WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
July 30, 2013

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 June 30, 2013

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Exact name of Registrant as specified in its charter)

Bermuda (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 ý No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ý 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 ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

As of July 30, 2013, 6,176,489 common shares with a par value of $1.00 per share were outstanding (which includes 95,380 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Table of Contents

Part I.FINANCIAL INFORMATION.
Item 1. Financial Statements
WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEET

(Millions, except share amounts)	June 30, 2013	December 31, 2012
Assets	Unaudited	
Fixed maturity investments, at fair value	$4,931.9	$5,196.2
Short-term investments, at amortized cost (which approximates fair value)	606.8	630.6
Common equity securities, at fair value	1,029.5	1,029.7
Convertible fixed maturity investments, at fair value	74.1	127.4
Other long-term investments	303.3	294.2
Total investments	6,945.6	7,278.1
Cash (restricted: $61.2 and $249.8)	348.3	462.4
Reinsurance recoverable on unpaid losses	388.6	429.1
Reinsurance recoverable on paid losses	16.1	17.9
Insurance and reinsurance premiums receivable	706.7	556.3
Funds held by ceding companies	98.2	127.4
Investments in unconsolidated affiliates	331.9	387.9
Deferred acquisition costs	180.6	195.3
Deferred tax asset	540.5	569.6
Ceded unearned insurance and reinsurance premiums	137.0	91.8
Accrued investment income	45.9	45.9
Accounts receivable on unsettled investment sales	14.0	3.9
Other assets	483.3	503.0
Assets held for sale	2,047.0	2,226.8
Total assets	$12,283.7	$12,895.4
Liabilities		
Loss and loss adjustment expense reserves	$3,057.9	$3,168.9
Unearned insurance and reinsurance premiums	1,015.0	924.1
Variable annuity benefit guarantee	194.1	441.5
Debt	676.3	751.2
Deferred tax liability	317.5	341.3
Accrued incentive compensation	125.9	159.0
Ceded reinsurance payable	156.9	116.5
Funds held under reinsurance treaties	75.5	43.7
Accounts payable on unsettled investment purchases	55.7	11.4
Other liabilities	371.5	452.8
Liabilities held for sale	2,047.0	2,226.8
Total liabilities	8,093.3	8,637.2
Equity		
White Mountains' common shareholders' equity		
White Mountains' common shares at $1 par value per share - authorized 50,000,000 shares;		
issued and outstanding 6,176,489 and 6,290,964 shares	6.2	6.3
Paid-in surplus	1,036.2	1,050.9
Retained earnings	2,627.2	2,542.7
Accumulated other comprehensive income, after tax:		
Equity in net unrealized (losses) gains from investments in unconsolidated affiliates	(16.3)	57.7
Net unrealized foreign currency translation gains	47.2	85.7

Pension liability and other	(11.3)	(11.5)
Total White Mountains' common shareholders' equity	3,689.2	3,731.8
Non-controlling interests		
Non-controlling interest - OneBeacon Ltd.	258.4	251.4
Non-controlling interest - SIG Preference Shares	250.0	250.0
Non-controlling interest - HG Global	16.6	16.6
Non-controlling interest - BAM	(71.7)	(36.0)
Non-controlling interest - other	47.9	44.4
Total non-controlling interests	501.2	526.4
Total equity	4,190.4	4,258.2
Total liabilities and equity	$12,283.7	$12,895.4

See Notes to Consolidated Financial Statements

1

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

(Millions, except per share amounts)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenues:				
Earned insurance and reinsurance premiums	$497.5	$510.5	$992.9	$1,008.5
Net investment income	28.7	40.4	57.2	82.2
Net realized and unrealized investment (losses) gains	(37.3)	(8.1)	37.9	50.5
Other revenue	.4	(.5)	28.7	30.7
Total revenues	489.3	542.3	1,116.7	1,171.9
Expenses:				
Loss and loss adjustment expenses	274.6	263.9	518.9	513.7
Insurance and reinsurance acquisition expenses	76.1	109.5	174.3	218.6
Other underwriting expenses	84.5	78.3	163.6	151.8
General and administrative expenses	40.2	42.1	84.0	87.6
Interest expense on debt	10.3	10.9	20.5	21.8
Total expenses	485.7	504.7	961.3	993.5
Pre-tax income from continuing operations	3.6	37.6	155.4	178.4
Income tax benefit (expense)	.6	(6.4)	(41.0)	(37.5)
Net income from continuing operations	4.2	31.2	114.4	140.9
Net gain (loss) income from discontinued operations, net of tax	3.9	.5	4.4	(8.8)
Income before equity in earnings of unconsolidated affiliates	8.1	31.7	118.8	132.1
Equity in earnings of unconsolidated affiliates, net of tax	7.1	6.5	16.3	16.7
Net income	15.2	38.2	135.1	148.8
Net loss (income) attributable to non-controlling interests	11.1	(12.1)	11.6	(28.9)
Net income attributable to White Mountains' common shareholders	26.3	26.1	146.7	119.9
Other comprehensive income, net of tax:				
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates	(66.0)	28.2	(74.0)	27.0
Change in foreign currency translation and other	(34.6)	(29.8)	(38.3)	(6.3)
Comprehensive (loss) income	(74.3)	24.5	34.4	140.6
Comprehensive income attributable to non-controlling interests	—	—	—	—
Comprehensive (loss) income attributable to White Mountains' common shareholders	$(74.3)	$24.5	$34.4	$140.6

Income (loss) per share attributable to White Mountains' common shareholders				
Basic income (loss) per share				
Continuing operations	$3.62	$3.85	$22.84	$18.28
Discontinued operations	.64	.07	.71	(1.25)
Total consolidated operations	$4.26	$3.92	$23.55	$17.03
Diluted income (loss) per share				
Continuing operations	$3.62	$3.85	$22.84	$18.28
Discontinued operations	.64	.07	.71	(1.25)
Total consolidated operations	$4.26	$3.92	$23.55	$17.03
Dividends declared per White Mountains' common share	$—	$—	$1.00	$1.00

See Notes to Consolidated Financial Statements

2

WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Unaudited

(Millions)	White Mountains' Common Shareholders' Equity: Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2013	$1,057.2	$2,542.7	$131.9	$3,731.8	$ 526.4	$4,258.2
Net income (loss)	—	146.7	—	146.7	(11.6)	135.1
Net change in unrealized losses from investments in unconsolidated affiliates	—	—	(74.0)	(74.0)	—	(74.0)
Net change in foreign currency translation	—	—	(38.5)	(38.5)	—	(38.5)
Net change in pension liability and other accumulated comprehensive items	—	—	.2	.2	—	.2
Total comprehensive income (loss)	—	146.7	(112.3)	34.4	(11.6)	22.8
Dividends declared on common shares	—	(6.2)	—	(6.2)	—	(6.2)
Dividends to non-controlling interests	—	—	—	—	(19.8)	(19.8)
Repurchases and retirements of common shares	(23.8)	(56.0)	—	(79.8)	—	(79.8)
Issuances of common shares	1.0	—	—	1.0	—	1.0
Net contributions from non-controlling interests	—	—	—	—	5.5	5.5
Amortization of restricted share and option awards	8.0	—	—	8.0	.7	8.7
Balance at June 30, 2013	$1,042.4	$2,627.2	$19.6	$3,689.2	$ 501.2	$4,190.4

(Millions)	White Mountains' Common Shareholders' Equity: Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2012	$1,261.3	$2,789.7	$36.7	$4,087.7	$ 580.2	$4,667.9
Net income	—	119.9	—	119.9	28.9	148.8
Net change in unrealized losses from investments in unconsolidated affiliates	—	—	27.0	27.0	—	27.0
Net change in foreign currency translation	—	—	(6.3)	(6.3)	—	(6.3)
Net change in pension liability and other accumulated comprehensive items	—	—	—	—	—	—
Total comprehensive income	—	119.9	20.7	140.6	28.9	169.5

Dividends declared on common shares	—	(6.6)	—	(6.6)	—	(6.6)
Dividends to non-controlling interests	—	—	—	—	(19.3)	(19.3)
Repurchases and retirements of common shares	(164.3)	(326.7)	—	(491.0)	—	(491.0)
Issuances of common shares	5.5	—	—	5.5	—	5.5
Net distributions to non-controlling interests	—	—	—	—	1.8	1.8
Amortization of restricted share and option awards	6.3	—	—	6.3	.4	6.7
Balance at June 30, 2012	$1,108.8	$2,576.3	$57.4	$3,742.5	$ 592.0	$4,334.5

See Notes to Consolidated Financial Statements

3

WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Six Months Ended June 30,	
(Millions)	2013	2012
Cash flows from operations:		
Net income	$135.1	$148.8
Charges (credits) to reconcile net income to net cash (used for) provided from operations:		
Net realized and unrealized investment gains	(37.9)	(50.5)
Deferred income tax expense	8.2	31.9
Net (gain) loss from discontinued operations	(4.4)	8.8
Gain on sale of subsidiary - Essentia	(23.0)	—
Excess of fair value of acquired net assets over cost - American Fuji	(6.9)	—
Undistributed equity in earnings from unconsolidated affiliates, net of tax	(16.3)	(16.7)
Other operating items:		
Net change in loss and loss adjustment expense reserves	(99.4)	(213.1)
Net change in reinsurance recoverable on paid and unpaid losses	36.0	69.7
Net change in unearned insurance and reinsurance premiums	112.3	225.9
Net change in variable annuity benefit guarantee liabilities	(247.4)	(106.7)
Net change in variable annuity benefit guarantee derivative instruments	(43.0)	(40.1)
Net change in deferred acquisition costs	12.5	(13.9)
Net change in funds held by ceding companies	35.0	(1.9)
Net change in ceded unearned premiums	(54.5)	(49.9)
Net change in funds held under reinsurance treaties	33.1	5.0
Net change in insurance and reinsurance premiums receivable	(191.7)	(268.4)
Net change in ceded reinsurance payable	70.8	38.7
Net change in other assets and liabilities, net	89.9	43.4
Net cash used for operations - continuing operations	(191.6)	(189.0)
Net cash used for operations - discontinued operations	(72.8)	(94.8)
Net cash used for operations	(264.4)	(283.8)
Cash flows from investing activities:		
Net change in short-term investments	24.2	172.8
Sales of fixed maturity and convertible fixed maturity investments	2,639.4	3,239.6
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	310.3	296.6
Sales of common equity securities	348.2	74.0
Distributions and redemptions of other long-term investments	23.3	20.0
Sales of consolidated and unconsolidated affiliates, net of cash sold	31.3	—
Funding of operational cash flows for discontinued operations	(72.8)	(94.8)
Purchases of other long-term investments	(21.9)	(13.9)
Purchases of common equity securities	(251.9)	(233.4)
Purchases of fixed maturity and convertible fixed maturity investments	(2,605.2)	(2,491.7)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(9.2)	—
Net change in unsettled investment purchases and sales	34.3	(61.6)
Net acquisitions of property and equipment	(6.2)	(.8)
Net cash provided from investing activities - continuing operations	443.8	906.8
Net cash provided from investing activities - discontinued operations	72.8	94.8
Net cash provided from investing activities	516.6	1,001.6

Cash flows from financing activities:		
Draw down of revolving line of credit	130.0	—
Repayment of revolving line of credit	(205.0)	—
Payments on capital lease obligation	(2.7)	(2.4)
Cash dividends paid to the Company's common shareholders	(6.2)	(6.6)
Cash dividends paid to OneBeacon Ltd.'s non-controlling common shareholders	(9.9)	(9.9)
Cash dividends paid on SIG Preference Shares	(9.4)	(9.4)
Common shares repurchased	(79.8)	(491.0)
Capital contributions from BAM members	8.0	—
Net cash used for financing activities - continuing operations	(175.0)	(519.3)
Net cash (used for) provided from financing activities - discontinued operations	—	—
Net cash used for financing activities	(175.0)	(519.3)
Effect of exchange rate changes on cash	(2.7)	(.8)
Net change in cash during the period	74.5	197.7
Cash reclassified from assets held for sale (cash sold of $0 and $3.5)	—	2.0
Cash balances at beginning of period (excludes restricted cash balances of $249.8 and $453.5)	212.6	251.9
Cash balances at end of period (excludes restricted cash balances of $61.2 and $360.0)	$287.1	$451.6
Supplemental cash flows information:		
Interest paid	$(19.3)	$(12.8)
Net income tax payments to national governments	$(8.4)	$(8.7)

See Notes to Consolidated Financial Statements

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, HG Global/BAM and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (“OneBeacon Ltd.”), an exempted Bermuda limited liability company that owns a family of U.S.-based property and casualty insurance companies (collectively, “OneBeacon”). 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 both June 30, 2013 and December 31, 2012, White Mountains owned 75.2% of OneBeacon Ltd.’s outstanding common shares.

As discussed further in Note 2, OneBeacon entered into a definitive agreement to sell its runoff business in October 2012 (the “Runoff Transaction”) and sold its AutoOne Insurance business (“AutoOne”) in February 2012. Accordingly, the runoff business and AutoOne are presented as discontinued operations. Assets and liabilities associated with the runoff business as of June 30, 2013 and December 31, 2012 have been presented as 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. (See Note 15 for discontinued operations.)

The Sirius Group segment consists of Sirius International Insurance Group, Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, “Sirius Group”). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis through its primary subsidiaries, Sirius International Insurance Corporation (“Sirius International”), Sirius America Insurance Company (“Sirius America”) and Lloyds Syndicate 1945 (“Syndicate 1945”). Sirius Group also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division (“WM Solutions”).

The HG Global/BAM segment consists of White Mountains' investment in HG Global Ltd. (“HG Global”) and the consolidated results of Build America Mutual Assurance Company (“BAM”). During the third quarter of 2012, White Mountains capitalized HG Global with approximately $600 million to fund the start-up of BAM. BAM is a municipal bond insurer domiciled in New York that was established to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503 million of surplus notes issued by BAM (the “BAM Surplus Notes”). HG Global, through its wholly-owned subsidiary, HG Re Ltd. (“HG Re”), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of both June 30, 2013 and December 31, 2012, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, GAAP requires White Mountains to consolidate BAM's results in its financial statements. BAM's results are attributed to non-controlling interests.

White Mountains’ Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (“WM Advisors”), White Mountains’ variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (“WM Life Re”), which is in runoff, as well as various other entities not included in other segments. Prior to 2012, the Other Operations segment also included the consolidated results of the Tuckerman Capital, LP fund (“Tuckerman Fund I”). On December

31, 2011, Tuckerman Fund I was dissolved and all of the net assets of the fund were distributed to the owners of the fund, of which White Mountains owned approximately 94%. In conjunction with the dissolution, White Mountains received a portion of the shares of Hamer, LLC (“Hamer”) and Bri-Mar Manufacturing, LLC (“Bri-Mar”), two small manufacturing companies. Prior to the dissolution, Tuckerman Fund I was consolidated within White Mountains' financial statements. The consolidated results of Hamer and Bri-Mar are included in the Other Operations segment from January 1, 2012 through September 30, 2012, from which point these companies were no longer consolidated by White Mountains.

White Mountains' discontinued operations consist of OneBeacon's runoff business and AutoOne. The OneBeacon runoff business included assets and liabilities that were principally related to non-specialty commercial lines and certain other runoff business that it no longer writes, including nearly all of its asbestos and environmental reserves. 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. 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 2012 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. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. Refer to the Company’s 2012 Annual Report on Form 10-K for a complete discussion regarding White Mountains’ significant accounting policies.

Non-controlling Interests

Non-controlling interests consist of the ownership interests of non-controlling shareholders in consolidated subsidiaries and are presented separately on the balance sheet.

The percentage of the non-controlling shareholders' ownership interest in OneBeacon Ltd. at both June 30, 2013 and December 31, 2012 was 24.8%.

In July 2012, HG Global was capitalized with $594.5 million from White Mountains and $14.5 million from certain management personnel of BAM, the latter of which is included in non-controlling interest. Upon closing, certain BAM management personnel also received additional common and preferred shares of HG Global that resulted in a $2.2 million allocation of the carrying value of White Mountains' investment in HG Global to the non-controlling interest, which was recorded as an adjustment to paid-in surplus in White Mountains' consolidated statement of changes in equity.

White Mountains is required to consolidate BAM in its GAAP financial statements. However, since BAM is a mutual insurance company that is owned by its members, BAM's results do not affect White Mountains' common shareholders' equity as they are attributable to non-controlling interests. For the three and six months ended June 30, 2013, BAM reported $20.9 million and $41.0 million in losses that have been allocated to non-controlling interest.

In May 2007, Sirius International Group, Ltd. (“SIG”), an intermediate holding company of Sirius Group, issued $250 million non-cumulative perpetual preference shares, with a $1,000 per share liquidation preference (the “SIG Preference Shares”), and received $245.7 million of proceeds, net of $4.3 million of issuance costs and commissions. SIG Preference Shares and dividends thereon are included in non-controlling interest on the balance sheet and on the statement of income and comprehensive income.

At June 30, 2013 and December 31, 2012, the non-controlling equity interest in White Mountains' consolidated limited partnerships was $45.0 million and $41.5 million. At both June 30, 2013 and December 31, 2012, the non-controlling equity interest in A.W.G. Dewar Inc, a subsidiary of OneBeacon, was $2.8 million. At June 30, 2013 and December 31, 2012, the non-controlling equity interest in Passage2Health Limited, a subsidiary of Sirius Group, was $0.1 million and $0.2 million.

Recently Adopted Changes in Accounting Principles

Policy Acquisition Costs

On January 1, 2012, White Mountains adopted 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.

White Mountains adopted ASU 2010-26 prospectively. Upon adoption, certain acquisition costs, primarily a portion of the profit sharing commissions associated with OneBeacon's collector car and boat business, no longer met the criteria for deferral. During the year ended December 31, 2012, White Mountains recognized $5.6 million of expense related to such previously deferrable acquisition costs that, if White Mountains had adopted ASU 2010-26 retrospectively, would have been recognized during 2011.

Fair Value Measurements

On January 1, 2012, White Mountains adopted ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. 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. As a result of adopting ASU 2011-04, White Mountains expanded its fair value disclosures. (See Note 5.)

Recently Issued Accounting Pronouncements

Offsetting Assets and Liabilities

Effective January 1, 2013, White Mountains adopted ASU 2011-11, Disclosures about Offsetting Assets and Liabilities (ASC 210) and ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The new guidance expands the required disclosures in circumstances where either balances have been offset or the right of offset exists to make it easier for financial statement users to evaluate the effect or potential effect of netting arrangements on a reporting entity's financial position. White Mountains is party to master netting arrangements in connection with derivative instruments held by WM Life Re and Sirius International. As a result of adoption, White Mountains has expanded its disclosures to present the gross amounts of assets and liabilities subject to master netting arrangements along with any related collateral amounts.

Note 2. Significant Transactions

Sale of Essentia Insurance Company
Effective January 1, 2013, OneBeacon completed the sale of Essentia Insurance Company ("Essentia"), an indirect wholly-owned subsidiary which wrote the collector car and boat business, to Markel Corporation. Concurrently therewith, OneBeacon and Hagerty Insurance Agency ("Hagerty") terminated their underwriting arrangement with respect to the collector car and boat business. OneBeacon recognized a pre-tax gain on sale of $23.0 million ($15.0 million after tax) in the first quarter of 2013. The business associated with this agreement generated net written premiums $58.0 million, or 19.8% of consolidated net written premiums, for the three months ended June 30, 2012 and $93.3 million, or 15.7% of consolidated net written premiums, for the six months ended June 30, 2012.

WM Solutions
In the first quarter of 2013, WM Solutions acquired American Fuji Fire ("American Fuji"), an AIG runoff subsidiary. The transaction resulted in a gain of $6.9 million recorded in other revenue.

Sale of OneBeacon Runoff Business
On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC, entered into a definitive agreement with Trebuchet US Holdings, Inc. ("Trebuchet"), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, "Armour"), to sell its runoff business. Pursuant to the terms of the agreement, at closing OneBeacon will transfer to Trebuchet all of the issued and outstanding shares of common stock of certain legal entities that will contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the runoff business as well as certain elements of the runoff business infrastructure, including staff and office space. The transaction is subject to regulatory approvals (see Note 15).

Sale of AutoOne
On February 22, 2012, OneBeacon completed the sale of AutoOne 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 transferred to the buyer AutoOne Insurance Company ("AOIC") and AutoOne Select Insurance Company ("AOSIC"), which contained the assets, liabilities (including loss reserves and unearned premiums), and the capital of the AutoOne business, and transferred substantially all of the AutoOne infrastructure including systems and office space as well as certain staff. As a result of the sale, AutoOne is reported as discontinued operations (see Note 15).

Common Shares Repurchased and Retired
During the past several years, White Mountains' board of directors has authorized the Company to repurchase its common shares, from time to time, subject to market conditions. The repurchase authorizations do not have a stated expiration date. As of June 30, 2013, White Mountains may repurchase an additional 545,496 shares under these board authorizations. In addition, from time to time White Mountains has also repurchased its common shares through tender offers that were separately approved by its board of directors.
During the three months ended June 30, 2013, the Company repurchased 1,311 common shares for $0.8 million at an average share price of $600 pursuant to employee benefit plans. During the six months ended June 30, 2013, the Company repurchased 141,535 common shares for $79.8 million at an average share price of $564, which were comprised of 140,000 common shares repurchased under the board authorization and 1,535 common shares repurchased pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not fall under the board authorizations referred to above.
During the three months ended June 30, 2012, the Company repurchased 10,172 common shares under the board authorization for $5.2 million at an average share price of $508. During the six months ended June 30, 2012, the Company repurchased 987,191 common shares for $491.0 million at an average share price of $497, which were comprised of (1) 167,801 common shares repurchased under the board authorization for $81.2 million at an average share price of $484; (2) 816,829 common shares repurchased through a fixed-price tender offer for $408.6 million at a

share price of $500; and (3) 2,561 common shares repurchased pursuant to employee benefit plans.

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 six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2013	2012	2013	2012
Gross beginning balance	$3,100.6	$5,510.8	$3,168.9	$5,702.3
Less beginning reinsurance recoverable on unpaid losses	(410.8)	(2,465.4)	(429.1)	(2,507.3)
Net loss and LAE reserves	2,689.8	3,045.4	2,739.8	3,195.0
Less: Beginning net loss and LAE reserves for OneBeacon's runoff business [(1)]	—	(333.1)	—	(384.0)
Loss and LAE reserves acquired - American Fuji	—	—	21.3	—
Loss and LAE incurred relating to:				
Current year losses	290.0	267.4	532.9	524.8
Prior year losses	(15.4)	(3.5)	(14.0)	(11.1)
Total incurred losses and LAE	274.6	263.9	518.9	513.7
Accretion of fair value adjustment to loss and LAE reserves	.1	1.2	1.3	8.3
Foreign currency translation adjustment to loss and LAE reserves	(4.6)	(12.1)	(14.2)	(.3)
Loss and LAE paid relating to:				
Current year losses	(83.3)	(78.4)	(119.9)	(122.9)
Prior year losses	(207.3)	(222.5)	(477.9)	(545.4)
Total loss and LAE payments	(290.6)	(300.9)	(597.8)	(668.3)
Plus: Ending net loss and LAE reserves for OneBeacon's runoff business [(1)]	—	296.0	—	296.0
Net ending balance	2,669.3	2,960.4	2,669.3	2,960.4
Plus ending reinsurance recoverable on unpaid losses	388.6	2,369.4	388.6	2,369.4
Gross ending balance	$3,057.9	$5,329.8	$3,057.9	$5,329.8

(1) Loss and LAE reserve balances for OneBeacon's run-off business prior to September 30, 2012 were not classified as held for sale. Adjustment is to present loss and LAE reserve activities from continuing operations.

Loss and LAE incurred relating to prior year losses for the three and six months ended June 30, 2013

During the three and six months ended June 30, 2013, White Mountains experienced $15.4 million and $14.0 million of net favorable loss reserve development.

For the three and six months ended June 30, 2013, OneBeacon had net favorable loss reserve development of $1.0 million and $3.9 million primarily driven by its healthcare, ocean marine and government risk businesses. For the three and six months ended June 30, 2013, Sirius Group had net favorable loss reserve development of $14.4 million and $10.1 million primarily due to decreases in property loss reserves, including reductions in loss reserves for the Japan earthquake and hurricane Sandy.

Loss and LAE incurred relating to prior year losses for the three and six months ended June 30, 2012

During the three and six months ended June 30, 2012, White Mountains experienced $3.5 million and $11.1 million of net favorable loss reserve development.

For the three and six months ended June 30, 2012, OneBeacon had $3.4 million and $5.3 million of net favorable loss reserve development primarily related to professional liability lines, multiple peril liability lines and other general liability lines.

For the three months ended June 30, 2012, there was no meaningful prior year loss reserve development at Sirius Group. For the six months ended June 30, 2012, Sirius Group had net favorable loss reserve development of $5.8 million that included decreases to property loss reserves mostly offset by increases to accident and health and asbestos loss reserves.

Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for acquisitions, White Mountains is 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 $0.1 million and $1.3 million of such charges, recorded as loss and LAE for the three and six months ended June 30, 2013, and $1.2 million and $8.3 million for the three and six months ended June 30, 2012. Accretion of fair value adjustment to losses and LAE reserves increased by $5.0 million in the first quarter of 2012 due to the acceleration of the amortization of the purchase accounting established for the acquisition of Scandinavian Re. This acceleration was a result of a final settlement and commutation of Scandinavian Re's multi-year retrocessional Casualty Aggregate Stop Loss Agreement with St. Paul Fire & Marine Insurance Company ("St Paul"). As of June 30, 2013, the remaining pre-tax un-accreted adjustment was $4.4 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 June 30, 2013, OneBeacon had $2.8 million and $81.8 million of reinsurance recoverables on paid and unpaid losses. Reinsurance contracts do not relieve OneBeacon of its 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. As of June 30, 2013, greater than 90% of reinsurance recoverables on paid and unpaid losses are from reinsurers with an A.M. Best Company ("A.M. Best") rating of A (Excellent, which is the third highest of 16 financial strength ratings) or better.

The following table provides a listing of OneBeacon's top reinsurers, excluding industry pools and associations, based upon recoverable amounts, the percentage of total recoverables and the reinsurers' A.M. Best Rating. The reinsurance balances associated with the runoff business are included in discontinued operations (see Note 15).

Top Reinsurers (Millions)	Balance at June 30, 2013	% of Total	A.M. Best Rating[1]
Hannover Ruckversich	$10.2	9%	A+
Munich Reinsurance America	6.7	6%	A+
Platinum Underwriters	5.4	5%	A
Swiss Reinsurance America Corp	5.0	4%	A+
Hartford Steam Boiler	4.9	4%	A++

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

Effective May 1, 2013, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2014. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first $20.0 million of losses resulting from any single catastrophe are retained and the next $130.0 million of losses resulting from the catastrophe are reinsured in three layers, although OneBeacon retains a co-participation of 50% of losses from $20.0 million to $30.0 million, 10% of losses from $30.0 million to $70.0 million, and 5% of losses from $70.0 million to $150.0 million. Any loss above $150.0 million would be retained in full. 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.

Sirius Group

At June 30, 2013, Sirius Group had $13.3 million of reinsurance recoverables on paid losses and $306.8 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group's reinsurers is critical to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis.

The following table provides a listing of Sirius Group's top reinsurers based upon recoverable amounts, the percentage of total recoverables and the reinsurers' A.M. Best Rating.

Top Reinsurers (Millions)	Balance at June 30, 2013	% of Total	A.M. Best Rating[(1)]	% Collateralized	
Berkshire Hathaway	$56.3	18%	A++	—	%
Swiss Re Group	34.0	11%	A+	—	%
Olympus Reinsurance Company[(2)]	25.0	8%	NR-5	100	%
Lloyds of London[(3)]	16.1	5%	A	16	%
International Medical Insurance Co. Ltd.	12.2	4%	NR-5	31	%

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

(2) Non-U.S. insurance entity. The balance is fully collateralized through trust agreements or funds held.

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

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 short-term investments, fixed maturity investments, convertible fixed maturity investments and equity securities which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Realized and unrealized investment gains and losses on trading securities are reported in pre-tax 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 amortized or accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized or accreted cost, which approximated fair value as of June 30, 2013 and December 31, 2012.

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 six months ended June 30, 2013 and 2012 consisted of the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
Millions	2013	2012	2013	2012
Investment income:				

Fixed maturity investments	$25.2	$35.4	$51.2	$72.1
Short-term investments	1.1	.8	1.8	1.8
Common equity securities	4.9	4.6	9.6	9.0
Convertible fixed maturity investments	.6	2.0	1.4	3.9
Other long-term investments	.8	.7	1.5	1.5
Interest on funds held under reinsurance treaties	.1	—	.2	—
Total investment income	32.7	43.5	65.7	88.3
Less third-party investment expenses	(4.0)	(3.1)	(8.5)	(6.1)
Net investment income, pre-tax	$28.7	$40.4	$57.2	$82.2

Net Realized and Unrealized Investment Gains and Losses

The following table summarizes net realized and unrealized investment gains (losses) for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
Millions	Net realized and unrealized gains (losses)	Net foreign exchange gains (losses)	Total net realized and unrealized gains (losses) reflected in earnings	Net realized and unrealized gains (losses)	Net foreign currency gains (losses)	Total net realized and unrealized gains (losses) reflected in earnings
Fixed maturity investments	$(74.0)	$32.5	$(41.5)	$19.0	$24.2	$43.2
Short-term investments	.2	.5	.7	(.1)	(.1)	(.2)
Common equity securities	2.3	1.2	3.5	(36.3)	—	(36.3)
Convertible fixed maturity investments	(5.1)	.3	(4.8)	(6.4)	—	(6.4)
Other long-term investments	3.9	1.1	5.0	(12.4)	4.0	(8.4)
Forward contracts	(.2)	—	(.2)	—	—	—
Net realized and unrealized investment gains (losses), pre-tax	(72.9)	35.6	(37.3)	(36.2)	28.1	(8.1)
Income tax expense attributable to net realized and unrealized investment (losses) gains	20.3	(7.8)	12.5	5.6	(7.6)	(2.0)
Net realized and unrealized investment gains (losses), after tax	$(52.6)	$27.8	$(24.8)	$(30.6)	$20.5	$(10.1)

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
Millions	Net realized and unrealized gains (losses)	Net foreign exchange gains (losses)	Total net realized and unrealized gains (losses) reflected in earnings	Net realized and unrealized gains (losses)	Net foreign currency gains (losses)	Total net realized and unrealized gains (losses) reflected in earnings
Fixed maturity investments	$(82.0)	$22.5	$(59.5)	$49.7	$2.8	$52.5
Short-term investments	.2	.6	.8	(.1)	(.4)	(.5)
Common equity securities	86.8	1.0	87.8	.3	—	.3
Convertible fixed maturity investments	(3.5)	.1	(3.4)	(.2)	—	(.2)
Other long-term investments	10.4	1.6	12.0	(2.2)	.6	(1.6)
Forward contracts	.2	—	.2	—	—	—
Net realized and unrealized investment gains (losses), pre-tax	12.1	25.8	37.9	47.5	3.0	50.5
Income tax expense attributable to net realized and unrealized	4.4	(5.6)	(1.2)	(15.0)	(1.0)	(16.0)

investment (losses) gains						
Net realized and unrealized investment gains (losses), after tax	$ 16.5	$ 20.2	$ 36.7	$ 32.5	$ 2.0	$ 34.5

The following table summarizes the amount of total pre-tax gains included in earnings attributable to unrealized investment gains for Level 3 investments for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
Millions	2013	2012	2013	2012
Fixed maturity investments	$ (.4)	$ .5	$ (.2)	$ 8.3
Common equity securities	.8	.5	.7	1.0
Other long-term investments	1.4	1.2	7.8	8.4
Total unrealized investment gains, pre-tax - Level 3 investments	$ 1.8	$ 2.2	$ 8.3	$ 17.7

12

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 June 30, 2013 and December 31, 2012 were as follows:

Millions	June 30, 2013 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$514.6	$.4	$(3.9)	$1.2	$512.3
Debt securities issued by corporations	2,295.9	41.6	(20.9)	(1.8)	2,314.8
Municipal obligations	5.3	—	(.3)	—	5.0
Mortgage-backed and asset-backed securities	1,840.2	4.3	(14.0)	4.1	1,834.6
Foreign government, agency and provincial obligations	447.9	4.1	(7.7)	(4.6)	439.7
Preferred stocks	79.8	6.6	—	(.1)	86.3
Total fixed maturity investments including assets held for sale	$5,183.7	$57.0	$(46.8)	$(1.2)	$5,192.7
Fixed maturity investments reclassified to assets held for sale related to the Runoff Transaction					(260.8)
Total fixed maturity investments					$4,931.9

Millions	December 31, 2012 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$440.4	$1.0	$(.1)	$(1.2)	$440.1
Debt securities issued by corporations	2,321.4	88.3	(1.6)	(23.0)	2,385.1
Municipal obligations	5.3	—	(.1)	—	5.2
Mortgage-backed and asset-backed securities	2,081.0	25.1	(1.1)	(9.4)	2,095.6
Foreign government, agency and provincial obligations	526.6	6.9	(3.0)	(8.6)	521.9
Preferred stocks	79.9	6.7	—	(.2)	86.4
Total fixed maturity investments including assets held for sale	$5,454.6	$128.0	$(5.9)	$(42.4)	$5,534.3
Fixed maturity investments reclassified to assets held for sale related to the Runoff Transaction					(338.1)
Total fixed maturity investments					$5,196.2

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains' common equity securities, convertible fixed maturities and other long-term investments as of June 30, 2013 and December 31, 2012 were as follows:

Millions	June 30, 2013 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	$852.4	$189.4	$(13.2)	$.9	$1,029.5
Convertible fixed maturity investments	$71.1	$3.4	$(.5)	$.1	$74.1
Other long-term investments	$257.7	$72.6	$(25.4)	$(1.6)	$303.3

December 31, 2012

Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	$ 895.2	$ 143.4	$ (8.8)	$ (.1)	$ 1,029.7
Convertible fixed maturity investments	$ 121.7	$ 6.1	$ (.4)	$ —	$ 127.4
Other long-term investments	$ 257.2	$ 65.9	$ (22.8)	$ (6.1)	$ 294.2

13

Hedge Funds and Private Equity Funds

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 June 30, 2013, White Mountains held investments in 15 hedge funds and 39 private equity funds. The largest investment in a single fund was $16.3 million at June 30, 2013. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
Millions	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short equity	$ 60.4	$ —	$ 60.3	$ —
Long/short credit & distressed	21.7	—	22.7	—
Long diversified strategies	1.7	—	1.7	—
Long/short equity REIT	16.3	—	16.0	—
Long/short equity activist	15.0	—	13.6	—
Long bank loan	.2	—	.3	—
Total hedge funds	115.3	—	114.6	—
Private equity funds				
Multi-sector	25.4	8.1	23.3	5.4
Energy infrastructure & services	44.0	14.6	36.3	15.6
Distressed residential real estate	9.9	—	15.8	—
Real estate	10.7	3.3	11.6	3.3
Private equity secondaries	10.1	3.1	10.5	3.1
International multi-sector, Europe	4.2	4.8	5.1	5.0
Manufacturing/Industrial	14.0	22.2	9.9	29.1
Healthcare	5.3	3.9	4.3	5.4
International multi-sector, Asia	—	2.7	.4	2.7
Insurance	2.4	41.3	3.0	41.3
Aerospace/Defense/Government	4.4	20.5	2.8	22.2
Venture capital	2.2	.3	2.2	.3
Total private equity funds	132.6	124.8	125.2	133.4
Total hedge and private equity funds included in other long-term investments[1]	$ 247.9	$ 124.8	$ 239.8	$ 133.4

[1] Excludes carrying value of $35.0 and $34.2 at December 31, 2012 and June 30, 2013 associated with hedge funds and private equity funds accounted for using the equity method.

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 June 30, 2013 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	$—	$—	$—	$5.5	$5.5
Quarterly	28.7	28.7	9.6	9.6	76.6
Semi-annual	—	22.7	—	—	22.7
Annual	1.7	—	8.6	.2	10.5
Total	$30.4	$51.4	$18.2	$15.3	$115.3

Certain of the hedge fund investments in which White Mountains is invested are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. At June 30, 2013, distributions of $2.5 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 June 30, 2013.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. At June 30, 2013, redemptions of $2.2 million are outstanding and are subject to market fluctuations. The date at which such redemptions will be received is not determinable at June 30, 2013. Redemptions are recorded as receivables when the investment is 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 June 30, 2013, 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	$16.8	$34.7	$61.7	$19.4	$132.6

Fair value measurements at June 30, 2013

White Mountains' invested assets that are measured at fair value include fixed maturity investments, common and preferred equity securities, convertible fixed maturity securities and other long-term investments, such as interests in 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 determine fair value for the vast majority of its investment portfolio. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs consist of fixed maturity investments including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains' investments in hedge funds and private equity funds, as well as investments in certain debt and equity securities where quoted market prices are unavailable. White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating, prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and $1.0 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains' review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.

White Mountains' investments in debt securities are generally valued using matrix and other 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 or accreted prospectively over the remaining economic life.

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 the audited annual financial statements of each hedge fund and private equity fund 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 $81.9 million and $79.7 million of investment-related liabilities recorded at fair value and included in other liabilities as of June 30, 2013 and December 31, 2012. 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.

Fair Value Measurements by Level

The following tables summarize White Mountains' fair value measurements for investments at June 30, 2013 and December 31, 2012, by level:

	June 30, 2013			
Millions	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
U.S. Government and agency obligations	$ 512.3	$ 445.5	$ 66.8	$ —
Debt securities issued by corporations:				
Consumer	705.4	—	705.4	—
Financials	393.4	—	393.4	—
Communications	287.4	—	287.4	—
Industrial	268.4	—	268.4	—
Energy	157.9	—	157.9	—
Utilities	188.7	—	188.7	—
Basic Materials	213.5	—	213.5	—
Technology	88.2	—	88.2	—
Other	11.9	—	11.9	—
Total debt securities issued by corporations:	2,314.8	—	2,314.8	—
Mortgage-backed and asset-backed securities	1,834.6	—	1,788.6	46.0
Foreign government, agency and provincial obligations	439.7	46.7	393.0	—
Preferred stocks	86.3	—	15.4	70.9
Municipal obligations	5.0	—	5.0	—
Total fixed maturity investments (1)	5,192.7	492.2	4,583.6	116.9
Short-term investments	606.8	582.1	24.7	—
Common equity securities:				
Financials	301.1	263.5	—	37.6
Consumer	289.4	289.4	—	—
Basic materials	62.2	62.2	—	—
Energy	75.7	75.7	—	—
Industrial	69.1	69.1	—	—
Technology	72.7	72.7	—	—
Communications	45.7	45.7	—	—
Utilities	36.7	36.5	.2	—
Other	76.9	13.6	63.3	—
Total common equity securities	1,029.5	928.4	63.5	37.6
Convertible fixed maturity investments	74.1	—	74.1	—
Other long-term investments (2)	269.2	—	—	269.2
Total investments	$ 7,172.3	$ 2,002.7	$ 4,745.9	$ 423.7

(1) Carrying value includes $260.8 that is classified as assets held for sale relating to discontinued operations.
(2) Excludes carrying value of $34.2 associated with other long-term investment limited partnerships accounted for using the equity method and $(0.1) related to forward contracts.

	December 31, 2012			
Millions	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
U.S. Government and agency obligations	$440.1	$ 369.1	$ 71.0	$ —
Debt securities issued by corporations:				
Consumer	727.1	—	727.1	—
Financials	401.4	1.0	400.4	—
Industrial	330.8	—	330.8	—
Communications	276.1	—	276.1	—
Utilities	204.2	—	204.2	—
Basic materials	189.1	—	189.1	—
Energy	181.5	—	181.5	—
Technology	54.0	—	54.0	—
Other	20.9	—	20.9	—
Total debt securities issued by corporations:	2,385.1	1.0	2,384.1	—
Mortgage-backed and asset-backed securities	2,095.6	—	2,073.5	22.1
Foreign government, agency and provincial obligations	521.9	52.1	469.8	—
Preferred stocks	86.4	—	15.6	70.8
Municipal obligations	5.2	—	5.2	—
Total fixed maturity investments (1)	5,534.3	422.2	5,019.2	92.9
Short-term investments	630.6	630.6	—	—
Common equity securities:				
Financials	324.5	286.3	.9	37.3
Consumer	255.6	255.6	—	—
Basic materials	103.3	103.3	—	—
Energy	101.0	101.0	—	—
Industrial	41.9	41.9	—	—
Technology	55.0	55.0	—	—
Utilities	43.6	43.4	.2	—
Communications	35.2	35.2	—	—
Other	69.6	11.2	58.4	—
Total common equity securities	1,029.7	932.9	59.5	37.3
Convertible fixed maturity investments	127.4	—	127.4	—
Other long-term investments (2)	259.3	—	—	259.3
Total investments	$7,581.3	$ 1,985.7	$ 5,206.1	$ 389.5

(1) Carrying value includes $338.1 that is classified as assets held for sale relating to discontinued operations.
(2) Excludes carrying value of $35.0 associated with other long-term investment limited partnerships accounted for using the equity method and $(0.1) related to currency forward contracts.

Debt securities issued by corporations

The following table summarizes the ratings of the corporate debt securities held in White Mountains' investment portfolio as of June 30, 2013 and December 31, 2012:

	Fair Value at	
Millions	June 30, 2013	December 31, 2012
AAA	$—	$—
AA	201.9	193.4
A	1,039.6	1,061.0
BBB	1,055.0	1,116.9
BB	6.9	7.0
Other	11.4	6.8
Debt securities issued by corporations (1)	$2,314.8	$2,385.1

(1) Credit ratings are assigned based on the following hierarchy: 1) Standard and Poor's Financial Services LLC ("Standard & Poor's") and 2) Moody's Investor Service ("Moody's").

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-term and structurally senior, with more than 25 points of subordination on average for fixed rate CMBS and more than 25 points of subordination on average for floating rate CMBS as of June 30, 2013. 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 a 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 June 30, 2013, on average less than 1% 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 June 30, 2013. White Mountains' investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities at June 30, 2013. 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 sub-prime risks 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 moderate-term and structurally senior. White Mountains does not own any collateralized loan obligations or collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

The following table summarizes mortgage and asset-backed securities as of June 30, 2013 and December 31, 2012:

	June 30, 2013			December 31, 2012		
Millions	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	$818.0	$818.0	$—	$1,013.4	$1,013.4	$—
FNMA	52.5	52.5	—	74.6	74.6	—
FHLMC	47.8	47.8	—	55.8	55.8	—
Total Agency[(1)]	918.3	918.3	—	1,143.8	1,143.8	—
Non-agency:						
Residential	133.6	109.6	24.0	160.6	160.6	—
Commercial	300.3	300.3	—	334.1	334.1	—
Total Non-agency	433.9	409.9	24.0	494.7	494.7	—
Total mortgage-backed securities	1,352.2	1,328.2	24.0	1,638.5	1,638.5	—
Other asset-backed securities:						
Credit card receivables	138.0	116.0	22.0	173.5	151.4	22.1
Vehicle receivables	167.1	167.1	—	233.2	233.2	—
Other	177.3	177.3	—	50.4	50.4	—
Total other asset-backed securities	482.4	460.4	22.0	457.1	435.0	22.1
Total mortgage and asset-backed securities	$1,834.6	$1,788.6	$46.0	$2,095.6	$2,073.5	$22.1

(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 June 30, 2013 are as follows:

		Security Issuance Year								
Millions	Fair Value	2004	2005	2006	2007	2008	2010	2011	2012	2013
Non-agency RMBS	$133.6	$13.2	$32.6	$10.7	$3.8	$—	$35.4	$—	$—	$37.9
Non-agency CMBS	300.3	—	—	8.7	11.6	34.9	12.4	38.2	118.6	75.9
Total	$433.9	$13.2	$32.6	$19.4	$15.4	$34.9	$47.8	$38.2	$118.6	$113.8

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 June 30, 2013:

Millions	Fair Value	Super Senior (1)	Senior (2)	Subordinate (3)
Prime	$102.7	$ 27.8	$74.9	$—
Non-prime	30.9	—	30.9	—
Sub-prime	—	—	—	—
Total	$133.6	$ 27.8	$105.8	$—

(1) At issuance, Super Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa bonds.

(2) At issuance, Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to non-AAA or non-Aaa bonds.

(3) At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch 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 June 30, 2013:

Millions	Fair Value	Super Senior [1]	Senior [2]	Subordinate [3]
Fixed rate CMBS	$199.6	$ 123.5	$58.7	$17.4
Floating rate CMBS	100.7	11.6	36.3	52.8
Total	$300.3	$ 135.1	$95.0	$70.2

[1] At issuance, Super Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa bonds.

[2] At issuance, Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to non-AAA or non-Aaa bonds.

[3] At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch 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 maturity investments, common equity securities, convertible fixed maturity investments and other long-term investments at June 30, 2013 and 2012 consist 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 tables summarize the changes in White Mountains' fair value measurements by level for the six months ended June 30, 2013 and 2012:

			Level 3 Investments					
Millions	Level 1 [3] Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	Total	
Balance at January 1, 2013	$1,355.1	$5,206.1	$92.9	$37.3	$—	$ 259.3	$6,950.7	[1][2]
Total realized and unrealized gains (losses)	89.9	(55.3)	(.3)	.8	—	14.2	49.3	[3][4]
Foreign currency losses through OCI	(5.6)	(44.2)	—	—	—	(1.5)	(51.3)	
Amortization/Accretion	(.6)	(27.0)	—	—	—	—	(27.6)	
Purchases	549.0	2,345.5	32.3	.5	—	35.9	2,963.2	
Sales	(583.4)	(2,713.9)	—	—	—	(38.7)	(3,336.0)	
Net change in investments related to purchases and sales of consolidated affiliates	14.5	2.7	—	—	—	—	17.2	
Transfers in	1.7	8.0	—	—	—	—	9.7	
Transfers out	—	(.7)	(8.0)	(1.0)	—	—	(9.7)	
Balance at June 30, 2013	$1,420.6	$4,721.2	$116.9	$37.6	$—	$ 269.2	$6,565.5	[1][2]

[1] Excludes carrying value of $35.0 and $34.2 at January 1, 2013 and June 30, 2013 associated with other long-term investments accounted for using the equity method and $(0.1) and $(0.1) at January 1, 2013 and June 30, 2013 related to forward contracts.

[2] Carrying value includes $338.1 and $260.8 at January 1, 2013 and June 30, 2013 that is classified as assets held for sale relating to discontinued operations.

[3] Excludes carrying value of $630.6 and $606.8 at January 1, 2013 and June 30, 2013 and realized and unrealized gain for the periods of $0.1 and $0.8 associated with short-term investments classified.

[4] Excludes $9.9 realized and unrealized losses associated with the Prospector Funds consolidation of investment-related liabilities.

			Level 3 Investments				
Millions	Level 1[3] Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	Total
Balance at January 1, 2012	$1,033.1	$6,088.2	$78.9	$32.3	$—	$ 268.3 [1]	$7,500.8 [1][2]
Total realized and unrealized gains	3.0	44.8	7.4	1.0	—	(3.3)	52.9 [3][4]
Foreign currency gains through OCI	.3	(10.2)	.7	—	—	(1.3)	(10.5)
Amortization/Accretion	(.2)	(23.3)	(.8)	—	—		(24.3)
Purchases	596.3	2,757.6	138.8	2.5	—	19.8	3,515.0
Sales	(481.4)	(3,871.3)	(84.3)	—	—	(25.0)	(4,462.0)
Transfers in	.5	21.1	—	—	—	—	21.6
Transfers out	(.1)	(.5)	(21.0)	—	—	—	(21.6)
Balance at June 30, 2012	$1,151.5	$5,006.4	$119.7	$35.8	$—	$ 258.5 [1]	$6,571.9 [1][2]

(1) Excludes carrying value of $33.0 and $34.0 at January 1, 2012 and June 30, 2012 associated with other long-term investment limited partnerships accounted for using the equity method.
(2) Carrying value includes $111.8 that is classified as assets held for sale relating to discontinued operations.
(3) Excludes carrying value of $846.0 and $618.4 January 1, 2012 and June 30, 2012 realized and unrealized loss for the period of $0.5 associated with short-term investments.
(4) Excludes $4.2 realized and unrealized losses associated with the Prospector Funds consolidation of investment-related liabilities.

Fair Value Measurements — transfers between levels - Six-month period ended June 30, 2013 and 2012
During the first six months of 2013 and 2012, one fixed income securities classified as Level 3 measurements in the prior period was 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 June 30, 2013 and June 30, 2012. These measurements comprise "Transfers out" of Level 3 and "Transfers in" to Level 2 of $8.0 million for the period ended June 30, 2013 and $21.0 million in fixed maturities for the period ended June 30, 2012.

Significant Unobservable Inputs
The following summarizes significant unobservable inputs used in estimating the fair value of investment securities classified within Level 3 other than hedge funds and private equity funds at June 30, 2013. The fair value of investments in hedge funds and private equity funds, which are classified within Level 3, are estimated using the net asset value of the funds.

($ in Millions)	June 30, 2013					
Description	Fair Value	Rating [2]	Valuation Technique(s)	Unobservable Input		
Preferred Stock [1]	$70.9	NR	Discounted cash flow	Discount yield	7.5	%
Residential mortgaged-back security	$24.0	AAA	Discounted cash flow	Prepayment rate	15	CPR
				Swap spread	3.05	BPS
Asset-backed securities[1]	$22.0	AA+	Broker pricing	Broker quote		
Private equity security	$37.6	NR	Multiple of GAAP book value	Book value multiple	1.0	x

(1) As of June 30, 2013, asset type consists of one security.
(2) Credit ratings are assigned based on the following hierarchy: 1) Standard and Poor's and 2) Moody's.

The assumed prepayment rate is a significant unobservable input used to estimate the fair value of investments in non-agency residential mortgage-backed securities ("RMBS"). Generally, for bonds priced at a premium, increases in prepayment speeds will result in a lower fair value, while decreases in prepayment speed will result in a higher fair value.

22

Note 6. Debt

White Mountains' debt outstanding as of June 30, 2013 and December 31, 2012 consisted of the following:

Millions	June 30, 2013	December 31, 2012
2012 OBH Senior Notes, at face value	$275.0	$275.0
Unamortized original issue discount	(.3)	(.3)
2012 OBH Senior Notes, carrying value	274.7	274.7
SIG Senior Notes, at face value	400.0	400.0
Unamortized original issue discount	(.5)	(.6)
SIG Senior Notes, carrying value	399.5	399.4
WTM Bank Facility	—	75.0
Old Lyme Note	2.1	2.1
Total debt	$676.3	$751.2

WTM Bank Facility

White Mountains has a 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, N.A. that has a maturity date of August 12, 2015.

In December 2012, White Mountains borrowed $150.0 million under the WTM Bank Facility. White Mountains repaid $75.0 million in December 2012 and the remaining balance of $75.0 million in January 2013. During the six months ended June 30, 2013, White Mountains also borrowed and repaid $130.0 million under the WTM Bank Facility at a blended interest rate of 2.71%. As of June 30, 2013, the WTM Bank Facility was undrawn.

The WTM Bank Facility contains various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under these facilities and result in acceleration of principal repayment on any amounts outstanding.

Debt Covenants

At June 30, 2013, White Mountains was in compliance with all of the covenants under the WTM Bank Facility, the 2012 OBH Senior Notes and the SIG Senior Notes.

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' income tax expense related to pre-tax income from continuing operations for the three months ended June 30, 2013 and 2012 represented net effective tax rates of (16.7)% and 17.0%. The net effective tax rates for the six months ended June 30, 2013 and 2012 were 26.4% and 21.0%. The effective tax rate for the three months ended June 30, 2013 was negative due to tax benefits on losses generated in the United States that exceeded tax expenses on income generated in other jurisdictions and non-taxable gains in certain countries. The effective tax rates for the six months ended June 30, 2013 and the three and six months ended June 30, 2012 were lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States.

In arriving at the effective tax rate for the three and six months ended June 30, 2013 White Mountains forecasted all income and expense items including the change in unrealized investment gains (losses) and realized investment gains (losses) for the years ending December 31, 2013 and 2012.

White Mountains records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods and strategies that if executed would result in the realization of a deferred tax asset. During the next twelve months, it is possible that certain planning strategies or projected earnings in certain subsidiaries may not be feasible to utilize the entire deferred tax asset, which could result in material changes to White Mountains' deferred tax assets and 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. On January 5, 2011, OneBeacon received 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 adjustments proposed by the IRS and is defending its position. Although the timing of the resolution of these issues is uncertain, it is reasonably possible that the resolution could occur within the next twelve 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 of the income tax returns for 2007, 2008 and 2009 for certain U.S. subsidiaries of OneBeacon. On April 5, 2013, OneBeacon received Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2007, 2008 and 2009. The estimated total assessment, including interest, utilization of alternative minimum and foreign tax credit carryovers and capital loss carrybacks, is $87.4 million. However, $80.6 million of the proposed adjustments relate to items for which the expense deduction has been disallowed in a year being examined, but ultimate deductibility is highly certain to occur in a later period. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of these deductions in the exam period would not affect the effective tax rate, but would accelerate the payment of cash to the taxing authority. White Mountains disagrees with the adjustments proposed by the IRS and is defending its position. Although the timing of the resolution of these issues is uncertain, it is reasonably possible that the resolution could occur within the next twelve 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 December 15, 2011, the IRS commenced an examination of the income tax returns for 2010 for certain U.S. subsidiaries of Answer Financial Inc. On June 3, 2013, White Mountains received the closing examination letter from the IRS. The adjustments on examination were not significant.

Note 8. Derivatives

Variable Annuity Reinsurance

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. At June 30, 2013 and December 31, 2012, the total guarantee value was approximately ¥222.2 billion (approximately $2.2 billion at exchange rates on that date) and ¥230.0 billion (approximately $2.7 billion at exchange rates on that date), respectively. The collective account values of the underlying variable annuities were approximately 96% and 87% of the guarantee value at June 30, 2013 and December 31, 2012, respectively.

The following table summarizes the pre-tax operating results of WM Life Re for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2013	2012	2013	2012
Fees, included in other revenue	$6.2	$8.0	$13.0	$16.0
Change in fair value of variable annuity liability, included in other revenue	55.9	(110.5)	240.2	100.8
Change in fair value of derivatives, included in other revenue	(63.5)	95.5	(245.3)	(111.0)
Foreign exchange, included in other revenue	.1	7.6	(14.5)	(15.4)
Other investment income and gains (losses)	(1.5)	1.2	(5.5)	(.9)
Total revenue	(2.8)	1.8	(12.1)	(10.5)
Change in fair value of variable annuity death benefit liabilities, included in other general and administrative expenses	1.6	(2.8)	7.2	5.9

Death benefit claims paid, included in general and administrative expenses	(.3)	(1.7)	(1.4)	(3.4)
General and administrative expenses	(1.1)	(1.3)	(2.8)	(2.7)
Pre-tax loss	$(2.6)	$(4.0)	$(9.1)	$(10.7)

During the first six months of 2013, the ratio of annuitants' aggregate account values to the aggregate guarantee value provided by WM Life Re increased, and as a result, annuitants have been surrendering their policies at higher rates than WM Life Re has observed in the past. In response to this trend, WM Life Re adjusted the projected surrender assumptions used in the valuation of its variable annuity reinsurance liability slightly upward in the second quarter of 2013, which resulted in a gain of $1.5 million.

The following summarizes realized and unrealized derivative gains (losses) recognized in other revenue for the three and six months ended June 30, 2013 and 2012 and the carrying values, included in other assets, at June 30, 2013 and December 31, 2012 by type of instrument:

	Three Months Ended June 30,		Six Months Ended June 30,		Carrying Value As of	
Millions	2013	2012	2013	2012	June 30, 2013	December 31, 2012
Fixed income/interest rate	$(8.5)	$28.6	$(39.3)	$(50.5)	$11.4	$27.1
Foreign exchange	(22.0)	27.4	(75.6)	(27.5)	70.6	52.8
Equity	(33.0)	39.5	(130.4)	(33.0)	59.3	18.4
Total	$(63.5)	$95.5	$(245.3)	$(111.0)	$141.3	$98.3

The following tables summarize the changes in White Mountains' variable annuity reinsurance liabilities and derivative instruments for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 (1)	Level 2 (1)(2)	Level 1 (3)	Total
Beginning of period	$(251.6)	$127.4	$(42.9)	$(8.7)	$75.8
Purchases	—	23.3	—	—	23.3
Realized and unrealized gains (losses)	57.5 (4)	(24.2)	(30.6)	(8.7)	(63.5)
Transfers in	—	—	—	—	—
Sales/settlements	—	—	91.7	14.0	105.7
End of period	$(194.1)	$126.5	$18.2	$(3.4)	$141.3

	Six Months Ended June 30, 2013				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 (1)	Level 2 (1)(2)	Level 1 (3)	Total
Beginning of period	$(441.5)	$140.5	$(20.5)	$(21.7)	$98.3
Purchases	—	59.4	—	—	59.4
Realized and unrealized gains (losses)	247.4 (4)	(73.4)	(116.0)	(55.9)	(245.3)
Transfers in	—	—	—	—	—
Sales/settlements	—	—	154.7	74.2	228.9
End of period	$(194.1)	$126.5	$18.2	$(3.4)	$141.3

	Three Months Ended June 30, 2012				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total
Beginning of period	$(548.5)	$183.8	$(.1)	$(9.4)	$174.3
Purchases	—	—	—	—	—
Realized and unrealized (losses) gains	(113.3) [4]	29.5	41.7	24.3	95.5
Transfers in	—	—	—	—	—
Sales/settlements	—	(.3)	19.4	(38.6)	(19.5)
End of period	$(661.8)	$213.0	$61.0	$(23.7)	$250.3

	Six Months Ended June 30, 2012				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total
Beginning of period	$(768.5)	$247.1	$39.2	$4.1	$290.4
Purchases	—	6.1	—	—	6.1
Realized and unrealized gains (losses)	106.7 [4]	(30.8)	(56.5)	(23.7)	(111.0)
Transfers in	—	—	—	—	—
Sales/settlements	—	(9.4)	78.3	(4.1)	64.8
End of period	$(661.8)	$213.0	$61.0	$(23.7)	$250.3

[1] Consists of over-the-counter instruments.

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

[3] Consists of exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

[4] Includes $1.6 and $7.2 for the three and six months ended June 30, 2013 and $(2.8) and $5.9 for the three and six months ended June 30, 2012 related to the change in the fair value of variable annuity death benefit liabilities, which are included in general and administrative expenses.

The U.S. dollar strengthened significantly against the Japanese Yen during the second quarter of 2013, which contributed to the decrease in the variable annuity liability during the quarter.

In addition to derivative instruments, WM Life Re held cash, short-term and fixed maturity investments posted as collateral to its variable annuity reinsurance counterparties. The total collateral comprises the following:

Millions	June 30, 2013	December 31, 2012	June 30, 2012
Cash	$61.2	$249.8	$360.0
Short-term investments	35.1	5.1	20.6
Fixed maturity investments	24.3	138.7	91.0
Total	$120.6	$393.6	$471.6

Collateral in the form of fixed maturity securities consists of Government of Japan Bonds, which are recorded at fair value. Collateral in the form of short-term investments consists of money-market instruments, carried at amortized cost, which approximates fair value.

All of White Mountains' variable annuity reinsurance liabilities were classified as Level 3 measurements at June 30, 2013 and 2012. The fair value of White Mountains' variable annuity reinsurance liabilities are estimated using actuarial and capital market assumptions related to the projected discounted cash flows over the term of the reinsurance agreement. Actuarial assumptions regarding future policyholder behavior, including surrender and lapse rates, are generally unobservable inputs and significantly impact the fair value estimates. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates as well as the variations in actuarial assumptions regarding policyholder behavior may result in significant fluctuations in the fair value estimates. Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese yen, as well as with increases in market volatilities. White Mountains uses derivative instruments, including put options, interest rate swaps, total return swaps on bond and equity indices and forwards and futures contracts on major equity indices, currency pairs and government bonds, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. The types of inputs used to estimate the fair value of these derivative instruments, with the exception of actuarial assumptions regarding policyholder behavior and risk margins, are generally the same as those used to estimate the fair value of variable annuity liabilities.

The following summarizes quantitative information about significant unobservable inputs associated with the fair value estimates for variable annuity reinsurance liabilities and derivative instruments that have been classified as Level 3 measurements:

($ in Millions)	June 30, 2013				
Description	Fair Value	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
Variable annuity benefit guarantee liabilities	$194.1	Discounted cash flows	Surrenders		
			1 year	0.3 %- 10.8%	1.3 %
			2 year	0.2 %- 8.7%	1.9 %
			3 and more years	0.1 %- 6.6%	1.6 %
			Mortality	0.0 %- 5.3%	0.9 %
			Foreign exchange volatilities		
			1 year	13.2 %- 14.8%	13.9 %
			2 year	12.8 %- 16.0%	14.6 %
			3 and more years	14.1 %- 17.6%	15.3 %
			Index volatilities		
			1 year	15.5 %- 20.0%	16.7 %
			2 year	18.0 %- 21.0%	19.2 %
			3 and more years	20.1 %- 24.2%	22.4 %
Foreign exchange options	$69.3	Counterparty valuations, adjusted for unwind quote discount	Adjustment to counterparty valuations	0.1 %- 3.2%	2.1 %
Equity index options	$57.3	Counterparty valuations, adjusted for unwind quote discount	Adjustment to counterparty valuations	1.7 %- 3.0%	2.5 %

WM Life Re enters into both over-the-counter ("OTC") and exchange traded derivative instruments to economically hedge the liability from the variable annuity benefit guarantee. In the case of OTC derivatives, WM Life Re has exposure to credit risk for amounts that are uncollateralized by counterparties. WM Life Re's internal risk management guidelines establish net counterparty exposure thresholds that take into account OTC counterparties' credit ratings. The OTC derivative contracts are subject to restrictions on liquidation of the instruments and distribution of proceeds under collateral agreements.

In the case of exchange traded instruments, WM Life Re has exposure to credit risk for amounts uncollateralized by margin balances. WM Life Re has entered into master netting agreements with certain of its counterparties whereby the collateral provided (held) is calculated on a net basis. The following summarizes amounts offset under master netting agreements:

	June 30, 2013			December 31, 2012		
Millions	Gross asset amounts before offsets(1)	Gross liability amounts offset under master netting arrangements	Net amounts recognized in Other Assets	Gross asset amounts before offsets(1)	Gross liability amounts offset under master netting arrangements	Net amounts recognized in Other Assets
Interest rate contracts						
OTC	$12.8	$(4.8)	$8.0	$52.6	$(26.9)	$25.7
Exchange traded	4.3	(.8)	3.5	1.6	(.2)	1.4
Foreign exchange contracts						
OTC	87.3	(15.4)	71.9	87.8	(34.4)	53.4
Exchange traded	1.2	(2.4)	(1.2)	.8	(1.4)	(.6)
Equity contracts						

OTC	64.9	—	64.9	63.6	(22.9)	40.7
Exchange traded	.7	(6.5)	(5.8)	.1	(22.4)	(22.3)
Total[2]	$ 171.2	$ (29.9)	$ 141.3	$ 206.5	$ (108.2)	$ 98.3

[1] Amount equal to fair value of instrument as recognized in other assets.

[2] All derivative instruments held by WM Life Re are subject to master netting arrangements.

27

The following summarizes the value, collateral held or provided by WM Life Re and net exposure to credit losses on OTC and exchange traded derivative instruments by counterparty recorded within other assets:

	June 30, 2013								
Millions	Net amount of assets reflected in Balance Sheet	Collateral provided to counterparty - Cash	Collateral provided to counter-party - Financial Instruments	Net amount of exposure after effect of collateral provided	Excess collateral provided to counter-party Cash	Excess collateral provided - Financial Instruments	Counter-party collateral held by WMLife Re - Cash	Net amount of exposure to counter-party	Standard & Poor's Rating[1]
Bank of America	$52.1	$—	$ —	$52.1	$ —	$—	$ 6.3	$ 45.8	A
Barclays	4.6	—	—	4.6	—	—	—	4.6	A
JP Morgan	34.1	—	—	34.1	—	—	5.9	28.2	A
Royal Bank of Scotland	21.7	—	—	21.7	—	—	—	21.7	A
Nomura	(6.3)	5.7	.6	—	—	23.7	—	23.7	BBB +
Goldman Sachs	—	—	—	—	—	—	—	—	A -
Citigroup - OTC	38.5	—	—	38.5	—	—	18.2	20.3	A
Citigroup - Exchange Traded	(3.4)	3.4	—	—	13.6	—	—	13.6	A
Total	$141.3	$9.1	$ .6	$151.0	$ 13.6	$23.7	$ 30.4	$ 157.9	

	December 31, 2012								
Millions	Net amount of assets reflected in Balance Sheet	Collateral provided to counter-party - Cash	Collateral provided to counter-party - Financial Instruments	Net amount of exposure after effect of collateral provided	Excess collateral provided to counter-party Cash	Excess collateral provided - Financial Instruments	Counter-party collateral held by WMLife Re- Cash	Net amount of exposure to counter-party	Standard & Poor's Rating[1]
Bank of America	$78.5	$ —	—	$78.5	$ —	$—	$ 30.6	$ 47.9	A
Barclays	11.6	—	—	11.6	—	—	—	11.6	A +
JP Morgan	(22.8)	22.8	—	—	32.8	—	—	32.8	A +
Royal Bank of Scotland	33.6	—	—	33.6	—	—	—	33.6	A
Nomura	(.9)	.9	—	—	.8	28.0	—	28.8	BBB +
Goldman Sachs	(.1)	.1	—	—	3.1	—	—	3.1	A -
Citigroup - OTC	19.9	—	—	19.9	30.8	—	—	50.7	A
Citigroup - Exchange Traded	(21.5)	21.5	—	—	13.6	—	—	13.6	A
Total	$98.3	$ 45.3	—	$143.6	$ 81.1	$28.0	$ 30.6	$ 222.1	

(1) Standard & Poor’s ratings as detailed above are: “A+” (Strong, which is the fifth highest of twenty-one creditworthiness ratings), “A” (Strong, which is the sixth highest of twenty-one creditworthiness ratings), “A-” (Strong, which is the seventh highest of twenty-one creditworthiness ratings) and “BBB+” (Adequate, which is the eighth highest of twenty-one creditworthiness ratings).

Forward Contracts

Beginning in September 2012, White Mountains entered into forward contracts at Sirius Group. White Mountains monitors its exposure to foreign currency and adjusts its forward positions within the risk guidelines and ranges established by senior management for each currency, as necessary. While White Mountains actively manages its forward positions, mismatches between movements in foreign currency rates and its forward contracts may result in currency positions being outside the pre-defined ranges and/or foreign currency losses. At June 30, 2013, White Mountains held approximately $41.0 million (SEK 276.4 million) total gross notional value of foreign currency forward contracts.

All of White Mountains' forward contracts are traded over-the-counter. The fair value of the contracts has been estimated using OTC quotes for similar instruments and accordingly, the measurements have been classified as Level 2 measurements at June 30, 2013.

The following tables summarize the changes in White Mountains' forward contracts for the three and six months ended June 30, 2013:

Millions	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Beginning of period	$(.2)	$—	$(.1)	$—
Purchases	—	—	—	—
Net realized and unrealized (losses) gains	(.2)	—	.2	—
Sales/settlements	.3	—	(.2)	—
End of period	$(.1)	$—	$(.1)	$—

The following summarizes realized and unrealized derivative gains (losses) recognized in net realized and unrealized investment gains for the three and six months ended June 30, 2013 and the carrying values, included in other long-term investments, at June 30, 2013 and December 31, 2012 by type of currency:

Millions	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012	Carrying Value As of June 30, 2013	December 31, 2012
USD	$(.4)	$—	$(.7)	$—	$(.2)	$—
SEK	—	—	—	—	—	—
EUR	—	—	—	—	.1	(.1)
GBP	.2	—	.9	—	—	—
Total	$(.2)	$—	$.2	$—	$(.1)	$(.1)

All of White Mountains' forward contracts are over the counter instruments subject to master netting agreements. The following summarizes amounts offset under master netting agreements:

Millions	June 30, 2013 Gross asset amounts before offsets[1]	Gross liability amounts offset under master netting arrangements	Net amounts recognized in Other assets	December 31, 2012 Gross asset amounts before offsets[1]	Gross liability amounts offset under master netting arrangements	Net amounts recognized in Other assets
USD	$.2	$(.4)	$(.2)	$—	$—	$—
EUR	—	—	—	—	(.1)	(.1)
GBP	.1	—	.1	—	—	—
Total	$.3	$(.4)	$(.1)	$—	$(.1)	$(.1)

[1] Amount equal to fair value of instrument as recognized in other assets.

White Mountains does not hold or provide any collateral for the forward contracts. The following table summarizes the notional amounts and uncollateralized balances associated with forward currency contracts:

Millions	June 30, 2013 Notional Amount	Carrying Value	Standard & Poor's Rating[1]	December 31, 2012 Notional Amount	Carrying Value
Barclays	$1.7	$—	A+	$7.7	$(.1)
Deutsche Bank	13.1	—	A+	11.1	—
Goldman Sachs	5.3	(.1)	A-	.4	—
HSBC	7.3	(.1)	AA-	10.1	—
JP Morgan	10.0	.2	A+	1.9	—

Royal Bank of Canada	3.6	(.1)	AA-	—	—
Total	$41.0	$(.1)		$31.2	$(.1)

(1) Standard & Poor's ratings as detailed above are: “AA-” (Very Strong, which is the sixth highest of twenty-one creditworthiness ratings), “A+” (Strong, which is the seventh highest of twenty-one creditworthiness ratings) and “A-” (Strong, which is the ninth highest of twenty-one creditworthiness ratings).

Note 9. Municipal Bond Guarantee Insurance

In 2012, HG Global was capitalized with $594.5 million from White Mountains and $14.5 million from non-controlling interests to fund BAM, a newly formed mutual municipal bond insurer. As of June 30, 2013, White Mountains owned 97.3% of HG Global's preferred equity and 88.7% of its common equity. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503.0 million of BAM surplus notes. Through HG Re, which had statutory capital of $421.7 million at June 30, 2013, HG Global provides first loss reinsurance protection for policies underwritten by BAM of up to 15% of par outstanding, on a per policy basis. HG Re’s obligations to BAM are collateralized in trusts, and there is an aggregate loss limit that is equal to the total assets in the collateral trusts at any point in time. For the three and six months ended June 30, 2013, HG Global had pre-tax income of $7.8 million and $17.7 million, which included $10.0 million and $20.1 million of interest income on the BAM surplus notes. For the three and six months ended June 30, 2013, BAM had a pre-tax loss of $26.7 million and $45.1 million that was recorded in net loss attributable to non-controlling interests, which included $10.0 million and $20.1 million of interest expense on the BAM surplus notes.

All of the contracts issued by BAM are accounted for as insurance contracts under ASC 944-605, Financial Guarantee Insurance Contracts. Premiums are received upfront and an unearned premium revenue liability, equal to the amount of the cash received, is established at contract inception. Premium revenues are recognized in revenue over the period of the contracts in proportion to the amount of insurance protection provided using a constant rate. The constant rate is calculated based on the relationship between the par outstanding in a given reporting period compared with the sum of each of the par amounts outstanding for all periods.

The following table provides a schedule of BAM's insured obligations:

	June 30, 2013	December 31, 2012
Contracts issued and outstanding	318	3
Remaining weighted average contract period (in years)	14.2	10.4
Contractual debt service outstanding (in millions):		
Principal	$ 2,125.7	$ 25.8
Interest	$ 1,260.3	$ 8.9
Unearned premium revenue	$ 5.3	$ .1

30

Note 10. Earnings Per Share

Basic earnings per share amounts are based on the weighted average number of common shares outstanding including unvested restricted shares that are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. The following table outlines the Company's computation of earnings per share from continuing operations for the three and six months ended June 30, 2013 and 2012 (see Note 15 for earnings per share amounts for discontinued operations):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Basic and diluted earnings per share numerators (in millions):				
Net income from continuing operations attributable to White Mountains' common shareholders	$ 22.4	$ 25.6	$ 142.3	$ 128.7
Allocation of income for unvested restricted common shares	(.4)	(.4)	(2.0)	(1.6)
Dividends declared on participating restricted common shares [(1)]	—	—	(.1)	(.1)
Total allocation to restricted common shares	(.4)	(.4)	(2.1)	(1.7)
Net income attributable to White Mountains' common shareholders, net of restricted common share amounts	$ 22.0	$ 25.2	$ 140.2	$ 127.0
Undistributed net earnings (in millions):				
Net income attributable to White Mountains' common shareholders, net of restricted common share amounts	$ 22.0	$ 25.2	$ 140.2	$ 127.0
Dividends declared net of restricted common share amounts[(1)]	—	—	(6.1)	(6.5)
Total undistributed net earnings, net of restricted common share amounts	$ 22.0	$ 25.2	$ 134.1	$ 120.5
Basic earnings per share denominators (in thousands):				
Total average common shares outstanding during the period	6,176.2	6,638.7	6,224.5	7,033.0
Average unvested restricted shares [(2)]	(95.4)	(93.5)	(87.2)	(85.9)
Basic earnings per share denominator	6,080.8	6,545.2	6,137.3	6,947.1
Diluted earnings per share denominator (in thousands):				
Total average common shares outstanding during the period	6,176.2	6,638.7	6,224.5	7,033.0
Average unvested restricted common shares [(2)]	(95.4)	(93.5)	(87.2)	(85.9)
Average outstanding dilutive options to acquire common shares[(3)]	—	—	—	—
Diluted earnings per share denominator	6,080.8	6,545.2	6,137.3	6,947.1
Basic earnings per share (in dollars):				
Net income attributable to White Mountains' common shareholders	$ 3.62	$ 3.85	$ 22.84	$ 18.28
Dividends declared	—	—	(1.00)	(1.00)
Undistributed earnings	$ 3.62	$ 3.85	$ 21.84	$ 17.28
Diluted earnings per share (in dollars):				
Net income attributable to White Mountains' common shareholders	$ 3.62	$ 3.85	$ 22.84	$ 18.28
Dividends declared	—	—	(1.00)	(1.00)
Undistributed earnings	$ 3.62	$ 3.85	$ 21.84	$ 17.28

[(1)] Restricted shares issued by White Mountains receive dividends, and therefore, are considered participating securities.

[(2)] Restricted shares outstanding vest either in equal annual installments or upon a stated date (see Note 13).

[(3)] The diluted earnings per share denominator for the three and six months ended June 30, 2013 and 2012 do not include common shares issuable upon exercise of the Non-Qualified Options as they are anti-dilutive to the calculation.

Note 11. Segment Information

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

			HG Global/BAM			
Millions	OneBeacon	Sirius Group	HG	BAM	Other Operations	Total
Three Months Ended June 30, 2013						
Earned insurance and reinsurance premiums	$ 280.8	$ 216.6	$ .1	$ —	$ —	$ 497.5
Net investment income	11.4	11.4	.2	1.1	4.6	28.7
Net investment income - surplus note income	—	—	10.0	(10.0)	—	—
Net realized and unrealized investment (losses) gains	(25.5)	6.7	(2.0)	(9.4)	(7.1)	(37.3)
Other revenue	.6	(16.0)	—	—	15.8	.4
Total revenues	267.3	218.7	8.3	(18.3)	13.3	489.3
Losses and loss adjustment expenses	157.0	117.6	—	—	—	274.6
Insurance and reinsurance acquisition expenses	52.5	23.2	—	.4	—	76.1
Other underwriting expenses	54.6	29.8	—	.1	—	84.5
General and administrative expenses	2.9	6.0	.5	7.9	22.9	40.2
Interest expense on debt	3.3	6.5	—	—	.5	10.3
Total expenses	270.3	183.1	.5	8.4	23.4	485.7
Pre-tax (loss) income	$ (3.0)	$ 35.6	$ 7.8	$ (26.7)	$ (10.1)	$ 3.6

			HG Global/BAM			
Millions	OneBeacon	Sirius Group	HG	BAM	Other Operations	Total
Six Months Ended June 30, 2013						
Earned insurance and reinsurance premiums	$ 567.3	$ 425.5	$ .1	$ —	$ —	$ 992.9
Net investment income	20.8	24.5	.5	2.2	9.2	57.2
Net investment income - surplus note income	—	—	20.1	(20.1)	—	—
Net realized and unrealized investment gains (losses)	2.9	19.8	(2.2)	(10.5)	27.9	37.9
Other revenue	24.6	(5.5)	—	.1	9.5	28.7
Total revenues	615.6	464.3	18.5	(28.3)	46.6	1,116.7
Losses and loss adjustment expenses	305.9	213.0	—	—	—	518.9
Insurance and reinsurance acquisition expenses	107.3	66.5	—	.5	—	174.3
Other underwriting expenses	103.9	59.5	—	.2	—	163.6
General and administrative expenses	6.9	15.5	.8	16.1	44.7	84.0
Interest expense on debt	6.5	13.1	—	—	.9	20.5
Total expenses	530.5	367.6	.8	16.8	45.6	961.3
Pre-tax income (loss)	$ 85.1	$ 96.7	$ 17.7	$ (45.1)	$ 1.0	$ 155.4

Millions	OneBeacon	Sirius Group	Other Operations	Total
Three Months Ended June 30, 2012				
Earned insurance and reinsurance premiums	$280.3	$230.2	$—	$510.5
Net investment income	14.0	17.1	9.3	40.4
Net realized and unrealized investment (losses) gains	(11.9)	18.1	(14.3)	(8.1)
Other revenue	.2	(17.6)	16.9	(.5)
Total revenues	282.6	247.8	11.9	542.3
Losses and loss adjustment expenses	151.4	112.5	—	263.9
Insurance and reinsurance acquisition expenses	60.9	48.6	—	109.5
Other underwriting expenses	51.3	27.0	—	78.3
General and administrative expenses	2.6	6.2	33.3	42.1
Interest expense on debt	4.0	6.6	.3	10.9
Total expenses	270.2	200.9	33.6	504.7
Pre-tax income (loss)	$12.4	$46.9	$(21.7)	$37.6

Millions	OneBeacon	Sirius Group	Other Operations	Total
Six Months Ended June 30, 2012				
Earned insurance and reinsurance premiums	$552.1	$456.4	$—	$1,008.5
Net investment income	28.7	34.2	19.3	82.2
Net realized and unrealized investment gains	17.9	31.8	.8	50.5
Other revenue	.3	.7	29.7	30.7
Total revenues	599.0	523.1	49.8	1,171.9
Losses and loss adjustment expenses	287.8	225.9	—	513.7
Insurance and reinsurance acquisition expenses	119.0	99.6	—	218.6
Other underwriting expenses	98.8	53.0	—	151.8
General and administrative expenses	5.3	25.1	57.2	87.6
Interest expense on debt	8.1	13.1	.6	21.8
Total expenses	519.0	416.7	57.8	993.5
Pre-tax income (loss)	$80.0	$106.4	$(8.0)	$178.4

Note 12. Investments in Unconsolidated Affiliates

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

Millions	June 30, 2013	December 31, 2012
Symetra common shares	$343.8	$288.4
Unrealized gains from Symetra's fixed maturity portfolio	(17.8)	62.8
Carrying value of Symetra common shares	326.0	351.2
Symetra warrants	—	30.3
Total investment in Symetra	326.0	381.5
Hamer	3.5	4.0
Bri-Mar	2.4	1.9
Pentelia Capital Management	—	.5
Total investments in unconsolidated affiliates	$331.9	$387.9

Symetra

At June 30, 2013 and December 31, 2012, White Mountains owned 20.05 million and 17.40 million common shares of Symetra Financial Corporation (“Symetra”) which represented an approximate 17% and 15% common share ownership. At December 31, 2012, White Mountains also owned warrants to acquire an additional 9.49 million common shares of Symetra. White Mountains accounts for its investment in common shares of Symetra using the equity method. White Mountains accounted for its Symetra warrants as derivatives with changes in fair value recognized through the income statement as a gain or loss recognized through other revenues. White Mountains used a Black Scholes valuation model to determine the fair value of the Symetra warrants.

On June 20, 2013, both White Mountains and Berkshire Hathaway Inc., which each owned warrants to purchase 9.49 million common shares of Symetra, exercised their warrants in a cashless transaction and each received 2.65 million common shares of Symetra in exchange for their warrants. In addition, Symetra repurchased 6.6 million of its common shares at an average price of $13.44 during the second quarter of 2013. The net effect of Symetra's share repurchases and the warrant exercises resulted in a basis difference between the GAAP carrying value of White Mountains' investment in Symetra common shares and the amount derived by multiplying the percentage of White Mountains common share ownership by Symetra's total GAAP equity. This basis difference totaled $19.3 million, of which $0.4 million is attributable to equity in earnings of unconsolidated affiliates and $18.9 million is attributable to equity in net unrealized gains of unconsolidated affiliates.

At December 31, 2011, due to the prolonged low interest rate environment in which life insurance companies currently operate, White Mountains concluded that its investment in Symetra common shares was other-than-temporarily impaired and wrote down the GAAP book value of the investment to its estimated fair value of $261.0 million, or $15 per share at December 31, 2011. This impairment also resulted in a basis difference between the GAAP carrying value of White Mountains' investment in Symetra common shares and the amount derived by multiplying the percentage of White Mountains common share ownership by Symetra's total GAAP equity. White Mountains recorded $45.9 million of after-tax equity in losses of unconsolidated affiliates and $136.6 million of after-tax equity in net unrealized losses of unconsolidated affiliates.

As a result of the various basis adjustments, White Mountains' carrying value of its investment in Symetra differs from the carrying value by applying its ownership share against Symetra's GAAP equity as normally done under the equity method. The pre-tax basis difference is being amortized over a 30-year period pro rata based on estimated future cash flows associated with Symetra's underlying assets and liabilities to which the basis differences have been attributed. White Mountains continues to record its equity in Symetra's earnings and net unrealized gains (losses). In addition, White Mountains recognizes the amortization of the basis difference through equity in earnings of unconsolidated affiliates and equity in net unrealized gains (losses) from investments in unconsolidated affiliates consistent with the original attribution of the basis differences between equity in earnings and equity in net unrealized gains (losses). For the three and six months ended June 30, 2013, White Mountains recognized after-tax amortization of $0.7 million and

$1.4 million through equity in earnings of unconsolidated affiliates and $2.5 million and $5.0 million through equity in net unrealized gains from investments in unconsolidated affiliates. At June 30, 2013, the pre-tax unamortized basis difference was $191.5 million, of which $40.5 million is attributable to equity in earnings of unconsolidated affiliates and $151.0 million is attributable to equity in net unrealized gains of unconsolidated affiliates.

Immediately prior to the exercise of the warrants, White Mountains recognized a $14.5 million increase in the value of the warrants through other revenues based on the final Black Scholes valuation that was agreed upon between Symetra and White Mountains. The major assumptions used in valuing the Symetra warrants at June 20, 2013 were a risk free rate of 0.34%, volatility of 26.5%, an expected life of 1.11 years, a strike price of $11.49 per share and a share price of $15.53 per share.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
Millions	Common Shares	Warrants	Total	Common Shares	Warrants	Total
Carrying value of investment in Symetra as of March 31	$350.9	$26.6	$377.5	$269.5	$23.7	$293.2
Equity in earnings [(1)(2)]	7.2	—	7.2	7.0	—	7.0
Equity in net unrealized gains from Symetra's fixed maturity portfolio[(3)]	(71.8)	—	(71.8)	30.6	—	30.6
Dividends received	(1.4)	—	(1.4)	(1.2)	—	(1.2)
Increase in value of warrants	—	14.5	14.5	—	6.1	6.1
Exercise of warrants	41.1	(41.1)	—	—	—	—
Carrying value of investment in Symetra as June[(4)(5)]	$326.0	$—	$326.0	$305.9	$29.8	$335.7

(1) Equity in earnings excludes tax expense of $0.6 and $0.6.

(2) Equity in earnings includes $0.8 and $0.7 increase relating to the pre-tax amortization of the Symetra common share impairment.

(3) Net unrealized gains includes $2.8 and $3.3 increase relating to the pre-tax amortization of the Symetra common share impairment.

(4) Includes White Mountains' equity in net unrealized (losses) gains from Symetra's fixed maturity portfolio of $(17.8) and $29.4 as of June 30, 2013 and 2012, which exclude deferred tax assets (liabilities) of $1.4 and $(2.4).

(5) The aggregate value of White Mountains' investment in common shares of Symetra was $320.6 based upon the quoted market price of $15.99 per share at June 30, 2013.

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
Millions	Common Shares	Warrants	Total	Common Shares	Warrants	Total
Carrying value of investment in Symetra as of January 1	$351.2	$30.3	$381.5	$261.0	$12.6	$273.6
Equity in earnings [(1)(2)]	17.0	—	17.0	17.9	—	17.9
Equity in net unrealized gains from Symetra's fixed maturity portfolio[(3)]	(80.5)	—	(80.5)	29.4	—	29.4
Dividends received	(2.8)	—	(2.8)	(2.4)	—	(2.4)
Increase in value of warrants	—	10.8	10.8	—	17.2	17.2
Exercise of warrants	41.1	(41.1)	—	—	—	—
Carrying value of investment in Symetra as June 30[(4)(5)]	$326.0	$—	$326.0	$305.9	$29.8	$335.7

(1) Equity in earnings excludes tax expense of $1.4 and $1.5.

(2) Equity in earnings includes $1.5 and $1.8 increase relating to the pre-tax amortization of the Symetra common share impairment.

(3) Net unrealized gains includes $5.5 and $6.6 increase relating to the pre-tax amortization of the Symetra common share impairment.

(4) Includes White Mountains' equity in net unrealized gains from Symetra's fixed maturity portfolio of $(17.8) and $29.4 as of June 30, 2013 and 2012, which exclude deferred tax assets (liabilities) of $1.4 and $(2.4).

(5) The aggregate value of White Mountains' investment in common shares of Symetra was $320.6 based upon the quoted market price of $15.99 per share at June 30, 2013.

During the three and six months ended June 30, 2013, White Mountains received cash dividends from Symetra of $1.4 million and $2.8 million on its common share investment that was recorded as a reduction of White Mountains' investment in Symetra. During the three and six months ended June 30, 2013, White Mountains also received cash dividends of $0.7 million and $1.5 million from Symetra on its investment in Symetra warrants that was recorded in net investment income.

Hamer and Bri-Mar

White Mountains received equity interests in Hamer and Bri-Mar, two small manufacturing companies distributed to White Mountains in connection with the dissolution of the Tuckerman Capital, LP fund. Effective October 1, 2012, these investments are accounted for under the equity method. Hamer did not have any earnings for the three months ended June 30, 2013 and had $0.3 million of equity in earnings for the six months ended June 30, 2013. For the three and six months ended June 30, 2013, White Mountains recorded equity in earnings of $0.5 million for Bri-Mar. As of June 30, 2013, White Mountains' investments in Hamer and Bri-Mar were $3.5 million and $2.4 million, respectively.

Note 13. Employee Share-Based Incentive Compensation Plans

White Mountains' Long-Term Incentive Plan (the "WTM Incentive Plan") provides for grants of various types of share-based and non share-based incentive awards to key employees and service providers of the Company and certain of its subsidiaries. White Mountains' share-based compensation incentive awards consist of performance shares, restricted shares and stock options.

Share-Based Compensation Based on White Mountains Common Shares

WTM Performance Shares

Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. Performance share awards vest, subject to the attainment of performance goals, at the end of a three-year period and are valued based on the market value of common shares at the time awards are paid. The following table summarizes performance share activity for the three and six months ended June 30, 2013 and 2012 for performance shares granted under the WTM Incentive Plan and phantom performance shares granted under the Sirius Group Performance Plan (the "WTM Phantom Share Plan"):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	118,976	$28.6	118,450	$27.4	119,357	$29.4	150,064	$66.1
Shares paid[1]	—	—	—	—	(47,310)	(11.0)	(68,357)	(48.4)
New grants	—	—	—	—	46,920	—	35,932	—
Assumed forfeitures and cancellations[2]	—	(.1)	—	(.2)	9	—	811	.8
Expense recognized	—	6.4	—	5.5	—	16.5	—	14.2
Ending June 30,	118,976	$34.9	118,450	$32.7	118,976	$34.9	118,450	$32.7

[1] WTM performance share payments in 2013 for the 2010-2012 performance cycle ranged from 33% to 98% of target. WTM performance share payments in 2012 for the 2009-2011 performance cycle ranged from 147% to 155% of target.

[2] Amounts include changes in assumed forfeitures, as required under GAAP.

For the 2009-2011 performance cycle, the Company issued common shares for 9,577 performance shares earned and all other performance shares earned were settled in cash. For the 2010-2012 performance cycle, the Company settled all performance shares earned in cash.

If the outstanding WTM performance shares had vested on June 30, 2013, the total additional compensation cost to be recognized would have been $38.8 million, based on accrual factors at June 30, 2013 (common share price and payout assumptions).

Performance Shares granted under the WTM Incentive Plan

The following table summarizes performance shares outstanding and accrued expense for performance shares awarded under the WTM Incentive Plan at June 30, 2013 for each performance cycle:

Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2013 – 2015	46,920	$4.5

2012 – 2014	37,977	13.7
2011 – 2013	37,130	17.6
Sub-total	122,027	35.8
Assumed forfeitures	(3,051)	(.9)
Total at June 30, 2013	118,976	$ 34.9

Restricted Shares

The following outlines the unrecognized compensation cost associated with the outstanding restricted share awards for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Millions, except share amounts	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
Non-vested,								
Beginning of period	95,380	$ 28.2	93,460	$ 24.5	69,910	$ 16.8	72,000	$ 13.3
Issued	—	—	—	—	25,470	14.3	28,460	13.7
Vested	—	—	—	—	—	—	(7,000)	—
Forfeited	—	—	—	—	—	—	—	—
Expense recognized	—	(3.7)	—	(3.0)	—	(6.6)	—	(5.5)
Non-vested at June 30,	95,380	$ 24.5	93,460	$ 21.5	95,380	$ 24.5	93,460	$ 21.5

During the first quarter of 2013, White Mountains issued 25,470 restricted shares that vest on January 1, 2016. During the first quarter of 2012, White Mountains issued 25,460 restricted shares that vest on January 1, 2015 and 3,000 restricted shares that vest in two equal annual installments beginning in February 2014. The unrecognized compensation cost at June 30, 2013 is expected to be recognized ratably over the remaining vesting periods.

Share-Based Compensation Based on OneBeacon Ltd. Common Shares

The OneBeacon Long-Term Incentive Plan (the “OneBeacon Incentive Plan”) provides for grants of various types of share-based and non share-based incentive awards to key employees of OneBeacon Ltd. and certain of its subsidiaries. OneBeacon’s share-based incentive awards include OneBeacon performance shares and restricted shares.

OneBeacon Performance Shares

OneBeacon performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. OneBeacon performance share awards vest, subject to the attainment of performance goals, at the end of a three-year period and are valued based on the market value of OneBeacon Ltd. common shares at the time awards are paid.

The following table summarizes performance share activity for the three and six months ended June 30, 2013 and 2012 for OneBeacon performance shares granted under the OneBeacon Incentive Plan:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	489,867	$ 1.6	569,745	$ 3.2	563,190	$ 1.2	642,667	$ 9.7
Shares paid or expired[(1)]	—	—	(9,168)	(.3)	(238,658)	—	(258,901)	(7.8)
New awards	—	—	—	—	179,000	—	181,290	—
Assumed forfeitures and cancellations[(2)]	—	(.1)	—	—	(13,665)	(.1)	(4,479)	—
Expense recognized	—	.9	—	.2	—	1.3	—	1.2
Ending June 30,	489,867	$ 2.4	560,577	$ 3.1	489,867	$ 2.4	560,577	$ 3.1

(1) There were no payments made in 2013 for the 2010-2012 performance cycle; those performance shares did not meet the threshold performance goals and expired. OneBeacon performance share payments in 2012 for the 2009-2011 performance cycle were at 138.6% of target. Amounts include deposits into OneBeacon’s deferred

compensation plan.
(2) Amounts include changes in assumed forfeitures, as required under GAAP.

If the outstanding OneBeacon performance shares had been vested on June 30, 2013, the total additional compensation cost to be recognized would have been $1.1 million, based on accrual factors at June 30, 2013 (common share price and payout assumptions).

37

The following table summarizes OneBeacon performance shares outstanding awarded under the OneBeacon Incentive Plan at June 30, 2013 for each performance cycle:

Millions, except share amounts	Target OneBeacon Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2013 – 2015	179,000	$ .5
2012 – 2014	181,290	1.4
2011 – 2013	142,138	.6
Sub-total	502,428	2.5
Assumed forfeitures	(12,561)	(.1)
Total at June 30, 2013	489,867	$ 2.4

OneBeacon Restricted Shares

The following summarizes the unrecognized compensation cost associated with the outstanding OneBeacon restricted share awards for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Millions, except share amounts	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
Non-vested,								
Beginning of period	918,000	$ 8.8	930,000	$ 11.9	927,000	$ 9.6	630,000	$ 7.7
Issued	—	—	—	—	—	—	300,000	4.6
Vested	—	—	—	—	(9,000)	—	—	—
Forfeited	—	—	—	—	—	—	—	—
Expense recognized	—	(.8)	—	(.7)	—	(1.6)	—	(1.1)
Non-vested at June 30,	918,000							