WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
April 29, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended March 31, 2010

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 o 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 April 28, 2010, 8,729,056 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).

Table of Contents

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Table of Contents

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)		March 31, 2010 Unaudited		December 31, 2009
Assets				
Fixed maturity investments, at fair value (amortized cost: $5,640.9 and $5,940.1)	**$**	**5,828.3**	$	6,101.2
Short-term investments, at amortized cost (which approximates fair value)		**2,102.2**		2,098.4
Common equity securities, at fair value (cost: $521.2 and $415.5)		**577.1**		458.5
Convertible fixed maturity investments, at fair value (cost: $213.1 and $210.9)		**238.1**		233.1
Other long-term investments (cost: $334.2 and $309.0)		**382.6**		341.3
Total investments		**9,128.3**		9,232.5
Cash (restricted: $207.8 and $217.1)		**345.0**		366.0
Reinsurance recoverable on unpaid losses		**2,919.6**		2,790.9
Reinsurance recoverable on paid losses		**49.7**		35.0
Insurance and reinsurance premiums receivable		**1,004.5**		785.5
Funds held by ceding companies		**103.9**		123.1
Investments in unconsolidated affiliates		**365.8**		344.8
Deferred acquisition costs		**298.3**		303.8
Deferred tax asset		**551.1**		564.0
Ceded unearned insurance and reinsurance premiums		**236.4**		111.1
Accrued investment income		**59.4**		67.4
Accounts receivable on unsettled investment sales		**112.3**		27.6
Other assets		**648.5**		691.5
Total assets	**$**	**15,822.8**	$	15,443.2
Liabilities				
Loss and loss adjustment expense reserves	**$**	**7,091.0**	$	6,802.1
Unearned insurance and reinsurance premiums		**1,698.6**		1,498.5
Debt		**1,026.1**		1,050.7
Deferred tax liability		**339.6**		355.3
Accrued incentive compensation		**116.4**		204.9
Funds held under reinsurance treaties		**103.7**		97.4
Ceded reinsurance payable		**227.3**		92.0
Accounts payable on unsettled investment purchases		**37.1**		9.1
Other liabilities		**928.1**		991.7
Total liabilities		**11,567.9**		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 8,775,632 and 8,860,150 shares		**8.8**		8.9
Paid-in surplus		**1,423.5**		1,436.1
Retained earnings		**2,148.2**		2,215.9
Accumulated other comprehensive income, after-tax:				
Equity in unrealized gains (losses) from investments in unconsolidated affiliates		**23.8**		(9.0)
Net unrealized foreign currency translation (losses) gains		**(.1)**		11.5
Other		**(5.9)**		(6.0)
Total White Mountains common shareholders equity		**3,598.3**		3,657.4

Noncontrolling interests				
Noncontrolling interest - OneBeacon Ltd.		**346.3**		351.0
Noncontrolling interest - WMRe Preference Shares		**250.0**		250.0
Noncontrolling interest - consolidated limited partnerships and A.W.G Dewar		**60.3**		83.1
Total noncontrolling interests		**656.6**		684.1
Total equity		**4,254.9**		4,341.5
Total liabilities and equity	**$**	**15,822.8**	$	15,443.2

See Notes to Consolidated Financial Statements

Table of Contents

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Unaudited

(Millions, except per share amounts)	**Three Months Ended March 31, 2010**	**2009**
Revenues:		
Earned insurance and reinsurance premiums	**$ 864.7**	$ 911.4
Net investment income	**60.6**	61.1
Net realized and unrealized investment gains (losses)	**87.0**	(23.3)
Other revenue	**31.8**	17.3
Total revenues	**1,044.1**	966.5
Expenses:		
Loss and loss adjustment expenses	**703.2**	543.2
Insurance and reinsurance acquisition expenses	**185.0**	182.2
Other underwriting expenses	**115.9**	115.4
General and administrative expenses	**50.5**	58.4
Interest expense on debt	**16.3**	18.9
Total expenses	**1,070.9**	918.1
Pre-tax (loss) income	**(26.8)**	48.4
Income tax benefit (expense)	**.2**	(12.3)
(Loss) income before equity in earnings of unconsolidated affiliates	**(26.6)**	36.1
Equity in (losses) earnings of unconsolidated affiliates	**(11.6)**	.9
Net (loss) income	**(38.2)**	37.0
Net income attributable to noncontrolling interests	**(1.4)**	(6.7)
Net (loss) income attributable to White Mountains common shareholders	**(39.6)**	30.3
Comprehensive income (loss), net of tax:		
Change in equity in net unrealized gains (losses) from investments in unconsolidated affiliates	**32.9**	(18.2)
Change in foreign currency translation and other	**(11.6)**	(39.0)
Comprehensive loss	**(18.3)**	(26.9)
Comprehensive income attributable to noncontrolling interests		(.3)
Comprehensive loss attributable to White Mountains common shareholders	**$ (18.3)**	$ (27.2)
Earnings per share attributable to White Mountains common shareholders		
Basic (loss) earnings per share	**$ (4.48)**	$ 3.44
Diluted (loss) earnings per share	**(4.48)**	3.44
Dividends declared and paid per White Mountains common share	**$ 1.00**	$ **1.00**

See Notes to Consolidated Financial Statements

Table of Contents

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, 2010	$ 3,657.4	$ 1,445.0	$ 2,215.9	$ (3.5)	$ 684.1
Cumulative effect adjustment - ASU 2009-17	(.4)		(.4)		(22.8)
Net (loss) income	(39.6)		(39.6)		1.4
Other comprehensive income, after-tax	21.3			21.3	
Dividends declared on common shares	(8.8)		(8.8)		
Dividends to noncontrolling interests					(4.9)
Repurchases and retirements of common shares	(36.5)	(17.6)	(18.9)		
Issuances of common shares	.5	.5			
Distributions to noncontrolling interests					(1.3)
Amortization of restricted share and option awards	4.4	4.4			.1
Balances at March 31, 2010	**$ 3,598.3**	**$ 1,432.3**	**$ 2,148.2**	**$ 17.8**	**$ 656.6**

	White Mountains Common Shareholders Equity				
(Millions)	**Common shareholders equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive loss, after-tax**	**Non-controlling interest**
Balances at January 1, 2009	$ 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	30.3		30.3		6.7
Other comprehensive (loss) income, after-tax	(57.5)			(57.5)	.3
Dividends declared on common shares	(8.9)		(8.9)		
Dividends to noncontrolling interests					(7.3)
Contributions from noncontrolling interests					2.7
Amortization of restricted share and option awards	3.5	3.5			
Balances at March 31, 2009	**$ 2,866.2**	**$ 1,431.7**	**$ 1,776.3**	**$ (341.8)**	**$ 616.1**

See Notes to Consolidated Financial Statements

3

Table of Contents

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Three Months Ended March 31,	
(Millions)	**2010**	**2009**
Cash flows from operations:		
Net (loss) income	$ **(38.2)**	$ 37.0
Charges (credits) to reconcile net income (loss) to net cash (used for) provided from operations:		
Net realized and unrealized investment (gains) losses	**(87.0)**	23.3
Excess of fair value of acquired net assets over cost	**(12.8)**	
Other operating items:		
Net change in loss and loss adjustment expense reserves	**279.2**	(92.1)
Net change in reinsurance recoverable on paid and unpaid losses	**(145.4)**	39.7
Net change in unearned insurance and reinsurance premiums	**204.1**	149.8
Net change in funds held by ceding companies	**16.9**	6.0
Net change in deferred acquisition costs	**4.8**	(7.7)
Net change in ceded unearned premiums	**(126.2)**	(56.5)
Net change in funds held under reinsurance treaties	**6.4**	(2.1)
Net change in insurance and reinsurance premiums receivable	**(219.2)**	(154.1)
Net change in ceded reinsurance payable	**137.0**	62.1
Net change in other assets and liabilities, net	**(91.1)**	(37.9)
Net cash used for operations	**(71.5)**	(32.5)
Cash flows from investing activities:		
Net change in short-term investments	**12.1**	89.8
Sales of fixed maturity and convertible fixed maturity investments	**442.4**	834.0
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	**846.6**	249.5
Sales of common equity securities	**15.9**	192.6
Distributions and redemptions of other long-term investments	**8.0**	10.3
Contributions to other long-term investments	**(16.1)**	(5.7)
Purchases of common equity securities	**(127.1)**	(17.6)
Purchases of fixed maturity and convertible fixed maturity investments	**(982.1)**	(1,226.3)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	**(4.9)**	
Net change in fixed maturity investments held for collateral under OneBeacon s securities lending program		(44.7)
Net change in short-term investments held for collateral under OneBeacon s securities lending program		(2.2)
Net change in unsettled investment purchases and sales	**(56.7)**	68.6
Net acquisitions of property and equipment	**(1.0)**	(2.7)
Net cash provided from investing activities	**137.1**	145.6
Cash flows from financing activities:		
Repayment of debt	**(14.0)**	(2.0)
Repurchase of debt	**(13.1)**	(8.1)
Cash dividends paid to the Company s common shareholders	**(8.8)**	(8.9)
Cash dividends paid to OneBeacon Ltd. s noncontrolling common shareholders	**(4.9)**	(4.9)
Net change in OneBeacon s securities lending payable		46.9

Common shares repurchased		**(36.5)**		
Proceeds from option exercises		**.5**		
Net cash (used for) provided from financing activities		**(76.8)**		23.0
Effect of exchange rate changes on cash		**(.5)**		(1.9)
Net (decrease) increase in cash during the period		**(11.7)**		134.2
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 $207.8 and $130.7)	**$**	**137.2**	$	318.1
Supplemental cash flows information:				
Interest paid	**$**	**(13.2)**	$	(14.8)
Net (tax payments to) tax receipts from national governments	**$**	**(5.1)**	$	20.6

See Notes to Consolidated Financial Statements

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the Company or the Registrant) and its subsidiaries (collectively, with the Company, White Mountains) and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company s headquarters is located at 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 entered into two transactions that will transform it into a specialty lines company. On December 3, 2009, OneBeacon sold the renewal rights to its non-specialty commercial lines business, and on February 2, 2010, OneBeacon entered into a definitive agreement to sell its traditional personal lines business. As of March 31, 2010 and December 31, 2009, White Mountains owned 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 and through select online agents. Esurance generates additional revenues from the placement of shoppers whose policies it does not write with unaffiliated insurance companies. Answer Financial, which White Mountains acquired during 2008, is an independent personal insurance agency that sells insurance online and in call centers for both Esurance and unaffiliated insurance companies.

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 not included in other segments.

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.

Table of Contents

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 March 31, 2010 and December 31, 2009 was 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 (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 and a troubled debt-restructuring, which was excluded as a reconsideration event under FIN 46R, 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.

Table of Contents

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**).

Note 2. Significant Transactions

On February 2, 2010, OneBeacon entered into a definitive agreement to sell its traditional personal lines business to Tower Group, Inc. The transaction includes two insurance companies containing the personal lines business and two attorneys-in-fact managing the reciprocals that write the personal lines business in New York and New Jersey. All specialty lines, including the collector cars and boats business, and the personal lines assigned risk business written through AutoOne Insurance (AutoOne) will remain with OneBeacon. Net written premiums for the business being sold totaled approximately $420 million for the year ended December 31, 2009. As consideration, OneBeacon will receive an amount equal to the statutory surplus in the reciprocals, the GAAP equity in the insurance companies and attorneys-in-fact, plus $32.5 million. Pending receipt of applicable state regulatory approvals, the transaction is expected to close in the second quarter of 2010.

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 months ended March 31, 2010 and 2009:

	Three Months Ended March 31,	
Millions	**2010**	**2009**
Gross beginning balance	**$ 6,802.1**	$ 7,400.1
Less beginning reinsurance recoverable on unpaid losses	**(2,790.9)**	(3,050.4)
Net loss and LAE reserves	**4,011.2**	4,349.7
Loss and LAE reserves acquired-Central National	**17.6**	

Loss and LAE incurred relating to:				
Current year losses		**719.5**		563.9
Prior year losses		**(16.3)**		(20.7)
Total incurred losses and LAE		**703.2**		543.2
Net change in loss reserves				
Accretion of fair value adjustment to loss and LAE reserves		**2.1**		2.5
Foreign currency translation adjustment to loss and LAE reserves		**(10.8)**		(6.7)
Loss and LAE paid relating to:				
Current year losses		**(152.1)**		(141.8)
Prior year losses		**(399.8)**		(471.5)
Total loss and LAE payments		**(551.9)**		(613.3)
Net ending balance		**4,171.4**		4,275.4
Plus ending reinsurance recoverable on unpaid losses		**2,919.6**		2,984.7
Gross ending balance	**$**	**7,091.0**	$	7,260.1

Table of Contents

Loss and LAE incurred relating to prior year losses for the three months ended March 31, 2010

During the three months ended March 31, 2010, White Mountains experienced $16.3 million of net favorable loss reserve development. OneBeacon, White Mountains Re and Esurance had net favorable loss reserve development of $6.0 million, $5.5 million and $4.8 million, respectively.

The favorable loss reserve development at OneBeacon was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, commercial package business and other general liability lines. The favorable loss reserve development at WMRe was primarily at WMRe Sirius. The favorable loss reserve development at Esurance was primarily due to liability coverages for accident years 2008 and 2009.

Loss and LAE incurred relating to prior year losses for the three months ended March 31, 2009

During the three months ended March 31, 2009, White Mountains experienced $20.7 million of favorable loss reserve development. OneBeacon and White Mountains Re had favorable loss reserve development of $14.8 million and $5.9 million.

The favorable loss reserve development at OneBeacon was primarily due to lower than expected severity on non-catastrophe 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. The favorable loss reserve development at White Mountains Re was primarily related to short-tailed lines at WMRe Sirius.

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 $2.1 million and $2.5 million of charges for the three months ended March 31, 2010 and 2009. As of March 31, 2010, the pre-tax un-accreted adjustment was $27.4 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 March 31, 2010, OneBeacon had $19.8 million of reinsurance recoverables on paid losses and $2,387.8 million (gross of $187.0 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 March 31, 2010**	**% of Total**	**A.M. Best Rating(1)**
National Indemnity Company and General Reinsurance Corporation (2)	$	1,840.9	76%	A++
Tokio Marine and Nichido Fire (3)		45.5	2%	A++
Munich Reinsurance America		40.9	2%	A+
QBE Insurance Corporation		28.2	1%	A
Swiss Re Group		18.6	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), and A (Excellent, which is the third 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 $105.4 of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) Includes $38.8 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.

Table of Contents

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 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 March 31, 2010 it has used approximately $2.2 billion of the coverage provided by NICO. Through March 31, 2010 $1.2 billion of these incurred losses have been paid by NICO. Since entering into the NICO Cover, approximately 4.4% ($97 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.

Effective July 1, 2009, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2010. The program provides coverage for OneBeacon s personal and commercial property business as well as certain acts of terrorism. Under the program, the first $100 million of losses resulting from any single catastrophe are retained and the next $750 million of losses resulting from the catastrophe are reinsured. Any loss above $850 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 entered into a 30% quota share agreement with a group of reinsurers that ran from January 1, 2009 through December 31, 2009, and renewed the agreement effective January 1, 2010. During the three months ended March 31, 2010 and 2009, OneBeacon ceded $11.6 million and $13.6 million, respectively, of written premiums from its Northeast homeowners business written through OneBeacon Insurance Company and its subsidiary companies, along with Adirondack Insurance Exchange and New Jersey Skylands Insurance Association in New York and New Jersey, respectively.

White Mountains Re

At March 31, 2010, White Mountains Re had $28.1 million of reinsurance recoverables on paid losses and $698.7 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 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 March 31, 2010**	**% of Total**	**A.M. Best Rating (2)**	**% Collateralized**
Imagine Re (1)	$ **125.9**	17%	NR-5	100%
London Life (1)	**77.8**	11%	A	100%
Olympus (1)(3)	**69.0**	9%	NR-5	100%
General Re	**46.1**	6%	A++	2%
Swiss Re Group	**40.5**	6%	A	4%

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

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

(3) Gross of $7.8 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 common 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 first-in first-out 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 March 31, 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 months ended March 31, 2010 and 2009 consisted of the following:

	Three Months Ended March 31,	
Millions	**2010**	**2009**
Investment income:		
Fixed maturity investments	**$ 58.1**	$ 57.4
Short-term investments	**.5**	2.4
Common equity securities	**2.1**	1.8
Convertible fixed maturity investments	**2.1**	1.9
Other long-term investments	**1.0**	.9
Interest on funds held under reinsurance treaties	**(.8)**	(.5)
Total investment income	**63.0**	63.9
Less third-party investment expenses	**(2.4)**	(2.8)
Net investment income, pre-tax	**$ 60.6**	$ 61.1

Net realized and unrealized investment gains and losses

White Mountains recognized $87.0 million and $(23.3) million of net realized and unrealized investment gains (losses) for the three months ended March 31, 2010 and 2009.

Net realized investment gains (losses)

Net realized investment gains (losses) for the three months ended March 31, 2010 and 2009 consisted of the following:

	Three Months Ended March 31,	
Millions	**2010**	**2009**
Fixed maturity investments	**$ 25.6**	$ (32.7)
Short-term investments		.1
Common equity securities	**2.7**	(51.1)
Convertible fixed maturity investments	**4.4**	.8
Other long-term investments	**(2.5)**	(3.4)
Net realized investment gains (losses), pre-tax	**30.2**	(86.3)
Income taxes attributable to realized investment gains (losses)	**(10.7)**	27.7
Net realized investment gains (losses), after-tax	**$ 19.5**	$ (58.6)

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 March 31, 2010 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings	Three Months Ended March 31, 2009 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings
Fixed maturities	$ 29.1	$ (3.3)	$ 25.8	$ 64.1	$ 3.0	$ 67.1
Common equity securities	14.0	(1.2)	12.8	(1.6)	3.0	1.4
Short-term investments	1.6	(1.9)	(.3)	(.2)	.2	
Convertible fixed maturity investments	2.8		2.8	(1.4)		(1.4)
Other long-term investments	16.7	(1.0)	15.7	(6.5)	2.4	(4.1)
Net unrealized investment gains (losses), pre-tax	**64.2**	**(7.4)**	**56.8**	54.4	8.6	63.0
Income taxes attributable to unrealized investment gains (losses)	**(20.1)**	**2.3**	**(17.8)**	(20.2)	(3.5)	(23.7)
Net unrealized investment gains (losses), after-tax	**$ 44.1**	**$ (5.1)**	**$ 39.0**	$ 34.2	$ 5.1	$ 39.3

The following table summarizes the amount of total gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 assets for the three months ended March 31, 2010 and 2009:

Millions	Three Months Ended March 31, 2010	2009
Fixed maturities	**$ 9.6**	$ 9.9
Common equity securities	**(3.4)**	(2.7)
Convertible fixed maturities		
Other long-term investments	**36.4**	(13.7)
Total unrealized investment gains (losses) - Level 3 investments	**$ 42.6**	$ (6.5)

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 March 31, 2010 and December 31, 2009, were as follows:

March 31, 2010

Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$ 668.0	$ 18.5	$	$ .5	$ 687.0
Debt securities issued by industrial corporations	2,210.3	127.7	(1.9)	(7.1)	2,329.0
Municipal obligations	4.0	.2			4.2
Mortgage-backed and asset-backed securities	1,915.0	35.2	(7.7)	4.6	1,947.1
Foreign government, agency and provincial obligations	769.6	18.4	(.1)	(2.1)	785.8
Preferred stocks	74.0	1.5	(.3)		75.2
Total fixed maturity investments	**$ 5,640.9**	$ 201.5	$ (10.0)	$ (4.1)	**$ 5,828.3**

Table of Contents

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 industrial 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, and carrying values of White Mountains common equity securities, convertible fixed maturities, and other long-term investments as of March 31, 2010 and December 31, 2009, were as follows:

Millions	March 31, 2010 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains(losses)	Carrying value
Common equity securities	**$ 521.2**	$ 56.3	$ (10.6)	$ 10.2	**$ 577.1**
Convertible fixed maturities	**$ 213.1**	$ 25.1	$ (.1)	$	**$ 238.1**
Other long-term investments	**$ 334.2**	$ 61.8	$ (13.4)	$	**$ 382.6**

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 March 31, 2010, White Mountains held limited partnership and limited liability corporation investments in 20 hedge funds and 31 private equity funds. The largest investment in a single fund was $53.9 million at March 31, 2010. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at March 31, 2010:

Millions	Fair Value	Unfunded Commitments
Hedge funds		
Long/short equity	$ 97.9	
Long/short credit & distressed	40.9	
Long/short equity REIT	24.2	
Long diversified strategies	23.9	
Long/short equity activist	16.7	
Long bank loan	9.2	
Total hedge funds	212.8	
Private equity funds		
Energy infrastructure & services	$ 31.7	$ 16.7
Multi-sector	23.9	12.6
Manufacturing/Industrial	15.0	
International multi-sector, Europe	12.4	5.3
Real estate	10.9	5.3
Distressed residential real estate	10.0	40.9
Private equity secondaries	8.7	2.9
Insurance	6.8	41.2
International multi-sector, Asia	4.7	2.8
Banking	4.2	.1
Venture capital	2.6	1.0
Healthcare	1.7	8.0
Total private equity funds	132.6	136.8
Total hedge and private equity funds included in other long-term investments	$ 345.4	$ 136.8

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 March 31, 2010 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

Millions			Hedge Funds	Active Funds	
Redemption frequency	30-59 days notice	60-89 days notice	90-119 days notice	120+ days notice	Total
Monthly	$	$	$	$ 5.9	$ 5.9
Quarterly	19.4	35.1	18.3		72.8

Semi-annual		53.9		5.4		24.1				83.4
Annual		23.9		.1		17.5		9.2		50.7
Total	$	97.2	$	40.6	$	59.9	$	15.1	$	212.8

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 March 31, 2010, distributions of $18.6 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 March 31, 2010.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. At March 31, 2010 redemptions of $6.2 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.

Table of Contents

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 March 31, 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	$ 24.5	$ 10.0	$ 82.7	$ 15.4	$ 132.6

Fair value measurements at March 31, 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 $68.4 million and $51.4 million of investment-related liabilities recorded at fair value and included in other liabilities as of March 31, 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 March 31, 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**.

	March 31, 2010			
Millions	**Fair value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
US Government and agency obligations	$ 687.0	$ 614.1	$ 72.1	$ .8
Corporate debt securities				
AAA	7.1		7.1	
AA	153.5		153.5	
A	732.0		732.0	
BBB	1,402.7		1,402.0	.7
BB	32.4		32.4	
Other	1.3		1.3	
	2,329.0		2,328.3	.7
Municipal obligations	4.2		4.2	
Mortgage-backed and asset-backed securities	1,947.1		1,927.3	19.8
Foreign government, agency and provincial obligations	785.8	104.7	681.1	
Preferred stocks	75.2		4.5	70.7
Fixed maturities	5,828.3	718.8	5,017.5	92.0
Financials	189.5	118.6	1.0	69.9
Basic materials	77.6	76.4	1.2	
Consumer	69.1	69.1		
Energy	45.0	42.8		2.2
Utilities	41.6	41.6		
Other	154.3	57.1	50.5	46.7
Common equity securities	577.1	405.6	52.7	118.8
Convertible fixed maturity investments	238.1		238.1	
Short-term investments	2,102.2	2,098.1	4.1	
Other long-term investments (1)	363.3			363.3
Total investments	$ 9,109.0	$ 3,222.5	$ 5,312.4	$ 574.1

(1) Excludes carrying value of $19.3 associated with other long-term investment limited partnerships accounted for using the equity method.

Table of Contents

	December 31, 2009			
Millions	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
US Government and agency obligations	$ 799.1	$ 725.7	$ 72.5	$ .9
Corporate debt securities				
AAA	7.3		7.3	
AA	274.3		274.1	.2
A	725.1		720.1	5.0
BBB	1,336.3		1335.6	.7
BB	64.9		64.9	
Other	17.2		17.2	
	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(2)	454.5	281.8	50.5	122.2
Convertible fixed maturity investments	233.1		233.1	
Short-term investments	2,098.4	2,091.9	6.5	
Other long-term investments (1)	325.6			325.6
Total investments	$ 9,212.8	$ 3,211.8	$ 5,434.1	$ 566.9

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

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

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 March 31, 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 March 31, 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 $0.1 million of residential mortgage-backed securities (RMBS) categorized as sub-prime as of March 31, 2010. In addition, White Mountains investments in hedge funds, limited partnerships, limited liability corporations and private equities contain negligible amounts of sub-prime mortgage-backed securities at March 31, 2010. White Mountains considers sub-prime mortgage-backed securities to be those that are issued from dedicated sub-prime shelves, have underlying loan pools that exhibit weak credit characteristics, and 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).

Table of Contents

There are also mortgage-backed securities that White Mountains categorizes 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 March 31, 2010, $17.1 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	March 31, 2010 Fair Value	Level 2	Level 3	December 31, 2009 Fair Value	Level 2	Level 3
Mortgage-backed securities:						
GNMA	$ 815.4	$ 815.4	$	$ 808.7	$ 808.7	$
FNMA	436.5	436.5		342.9	342.9	
FHLMC	96.2	96.2		182.1	182.1	
Total Agency(1)	1,348.1	1,348.1		1,333.7	1,333.7	
Non-agency:						
Residential	126.0	126.0		148.2	148.2	
Commercial	235.7	215.9	19.8	376.5	334.2	42.3
Total Non-agency	361.7	341.9	19.8	524.7	482.4	42.3
Total mortgage-backed securities	1,709.8	1,690.0	19.8	1,858.4	1,816.1	42.3
Other asset-backed securities:						
Credit card receivables	54.0	54.0		61.2	61.2	
Auto loans	182.8	182.8		156.5	156.5	
Other	.5	.5		.8	.8	
Total other asset-backed securities	237.3	237.3		218.5	218.5	
Total mortgage and asset-backed securities	**$ 1,947.1**	**$ 1,927.3**	**$ 19.8**	$ 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).

Non-agency Mortgage Securities

The security issuance years of White Mountains investments in non-agency RMBS and non-agency CMBS securities as of March 31, 2010 are as follows:

Millions	Fair Value	Security Issuance Year 2001	2003	2004	2005	2006	2007
Non-agency RMBS	$ 126.0	$	$ 5.8	$ 4.8	$ 23.3	$ 56.5	$ 35.6
Non-agency CMBS	235.7	11.3	11.0		39.2	6.6	167.6
Total	$ 361.7	$ 11.3	$ 16.8	$ 4.8	$ 62.5	$ 63.1	$ 203.2

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 March 31, 2010:

Millions	**Fair Value**	**Super Senior (1)**	**Senior (2)**	**Subordinate(3)**
Prime	$ 108.8	$ 73.8	$ 35.0	$
Non-prime	17.1	15.7	1.4	
Sub-prime	.1		.1	
Total	$ 126.0	$ 89.5	$ 36.5	$

(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

Non-agency Commercial Mortgage Securities

The amount of fixed and float rate securities and their tranche levels of White Mountains non-agency CMBS securities are as follows as of March 31, 2010:

Millions	**Fair Value**	**Super Senior (1)**	**Senior(2)**	**Subordinate(3)**
Fixed rate CMBS	$ 191.6	$ 169.2	$ 11.0	$ 11.4
Float rate CMBS	44.1	41.9		2.2
Total	$ 235.7	$ 211.1	$ 11.0	$ 13.6

(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.

Rollfoward 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 March 31, 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 three months ended March 31, 2010:

			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, 2010	$ 3,211.8	$ 5,434.1	$ 119.1	$ 122.2	$	$ 325.6	$ 9,212.8
Total realized and unrealized gains (losses) (1)	21.1	34.6	5.1	(3.4)		10.7	68.1
Amortization/Accretion	.2	(7.5)	(1.7)				(9.0)
Purchases (2)	4,439.5	982.4				16.2	5,438.1
Sales	(4,450.1)	(1,136.4)	(25.3)			(4.2)	(5,616.0)
Transfers in		5.2				15.0	20.2

Transfers out			(5.2)				(5.2)
Balance at March 31, 2010	$ 3,222.5	$ 5,312.4	$ 92.0	$ 118.8	$	$ 363.3	$ 9,109.0

(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 Central National acquisition.

Fair Value Measurements transfers between levels - Three-month period ended March 31, 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 quarter of 2010, two 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 March 31, 2010. These measurements comprise Transfers out of $5.2 million for the period ended March 31, 2010.

Table of Contents

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 March 31, 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 March 31, 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 $4.7 million for the three months ended March 31, 2009 associated with its securities lending programs.

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 March 31, 2010 and December 31, 2009 consisted of the following:

Millions		**March 31, 2010**		**December 31, 2009**
OBH Senior Notes, at face value	**$**	**594.5**	$	607.1
Unamortized original issue discount		**(.5)**		