WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
October 28, 2011
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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, 2011

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda (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 x No o

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

As of October 28, 2011, 7,630,717 common shares with a par value of $1.00 per share were outstanding (which includes 73,500 restricted common shares that were not vested at such date).

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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, 2011 Unaudited	December 31, 2010
Assets		
Fixed maturity investments, at fair value	**$ 5,287.7**	$ 5,786.1
Short-term investments, at amortized cost (which approximates fair value)	**772.8**	975.3
Common equity securities, at fair value	**669.8**	667.0
Convertible fixed maturity investments, at fair value	**140.5**	143.0
Other long-term investments	**328.8**	372.1
Total investments	**7,199.6**	7,943.5
Cash (restricted: $393.3 and $286.7)	**557.7**	395.0
Reinsurance recoverable on unpaid losses	**2,581.2**	2,344.0
Reinsurance recoverable on paid losses	**30.9**	63.1
Insurance and reinsurance premiums receivable	**644.8**	532.5
Funds held by ceding companies	**131.6**	118.7
Investments in unconsolidated affiliates	**458.6**	389.7
Deferred acquisition costs	**202.9**	176.1
Deferred tax asset	**431.7**	431.9
Ceded unearned insurance and reinsurance premiums	**104.4**	184.0
Accrued investment income	**58.3**	63.3
Accounts receivable on unsettled investment sales	**20.3**	39.5
Other assets	**760.2**	730.0
Assets held for sale	**1,399.5**	1,122.8
Total assets	**$ 14,581.7**	$ 14,534.1
Liabilities		
Loss and loss adjustment expense reserves	**$ 5,882.0**	$ 5,736.8
Unearned insurance and reinsurance premiums	**976.4**	938.7
Debt	**669.0**	818.8
Deferred tax liability	**360.6**	373.2
Accrued incentive compensation	**169.9**	157.4
Ceded reinsurance payable	**188.3**	221.1
Funds held under reinsurance treaties	**39.3**	85.8
Accounts payable on unsettled investment purchases	**57.1**	22.3
Other liabilities	**1,310.6**	1,167.7
Liabilities held for sale	**909.4**	751.5
Total liabilities	**10,562.6**	10,273.3
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 7,630,717 and 8,194,925 shares	**7.6**	8.2
Paid-in surplus	**1,262.7**	1,350.8

Retained earnings		**2,004.0**		2,175.6
Accumulated other comprehensive income, after-tax:				
Equity in unrealized gains from investments in unconsolidated affiliates		**135.7**		58.5
Net unrealized foreign currency translation gains		**35.7**		61.4
Other		**(1.0)**		(1.5)
Total White Mountains common shareholders equity		**3,444.7**		3,653.0
Noncontrolling interests				
Noncontrolling interest - OneBeacon Ltd.		**269.8**		295.0
Noncontrolling interest - Sirius Group Preference Shares		**250.0**		250.0
Noncontrolling interest - consolidated limited partnerships and A.W.G Dewar		**54.6**		62.8
Total noncontrolling interests		**574.4**		607.8
Total equity		**4,019.1**		4,260.8
Total liabilities and equity	**$**	**14,581.7**	$	14,534.1

See Notes to Consolidated Financial Statements

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per share amounts)	**2011**	**2010**	**2011**	**2010**
Revenues:				
Earned insurance and reinsurance premiums	**$ 490.6**	$ 498.1	**$ 1,436.7**	$ 1,772.9
Net investment income	**42.8**	48.9	**138.1**	157.4
Net realized and unrealized investment gains	**1.7**	11.6	**78.3**	104.7
Other revenue	**(33.8)**	(7.6)	**(68.6)**	(21.1)
Total revenues	**501.3**	551.0	**1,584.5**	2,013.9
Expenses:				
Loss and loss adjustment expenses	**277.1**	253.4	**914.0**	1,175.9
Insurance and reinsurance acquisition expenses	**107.0**	102.1	**296.2**	370.9
Other underwriting expenses	**67.0**	75.0	**211.5**	245.9
General and administrative expenses	**36.2**	32.1	**120.4**	119.5
Interest expense on debt	**12.8**	13.2	**38.8**	44.2
Total expenses	**500.1**	475.8	**1,580.9**	1,956.4
Pre-tax income (loss) from continuing operations	**1.2**	75.2	**3.6**	57.5
Income tax (expense) benefit	**.6**	(11.7)	**(1.9)**	(10.3)
Net income (loss) from continuing operations	**1.8**	63.5	**1.7**	47.2
Loss from sale of discontinued operations, net of tax	**(18.2)**		**(18.2)**	
Net (loss) income from discontinued operations, net of tax	**(11.9)**	3.6	**(10.7)**	1.2
(Loss) income before equity in earnings of unconsolidated affiliates	**(28.3)**	67.1	**(27.2)**	48.4
Equity in earnings of unconsolidated affiliates	**1.5**	7.9	**16.1**	1.6
Net (loss) income	**(26.8)**	75.0	**(11.1)**	50.0
Net income (loss) attributable to noncontrolling interests	**11.0**	(24.3)	**(21.2)**	(36.4)
Net (loss) income attributable to White Mountains common shareholders	**(15.8)**	50.7	**(32.3)**	13.6
Comprehensive income (loss), net of tax:				
Change in equity in net unrealized gains from investments in unconsolidated affiliates	**55.1**	43.1	**77.2**	126.4
Change in foreign currency translation and other	**(81.8)**	126.9	**(25.3)**	45.9
Comprehensive (loss) income	**(42.5)**	220.7	**19.6**	185.9
Comprehensive income attributable to noncontrolling interests				
Comprehensive (loss) income attributable to White Mountains common shareholders	**$ (42.5)**	$ 220.7	**$ 19.6**	$ 185.9

Income (loss) per share attributable to White Mountains common shareholders								
Basic income (loss) per share								
Continuing operations	**$**	**1.81**	$	5.58	**$**	**(.43)**	$	1.44
Discontinued operations		**(3.81)**		.43		**(3.63)**		.13
Diluted income (loss) per share								
Continuing operations	**$**	**1.81**	$	5.58	**$**	**(.43)**	$	1.44
Discontinued operations		**(3.81)**		.43		**(3.63)**		.13
Dividends declared and paid per White Mountains common share	**$**		$		**$**	**1.00**	$	1.00

See Notes to Consolidated Financial Statements

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

	White Mountains Common Shareholders Equity				
(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income (loss), after-tax	Non-controlling interest
Balances at January 1, 2011	$ 3,653.0	$ 1,359.0	$ 2,175.6	$ 118.4	$ 607.8
Net (loss) income	(32.3)		(32.3)		21.2
Other comprehensive income, after-tax	52.0			52.0	
Dividends declared on common shares	(8.0)		(8.0)		
Dividends to noncontrolling interests					(47.2)
Repurchases and retirements of common shares	(229.8)	(98.5)	(131.3)		
Issuances of common shares	.9	.9			
Net distributions to noncontrolling interests					(7.7)
Amortization of restricted share and option awards	8.9	8.9			.3
Balances at September 30, 2011	**$ 3,444.7**	**$ 1,270.3**	**$ 2,004.0**	**$ 170.4**	**$ 574.4**

	White Mountains Common Shareholders Equity				
(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income (loss), after-tax	Non-controlling interest
Balances at January 1, 2010	$ 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 (loss) 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**

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(Millions)	Nine Months Ended September 30, 2011	2010
Cash flows from operations:		
Net (loss) income	$ **(11.1)**	$ 50.0
Charges (credits) to reconcile net loss to net cash used for operations:		
Net realized and unrealized investment gains	**(78.3)**	(104.7)
Net loss (income) from discontinued operations	**10.7**	(1.2)
Net loss on sale of discontinued operation - AutoOne	**18.2**	
Other operating items:		
Net change in loss and loss adjustment expense reserves	**244.5**	(237.4)
Net change in reinsurance recoverable on paid and unpaid losses	**(209.2)**	255.7
Net change in unearned insurance and reinsurance premiums	**86.4**	39.5
Net change in funds held by ceding companies	**(17.2)**	14.5
Net change in deferred acquisition costs	**(31.2)**	36.1
Net change in ceded unearned premiums	**76.5**	(157.1)
Net change in funds held under reinsurance treaties	**(46.0)**	(15.1)
Net change in insurance and reinsurance premiums receivable	**(85.4)**	(100.7)
Net change in ceded reinsurance payable	**(76.1)**	198.7
Net change in other assets and liabilities, net	**141.2**	(26.5)
Net cash provided from (used for) operations - continuing operations	**23.0**	(48.2)
Net cash provided from operations - discontinued operations	**17.5**	27.2
Net cash provided from (used for) operations	**40.5**	(21.0)
Cash flows from investing activities:		
Net change in short-term investments	**112.6**	139.3
Sales of fixed maturity and convertible fixed maturity investments	**2,905.7**	1,625.4
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	**1,015.3**	1,426.0
Sales of common equity securities	**125.4**	110.2
Distributions and redemptions of other long-term investments	**90.0**	26.5
Purchases of other long-term investments	**(30.6)**	(71.0)
Contribution to discontinued operations	**(97.1)**	(16.8)
Purchases of common equity securities	**(189.0)**	(211.0)
Purchases of fixed maturity and convertible fixed maturity investments	**(3,497.6)**	(2,663.8)
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	**54.0**	(18.7)
Net acquisitions of property and equipment	**(3.3)**	(3.2)
Net cash provided from investing activities - continuing operations	**485.4**	504.6
Net cash provided from (used for) investing activities - discontinued operations	**173.7**	(21.7)
Net cash provided from investing activities	**659.1**	482.9
Cash flows from financing activities:		

Repayment of debt		**(161.6)**		(14.0)
Repurchase of debt				(197.3)
Cash dividends paid to the Company s common shareholders		**(8.0)**		(8.8)
Cash dividends paid to OneBeacon Ltd. s noncontrolling common shareholders		**(37.9)**		(71.2)
Cash dividends paid on Sirius Group Preference Shares		**(9.4)**		(9.4)
Common shares repurchased		**(229.7)**		(178.2)
OneBeacon Ltd. common shares repurchased and retired				(10.5)
Proceeds from issuances of common shares		**.9**		.8
Net cash used for financing activities - continuing operations		**(445.7)**		(488.6)
Net cash provided from (used for) financing activities - discontinued operations				
Net cash used for financing activities		**(445.7)**		(488.6)
Effect of exchange rate changes on cash		**(2.0)**		6.0
Net change in cash during the period		**251.9**		(20.7)
Net change in cash from discontinued operations		**(191.2)**		(5.5)
Cash balances at beginning of period (excludes restricted cash balances of $286.7 and $217.1 and AutoOne cash of $4.7 and $3.9)		**103.7**		120.0
Cash balances at end of period (excludes restricted cash balances of $393.3 and $273.1 and AutoOne cash of $0(1) and $4.4)	**$**	**164.4**	$	93.8
Supplemental cash flows information:				
Interest paid	**$**	**(38.5)**	$	(49.6)
Net income tax payments to national governments	**$**	**(6.4)**	$	(10.6)

(1) AutoOne cash of $5.5 is included in assets held for sale at September 30, 2011.

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 and affiliates. The Company s headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, Sirius Group (formerly White Mountains Re) and Other Operations. As discussed further in **Note 2**, on October 7, 2011 White Mountains completed its sale of Esurance Holdings, Inc. and its subsidiaries (Esurance Insurance) and Answer Financial Inc. and its subsidiaries (AFI) (collectively, Esurance) and the business that Esurance Insurance cedes to Sirius Group. Esurance has been presented as discontinued operations and assets and liabilities held for sale in the financial statements. Prior year amounts have been reclassified to conform to the current year s presentation. (See **Note 14** for discontinued operations and assets and liabilities held for sale).

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. As of September 30, 2011 and December 31, 2010, White Mountains owned 75.5% and 76.0% of OneBeacon Ltd. s outstanding common shares. As discussed further in **Note 2**, OneBeacon entered into a definitive agreement on August 30, 2011 to sell the AutoOne business. Accordingly, effective for September 30, 2011, AutoOne has been presented as discontinued operations and assets and liabilities held for sale in the financial statements. Prior year income statement and cash flow amounts have been reclassified to conform to the current year s presentation.

The Sirius Group segment (previously defined as the White Mountains Re segment) consists of Sirius International Insurance Group, Ltd. (formerly White Mountains Re Ltd.), an exempted Bermuda limited liability company, and its subsidiaries (collectively, Sirius Group). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, casualty, and agriculture and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation (Sirius International , formerly WMRe Sirius) and Sirius America Insurance Company (Sirius America , formerly WMRe America). Sirius Group also specializes in the acquisition and management of run-off insurance and reinsurance companies both in the United States and internationally through its White Mountains Re Solutions division. Sirius Group also includes Scandinavian Reinsurance Company, Ltd. (Scandinavian Re) and Central National Insurance Company of Omaha (Central National), which was acquired during the first quarter of 2010 (see **Note 2**), both of which are in run-off.

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

Lightyear Delos Acquisition Corporation (Delos) prior to its disposition in December 2010.

White Mountains discontinued operations consist of Esurance Insurance, AFI, the business that Esurance Insurance ceded to Sirius Group and AutoOne. Esurance Insurance writes personal auto insurance directly to customers in 30 states through its website and over the phone and also sells other lines of personal insurance for unaffiliated insurance companies. Esurance Insurance also writes personal auto policies through select online agents and provides other insurance products through partnerships with industry leading online providers. Esurance Insurance earns commissions and fees by referring to unaffiliated insurance companies those shoppers that it cannot underwrite because of pricing or underwriting eligibility. AFI is one of the largest independent personal insurance agencies in the United States. AFI sells insurance online and through call centers for both Esurance Insurance and unaffiliated companies utilizing a comparison quoting platform. AutoOne was formed by OneBeacon in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey.

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 2010 Annual Report on Form 10-K.

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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 2010 Annual Report on Form 10-K for a complete discussion regarding White Mountains significant accounting policies.

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, 2011 and December 31, 2010 was 24.5% and 24.0%. The increase in the noncontrolling ownership percentage during the first nine months of 2011 was the result of the issuance of 630,000 restricted common shares of OneBeacon Ltd. to its CEO in May 2011 (see **Note 12**).

On May 24, 2007, Sirius International Group, Ltd. (Sirius International Group formerly known as White Mountains Re Group, Ltd), an intermediate holding company of Sirius Group, issued 250,000 non-cumulative perpetual preference shares with a $1,000 per share liquidation preference (the Sirius Group Preference Shares). Proceeds of $245.7 million, net of $4.3 million of issuance costs and commissions, were received from the issuance. The Sirius Group Preference Shares are included in noncontrolling interests on the balance sheet.

At September 30, 2011 and December 31, 2010, the noncontrolling equity interest in limited partnerships that are consolidated with White Mountains (Tuckerman Fund I, the Prospector Offshore Fund and the Prospector Turtle Fund) was $51.8 million and $59.7 million. At September 30, 2011 and December 31, 2010, the noncontrolling equity interest in A.W.G. Dewar Inc, a subsidiary of OneBeacon, was $2.2 million and $3.1 million.

Recently Adopted Changes in Accounting Principles

Disclosures about Fair Value Measurements

White Mountains adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements* (included in Accounting Standards Codification (ASC) 820-10), effective March 31, 2010. The ASU clarifies existing disclosure requirements for fair value measurements and requires the disclosure of the amounts and nature of transfers in and out of Level 1 and Level 2 measurements; purchase, sale, issuance and settlement activity for Level 3 measurements presented on a gross rather than a net basis; fair value measurements by Level presented on a more disaggregated basis, by asset or liability class; and 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**).

Transfers of Financial Assets and Amendments to FIN 46R

On June 12, 2009, the FASB issued ASU 2009-16, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (included in ASC 860) and ASU 2009-17, *Amendments to FIN46(R)* (included in ASC 810). Both ASU 2009-16 and ASU 2009-17 became effective as of the beginning of the first annual reporting period that began after November 15, 2009. White Mountains adopted the new guidance on January 1, 2010.

ASU 2009-16 eliminates the concept of a qualifying special-purpose entity (QSPE). Under the new guidance, the appropriateness of de-recognition of assets held by an entity formerly considered a QSPE 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 did not have any entities that were considered a QSPE under guidance prior to the amendments to ASC 860 and there was no effect resulting from adoption.

ASU 2009-17 amends 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. Under the new guidance a variable interest represents a controlling financial interest in a variable interest entity (VIE) when it has 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. 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.

Upon adoption, White Mountains determined that its ownership interest in Tuckerman Fund II did 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 by $0.4 million.

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Recently Issued Accounting Pronouncements

Goodwill Impairment

On September 15, 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* (ASC 350). The ASU amends the guidance that requires an entity to test goodwill for impairment on at least an annual basis using a two-step quantitative test. The new guidance permits an entity to first assess facts and circumstances to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the entity determines on the basis of this assessment that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performance of the two-step quantitative test is not required. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. White Mountains expects that adoption will have no material effect upon its financial position, results of operations or cash flows.

Comprehensive Income

On June 16, 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (ASC 220). The ASU requires presentation of the components of net income, the total of other comprehensive income and total comprehensive income to be presented on a single statement. The option of presenting other comprehensive income in the statement of changes in equity has been eliminated by the ASU. ASU 2011-05 is effective for fiscal years and interim periods within those fiscal years ending after December 15, 2011. White Mountains already presents comprehensive income in accordance with the requirements of the ASU, so there will be no effect upon adoption.

Fair Value Measurements and Disclosures

On May 12, 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASC 820). The ASU clarifies existing guidance with respect to the concepts of highest and best use and valuation premise and measuring instruments classified within a reporting entity s shareholders equity. The ASU also clarifies disclosure requirements, requiring disclosure of quantitative information about unobservable inputs used in Level 3 fair value measurements. The ASU also amends existing guidance. In circumstances where a reporting entity manages a portfolio of financial assets and liabilities based on the net market and counterparty credit risk exposures, the ASU permits determination of the fair value of those instruments to be based on the net risk exposure. In addition, the ASU permits the application of premiums or discounts to be applied in a fair value measurement to the extent that market participants would consider them in valuing the financial instruments. The ASU also expands the required disclosures for Level 3 measurements, requiring that reporting entities provide a narrative description of the sensitivity of Level 3 fair value measurements to changes in unobservable inputs and the interrelationships between those inputs, if any. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. White Mountains is currently evaluating the effect the adoption of ASU 2011-04 will have on its financial position and results of operations.

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 expects that adoption will not have a material effect upon its financial position, results of operations or cash flows.

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Note 2. Significant Transactions

Sale of Esurance

On October 7, 2011, White Mountains completed its sale of Esurance Insurance and AFI to The Allstate Corporation (see **Note 15**).

Self Tender Offer

On September 21, 2011, White Mountains completed a modified Dutch auction self-tender offer whereby White Mountains repurchased 327,872 of its common shares at $415 per share. The total cost of the tender offer was $136.5 million, including $0.4 million of fees and expenses.

Sale of AutoOne

On August 30, 2011, OneBeacon entered into a definitive agreement (the Purchase Agreement) to sell the AutoOne business to Interboro Holdings, Inc. (Interboro). OneBeacon formed AutoOne in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey. OneBeacon will transfer to the buyer AutoOne Insurance Company (AOIC) and AutoOne Select Insurance Company (AOSIC), which will contain the assets, liabilities (including loss reserves and unearned premiums), and the equity capital of the business, and will transfer substantially all of the AutoOne infrastructure including staff, systems and office space. The transaction is expected to close in the fourth quarter of 2011, subject to regulatory approvals. As a result of entering into the Purchase Agreement, AutoOne is now reported as discontinued operations. See **Note 14**.

During the three months ended September 30, 2011, OneBeacon recorded an after-tax charge of $18.2 million reflecting the estimated loss on sale of the AutoOne business.

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) for consideration of $166.6 million. 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 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.

Acquisition of Central National

On February 26, 2010, Sirius Group acquired Central National for $5 million in cash. Central National ceased writing business in 1989 and was operated under the control of the Nebraska Department of Insurance since 1990. The transaction resulted in a gain of $12.8 million recorded in other revenues.

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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 and reinsurance subsidiaries for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2011**	**2010**	**2011**	**2010**
Gross beginning balance	**$ 5,642.4**	$ 6,198.1	**$ 5,736.8**	$ 6,379.2
Less beginning reinsurance recoverable on unpaid losses	**(2,193.0)**	(2,748.3)	**(2,344.0)**	(2,771.5)
Net loss and LAE reserves	**3,449.4**	3,449.8	**3,392.8**	3,607.7
Less: Beginning net loss and LAE reserves for AutoOne (1)	**(58.6)**	(81.7)	**(68.2)**	(95.8)
Loss and LAE reserves acquired Central National				17.6
Loss and LAE reserves sold OneBeacon Personal Lines (2)				(231.0)
Loss and LAE incurred relating to:				
Current year losses	**307.8**	284.7	**972.2**	1,244.9
Prior year losses	**(30.7)**	(31.3)	**(58.2)**	(69.0)
Total incurred losses and LAE	**277.1**	253.4	**914.0**	1,175.9
Accretion of fair value adjustment to loss and LAE reserves	**2.1**	2.1	**6.2**	6.3
Foreign currency translation adjustment to loss and LAE reserves	**(25.5)**	39.9	**5.7**	6.7
Loss and LAE paid relating to:				
Current year losses	**(112.8)**	(156.3)	**(237.9)**	(403.9)
Prior year losses	**(230.9)**	(211.8)	**(711.8)**	(788.1)
Total loss and LAE payments	**(343.7)**	(368.1)	**(949.7)**	(1,192.0)
Plus: Ending net loss and LAE reserves for AutoOne (1)		82.9		82.9
Net ending balance	**3,300.8**	3,378.3	**3,300.8**	3,378.3
Plus ending reinsurance recoverable on unpaid losses	**2,581.2**	2,592.1	**2,581.2**	2,592.1
Gross ending balance	**$ 5,882.0**	$ 5,970.4	**$ 5,882.0**	$ 5,970.4

(1) Adjustment is to present loss and LAE reserve activities from continuing operations. At September 30, 2011, loss and LAE reserves for AutoOne have been reclassified as liabilities held for sale. Loss and LAE reserve balances for AutoOne prior to September 30, 2011 were not reclassified. See **Note 14**.

(2) In the second quarter of 2010, $231.0 of net loss and LAE reserves related to the Personal Lines Transaction were reclassified to 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, 2011

During the three and nine months ended September 30, 2011, White Mountains experienced $30.7 million and $58.2 million of net favorable loss reserve development.

For the three and nine months ended September 30, 2011, OneBeacon had net favorable loss reserve development of $9.8 million and $25.0 million. The favorable loss reserve development was primarily due to lower than expected severity on losses related to professional liability lines, multiple peril liability lines and other general liability lines.

For the three and nine months ended September 30, 2011, Sirius Group had net favorable loss reserve development of $20.9 million and $33.2 million, primarily attributable to property lines.

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 $31.3 million and $69.0 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 $17.8 million and $42.1 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, Sirius Group had net favorable loss reserve development of $13.5 million and $26.9 million. The favorable loss reserve development at Sirius Group was primarily due to short-tailed lines of business, primarily property, accident and health, and aviation.

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Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for the acquisitions of Scandinavian Re and Stockbridge Insurance Company (Stockbridge), 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.

Sirius Group recognized $2.1 million and $6.2 million for the three and nine months ended September 30, 2011, and $2.1 million and $6.3 million for the three and nine months ended September 30, 2010. As of September 30, 2011, the pre-tax un-accreted adjustment was $14.9 million.

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, 2011, OneBeacon had $13.7 million of reinsurance recoverables on paid losses and $2,405.7 million (gross of $166.6 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, 2011**	**% of Total**	**A.M. Best Rating(1)**
National Indemnity Company and General Reinsurance Corporation (2)	$	1,565.2	65%	A++
Hanover Insurance Company		110.1	5%	A
Tokio Marine and Nichido Fire (3)		55.8	2%	A++
Tower Insurance Company		53.7	2%	A-
Munich Reinsurance America		31.5	1%	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 $198.3 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.

(3) Includes $29.3 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.

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, 2011 it has used approximately $2.3 billion of the coverage provided by NICO. Through September 30, 2011, $1.4 billion of these incurred losses have been paid by NICO. Since entering into the NICO Cover, approximately 8% ($187.7 million), of the $2.3 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.

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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, 2011, $13.6 million and $60.7 million was collected under the GRC Cover.

During the third quarter of 2011, OneBeacon completed a new ground-up study of its legacy asbestos and environmental exposures. The previous study was based on experience through 2007. Reasonable estimates of potential adverse scenarios continue to be within the $2.5 billion reinsurance cover issued by NICO. The point estimate of incurred losses ceded to NICO increased from $2.2 billion to $2.3 billion.

Effective May 1, 2011, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2012. The program provides coverage for OneBeacon s property business as well as certain acts of terrorism. Under the program, the first $50.0 million of losses resulting from any single catastrophe are retained by OneBeacon. The next $175.0 million of losses resulting from the catastrophe are reinsured with OneBeacon co-participating in the losses. OneBeacon retains 26% of the losses from $50.0 million up to $100.0 million and 10% of the losses from $100.0 million up to $175.0 million. Any loss above $225.0 million is 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.

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 July 1, 2010, the closing date of the Personal Lines Transaction. Through June 30, 2010, OneBeacon ceded $25.6 million of written premiums from its Northeast homeowners business written through OneBeacon Insurance Company (OBIC) and its subsidiary companies, along with Adirondack Insurance Exchange (Adirondack Insurance) and New Jersey Skylands Insurance Agency (NJSIA) in New York and New Jersey, respectively.

Sirius Group

At September 30, 2011, Sirius Group had $17.2 million of reinsurance recoverables on paid losses and $342.1 million of reinsurance that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve Sirius Group of its obligation to its ceding companies, the collectability of balances due from its reinsurers is critical to Sirius Group s financial strength. Sirius Group monitors the financial strength of its reinsurers on an ongoing basis. The following table provides a listing of Sirius Group 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, 2011**	**% of Total**	**A.M. Best Rating (1)**	**% Collateralized**
General Reinsurance Corporation	$	**43.3**	12%	A++	2%
Olympus (2)		**40.8**	11%	NR-5	100%
Swiss Re Group		**40.0**	11%	A	4%
Lloyds of London(3)		**31.3**	9%	A	6%
Michigan Catastrophic Claims Association		**14.6**	4%	N/A(4)	%

(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 entity. Balances are fully collateralized through funds held, letters of credit or trust agreements.

(3) Represents the total of reinsurance recoverables due to Sirius Group from all Lloyds Syndicates.

(4) Michigan Catastrophic Claims Association (MCCA) is a non-profit unincorporated association of which every insurance company that sells automobile coverage in Michigan is required to be a member. A.M. Best does not rate MCCA. Sirius Group acquired its recoverable from MCCA pursuant to its acquisition of Stockbridge.

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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, convertible fixed maturities 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 investment 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, 2011 and December 31, 2010.

Other long-term investments primarily comprise White Mountains investments in hedge funds and private equity funds.

Net Investment Income

Pre-tax net investment income for the three and nine months ended September 30, 2011 and 2010 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2011**	**2010**	**2011**	**2010**
Investment income:				
Fixed maturity investments	**$ 38.5**	$ 46.9	**$ 127.0**	$ 149.9
Short-term investments	**.9**	.8	**3.2**	3.7
Common equity securities	**3.6**	2.7	**10.1**	7.1
Convertible fixed maturity investments	**1.3**	.4	**3.9**	4.4
Other long-term investments	**1.2**	1.1	**1.9**	1.6
Interest on funds held under reinsurance treaties	**.2**	(.5)	**(.6)**	(2.2)
Total investment income	**45.7**	51.4	**145.5**	164.5
Less third-party investment expenses	**(2.9)**	(2.5)	**(7.4)**	(7.1)
Net investment income, pre-tax	**$ 42.8**	$ 48.9	**$ 138.1**	$ 157.4

Net Realized and Unrealized Investment Gains and Losses

Millions	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net realized investment gains (losses), pre-tax	**$ 37.1**	$ 31.4	**$ 109.6**	$ 93.7
Net unrealized investment gains (losses), pre-tax	**(35.4)**	(19.8)	**(31.3)**	11.0
Net realized and unrealized investment gains (losses), pre-tax	**1.7**	11.6	**78.3**	104.7
Income taxes attributable to realized and unrealized investment gains (losses)	**(1.1)**	(22.7)	**(23.7)**	(24.5)
Net realized and unrealized investment gains (losses), after-tax	**$ .6**	$ (11.1)	**$ 54.6**	$ 80.2

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Net realized investment gains (losses)

Net realized investment gains (losses) for the three and nine months ended September 30, 2011 and 2010 consisted of the following:

Millions	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Fixed maturity investments	**$ 14.0**	$ 34.7	**$ 33.6**	$ 68.1
Short-term investments				
Common equity securities	**23.1**	(13.7)	**41.0**	6.7
Convertible fixed maturity investments	**(.7)**	6.2	**6.3**	19.9
Other long-term investments	**.7**	4.2	**28.7**	(1.0)
Net realized investment gains (losses), pre-tax	**37.1**	31.4	**109.6**	93.7
Income taxes attributable to realized investment gains (losses)	**(8.0)**	(4.9)	**(31.7)**	(20.5)
Net realized investment gains (losses), after-tax	**$ 29.1**	$ 26.5	**$ 77.9**	$ 73.2

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, 2011 Net unrealized gains (losses)	Three Months Ended September 30, 2011 Net foreign exchange gains (losses)	Three Months Ended September 30, 2011 Total changes in fair value reflected in earnings	Nine Months Ended September 30, 2011 Net unrealized gains (losses)	Nine Months Ended September 30, 2011 Net foreign exchange gains (losses)	Nine Months Ended September 30, 2011 Total changes in fair value reflected in earnings
Fixed maturities	$ 3.5	$ 67.5	$ 71.0	$ 12.6	$ 77.7	$ 90.3
Short-term investments	(.1)	(.4)	(.5)	(.1)	(1.4)	(1.5)
Common equity securities	(101.0)	(.9)	(101.9)	(95.1)	(1.8)	(96.9)
Convertible fixed maturity investments	(11.2)		(11.2)	(19.3)		(19.3)
Other long-term investments	(1.2)	8.4	7.2	(8.4)	4.5	(3.9)
Net unrealized investment gains (losses), pre-tax	**(110.0)**	**74.6**	**(35.4)**	**(110.3)**	**79.0**	**(31.3)**
Income taxes attributable to unrealized investment gains (losses)	**26.4**	**(19.5)**	**6.9**	**28.5**	**(20.5)**	**8.0**
Net unrealized investment gains (losses), after-tax	**$ (83.6)**	**$ 55.1**	**$ (28.5)**	**$ (81.8)**	**$ 58.5**	**$ (23.3)**

Millions	Three Months Ended September 30, 2010 Net unrealized gains (losses)	Three Months Ended September 30, 2010 Net foreign exchange gains (losses)	Three Months Ended September 30, 2010 Total changes in fair value reflected in earnings	Nine Months Ended September 30, 2010 Net unrealized gains (losses)	Nine Months Ended September 30, 2010 Net foreign exchange gains (losses)	Nine Months Ended September 30, 2010 Total changes in fair value reflected in earnings
Fixed maturities	$ 3.3	$ (81.2)	$ (77.9)	$ 36.4	$ (53.6)	$ (17.2)
Short-term investments		1.4	1.4		.6	.6
Common equity securities	64.3	(10.8)	53.5	31.8	(9.7)	22.1
Convertible fixed maturity investments	2.8		2.8	(8.3)		(8.3)
Other long-term investments	9.0	(8.6)	.4	20.5	(6.7)	13.8
Net unrealized investment gains (losses), pre-tax	79.4	(99.2)	(19.8)	80.4	(69.4)	11.0
Income taxes attributable to unrealized investment gains (losses)	(28.8)	11.0	(17.8)	(22.4)	18.4	(4.0)
Net unrealized investment gains (losses), after-tax	$ 50.6	$ (88.2)	$ (37.6)	$ 58.0	$ (51.0)	$ 7.0

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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, 2011 and 2010:

Millions	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Fixed maturities	**$ (13.5)**	$ 3.3	**$ (14.9)**	$ 9.5
Common equity securities	**(17.5)**	2.5	**(17.0)**	(20.0)
Convertible fixed maturities				
Other long-term investments	**(3.2)**	8.5	**(6.5)**	37.4
Total unrealized investment gains (losses), pre-tax - Level 3 investments	**$ (34.2)**	$ 14.3	**$ (38.4)**	$ 26.9

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, 2011 and December 31, 2010, were as follows:

Millions	September 30, 2011 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$ 347.1	$ 5.8	$ (.2)	$ .4	$ 353.1
Debt securities issued by corporations	1,990.0	76.6	(11.9)	(.8)	2,053.9
Municipal obligations	2.4				2.4
Mortgage-backed and asset-backed securities	2,200.8	29.8	(4.9)	14.9	2,240.6
Foreign government, agency and provincial obligations	653.0	14.1	(.2)	(.9)	666.0
Preferred stocks	82.3	3.3	(11.0)		74.6
Total fixed maturity investments(1)	**$ 5,275.6**	$ 129.6	$ (28.2)	$ 13.6	**$ 5,390.6**

(1) Carrying value includes $102.9 that is classified as assets held for sale relating to AutoOne discontinued operations.

Millions	December 31, 2010 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$ 385.9	$ 13.6	$ (.8)	$	$ 398.7
Debt securities issued by corporations	2,149.2	87.9	(21.1)	(37.9)	2,178.1
Municipal obligations	3.3	.1	(.1)		3.3
Mortgage-backed and asset-backed securities	2,082.0	18.2	(15.6)	(12.9)	2,071.7
Foreign government, agency and provincial obligations	1,053.6	7.7	(6.6)	(8.3)	1,046.4

Preferred stocks	81.9	6.1		(.1)	87.9
Total fixed maturity investments	$ 5,755.9	$ 133.6	$ (44.2)	$ (59.2)	$ 5,786.1

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, 2011 and December 31, 2010, were as follows:

	September 30, 2011				
Millions	**Cost or amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains (losses)**	**Carrying value**
Common equity securities	**$ 661.0**	**$ 35.4**	**$ (26.6)**	**$**	**$ 669.8**
Convertible fixed maturities	**$ 143.7**	**$ 4.4**	**$ (7.6)**	**$**	**$ 140.5**
Other long-term investments	**$ 290.2**	**$ 56.2**	**$ (15.2)**	**$ (2.4)**	**$ 328.8**

	December 31, 2010				
Millions	**Cost or amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains (losses)**	**Carrying value**
Common equity securities	$ 561.2	$ 105.5	$ (1.5)	$ 1.8	$ 667.0
Convertible fixed maturities	$ 126.9	$ 16.2	$ (.1)	$	$ 143.0
Other long-term investments	$ 329.5	$ 62.4	$ (13.0)	$ (6.8)	$ 372.1

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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, 2011, White Mountains held investments in 17 hedge funds and 33 private equity funds. The decrease in the fair value of hedge funds and private equity funds is due to net redemptions during the period. The largest investment in a single fund was $31.4 million at September 30, 2011. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
Millions	**Fair Value**	**Unfunded Commitments**	**Fair Value**	**Unfunded Commitments**
Hedge funds				
Long/short equity	$ 49.0	$	$ 50.4	$
Long/short credit & distressed	32.3		34.1	
Long diversified strategies	22.0		24.0	
Long/short equity REIT	14.7		25.2	
Long/short equity activist	11.7		16.9	
Long bank loan	.5		5.1	
Total hedge funds	130.2		155.7	
Private equity funds				
Distressed residential real estate	31.4		49.2	
Energy infrastructure & services	29.5	9.9	24.2	10.8
Multi-sector	28.0	8.2	26.0	10.6
Manufacturing/Industrial	17.0		17.9	
Private equity secondaries	11.3	4.0	10.4	4.4
Real estate	10.2	3.3	9.1	4.6
International multi-sector, Europe	8.0	4.7	10.5	5.3
International multi-sector, Asia	3.6	2.7	4.9	2.7
Insurance	3.6	41.3	3.9	41.3
Venture capital	2.5	.5	2.2	1.0
Healthcare	2.3	7.0	1.5	8.0
Total private equity funds	147.4	81.6	159.8	88.7
Total hedge and private equity funds included in other long-term investments	$ 277.6	$ 81.6	$ 315.5	$ 88.7

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, 2011 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

			Notice Period		
Millions **Redemption frequency**	**30-59 days notice**	**60-89 days notice**	**90-119 days notice**	**120+ days notice**	**Total**
Monthly	$	$	$	$ 6.0	$ 6.0
Quarterly	26.1	29.7	19.6		75.4

Semi-annual		5.1		14.7	19.8
Annual	21.9		6.6	.5	29.0
Total	$ 48.0	$ 34.8	$ 26.2	$ 21.2	$ 130.2

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, 2011, distributions of $3.2 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, 2011.

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White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. At September 30, 2011 redemptions of $2.0 million are outstanding. The date at which such remittances will be received is not determinable at September 30, 2011. Redemptions are recorded as receivables when approved by the hedge funds and 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, 2011, 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	$ 47.3	$	$ 83.1	$ 17.0	$ 147.4

Fair value measurements at September 30, 2011

White Mountains invested assets measured at fair value include fixed maturity securities, common and preferred equity securities, convertible fixed maturity securities and other long-term investments which primarily consist of hedge funds and private equity funds. 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.

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 hedge fund s and private equity fund s audited annual financial statements and periodically discussing each fund s pricing with the fund 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. The fair value of White Mountains investments in hedge funds and private equity funds has been determined using net asset value.

In addition to the investments described above, White Mountains has $66.1 million and $77.8 million of investment-related liabilities recorded at fair value and included in other liabilities as of September 30, 2011 and December 31, 2010. 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 a Level 1 designation.

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Fair Value Measurements by Level

The following tables summarize White Mountains fair value measurements for investments at September 30, 2011 and December 31, 2010, by level. The fair value measurements for derivative assets associated with White Mountains variable annuity reinsurance business are presented in **Note 8**.

	September 30, 2011			
Millions	**Fair value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed maturities:				
US Government and agency obligations	$ 353.1	$ 343.5	$ 9.6	$
Debt securities issued by corporations:				
Consumer	719.0		719.0	
Industrial	425.3		425.3	
Financials	243.4	5.7	212.2	25.5
Communications	211.0		211.0	
Energy	118.0		118.0	
Basic materials	160.1		160.1	
Utilities	148.3		148.3	
Technology	25.3		25.3	
Diversified	3.5		3.5	
Total debt securities issued by corporations:	2,053.9	5.7	2,022.7	25.5
Municipal obligations	2.4		2.4	
Mortgage-backed and asset-backed securities	2,240.6		2,108.7	131.9
Foreign government, agency and provincial obligations	666.0	64.5	601.5	
Preferred stocks	74.6		15.1	59.5
Total fixed maturities(2)	5,390.6	413.7	4,760.0	216.9
Short-term investments	772.8	759.0	13.8	
Common equity securities:				
Financials	191.6	159.4	.5	31.7
Consumer	166.0	164.8	1.2	
Basic materials	108.4	107.2	1.2	
Energy	57.5	57.5		
Utilities	40.7	40.7		
Technology	28.6	27.6	1.0	
Other	77.0	25.3	51.3	.4
Total common equity securities	669.8	582.5	55.2	32.1
Convertible fixed maturity investments	140.5		140.5	
Other long-term investments(1)	292.2			292.2
Total investments	$ 7,265.9	$ 1,755.2	$ 4,969.5	$ 541.2

(1) Excludes carrying value of $36.6 associated with other long-term investment limited partnerships accounted for using the equity method.

(2) Carrying value includes $102.9 that is classified as assets held for sale relating to AutoOne discontinued operations.

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	December 31, 2010			
Millions	**Fair value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed maturities:				
US Government and agency obligations	$ 398.7	$ 388.9	$ 9.8	$
Debt securities issued by corporations:				
Consumer	769.0		769.0	
Industrial	511.3		511.3	
Financials	265.8	6.3	259.5	
Communications	226.3		226.3	
Basic materials	125.3		125.3	
Utilities	106.7		106.7	
Energy	151.5		151.5	
Technology	22.1		22.1	
Total debt securities issued by corporations:	2,178.0	6.3	2,171.7	
Municipal obligations	3.3		3.3	
Mortgage-backed and asset-backed securities	2,071.7		2,014.7	57.0
Foreign government, agency and provincial obligations	1,046.5	82.6	963.9	
Preferred stocks	87.9		16.5	71.4
Total fixed maturities	5,786.1	477.8	5,179.9	128.4
Short-term investments	975.3	878.7	96.6	
Common equity securities:				
Financials	221.6	152.6	1.2	67.8
Consumer	123.3	122.5	.8	
Basic materials	98.8	97.1	1.7	
Energy	60.2	60.2		
Utilities	47.6	44.6		3.0
Technology	31.8	30.4	1.4	
Other	83.7	30.5	52.8	.4
Total common equity securities	667.0	537.9	57.9	71.2
Convertible fixed maturity investments	143.0		143.0	
Other long-term investments(1)	330.2			330.2
Total investments	$ 7,901.6	$ 1,894.4	$ 5,477.4	$ 529.8

(1) Excludes carrying value of $41.9 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, 2011 and December 31, 2010:

Millions		**September 30, 2011**		**December 31, 2010**
AAA	$		$	
AA		217.4		210.0
A		765.0		833.7
BBB		1,059.8		1,109.1
BB		5.5		24.5
Other		6.2		.7
Debt securities issued by corporations	$	2,053.9	$	2,178.0

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Mortgage-backed, Asset-backed Securities

White Mountains purchases commercial and residential mortgage-backed securities with the goal of maximizing 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 20 points of subordination on average for fixed rate CMBS and more than 55 points of subordination on average for floating rate CMBS as of September 30, 2011. 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, 2011, on average approximately 2% of the underlying loans were reported as non-performing for all non-agency CMBS held by White Mountains. White Mountains is not an originator of residential mortgage loans and did not hold any residential mortgage-backed securities (RMBS) categorized as sub-prime as of September 30, 2011. White Mountains investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities at September 30, 2011. White Mountains considers sub-prime mortgage-backed securities as those that 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-) if they 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. White Mountains non-agency residential mortgage-backed portfolio is generally of moderate average life and structurally senior. White Mountains does not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

	September 30, 2011			December 31, 2010		
Millions	**Fair Value**	**Level 2**	**Level 3**	**Fair Value**	**Level 2**	**Level 3**
Mortgage-backed securities:						
Agency:						
GNMA	$ 1,268.0	$ 1,136.1	$ 131.9	$ 1,143.6	$ 1,102.7	$ 40.9
FNMA	268.9	268.9		234.9	234.9	
FHLMC	56.6	56.6		39.1	39.1	
Total Agency(1)	1,593.5	1,461.6	131.9	1,417.6	1,376.7	40.9
Non-agency:						
Residential	68.0	68.0		90.6	74.5	16.1
Commercial	243.5	243.5		87.0	87.0	
Total Non-agency	311.5	311.5		177.6	161.5	16.1
Total mortgage-backed securities	1,905.0	1,773.1	131.9	1,595.2	1,538.2	57.0
Other asset-backed securities:						
Credit card receivables	77.5	77.5		248.3	248.3	
Vehicle receivables	235.5	235.5		228.1	228.1	
Other	22.6	22.6		.1	.1	
Total other asset-backed securities	335.6	335.6		476.5	476.5	
Total mortgage and asset-backed securities	**$ 2,240.6**	**$ 2,108.7**	**$ 131.9**	$ 2,071.7	$ 2,014.7	$ 57.0

(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).

Non-agency Mortgage-backed Securities

The security issuance years of White Mountains investments in non-agency RMBS and non-agency CMBS securities as of September 30, 2011 are as follows:

		Security Issuance Year						
Millions	**Fair Value**	**2003**	**2005**	**2006**	**2007**	**2009**	**2010**	**2011**
Non-agency RMBS	$ 68.0	$ 3.7	$	$ 24.3	$ 29.5	$	$ 10.5	$
Non-agency CMBS	243.5	2.4	14.7		17.1	11.3	2.2	195.8
Total	$ 311.5	$ 6.1	$ 14.7	$ 24.3	$ 46.6	$ 11.3	$ 12.7	$ 195.8

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Non-agency Residential Mortgage-backed 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, 2011:

Millions		**Fair Value**		**Super Senior (1)**		**Senior (2)**		**Subordinate(3)**
Prime	$	49.9	$	23.2	$	26.7	$	
Non-prime		18.1		17.2		.9		
Sub-prime								
Total	$	68.0	$	40.4	$	27.6	$	

(1) At issuance, Super Senior were rated AAA by Standard & Poor s or Aaa by Moody s and were senior to other AAA or Aaa bonds.
(2) At issuance, Senior were rated AAA by Standard & Poor s or Aaa by Moody s and were senior to non-AAA or non-Aaa bonds.
(3) At issuance, Subordinate were not rated AAA by Standard & Poor s or Aaa by Moody s and were junior to AAA or Aaa bonds.

Non-agency Commercial Mortgage-backed 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, 2011:

Millions		**Fair Value**		**Super Senior (1)**		**Senior(2)**		**Subordinate(3)**
Fixed rate CMBS	$	201.8	$	24.3	$	177.5	$	
Floating rate CMBS		41.7		31.8		9.9		
Total	$	243.5	$	56.1	$	187.4	$	

(1) At issuance, Super Senior were rated AAA by Standard & Poor s or Aaa by Moody s and were senior to other AAA or Aaa bonds.
(2) At issuance, Senior were rated AAA by Standard & Poor s or Aaa by Moody s and were senior to non-AAA or non-Aaa bonds.
(3) At issuance, Subordinate were not rated AAA by Standard & Poor s or Aaa by Moody s and were junior to AAA or Aaa bonds.

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, common equity securities, convertible fixed maturities and other long-term investments at September 30, 2011 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, 2011:

			Level 3 Investments				
Millions	Level 1 Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	Total
Balance at January 1, 2011	$ 1,894.4	$ 5,477.4	$ 128.4	$ 71.2	$	$ 330.2(1)	$ 7,901.6(1)
Total realized and unrealized gains (losses)	(50.5)	115.9	(10.6)	(4.9)		22.5	72.4
Foreign currency gains (losses) through OCI and other revenue	.3	(84.4)	(4.4)	1.6		(5.0)	(91.9)
Amortization/Accretion	2.4	(40.7)	(.1)				(38.4)
Purchases	6,690.7	3,987.4	212.8	19.7		27.9	10,938.5
Sales	(6,782.1)	(4,596.9)	1.6	(55.5)		(83.4)	(11,516.3)
Transfers in		111.8	1.0				112.8
Transfers out		(1.0)	(111.8)				(112.8)
Balance at September 30, 2011	$ 1,755.2	$ 4,969.5	$ 216.9	$ 32.1	$	$ 292.2(1)	$ 7,265.9(1)

(1) Excludes carrying value of $36.6 and $41.9 at September 30, 2011 and January 1, 2011 associated with other long-term investment limited partnerships accounted for using the equity method.

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Fair Value Measurements   transfers between levels - Nine-month period ended September 30, 2011

During the first nine months of 2011, seven securities which had been classified as Level 3 measurements in the prior period 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, 2011. These measurements comprise   Transfers out   of Level 3 and   Transfers in   to Level 2 of $111.8 million in fixed maturities for the period ended September 30, 2011. One security that was classified as a Level 2 investment in the prior period was priced with unobservable inputs during the current period and represents the   Transfers in   of $1 million in Level 3 investments. The fair value of this security was estimated using industry standard pricing models, in which management selected inputs using its best judgment. The security is considered to be Level 3 because the measurements are not directly observable. At September 30, 2011, the estimated fair value for this security determined using the industry standard pricing models was $0.8 million less than the estimated fair value based upon quoted prices provided by a third party.

Note 6. Debt

White Mountains   debt outstanding as of September 30, 2011 and December 31, 2010 consisted of the following:

Millions		**September 30, 2011**		**December 31, 2010**
OBH Senior Notes, at face value	**$**	**269.9**	$	419.9
Unamortized original issue discount		**(.2)**		(.3)
OBH Senior Notes, carrying value		**269.7**		419.6
Sirius Group Senior Notes, at face value		**400.0**		400.0
Unamortized original issue discount		**(.7)**		(.8)
Sirius Group Senior Notes, carrying value		**399.3**		399.2
WTM Bank Facility				
Total debt	**$**	**669.0**	$	818.8

OBH Senior Notes

On April 20, 2011, through a cash tender offer, OneBeacon U.S. Holdings, Inc. (OBH) purchased and retired $150.0 million aggregate principal amount of OBH Senior Notes for $161.6 million, which resulted in a $12.0 million loss, including transaction fees.

On June 1, 2010, through a cash tender offer, OBH purchased and retired $156.4 million aggregate principal amount of OBH Senior Notes for an aggregate purchase price of $165.4 million, which resulted in a $9.6 million loss, including transaction fees.

During 2010, in addition to the cash tender offer, OBH repurchased and retired $29.7 million of outstanding OBH Senior Notes for $30.8 million, which resulted in a $1.2 million loss and OBIC purchased $1.1 million of outstanding OBH Senior Notes for $1.1 million.

Bank Facility

On August 12, 2011 White Mountains entered into a new revolving credit facility with a total commitment of $375.0 million (the WTM Bank Facility) with a syndicate of lenders administered by Bank of America. The WTM Bank Facility replaces the previous revolving credit facility which had a total commitment of $475.0 million. As of September 30, 2011, the WTM Bank Facility was undrawn. During the third quarter of 2011, White Mountains recorded $2.2 million of interest expense on the WTM Bank Facility, primarily related to costs associated with entering into the new facility.

Debt Covenants

At September 30, 2011, White Mountains was in compliance with all debt covenants.

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Note 7. Income Taxes

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law such that taxes are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company s subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Germany, Gibraltar, Luxembourg, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

White Mountains effective tax rate for the three and nine months of 2011 was not meaningful as pre-tax income was near break-even ($1.2 million and $3.6 million). The effective tax rate differed from the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States.

White Mountains income tax expense for the three months and nine months ended September 30, 2010 represented effective tax rates of 15.6% and 17.9%. 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.

In arriving at the effective tax rate for the three and nine months ended September 30, 2011 and 2010, White Mountains forecasted the change in unrealized investment gains (losses) and realized investment gains (losses) for the years ending December 31, 2011 and 2010 and included these gains (losses) in the effective tax rate calculation pursuant to ASC 740-270.

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 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, 2011, the net U.S. deferred tax assets were $362.6 million which includes $88.2 million recorded as assets held for sale. 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.

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 IRS is conducting an examination of income tax returns for 2005 and 2006 for certain U.S. subsidiaries of OneBeacon and Esurance. On January 5, 2011, White Mountains received a revised Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2005 and 2006. The estimated total assessment, including interest and utilization of alternative minimum and foreign tax credit carryovers, is $18.7 million. White Mountains disagrees with the proposed adjustments 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.

On July 28, 2011, the IRS commenced an examination on income tax returns for 2007, 2008 and 2009 for certain U.S. subsidiaries of OneBeacon.

On October 26, 2011, Sirius Re Holdings, Inc. (formerly White Mountains Re Holdings, Inc.) received and signed the IRS Revenue Agent s Report for 2006 - 2007, which contains no proposed adjustments by the Internal Revenue Service.

The IRS also examined the U.S. income tax return filed by WM Belvaux S.à r.l., a Luxembourg subsidiary, for tax year 2007. On May 3, 2011, the exam was completed with no proposed adjustments.

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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, 2011 and December 31, 2010, the total guarantee value was approximately ¥234.5 billion (approximately $3.0 billion at exchange rates on that date) and ¥237.4 billion (approximately $2.9 billion at exchange rates on that date). The collective account values of the underlying variable annuities were approximately 78% and 82% of the guarantee value at September 30, 2011 and December 31, 2010. The following table summarizes the pre-tax operating results of WM Life Re for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2011**	**2010**	**2011**	**2010**
Fees, included in other revenues	**$ 8.4**	$ 7.7	**$ 24.3**	$ 22.3
Change in fair value of variable annuity liability, included in other revenues	**(164.4)**	(53.5)	**(148.0)**	(204.7)
Change in fair value of derivatives, included in other revenues	**148.9**	(15.7)	**105.4**	114.7
Foreign exchange, included in other revenues	**14.8**	10.4	**17.1**	16.0
Other investment income and gains (losses)	**.5**	(.2)	**(.1)**	(.7)
Total revenues	**8.2**	(51.3)	**(1.3)**	(52.4)
Change in fair value of variable annuity death benefit liabilities, included in other expenses	**(5.6)**	.3	**(3.1)**	(5.8)
Death benefit claims paid, included in other expenses	**(.7)**	(.6)	**(2.4)**	(1.4)
General and administrative expenses	**(1.1)**	(1.4)	**(3.2)**	(5.0)
Pre-tax income (loss)	**$ .8**	$ (53.0)	**$ (10.0)**	$ (64.6)

All of White Mountains variable annuity reinsurance liabilities were classified as Level 3 measurements at September 30, 2011. 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, 2011:

	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	**Level 3**	**Level 3 (1)**	**Level 2 (1)(2)**	**Level 1 (3)**	**Total (4)**
Balance at January 1, 2011	$ (610.2)	$ 275.3	$ 72.2	$	$ 347.5
Purchases		5.0			5.0
Realized and unrealized gains (losses)					