 18.02	\$ 1.57	\$ 41.85
Diluted earnings per share	6.01	18.02	1.57	41.84

Dividends declared and paid per White Mountains common share	\$	\$	\$	1.00	\$	1.00
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See Notes to Consolidated Financial Statements

Table of Contents**WHITE MOUNTAINS INSURANCE GROUP, LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****Unaudited**

(Millions)	Common shareholders equity	White Mountains Common shares and paid-in surplus	Common Shareholders Retained earnings	Equity Accum. other comprehensive income (loss), after-tax	Non- controlling interest
Balances at December 31, 2009	\$ 3,657.4	\$ 1,445.0	\$ 2,215.9	\$ (3.5)	\$ 684.1
Cumulative effect adjustment - ASU 2009-17	(.4)		(.4)		(22.8)
Tax basis change due to intercompany transfer	(10.4)		(4.4)	(6.0)	
Net income	13.6		13.6		36.4
Other comprehensive income, after-tax	172.3			172.3	
Dividends declared on common shares	(8.8)		(8.8)		
Dividends to noncontrolling interests					(80.5)
Repurchases and retirements of common shares	(178.2)	(88.2)	(90.0)		
Issuances of common shares	.8	.8			
Net distributions to noncontrolling interests					(13.5)
Amortization of restricted share and option awards	21.5	21.5			.1
Balances at September 30, 2010	\$ 3,667.8	\$ 1,379.1	\$ 2,125.9	\$ 162.8	\$ 603.8

(Millions)	Common shareholders equity	White Mountains Common shares and paid-in surplus	Common Shareholders Retained earnings	Equity Accum. other comprehensive income (loss), after-tax	Non- controlling interest
Balances at December 31, 2008	\$ 2,898.8	\$ 1,428.2	\$ 1,751.9	\$ (281.3)	\$ 613.7
Cumulative effect adjustment - Symetra FAS 115-2			3.0	(3.0)	
Net income	370.2		370.2		83.3
Other comprehensive income, after-tax	304.9			304.9	.9
Dividends declared on common shares	(8.9)		(8.9)		
Dividends to noncontrolling interests					(29.1)
Issuances of common shares	.2	.2			
Net contributions from noncontrolling interests					1.4
Amortization of restricted share and option awards	12.1	12.1			.2
Balances at September 30, 2009	\$ 3,577.3	\$ 1,440.5	\$ 2,116.2	\$ 20.6	\$ 670.4

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,	
	2010	2009
Cash flows from operations:		
Net income	\$ 50.0	\$ 453.5
Charges (credits) to reconcile net (loss) income to net cash provided from (used for) operations:		
Net realized and unrealized investment gains	(86.3)	(362.3)
Other operating items:		
Net change in loss and loss adjustment expense reserves	(227.7)	(553.6)
Net change in reinsurance recoverable on paid and unpaid losses	244.1	241.3
Net change in unearned insurance and reinsurance premiums	67.8	.7
Net change in funds held by ceding companies	14.5	63.9
Net change in deferred acquisition costs	24.6	1.7
Net change in ceded unearned premiums	(157.4)	(2.9)
Net change in funds held under reinsurance treaties	(15.6)	5.6
Net change in insurance and reinsurance premiums receivable	(121.8)	(46.2)
Net change in ceded reinsurance payable	198.9	34.6
Net change in other assets and liabilities, net	(12.2)	120.3
Net cash used for operations	(21.1)	(43.4)
Cash flows from investing activities:		
Net change in short-term investments	232.9	(23.6)
Sales of fixed maturity and convertible fixed maturity investments	1,832.2	1,909.6
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	1,487.6	898.8
Sales of common equity securities	111.6	302.0
Distributions and redemptions of other long-term investments	26.5	66.5
Contributions to other long-term investments	(75.0)	(17.9)
Purchases of common equity securities	(246.6)	(42.6)
Purchases of fixed maturity and convertible fixed maturity investments	(3,022.9)	(2,810.2)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(4.9)	
Sales of consolidated and unconsolidated affiliates	166.6	
Net change in unsettled investment purchases and sales	(18.9)	83.9
Net acquisitions of property and equipment	(6.2)	(12.2)
Net cash provided from investing activities	482.9	354.3
Cash flows from financing activities:		
Repayment of debt	(14.0)	(242.8)
Repurchase of debt	(197.3)	(63.2)
Settlement of interest rate swap		(7.4)
Cash dividends paid to the Company's common shareholders	(8.8)	(8.9)
Cash dividends paid to OneBeacon Ltd.'s noncontrolling common shareholders	(71.2)	(14.7)
Cash dividends paid on White Mountains Re Group, Ltd. Preference Shares	(9.4)	(9.4)
Common shares repurchased	(178.2)	

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OneBeacon Ltd. common shares repurchased and retired	(10.5)		
Proceeds from issuances of common shares	.8		.2
Net cash used for financing activities	(488.6)		(346.2)
Effect of exchange rate changes on cash	6.0		6.8
Net decrease in cash during the period	(20.8)		(28.5)
Cash balances at beginning of period (excludes restricted cash balances of \$217.1 and \$225.7)	148.9		183.9
Cash balances at end of period (excludes restricted cash balances of \$273.1 and \$102.7)	\$ 128.1	\$	155.4
Supplemental cash flows information:			
Interest paid	\$ (49.6)	\$	(50.8)
Net (income tax payments to) income tax receipts from national governments	\$ (10.6)	\$	27.3

See Notes to Consolidated Financial Statements

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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. The Company's headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains' reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon historically offered specialty, commercial and personal products and services sold primarily through independent agents and brokers. However, OneBeacon recently completed two transactions that represent significant steps in its transformation into a specialty lines company. On December 3, 2009, OneBeacon sold the renewal rights to its non-specialty commercial lines business and, in July 2010, sold its traditional personal lines business (See Note 2). As of September 30, 2010 and December 31, 2009, White Mountains owned 76.0% and 75.4% 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, accident & health, aviation and space, trade credit, agriculture, casualty and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation (WMRe Sirius) and White Mountains Reinsurance Company of America (WMRe America, formerly known as Folksamerica Reinsurance Company). In February 2010, White Mountains Re completed a reorganization of its reinsurance operations whereby the in-force business and infrastructure of White Mountains Re Bermuda Ltd. (WMRe Bermuda) was transferred to WMRe Sirius, which established a branch office in Bermuda to maintain the group's presence in the Bermuda market. In addition, WMRe Bermuda was contributed to WMRe Sirius and is now in run-off. White Mountains Re also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Re Solutions division. White Mountains Re also includes Scandinavian Reinsurance Company, Ltd. (Scandinavian Re), which is in runoff, Central National Insurance Company of Omaha (Central National), which is in runoff and was acquired during the first quarter of 2010 (see Note 2), and the consolidated results of the Tuckerman Capital II, LP fund (Tuckerman Fund II) prior to January 1, 2010 (see **Recently Adopted Changes in Accounting Principles**).

The Esurance segment consists of Esurance Holdings, Inc., its subsidiaries and Answer Financial Inc. (Answer Financial or AFI) (collectively, Esurance). Esurance writes personal auto insurance directly to customers online, in call centers and through select online agents. Esurance generates additional revenues from referral fees, which Esurance receives for referring shoppers to other insurance carriers and aggregators. Answer Financial, which White Mountains acquired during 2008, is one of the largest independent personal insurance agencies that sell insurance online and in call centers. Answer Financial sells insurance for both Esurance and unaffiliated insurance companies.

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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 variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), and its weather risk management business. WM Life Re is in run-off. White Mountains exited the weather risk management business in 2009. 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 various other entities.

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 that 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 2009 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 and disclosure of contingent 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. Refer to the Company s 2009 Annual Report on Form 10-K for a complete discussion regarding White Mountains significant accounting policies.

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Noncontrolling Interests

Noncontrolling interests consist of the ownership interests of noncontrolling parties in consolidated subsidiaries and are presented separately as a component of equity on the balance sheet.

The percentage of the noncontrolling ownership interests in OneBeacon Ltd. at September 30, 2010 and December 31, 2009 was 24.0% and 24.6%.

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 are included in noncontrolling interests on the balance sheet.

Recently Adopted Changes in Accounting Principles

Accounting Standards Codification

On June 29, 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168), which establishes the FASB Accounting Standards Codification (Codification or Accounting Standards Codification (ASC)) as the source of authoritative accounting principles to be applied in the preparation of financial statements in conformity with GAAP. FAS 168 (ASC 105-10) is effective for interim and annual periods ending after September 15, 2009. All existing non-SEC accounting and reporting standards were superseded by the Codification. White Mountains adopted the Codification for the interim period ending September 30, 2009. Adoption did not have any effect on the Company's accounting policies or financial statement presentation. However, because the Codification changes the basis for reference to authoritative GAAP guidance, the Company's footnote disclosures that reference such guidance reflect references to the codification. New accounting guidance is now issued by the FASB in the form of Accounting Standard Updates (ASUs). New guidance that became effective in 2009 prior to the adoption of Codification has been described below using the original FASB Statement reference with a parenthetical reference to the principal Codification section into which the Statement has been incorporated.

Transfers of Financial Assets and Amendments to FIN 46R

On June 12, 2009, the FASB issued FAS 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (FAS 166) (ASU 2009-16, included in ASC 860) and FAS 167, *Amendments to FIN46(R)* (FAS 167) (ASU 2009-17, included in ASC 810). ASU 2009-16 eliminates the concept of a qualifying special-purpose entity (QSPE) and, accordingly, any existing QSPE must be evaluated for consolidation upon adoption. Under the new guidance, the appropriateness of de-recognition is evaluated based on whether or not the transferor has surrendered control of the transferred assets. The evaluation must consider any continuing involvement by the transferor. White Mountains does not have any entities that were considered a QSPE under guidance prior to the amendments to ASC 860. ASU 2009-17 amends FIN 46R

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(included in ASC 810-10) to clarify the application of consolidation accounting for entities for which the controlling financial interest might not be solely indentified through voting rights. The new guidance still requires a reporting entity to perform an analysis to determine if its variable interests give it a controlling financial interest (also referred to as the primary beneficiary) in a variable interest entity (VIE), defined as the entity having both of the following: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. In addition, a reporting entity must assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining if it has the power to direct the activities of the VIE that most significantly affect the entity's economic performance. ASC 810-10 as amended requires ongoing reassessments of whether a reporting entity is the primary beneficiary of a VIE. The concept of a reconsideration event has been retained, but the list of reconsideration events has been changed. The list includes a change in facts and circumstances where the holders of an equity investment at risk as a group lose the power to direct the activities of the entity that most significantly affect the entity's economic performance as well as a troubled debt-restructuring, which was excluded as a reconsideration event under FIN 46R, but is now defined as a reconsideration event.

Both ASU 2009-16 and ASU 2009-17 expand required disclosures and are effective as of the beginning of the first annual reporting period that begins after November 15, 2009. White Mountains adopted the new guidance on January 1, 2010. Upon adoption, White Mountains determined that its ownership interest in Tuckerman Fund II does not meet the criteria for consolidation under the revised guidance for variable interest entities and, accordingly, effective January 1, 2010, White Mountains deconsolidated its investment in Tuckerman Fund II. Upon deconsolidation, White Mountains made the fair value election for its investment in Tuckerman Fund II and recognized an adjustment to decrease opening retained earnings of \$0.4 million.

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Disclosures about Fair Value Measurements

White Mountains adopted ASU 2010-06, *Improving Disclosures about Fair Value Measurements* (included in ASC 820-10), effective March 31, 2010. The ASU clarifies existing disclosure requirements for fair value measurements and requires the disclosure of (1) the amounts and nature of transfers in and out of Level 1 and Level 2 measurements; (2) purchase, sale, issuance and settlement activity for Level 3 measurements presented on a gross rather than a net basis; (3) fair value measurements by Level presented on a more disaggregated basis, by asset or liability class; and (4) more detailed disclosures about inputs and valuation techniques for Level 2 and Level 3 measurements for interim and annual reporting periods. White Mountains has expanded its fair value disclosures to meet the requirements of the ASU effective for the period ended March 31, 2010 (see **Note 5**).

Recently Issued Accounting Pronouncements

Policy Acquisition Costs

On October 13, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (ASC 944). The new standard changes the types of policy acquisition costs that are eligible for deferral. Specifically, the new guidance limits deferrable costs to those that are incremental direct costs of contract acquisition and certain costs related to acquisition activities performed by the insurer, such as underwriting, policy issuance and processing, medical and inspection costs and sales force contract selling. The ASU defines incremental direct costs as those costs that result directly from and were essential to the contract acquisition and would not have been incurred absent the acquisition. Accordingly, under the new guidance, deferrable acquisition costs are limited to costs related to successful contract acquisitions. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred.

ASU 2010-26 is effective for interim periods and annual fiscal years beginning after December 15, 2011 and may be applied prospectively or retrospectively. White Mountains currently defers certain costs associated with contract acquisition that will likely not meet the criteria for deferral under ASU 2010-26 when it is adopted, but is still in the process of determining the expected effect on its financial position, results of operations and cash flows.

Note 2. Significant Transactions

OneBeacon Personal Lines Sale

In July 2010, OneBeacon completed the sale of its traditional personal lines business (the *Personal Lines Transaction*) to Tower Group, Inc. (*Tower*). The Personal Lines Transaction included two insurance companies, York Insurance Company of Maine (*York*) and Massachusetts Homeland Insurance Company (*MHIC*), through which the majority of the traditional personal lines business was written on a direct basis. Subsequent to the transaction, OneBeacon cedes to Tower, on a 100% quota share basis, traditional personal lines business not directly written by York and MHIC; and OneBeacon assumes, on a 100% quota share basis, non-traditional personal lines business written directly by York. The Personal Lines Transaction also included two attorneys-in-fact managing the reciprocal insurance exchanges (*reciprocals*) that wrote the

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traditional personal lines business in New York and New Jersey, the surplus notes issued by the New York and New Jersey reciprocals and the remaining renewal rights to certain other traditional personal lines insurance policies. The sale of the two attorneys-in-fact and the transfer of the surplus notes triggered deconsolidation of the reciprocals by White Mountains. OneBeacon and Tower also entered into a Transition Services Agreement (TSA), pursuant to which OneBeacon provides certain services to Tower during a three-year term.

OneBeacon received \$166.6 million as consideration, which was based upon the carrying value of the traditional personal lines business as of July 1, 2010. For the nine months ended September 30, 2010, OneBeacon recorded an after-tax net gain of \$24.6 million on the sale that is comprised of \$8.5 million included in other revenues and a \$16.1 million tax benefit. OneBeacon's second quarter financial statements included \$5.6 million of the tax benefit, which related to the difference between the tax basis of the companies sold as part of the Personal Lines Transaction and the net asset value of those entities under GAAP. The purchase price is subject to post-closing adjustments. Net written premiums for the business sold were approximately \$420 million for the year ended December 31, 2009.

As a result of both the Commercial and Personal Lines Transactions, the OneBeacon qualified pension plan (the Qualified Plan) experienced a partial plan settlement which required re-measurement of the remaining accumulated plan benefits in accordance with ASC 715. OneBeacon's discount rate assumption used to account for the Qualified Plan reflects the rate at which the benefit obligation could effectively be settled. Based on consideration of published yields for high quality long-term corporate bonds, U.S. Treasuries, insurance company annuity contract pricings, and cash flow matching analysis utilizing the Citigroup Pension Discount Curve and Liability Index, the discount rate utilized for the revaluation of the Qualified Plan obligations was 4.75% as compared to 5.50% at December 31, 2009. As a result of the partial settlement and re-measurement, the Company recognized a loss of \$0.2 million through pre-tax income and a pre-tax loss of \$0.5 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 \$88.4 million.

Table of Contents**Acquisition of Central National**

On January 21, 2010, White Mountains Re entered into a definitive agreement to acquire Central National for \$5 million in cash. Central National ceased writing business in 1989 and has operated under the control of the Nebraska Department of Insurance since 1990. The transaction was completed on February 26, 2010 and resulted in a gain of \$12.8 million recorded in other revenues.

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, 2010 and 2009:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gross beginning balance	\$ 6,643.3	\$ 6,999.8	\$ 6,802.1	\$ 7,400.1
Less beginning reinsurance recoverable on unpaid losses	(2,778.6)	(2,825.0)	(2,790.9)	(3,050.4)
Net loss and LAE reserves	3,864.7	4,174.8	4,011.2	4,349.7
Loss and LAE reserves acquired Central National			17.6	
Loss and LAE reserves sold OneBeacon Personal Lines(1)			(231.0)	
Loss and LAE incurred relating to:				
Current year losses	455.6	587.5	1,759.9	1,698.0
Prior year losses	(29.5)	(43.4)	(76.0)	(81.8)
Total incurred losses and LAE	426.1	544.1	1,683.9	1,616.2
Accretion of fair value adjustment to loss and LAE reserves	2.0	3.5	6.2	8.6
Foreign currency translation adjustment to loss and LAE reserves	39.9	13.4	6.7	24.0
Loss and LAE paid relating to:				
Current year losses	(272.7)	(277.1)	(687.4)	(662.9)
Prior year losses	(265.5)	(339.2)	(1,012.7)	(1,216.1)
Total loss and LAE payments	(538.2)	(616.3)	(1,700.1)	(1,879.0)
Net ending balance	3,794.5	4,119.5	3,794.5	4,119.5
Plus ending reinsurance recoverable on unpaid losses	2,621.4	2,834.1	2,621.4	2,834.1
Gross ending balance	\$ 6,415.9	\$ 6,953.6	\$ 6,415.9	\$ 6,953.6

(1) In the second quarter of 2010, \$231.0 of net loss and LAE reserves related to the Personal Lines Transaction were reclassified to net liabilities held for sale. The Personal Lines Transaction closed in July 2010.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2010

During the three and nine months ended September 30, 2010, White Mountains experienced \$29.5 million and \$76.0 million of net favorable loss reserve development.

For the three and nine months ended September 30, 2010, OneBeacon had net favorable loss reserve development of \$11.8 million and \$36.1 million. The favorable loss reserve development was primarily due to lower than expected severity on losses related to professional liability lines, commercial package business and other general liability lines.

For the three and nine months ended September 30, 2010, White Mountains Re had net favorable loss reserve development of \$13.5 million and \$26.9 million. The favorable loss reserve development at WMRe was primarily due to short-tailed lines of business, primarily property, accident & health, and aviation at WMRe Sirius.

For the three and nine months ended September 30, 2010, Esurance had net favorable loss reserve development of \$4.2 million and \$13.0 million. The favorable loss reserve development was primarily due to automobile liability coverages for accident years 2008 and 2009.

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Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2009

During the three and nine months ended September 30, 2009, White Mountains experienced \$43.4 million and \$81.8 million of net favorable loss reserve development.

For the three months ended September 30, 2009, OneBeacon had net favorable loss reserve development of \$20.7 million that was primarily due to lower than expected severity on losses related to professional liability in specialty lines and commercial multi-peril in commercial lines. For the nine months ended September 30, 2009, OneBeacon had net favorable loss reserve development of \$53.3 million that was primarily due to lower than expected severity on losses related to professional liability in specialty lines and commercial multi-peril in commercial lines, partially offset by adverse loss reserve development primarily related to New York personal injury protection litigation at AutoOne Insurance (AutoOne).

For the three months ended September 30, 2009, White Mountains Re had net favorable loss reserve development of \$18.0 million. For the nine months ended September 30, 2009, White Mountains Re had net favorable loss reserve development of \$22.8 million. The net favorable loss reserve development for both the three and nine months ended September 30, 2009 was primarily related to \$20.0 million of losses that White Mountains Re ceded in the third quarter of 2009 under a retrocessional reinsurance contract related to the 2001 accident year. This favorable loss reserve development was substantially offset by \$10.0 million of retroceded premiums and \$7.0 million of interest charges on funds held under the contract recorded through pre-tax income. White Mountains Re has now recorded the full limit of loss cessions available under this contract.

For the three months ended September 30, 2009, Esurance had \$4.7 million of net favorable loss reserve development. For the nine months ended September 30, 2009, Esurance had \$5.7 million of net favorable loss reserve development.

Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for the acquisitions of OneBeacon, Scandinavian Re 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.

White Mountains recognized \$2.0 million and \$6.2 million of charges for the three and nine months ended September 30, 2010, and \$3.5 million and \$8.6 million for the three and nine months ended September 30, 2009. As of September 30, 2010, the pre-tax un-accreted adjustment was \$23.3 million.

Note 4. Third Party Reinsurance

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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, 2010, OneBeacon had \$14.9 million of reinsurance recoverables on paid losses and \$2,119.3 million (gross of \$180.0 million in purchase accounting adjustments) that will become recoverable if claims are paid in accordance with current reserve estimates. The collectability 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. Uncollectible amounts historically have 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 Company, Inc. (A.M. Best) rating.

Top Reinsurers (Millions)	Balance at September 30, 2010	% of Total	A.M. Best Rating(1)
National Indemnity Company and General Reinsurance Corporation (2)	\$ 1,618.4	76%	A++
Tower Insurance Company	70.6	3%	A-
Tokio Marine and Nichido Fire (3)	69.0	3%	A++
Hanover Insurance Company	41.9	2%	A
Munich Reinsurance America	36.3	2%	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), A (Excellent, which is the third highest of fifteen ratings), and A- (Excellent, which is the fourth highest of fifteen ratings).
- (2) Includes \$320.2 of Third Party Recoverables (as defined below), which NICO (as defined below) 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 \$8.6 of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.
- (3) Includes \$41.8 of reinsurance recoverables from various third party 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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Immediately prior to White Mountains' acquisition of OneBeacon, the seller caused OneBeacon to purchase two reinsurance contracts from subsidiaries of Berkshire Hathaway Inc. (Berkshire): a full risk-transfer cover from National Indemnity Company (NICO) for up to \$2.5 billion in old asbestos and environmental (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 and \$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 under GAAP as a seller guarantee.

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, 2010 it has used approximately \$2.2 billion of the coverage provided by NICO. Through September 30, 2010, \$1.4 billion of these incurred losses have been paid by NICO. Since entering into the NICO Cover, approximately 5% (\$110 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.

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. During the three and nine months ended September 30, 2010, \$61.3 million was billed to and collected from GRC under the GRC Cover.

Effective July 1, 2010, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2011. The program provides coverage for OneBeacon's personal and commercial property business as well as certain acts of terrorism. Under the program, the first \$80.0 million of losses resulting from any single catastrophe are retained and the next \$195.0 million of losses resulting from the catastrophe are reinsured. Any loss above \$275.0 million would be retained. In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

OneBeacon had entered into a 30% quota share agreement with a group of reinsurers that ran from January 1, 2009 through December 31, 2009, and had renewed the agreement effective January 1, 2010. Through June 30, 2010 OneBeacon ceded \$25.6 million of written premiums from its Northeast homeowners business written through OBIC and its subsidiary companies, along with Adirondack and NJSIA. Effective July 1, 2010, the closing date of the Personal Lines Transaction, the agreement was amended to remove OneBeacon as a signatory. OneBeacon ceded \$16.5 million and \$46.5 million under this quota share agreement during the three and nine months ended September 30, 2009.

White Mountains Re

At September 30, 2010, White Mountains Re had \$13.9 million of reinsurance recoverables on paid losses and \$652.7 million of reinsurance 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 collectability of balances due from its reinsurers is critical to White Mountains Re's

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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, 2010	% of Total	A.M. Best Rating (1)	% Collateralized
Imagine Re (2)	\$ 112.1	17%	NR-5	100%
Lloyds of London(3)	85.0	13%	A	3%
Olympus (2)(4)	58.0	9%	NR-5	100%
London Life (2)	52.9	8%	A	100%
General Reinsurance Corporation	45.7	7%	A++	2%

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

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

(3) Represents the total of reinsurance recoverables due to White Mountains Re from all Lloyds Syndicates.

(4) Gross of \$2.0 due to Olympus Reinsurance Company Ltd. (Olympus) under an indemnity agreement with WMRe America.

Table of Contents**Note 5. Investment Securities**

White Mountains' invested assets consist of securities and other long-term investments held for general investment purposes. The portfolio of investment securities includes fixed maturity investments and equity securities which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Realized and unrealized investment gains and losses on trading securities are reported pre-tax in revenues. White Mountains' investments in debt securities, including mortgage-backed and asset-backed securities, are generally valued using industry standard pricing models. Key inputs include 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.

Realized gains and losses resulting from sales of investment securities are accounted for using the specific identification method. Premiums and discounts on all fixed maturity investments are accreted or amortized to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, 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, 2010 and December 31, 2009.

Other long-term investments comprise White Mountains' investments in limited partnerships and limited liability corporations, which primarily consists of hedge funds and private equity funds.

Net Investment Income

Pre-tax net investment income for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Investment income:				
Fixed maturity investments	\$ 52.6	\$ 70.4	\$ 165.6	\$ 201.5
Short-term investments	.9	1.3	3.7	5.0
Common equity securities	2.9	.3	7.5	3.1
Convertible fixed maturity investments	.5	2.4	4.7	6.1
Other long-term investments	1.1	3.7	1.6	3.7
Interest on funds held under reinsurance treaties	(.5)	(9.3)	(2.2)	(7.0)
Total investment income	57.5	68.8	180.9	212.4
Less third-party investment expenses	(2.8)	(2.6)	(8.1)	(7.9)
Net investment income, pre-tax	\$ 54.7	\$ 66.2	\$ 172.8	\$ 204.5

Net Realized and Unrealized Investment Gains and Losses

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White Mountains recognized \$(2.5) million and \$86.3 million of net realized and unrealized investment (losses) gains for the three and nine months ended September 30, 2010 and \$170.7 million and \$362.3 million for the three and nine months ended September 30, 2009.

Net realized investment gains (losses)

Net realized investment gains (losses) for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Fixed maturity investments	\$ 34.6	\$ 12.3	\$ 68.6	\$ (17.1)
Short-term investments				.2
Common equity securities	(14.2)		6.2	(46.5)
Convertible fixed maturity investments	6.2	1.4	20.3	3.6
Other long-term investments	(20.2)	20.9	(36.4)	(.6)
Net realized investment gains (losses), pre-tax	6.4	34.6	58.7	(60.4)
Income taxes attributable to realized investment gains (losses)	(4.7)	(6.9)	(20.6)	22.1
Net realized investment gains (losses), after-tax	\$ 1.7	\$ 27.7	\$ 38.1	\$ (38.3)

Table of Contents*Net unrealized investment gains (losses)*

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

Millions	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	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	\$ 9.3	\$ (81.2)	\$ (71.9)	\$ 50.7	\$ (53.6)	\$ (2.9)
Short-term investments		1.4	1.4		.6	.6
Common equity securities	68.4	(10.8)	57.6	33.9	(9.7)	24.2
Convertible fixed maturity investments	3.6		3.6	(8.1)		(8.1)
Other long-term investments	9.0	(8.6)	.4	20.5	(6.7)	13.8
Net unrealized investment gains (losses), pre-tax	90.3	(99.2)	(8.9)	97.0	(69.4)	27.6
Income taxes attributable to unrealized investment gains (losses)	(23.9)	25.8	1.9	(28.3)	18.4	(9.9)
Net unrealized investment gains (losses), after-tax	\$ 66.4	\$ (73.4)	\$ (7.0)	\$ 68.7	\$ (51.0)	\$ 17.7

Millions	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	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	\$ 152.7	\$ (58.3)	\$ 94.4	\$ 383.7	\$ (75.7)	\$ 308.0
Short-term investments	.1	.3	.4	(.2)	1.3	1.1
Common equity securities	22.3	(8.5)	13.8	46.5	(9.7)	36.8
Convertible fixed maturity investments	33.0		33.0	43.4		43.4
Other long-term investments	(.2)	(5.3)	(5.5)	39.4	(6.0)	33.4
Net unrealized investment gains (losses), pre-tax	207.9	(71.8)	136.1	512.8	(90.1)	422.7
Income taxes attributable to unrealized investment gains (losses)	(65.9)	20.2	(45.7)	(164.8)	22.9	(141.9)
Net unrealized investment gains (losses), after-tax	\$ 142.0	\$ (51.6)	\$ 90.4	\$ 348.0	\$ (67.2)	\$ 280.8

The following table summarizes the amount of total pre-tax gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 investments for the three and nine months ended September 30, 2010 and 2009:

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Millions	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	2010	2009	2010	2009	2010	2009
Fixed maturities	\$ 3.3	\$ 24.2	\$ 9.5	\$ 49.3				
Common equity securities	2.5	6.3	(20.0)	11.2				
Convertible fixed maturities				.1				
Other long-term investments	8.5	(3.5)	37.4	34.7				
Total unrealized investment gains (losses), pre-tax - Level 3 investments	\$ 14.3	\$ 27.0	\$ 26.9	\$ 95.3				

Table of Contents**Investment Holdings**

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses and carrying values of White Mountains fixed maturity investments as of September 30, 2010 and December 31, 2009, were as follows:

Millions	September 30, 2010				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	\$ 468.1	\$ 16.0	\$	\$ (.8)	\$ 483.3
Debt securities issued by corporations	2,025.0	143.6	(1.1)	(35.8)	2,131.7
Municipal obligations	5.2	.1			5.3
Mortgage-backed and asset-backed securities	2,353.5	41.6	(3.7)	(19.8)	2,371.6
Foreign government, agency and provincial obligations	993.6	16.7	(.5)	(4.9)	1,004.9
Preferred stocks	83.0	5.7	(.1)		88.6
Total fixed maturity investments	\$ 5,928.4	\$ 223.7	\$ (5.4)	\$ (61.3)	\$ 6,085.4

Millions	December 31, 2009				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	\$ 779.6	\$ 19.7	\$ (.3)	\$.1	\$ 799.1
Debt securities issued by corporations	2,318.2	126.5	(10.2)	(9.4)	2,425.1
Municipal obligations	4.7	.2			4.9
Mortgage-backed and asset-backed securities	2,066.4	34.2	(27.9)	4.2	2,076.9
Foreign government, agency and provincial obligations	697.5	19.6	(.3)	4.2	721.0
Preferred stocks	73.7	.8	(.3)		74.2
Total fixed maturity investments	\$ 5,940.1	\$ 201.0	\$ (39.0)	\$ (.9)	\$ 6,101.2

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses and carrying values of White Mountains common equity securities, convertible fixed maturities and other long-term investments as of September 30, 2010 and December 31, 2009, were as follows:

Millions	September 30, 2010				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	\$ 568.7	\$ 72.7	\$ (7.1)	\$ 1.7	\$ 636.0
Convertible fixed maturities	\$ 142.0	\$ 14.1	\$ (.1)	\$	\$ 156.0
Other long-term investments	\$ 383.2	\$ 64.2	\$ (12.0)	\$ (5.7)	\$ 429.7

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Millions	December 31, 2009				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	\$ 415.5	\$ 40.2	\$ (8.5)	\$ 11.3	\$ 458.5
Convertible fixed maturities	\$ 210.9	\$ 22.3	\$ (.1)	\$	\$ 233.1
Other long-term investments	\$ 309.0	\$ 51.3	\$ (19.9)	\$.9	\$ 341.3

Table of Contents*Other long-term investments*

White Mountains holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. At September 30, 2010, White Mountains held limited partnership and limited liability corporation investments in 20 hedge funds and 33 private equity funds. The largest investment in a single fund was \$54.9 million at September 30, 2010. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at September 30, 2010 and December 31, 2009:

Millions	September 30, 2010		December 31, 2009	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short equity	\$ 97.0	\$	\$ 100.1	\$
Long/short credit & distressed	41.7		37.3	
Long/short equity REIT	24.5		21.3	
Long diversified strategies	23.7		23.1	
Long/short equity activist	15.1		10.8	
Long bank loan	9.4		8.8	
Total hedge funds	211.4		201.4	
Private equity funds				
Distressed residential real estate	48.1	3.8	9.2	40.9
Multi-sector	24.2	11.5	21.6	13.6
Energy infrastructure & services	23.3	11.2	30.3	17.3
Manufacturing/Industrial	17.3			
International multi-sector, Europe	12.6	5.6	12.4	5.5
Private equity secondaries	10.2	4.2	6.9	5.1
Real estate	9.2	4.8	11.1	5.9
Insurance	6.2	41.3	6.3	41.2
International multi-sector, Asia	4.7	2.7	4.7	2.8
Banking	3.3		4.2	.1
Venture capital	2.3	1.0	2.8	1.0
Healthcare	1.5	7.9	.1	9.6
Total private equity funds	162.9	94.0	109.6	143.0
Total hedge and private equity funds included in other long-term investments	\$ 374.3	\$ 94.0	\$ 311.0	\$ 143.0

Redemption of investments in certain hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period. The following summarizes the September 30, 2010 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

Millions	Notice Period				Total
	30-59 days notice	60-89 days notice	90-119 days notice	120+ days notice	
Redemption frequency					
Monthly	\$	\$	\$	\$ 5.9	\$ 5.9

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Quarterly	19.3	39.9	18.0	77.2
Semi-annual	54.9	4.4	24.4	83.7
Annual	23.7	.1	11.4	9.4
Total	\$ 97.9	\$ 44.4	\$ 53.8	\$ 15.3
				\$ 211.4

Certain of the hedge fund investments in which White Mountains is invested are no longer active and are in process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. At September 30, 2010, distributions of \$12.9 million were outstanding from these investments. The actual amount of the final distribution remittances remain subject to market fluctuations. The date at which such remittances will be received is not determinable at September 30, 2010.

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White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. At September 30, 2010 redemptions of \$16.1 million have been submitted. White Mountains expects to receive these funds within the next 12 months. Redemptions are recorded as receivables when approved by the hedge funds and when no longer subject to market fluctuations.

Investments in private equity funds are generally subject to a lock-up period during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund's underlying investments. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors. At September 30, 2010, investments in private equity funds were subject to lock-up periods as follows:

Millions	1-3 years	3-5 years	5-10 years	>10 years	Total
Private Equity Funds expected lock-up period remaining	\$ 27.2	\$ 48.1	\$ 69.9	\$ 17.7	\$ 162.9

Fair value measurements at September 30, 2010

White Mountains' invested assets measured at fair value include fixed maturity securities, common and preferred equity securities, convertible fixed maturity securities and interests in limited partnerships and limited liability corporations. Fair value measurements reflect management's best estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements fall into a hierarchy with three levels based on the nature of the inputs. Fair value measurements based on quoted prices in active markets for identical assets are at the top of the hierarchy (Level 1), followed by fair value measurements 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 2). Measurements based on unobservable inputs, including a reporting entity's estimates of the assumptions that market participants would use are at the bottom of the hierarchy (Level 3).

White Mountains uses quoted market prices or other observable inputs to estimate fair value for the vast majority of its investment portfolio. Investments valued using Level 1 inputs include fixed maturities, primarily U.S. Treasury securities, publicly-traded common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs consist of fixed maturities, including corporate debt, state and other government debt, convertible fixed maturity securities and mortgage-backed and asset-backed securities. Fair value estimates for investments classified as Level 3 measurements include investments in hedge funds, private equity funds and certain investments in fixed maturities and common equity securities. Fair value measurements for securities for which observable inputs are unavailable are estimated using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit ratings, prepayment speeds 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 fair value hierarchy.

The fair value of White Mountains' investments in hedge funds and private equity funds has been estimated using net asset value. White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing each fund's audited financial statements and discussing each fund's pricing with the fund's manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of White Mountains' investments in hedge funds and private equity funds have been classified as Level 3 measurements.

In addition to the investments described above, White Mountains has \$76.3 million and \$51.4 million of investment-related liabilities recorded at fair value and included in other liabilities as of September 30, 2010 and December 31, 2009. These liabilities relate to securities that have been sold short by limited partnerships in which White Mountains has investments and is required to consolidate under GAAP. All of the liabilities included have been deemed to have a Level 1 designation.

Table of Contents**Fair Value Measurements by Level**

The following tables summarize White Mountains' fair value measurements for investments at September 30, 2010 and December 31, 2009, by level. The fair value measurements for derivative assets associated with White Mountains' variable annuity business are presented in **Note 8**.

Millions	Fair value	September 30, 2010		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
US Government and agency obligations	\$ 483.3	\$ 415.1	\$ 67.3	\$.9
Debt securities issued by corporations				
Consumer	733.6		732.9	.7
Industrial	533.7		533.7	
Financials	226.6	4.1	222.5	
Communications	240.4		240.4	
Energy	114.3		114.3	
Basic materials	126.6		126.6	
Utilities	132.2		132.2	
Technology	24.3		24.3	
	2,131.7	4.1	2,126.9	.7
Municipal obligations	5.3		5.3	
Mortgage-backed and asset-backed securities	2,371.6		2,339.4	32.2
Foreign government, agency and provincial obligations	1,004.9	98.3	906.6	
Preferred stocks	88.6		17.9	70.7
Fixed maturities	6,085.4	517.5	5,463.4	104.5
Financials	209.4	141.6	1.0	66.8
Basic materials	103.2	102.0	1.2	
Consumer	112.6	112.2	.4	
Energy	51.8	51.8		
Utilities	51.1	47.9		3.2
Technology	26.1	25.8	.3	
Other	81.8	29.8	51.6	.4
Common equity securities	636.0	511.1	54.5	70.4
Short-term investments	1,348.3	1,324.8	23.5	
Convertible fixed maturity investments	156.0		156.0	
Other long-term investments(1)	388.9			388.9
Total investments	\$ 8,614.6	\$ 2,353.4	\$ 5,697.4	\$ 563.8

(1) Excludes carrying value of \$40.8 associated with other long-term investment limited partnerships accounted for using the equity method.

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Millions	December 31, 2009			
	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
US Government and agency obligations	\$ 799.1	\$ 725.7	\$ 72.5	\$.9
Debt securities issued by corporations				
Consumer	961.7		961.0	.7
Industrial	533.2		533.2	
Financials	255.8		250.6	5.2
Communications	248.5		248.5	
Energy	153.4		153.4	
Basic materials	129.4		129.4	
Utilities	118.0		118.0	
Technology	25.1		25.1	
	2,425.1		2,419.2	5.9
Municipal obligations	4.9		4.9	
Mortgage-backed and asset-backed securities	2,076.9		2,034.6	42.3
Foreign government, agency and provincial obligations	721.0	112.4	608.6	
Preferred stocks	74.2		4.2	70.0
Fixed maturities	6,101.2	838.1	5,144.0	119.1
Financials	171.5	99.2	1.0	71.3
Basic materials	53.0	51.8	1.2	
Consumer	38.6	38.6		
Energy	30.5	28.1		2.4
Utilities	27.7	27.7		
Other	133.2	36.4	48.3	48.5
Common equity securities	454.5(1)	281.8	50.5	122.2
Short-term investments	2,098.4	2,091.9	6.5	
Convertible fixed maturity investments	233.1		233.1	
Other long-term investments	325.6(2)			325.6
Total investments	\$ 9,212.8	\$ 3,211.8	\$ 5,434.1	\$ 566.9

(1) Excludes carrying value of \$4.0 associated with common equity securities accounted for using the equity method.

(2) Excludes carrying value of \$15.7 associated with other long-term investment limited partnerships accounted for using the equity method.

Debt securities issued by corporations

The following table summarizes the ratings of the corporate debt securities held in White Mountains investment portfolio as of September 30, 2010 and December 31, 2009:

Millions	September 30, 2010	December 31, 2009
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AAA	\$	1.4	\$	7.3
AA		204.2		274.3
A		804.5		725.1
BBB		1,094.1		1,336.3
BB		27.5		64.9
Other				17.2
Debt securities issued by corporations	\$	2,131.7	\$	2,425.1

Table of Contents*Mortgage-backed, Asset-backed Securities*

White Mountains purchases commercial and residential mortgage-backed securities to maximize its fixed income portfolio's risk adjusted returns in the context of a diversified portfolio. White Mountains' non-agency commercial mortgage-backed portfolio (CMBS) is generally short tenor, fixed rate and structurally senior, with more than 30 points of subordination on average for fixed rate CMBS and more than 50 points of subordination on average for floating rate CMBS as of September 30, 2010. In general, subordination represents the percentage principal loss on the underlying collateral that would be absorbed by other securities lower in the capital structure before the more senior security incurs any loss. White Mountains believes these levels of protection will mitigate the risk of loss tied to the refinancing challenges facing the commercial real estate market. As of September 30, 2010, on average approximately 7% of the underlying loans were reported as non-performing for all CMBS held by White Mountains. White Mountains is not an originator of residential mortgage loans and held less than \$0.1 million of residential mortgage-backed securities (RMBS) categorized as sub-prime as of September 30, 2010. In addition, White Mountains' investments in hedge funds and private equities contain negligible amounts of sub-prime mortgage-backed securities at September 30, 2010. White Mountains considers sub-prime mortgage-backed securities to have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., White Mountains considers investments backed primarily by second-liens to be a sub-prime risk regardless of credit scores or other metrics).

White Mountains categorizes mortgage-backed securities as non-prime (also called Alt A or A-) that are backed by collateral that has overall credit quality between prime and sub-prime based on White Mountains' review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. As of September 30, 2010, \$18.4 million of White Mountains' mortgage-backed security holdings were classified as non-prime, with more than 20 points of subordination on average. White Mountains' non-agency residential mortgage-backed portfolio is generally of moderate average life, fixed rate and structurally senior. White Mountains does not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

Millions	Fair Value	September 30, 2010			December 31, 2009		
		Level 2	Level 3	Fair Value	Level 2	Level 3	
Mortgage-backed securities:							
Agency:							
GNMA	\$ 1,385.4	\$ 1,359.7	\$ 25.7	\$ 808.7	\$ 808.7	\$	
FNMA	286.6	286.6		342.9	342.9		
FHLMC	83.9	83.9		182.1	182.1		
Total Agency(1)	1,755.9	1,730.2	25.7	1,333.7	1,333.7		
Non-agency:							
Residential	102.3	95.8	6.5	148.2	148.2		
Commercial	185.4	185.4		376.5	334.2		42.3
Total Non-agency	287.7	281.2	6.5	524.7	482.4		42.3
Total mortgage-backed securities	2,043.6	2,011.4	32.2	1,858.4	1,816.1		42.3
Other asset-backed securities:							
Credit card receivables	152.1	152.1		61.2	61.2		
Vehicle receivables	175.5	175.5		156.5	156.5		
Other	.4	.4		.8	.8		
Total other asset-backed securities	328.0	328.0		218.5	218.5		
Total mortgage and asset-backed securities	\$ 2,371.6	\$ 2,339.4	\$ 32.2	\$ 2,076.9	\$ 2,034.6	\$	42.3

(1) Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

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Non-agency Mortgage Securities

The security issuance years of White Mountains investments in non-agency RMBS and non-agency CMBS securities as of September 30, 2010 are as follows:

Millions	Fair Value	Security Issuance Year						
		2001	2003	2004	2005	2006	2007	2010
Non-agency RMBS	\$ 102.3	\$ 11.1	\$ 5.5	\$.2	\$ 4.7	\$ 51.5	\$ 33.9	\$ 6.5
Non-agency CMBS	185.4		5.5		27.3	5.0	136.5	
Total	\$ 287.7	\$ 11.1	\$ 11.0	\$.2	\$ 32.0	\$ 56.5	\$ 170.4	\$ 6.5

Non-agency Residential Mortgage Securities

The classification of the underlying collateral quality and the tranche levels of White Mountains non-agency RMBS securities are as follows as of September 30, 2010:

Millions	Fair Value	Super Senior (1)	Senior (2)	Subordinate(3)
Prime	\$ 83.8	\$ 52.0	\$ 31.8	
Non-prime	18.4	17.1	1.3	
Sub-prime	.1		.1	
Total	\$ 102.3	\$ 69.1	\$ 33.2	

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- (1) At issuance, Super Senior were rated AAA and were senior to other AAA bonds.
 - (2) At issuance, Senior were rated AAA and were senior to non-AAA bonds.
 - (3) At issuance, Subordinate were not rated AAA and were junior to AAA bonds.

Non-agency Commercial Mortgage Securities

The amount of fixed and floating rate securities and their tranche levels of White Mountains non-agency CMBS securities are as follows as of September 30, 2010:

Millions	Fair Value	Super Senior (1)	Senior(2)	Subordinate(3)
Fixed rate CMBS	\$ 142.9	\$ 126.3	\$ 5.5	\$ 11.1
	42.5	37.5		5.0

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Floating rate

CMBS

Total	\$	185.4	\$	163.8	\$	5.5	\$	16.1
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(1) At issuance, Super Senior were rated AAA and were senior to other AAA bonds.

(2) At issuance, Senior were rated AAA and were senior to non-AAA bonds.

(3) At issuance, Subordinate were not rated AAA and were junior to AAA bonds.

Table of Contents**Rollforward of Fair Value Measurements by Level**

White Mountains uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturities at September 30, 2010 are comprised of securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

The following table summarizes the changes in White Mountains fair value measurements by level for the nine months ended September 30, 2010:

Millions	Level 1 Investments	Level 2 Investments	Fixed Maturities	Level 3 Investments			Total
				Common equity securities	Convertible fixed maturities	Other long- term investments	
Balance at December 31, 2009	\$ 3,211.8	\$ 5,434.1	\$ 119.1	\$ 122.2	\$	\$ 325.6	\$ 9,212.8
Total realized and unrealized gains (losses)(1)	76.8	136.7	5.1	(7.4)		17.1	228.3
Amortization/Accretion	1.0	(28.3)	(1.7)				(29.0)
Purchases(2)	15,693.4	3,430.6	32.1	.2		59.6	19,215.9
Sales	(16,635.2)	(3,294.9)	(25.3)	(44.6)		(28.4)	(20,028.4)
Transfers in	5.6	24.8				15.0	45.4
Transfers out		(5.6)	(24.8)				(30.4)
Balance at September 30, 2010	\$ 2,353.4	\$ 5,697.4	\$ 104.5	\$ 70.4	\$	\$ 388.9	\$ 8,614.6

(1) Includes unrealized foreign exchange gains and losses recognized as a component of other comprehensive income in reporting currency translation.

(2) Includes investments acquired as part of the Central National acquisition.

Fair Value Measurements - transfers between levels - Nine-month period ended September 30, 2010

Transfers in of \$15.0 million represent the deconsolidation of White Mountains investment in Tuckerman Fund II due to the adoption of revisions to the guidance for variable interest entities under ASU 2009-17 (see **Note 1**). In addition, during the first nine months of 2010, three securities which had been classified as Level 3 measurements at December 31, 2009 were recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at September 30, 2010. These measurements comprise Transfers out of \$24.8 million in fixed maturities for the period ended September 30, 2010. One security that was classified as a Level 2 investment in the prior periods due to restrictions on selling the security was transferred to a Level 1 investment when the restrictions lapsed during the quarter. This represents the Transfers Out of \$5.6 million within Level 2 investments.

Securities Lending

During 2009, White Mountains exited its securities lending programs. White Mountains had participated in securities lending programs through both OneBeacon and White Mountains Re as a mechanism for generating additional investment income.

In February 2009, OneBeacon amended the terms of its securities lending program to give it more control over the investment of borrowers collateral and to segregate the assets supporting that collateral from a collective investment vehicle managed by the lending agent into separate accounts. Accordingly, purchases and sales of invested assets held in the separate accounts as well as changes in the payable to the borrower for the return of collateral are reflected in the investing and financing sections of the cash flow statement commencing with the quarter ended March 31, 2009. As of September 30, 2010, all loaned securities under the OneBeacon program had been returned except for two illiquid instruments for which OneBeacon holds \$1.7 million in collateral.

As of September 30, 2010, all loaned securities under the White Mountains Re program had been returned to White Mountains Re and all collateral held by White Mountains Re had been returned to borrowers.

White Mountains recorded net realized and unrealized investment gains (losses) of \$(0.5) million and \$8.0 million for the three and nine months ended September 30, 2009 associated with its securities lending programs.

Table of Contents**Note 6. Debt**

Refer to the Company's 2009 Annual Report on Form 10-K for a complete discussion regarding White Mountains' debt obligations as of December 31, 2009. White Mountains' debt outstanding as of September 30, 2010 and December 31, 2009 consisted of the following:

Millions	September 30, 2010	December 31, 2009
OBH Senior Notes, at face value	\$ 419.9	\$ 607.1
Unamortized original issue discount	(.4)	(.6)
OBH Senior Notes, carrying value	419.5	606.5
WMRe Senior Notes, at face value	400.0	400.0
Unamortized original issue discount	(.8)	(.9)
WMRe Senior Notes, carrying value	399.2	399.1
WTM Bank Facility		
WTM Barclays Facility		
Sierra Note		31.1
Atlantic Specialty Note		14.0
Total debt	\$ 818.7	\$ 1,050.7

OBH Senior Notes

On June 1, 2010, through a tender offer, OneBeacon U.S. Holdings, Inc. (OBH) purchased and retired \$156.4 million aggregate principal amount of the OBH Senior Notes for an aggregate purchase price of \$165.4 million, which resulted in a \$9.6 million loss.

In addition to the cash tender offer, during the second quarter of 2010 OBH repurchased and retired \$18.2 million of outstanding OBH Senior Notes for \$18.9 million, which resulted in a \$0.7 million loss.

During the first quarter of 2010, OBH repurchased and retired \$11.5 million of outstanding OBH Senior Notes for \$11.9 million, which resulted in a \$0.5 million loss. During the first quarter of 2010, OBIC purchased \$1.1 million of outstanding OBH Senior Notes for \$1.1 million. At September 30, 2010, White Mountains was in compliance with all of the covenants under the OBH Senior Notes.

Bank Facilities

At December 31, 2009, White Mountains had a revolving credit facility with a syndicate of lenders administered by Bank of America, N.A. with a total commitment of \$417.5 million (the WTM Bank Facility) and a revolving credit facility with Barclays Bank PLC (Barclays) with a total commitment of \$33.3 million (the WTM Barclays Facility). On June 3, 2010, Barclays joined the syndicate of lenders to the WTM Bank

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Facility and the total commitment under the WTM Bank Facility was raised to \$475.0 million. Barclays joined the WTM Bank Facility under the same terms and conditions as the other lenders. Simultaneously with the addition of Barclays to the WTM Bank Facility, White Mountains terminated the WTM Barclays Facility. As of September 30, 2010, the WTM Bank Facility was undrawn. At September 30, 2010, White Mountains was in compliance with all of the covenants under the WTM Bank Facility.

Sierra Note

During the first quarter of 2010, the principal of the note issued in connection with White Mountains Re's acquisition of the Sierra Insurance Group Companies in 2004 (the "Sierra Note") increased by \$1.9 million as a result of favorable development on the reserves acquired. Pursuant to the terms of the Berkshire Exchange, White Mountains Re is indemnified by Berkshire for all amounts due under the Sierra Note, except for interest due from its issue date through December 31, 2007.

On September 15, 2010, White Mountains paid Sierra \$42.8 million on the Sierra Note which consisted of \$33.0 million for the principal repayment and \$9.8 million relating to accrued interest. Berkshire reimbursed White Mountains \$36.7 million, which was comprised of the \$33.0 million principal balance and \$3.7 million of accrued interest.

Atlantic Specialty Note

During the three months ended March 31, 2010, OneBeacon repaid the remaining \$14.0 million outstanding principal on the note issued in connection with its acquisition of Atlantic Specialty Insurance Company in 2004 (the "Atlantic Specialty Note").

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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 expense for the three months and nine months ended September 30, 2010 represented effective tax rates of 20.4% and 25.1%. The effective tax rate for the three and nine months ended September 30, 2010 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States and recognition of a tax benefit related to the Personal Lines Transaction, partially offset by an increase in the valuation allowance for the insurance reciprocals.

White Mountains' income tax expense for the three and nine months ended September 30, 2009 represented an effective tax rate of 28.6% for both periods. The effective tax rate for the three and nine months ended September 30, 2009 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States.

In arriving at the effective tax rate for the three and nine months ended September 30, 2010, White Mountains forecasted the change in unrealized investment gains (losses) and realized investment gains (losses) for the year ending December 31, 2010 and included these gain (losses) in the effective tax rate calculation pursuant to ASC 740-270. In arriving at the effective tax rate for the three and nine months ended September 30, 2009, White Mountains treated 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 expense (benefit) of these net gains (losses) was calculated at the statutory rate applicable to the jurisdiction in which the gains (losses) were recorded. The changes in unrealized investment gains (losses) and realized investment gains (losses) were treated as discrete items due to the inability to reliably estimate these amounts for the full year of 2009.

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. 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, 2010, the net U.S. deferred tax assets were \$335.4 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' valuation allowance on deferred tax assets and tax expense. Utilization of the deferred tax asset is dependent on future profitability and generation of net capital gains.

During the third quarter, White Mountains transferred a portion of its investment in Symetra's common shares in a taxable exchange to subsidiaries in different tax jurisdictions resulting in a new tax basis in the investment. Any change in the tax basis of an investment resulting from a taxable exchange between entities under common control is charged directly to other comprehensive income or to related components of shareholders' equity. Accordingly, White Mountains recorded a \$6.0 million reduction to accumulated other comprehensive income and a \$4.4 million reduction to retained earnings.

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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 by tax authorities for years before 2005.

The Internal Revenue Service (IRS) is conducting an examination of income tax returns for 2005 and 2006 for certain U.S. subsidiaries of OneBeacon and Esurance. On July 30, 2010, White Mountains received Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2005 and 2006, which assessed an additional \$5.5 million of tax. The estimated total assessment, including interest and utilization of alternative minimum and foreign tax credit carryovers, is \$23.9 million. White Mountains disagrees with the adjustments proposed by the IRS and intends to 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. When ultimately settled, White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

The IRS is conducting an examination of income tax returns for 2006 and 2007 for certain U.S. subsidiaries of White Mountains Re. Due to the uncertainty of the outcome of the on-going IRS examination, White Mountains cannot estimate the range of reasonably possible changes to its unrecognized tax benefits at this time. However, White Mountains does not expect to receive any adjustments that would result in a material change to its financial position.

Table of Contents**Note 8. Variable Annuity Reinsurance**

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. At September 30, 2010 and December 31, 2009, the total guarantee value was approximately ¥238.6 billion (approximately \$2.9 billion at exchange rates on that date) and ¥241.7 billion (approximately \$2.6 billion at exchange rates on that date). The collective account values of the underlying variable annuities were approximately 83% and 88% of the guarantee value at September 30, 2010 and December 31, 2009. The following table summarizes the pre-tax operating results of WM Life Re for the three and nine months ended September 30, 2010 and 2009:

Millions	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Fees, included in other revenues	\$ 7.7	\$ 7.3	\$ 22.3	\$ 21.1
Change in fair value of variable annuity liability, included in other revenues(1)	(53.5)	(20.2)	(204.7)	61.0
Change in fair value of derivatives, included in other revenues	(15.7)	7.4	114.7	(137.4)
Foreign exchange, included in other revenues	10.4	8.8	16.0	(2.3)
Other investment income and gains (losses)	(.2)	3.0	(.7)	2.2
Total revenues	(51.3)	6.3	(52.4)	(55.4)
Change in fair value of variable annuity death benefit liabilities, included in other expenses	.3	(.2)	(5.8)	7.4
Death benefit claims paid, included in other expenses	(.6)	(.6)	(1.4)	(1.8)
General and administrative expenses	(1.4)	(1.3)	(5.0)	(4.0)
Pre-tax (loss) income	\$ (53.0)	\$ 4.2	\$ (64.6)	\$ (53.8)

(1) For the three and nine months ended September 30, 2010 the change in the fair value of the variable annuity liability included \$47.7 of losses associated with a change in projected surrender assumptions. For the nine months ended September 30, 2009 the change in the fair value of the variable annuity liability included \$22.4 of losses recognized in the first quarter associated with a change in projected surrender assumptions.

All of White Mountains variable annuity reinsurance liabilities were classified as Level 3 measurements at September 30, 2010. The following table summarizes the changes in White Mountains variable annuity reinsurance liabilities and derivative instruments for the three and nine month periods ended September 30, 2010:

Millions	Variable Annuity (Liabilities)		Derivative Instruments		Total (4)
	Level 3	Level 3 (1)	Level 2 (1)(2)	Level 1 (3)	
Balance at December 31, 2010	\$ (380.7)	\$ 208.5	\$ 23.8	\$ (38.0)	\$ 194.3
Purchases		19.4			19.4
Realized and unrealized gains (losses)	(210.5)	56.1	56.4	2.2	114.7
Transfers in (out)					
Sales/settlements		(19.0)	(9.4)	20.1	(8.3)
Balance at September 30, 2010	\$ (591.2)	\$ 265.0	\$ 70.8	\$ (15.7)	\$ 320.1

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Millions	Variable Annuity (Liabilities)		Derivative Instruments			Total (4)
	Level 3	Level 3 (1)	Level 2 (1)(2)	Level 1 (3)		
Balance at June 30, 2010	\$ (538.0)	\$ 255.6	\$ 54.2	\$ 14.3	\$ 324.1	
Purchases						
Realized and unrealized gains (losses)	(53.2)	9.4	11.5	(36.6)	(15.7)	
Transfers in (out)						
Sales/settlements			5.1	6.6	11.7	
Balance at September 30, 2010	\$ (591.2)	\$ 265.0	\$ 70.8	\$ (15.7)	\$ 320.1	

(1) Comprises over-the-counter instruments.

(2) Comprises interest rate swaps, total return swaps and foreign currency forward contracts. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded, where available. Swaps for which an active market does not exist have been priced using observable inputs including the swap curve and the underlying bond index.

(3) Comprises exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

(4) In addition to derivative instruments, WM Life Re held cash, short-term and fixed maturity investments of \$295.0 at September 30, 2010 posted as collateral to its reinsurance counterparties.

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The following summarizes realized and unrealized derivative gains (losses) recognized in other revenues for the three and nine months ended September 30, 2010 and 2009 and the carrying values at September 30, 2010 and December 31, 2009, by type of instrument:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,		Carrying Value	
	2010	2009	2010	2009	September 30, 2010	December 31, 2009
Fixed income/Interest rate	\$ (25.5)	\$ (10.8)	\$ (1.9)	\$ (10.4)	\$ 44.2	\$ 22.7
Foreign exchange	33.0	48.3	99.6	(44.4)	182.8	79.4
Equity	(23.2)	(30.1)	17.0	(82.6)	93.1	92.2
Total	\$ (15.7)	\$ 7.4	\$ 114.7	\$ (137.4)	\$ 320.1	