WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
May 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended March 31, 2007

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**94-2708455**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
80 South Main Street, Hanover, New Hampshire	**03755-2053**
(Address of principal executive offices)	(Zip Code)

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

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

Yes x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of May 1, 2007, 10,833,788 common shares with a par value of $1.00 per share were outstanding (which includes 54,000 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED BALANCE SHEETS

(Millions, except share and per share amounts)	March 31, 2007 Unaudited	December 31, 2006
Assets		
Fixed maturity investments, at fair value (amortized cost: $7,066.7 and $7,377.0)	**$ 7,179.9**	$ 7,475.3
Common equity securities, at fair value (cost: $1,009.4 and $972.0)	**1,245.2**	1,212.6
Short-term investments, at amortized cost (which approximates fair value)	**1,473.6**	1,344.9
Other investments (cost: $465.3 and $467.1)	**532.2**	524.8
Convertible fixed maturity investments, at fair value (cost: $485.5 and $435.9)	**485.8**	436.2
Trust account investments, at amortized cost (fair value $334.9 and $337.9)	**335.4**	338.9
Total investments	**11,252.1**	11,332.7
Cash	**186.3**	159.0
Reinsurance recoverable on unpaid losses	**2,006.4**	2,134.5
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	**1,867.3**	1,881.2
Reinsurance recoverable on paid losses	**131.9**	159.4
Insurance and reinsurance premiums receivable	**1,007.4**	913.6
Securities lending collateral	**563.8**	649.8
Funds held by ceding companies	**438.2**	452.8
Investments in unconsolidated insurance affiliates	**356.3**	335.5
Deferred acquisition costs	**338.6**	320.3
Deferred tax asset	**242.6**	276.0
Ceded unearned premiums	**133.6**	87.9
Accrued investment income	**84.7**	87.4
Accounts receivable on unsettled investment sales	**40.2**	8.5
Other assets	**628.8**	645.1
Total assets	**$ 19,278.2**	$ 19,443.7
Liabilities		
Loss and loss adjustment expense reserves	**$ 8,636.0**	$ 8,777.2
Unearned insurance and reinsurance premiums	**1,746.6**	1,584.9
Debt	**1,183.6**	1,106.7
Securities lending payable	**563.8**	649.8
Deferred tax liability	**311.1**	311.5
Long-term incentive compensation payable	**139.3**	285.2
Reserves for structured contracts	**142.6**	147.1
Funds held under reinsurance treaties	**126.4**	141.6
Ceded reinsurance payable	**141.0**	138.4
Accounts payable on unsettled investment purchases	**19.7**	66.8
Other liabilities	**825.9**	913.7
Preferred stock subject to mandatory redemption:		
Held by Berkshire Hathaway Inc. (redemption value $300.0)	**250.5**	242.3
Held by others (redemption value $20.0)	**20.0**	20.0
Total liabilities	**14,106.5**	14,385.2
Minority interest - OneBeacon Insurance Group, Ltd.	**515.8**	490.7
Minority interest - consolidated limited partnerships	**113.0**	112.5
Total minority interest	**628.8**	603.2
Common shareholders equity		
Common shares at $1 par value per share - authorized 50,000,000 shares; issued and outstanding 10,833,788 and 10,782,753 shares	**10.8**	10.8
Paid-in surplus	**1,716.6**	1,716.7
Retained earnings	**2,566.7**	2,496.0

Accumulated other comprehensive income, after-tax:		
Net unrealized gains on investments	**214.7**	194.0
Net unrealized foreign currency translation gains	**35.9**	37.2
Other	**(1.8**)	.6
Total common shareholders equity	**4,542.9**	4,455.3
Total liabilities, minority interest and common shareholders equity	**$ 19,278.2**	$ 19,443.7

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Unaudited

(Millions, except per share amounts)	**Three Months Ended March 31, 2007**	**2006**
Revenues:		
Earned insurance and reinsurance premiums	**$ 938.0**	$ 901.0
Net investment income	**118.0**	98.5
Net realized investment gains	**73.9**	28.5
Other revenue	**36.2**	29.8
Total revenues	**1,166.1**	1,057.8
Expenses:		
Loss and loss adjustment expenses	**613.3**	564.0
Insurance and reinsurance acquisition expenses	**192.6**	185.6
Other underwriting expenses	**137.7**	115.9
General and administrative expenses	**52.9**	44.6
Accretion of fair value adjustment to loss and loss adjustment expense reserves	**5.1**	5.2
Interest expense on debt	**16.8**	11.7
Interest expense - dividends on preferred stock subject to mandatory redemption	**7.6**	7.6
Interest expense - accretion on preferred stock subject to mandatory redemption	**8.2**	6.4
Total expenses	**1,034.2**	941.0
Pre-tax income	**131.9**	116.8
Income tax provision	**(31.2)**	(26.9)
Income before minority interest and equity in earnings of unconsolidated affiliates	**100.7**	89.9
Minority interest	**(19.0)**	(2.9)
Equity in earnings of unconsolidated insurance affiliates	**10.5**	9.0
Net income	**92.2**	96.0
Change in net unrealized gains and losses for investments held	**71.6**	(33.2)
Change in foreign currency translation and other	**(3.8)**	21.0
Recognition of net unrealized gains and losses for investments sold	**(50.9)**	(23.9)
Comprehensive net income	**$ 109.1**	$ 59.9
Basic earnings per share	**$ 8.56**	$ 8.92
Diluted earnings per share	**8.54**	8.89
Dividends declared and paid per common share	**$ 2.00**	$ 2.00

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

Unaudited

(Millions)	**Common shareholders equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income, after-tax**	**Unearned compensation**
Balances at January 1, 2007	$ 4,455.3	$ 1,727.5	$ 2,496.0	$ 231.8	$
Cumulative effect adjustment - taxes	.2		.2		
Net income	92.2		92.2		
Other comprehensive income, after-tax	17.0			17.0	
Dividends declared on common shares	(21.7)		(21.7)		
Issuances of common shares	.2	.2			
Repurchases and retirements of common shares	(2.5)	(2.5)			
Option and Restricted Share expense	2.2	2.2			
Balances at March 31, 2007	**$ 4,542.9**	**$ 1,727.4**	**$ 2,566.7**	**$ 248.8**	**$**

(Millions)	**Common shareholders equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income, after-tax**	**Unearned compensation**
Balances at January 1, 2006	$ 3,833.2	$ 1,727.2	$ 1,899.8	$ 208.1	$ (1.9)
Net income	96.0		96.0		
Other comprehensive income, after-tax	(36.1)			(36.1)	
Cumulative effect adjustment - hybrid instruments			9.2	(9.2)	
Cumulative effect adjustment - share-based compensation		(1.9)			1.9
Dividends declared on common shares	(21.6)		(21.6)		
Issuances of common shares	.2	.2			
Amortization of restricted common share awards	.5	.5			
Balances at March 31, 2006	**$ 3,872.2**	**$ 1,726.0**	**$ 1,983.4**	**$ 162.8**	**$**

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(Millions)	Three Months Ended March 31, 2007	2006
Cash flows from operations:		
Net income	**$ 92.2**	$ 96.0
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized investment gains	**(73.9)**	(28.5)
Minority interest	**19.0**	2.9
Other operating items:		
Net change in loss and loss adjustment expense reserves	**(126.4)**	(264.7)
Net change in reinsurance recoverable on paid and unpaid losses	**167.0**	147.8
Net change in unearned insurance and reinsurance premiums	**167.3**	156.2
Net change in funds held by ceding companies	**11.9**	55.0
Net change in deferred acquisition costs	**(19.7)**	(23.2)
Net change in ceded unearned premiums	**(46.2)**	(12.6)
Net change in funds held under reinsurance treaties	**(15.2)**	(39.8)
Net change in insurance and reinsurance premiums receivable	**(96.1)**	(82.1)
Net change in other assets and liabilities, net	**(221.5)**	(152.6)
Net cash used for operations	**(141.6)**	(145.6)
Cash flows from investing activities:		
Net change in short-term investments	**(101.8)**	(218.1)
Sales of fixed maturity investments	**1,331.7**	1,077.9
Maturities, calls and paydowns of fixed maturity investments	**333.2**	223.2
Sales of common equity securities	**136.1**	62.8
Sales of other investments	**27.6**	12.7
Purchases of other investments	**(11.3)**	(14.8)
Purchases of common equity securities	**(125.9)**	(132.0)
Purchases of fixed maturity investments	**(1,393.8)**	(935.5)
Sale of shares of OneBeacon Ltd.	**16.7**	
Maturities of trust account investments	**6.9**	
Net change in unsettled investment purchases and sales	**(78.7)**	98.4
Net acquisitions of property and equipment	**(3.7)**	(6.3)
Net cash provided from investing activities	**137.0**	168.3
Cash flows from financing activities:		
Issuance of debt	**394.4**	
Repayment of debt	**(322.0)**	
Interest rate swap agreement	**(2.4)**	
Cash dividends paid to the Company s common shareholders	**(21.7)**	(21.6)
Cash dividends paid to OneBeacon Ltd. s minority common shareholders	**(5.9)**	
Cash dividends paid to preferred shareholders	**(7.6)**	(7.6)
Common shares repurchased	**(2.5)**	
Proceeds from issuances of common shares	**.2**	.1
Net cash provided from (used for) financing activities	**32.5**	(29.1)
Effect of exchange rate changes on cash	**(.6)**	1.8
Net increase (decrease) in cash during the period	**27.3**	(4.6)
Cash balances at beginning of period	**159.0**	187.7
Cash balances at end of period	**$ 186.3**	$ 183.1
Supplemental cash flows information:		
Interest paid	**$ (7.2)**	$ (.9)
Net Federal income taxes (paid) received	**(53.6)**	30.5

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, 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 are located at Bank of Butterfield Building, 42 Reid Street, Hamilton, Bermuda HM 12, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), a Bermuda-based company that owns a family of U.S.-based property and casualty insurance companies (collectively OneBeacon), substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the OneBeacon Acquisition). During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd. s common shares in an initial public offering (the OneBeacon Offering). In connection with the OneBeacon Offering, White Mountains undertook an internal reorganization (the Reorganization) and formed OneBeacon Ltd. for the purpose of holding certain of its property and casualty insurance businesses. As a result of the Reorganization, certain of White Mountains businesses that have been historically reported as part of its Other Operations segment are now owned by OneBeacon Ltd., and accordingly have been included in the OneBeacon segment for all periods presented in this report. In addition, certain other businesses of White Mountains that had been historically reported as part of its OneBeacon segment and which were not held by OneBeacon Ltd. following the OneBeacon Offering are included in the Other Operations segment for all periods presented in this report.

The White Mountains Re segment consists of White Mountains Re Group, Ltd., a Bermuda-based company, and its subsidiaries (collectively White Mountains Re). White Mountains Re offers reinsurance capacity for property, liability, accident & health, aviation and certain marine exposures on a worldwide basis through its subsidiaries, Folksamerica Reinsurance Company (Folksamerica Re , together with its immediate parent, Folksamerica Holding Company (FHC), Folksamerica), which has been a wholly-owned subsidiary of White Mountains since 1998, and Sirius International Insurance Corporation (Sirius International). White Mountains Re also provides reinsurance advisory services, specializing primarily in property and other short-tailed lines of reinsurance, through White Mountains Re Underwriting Services Ltd. (WMRUS). On August 3, 2006, White Mountains Re sold one of its subsidiaries, Sirius America Insurance Company (Sirius America) to an investor group. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity, Lightyear Delos Acquisition Corp. (Delos), and accounts for Delos on the equity method within its Other Operations segment.

The Esurance segment consists of Esurance Holdings, Ltd., a Bermuda-based company, and certain of its subsidiaries (collectively, Esurance). Esurance, which has been a unit of White Mountains since October 2000, sells personal auto insurance directly to customers online and through select online agents.

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its weather risk management business (Galileo), its variable annuity reinsurance business (WM Life Re), as well as the International American Group, Inc. (the International American Group) and various other entities not included in other segments. The International American Group, which was acquired by White Mountains in 1999, consists of American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (British Insurance Company), both of which are in run-off. The Other Operations segment also includes White Mountains investments in warrants to purchase common shares of Montpelier Re Holdings, Ltd. (Montpelier Re), warrants to purchase common shares of Symetra Financial Corporation (Symetra) and common and preferred shares of Delos.

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains and are of a normal recurring nature. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the

Company s 2006 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company s 2006 Annual Report on Form 10-K for a complete discussion regarding White Mountains significant accounting policies. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation.

Minority Interest

Minority interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of income attributable to minority interests is presented net of related income taxes in the statement of income and comprehensive income. The change in unrealized investment gains, foreign currency translation and the change in the fair value of the interest rate swap to hedge OneBeacon s exposure to variability in the interest rate on its mortgage note are presented in accumulated other comprehensive income net of the minority interest portion. The percentage of the noncontrolling shareholders ownership interest in OneBeacon Ltd. at March 31, 2007 and December 31, 2006 was 28.3% and 27.6%.

Recently Adopted Changes in Accounting Principles

Federal, State and Foreign Income Taxes

While White Mountains is subject to taxation in several jurisdictions, the majority of White Mountains subsidiaries file consolidated tax returns in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective tax rate lower than that imposed by the United States.

On January 1, 2007 White Mountains adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes when the impact of a given tax position should be recognized and how it should be measured. Under the new guidance, recognition is based upon whether or not a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more-likely-than-not recognition threshold, White Mountains must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement.

FIN 48 also addresses how interest and penalties should be accrued for uncertain tax positions, requiring that interest expense should be recognized in the first period interest would be accrued under the tax law. White Mountains classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. At January 1, 2007, White Mountains had accrued interest and penalties of $3.8 million, net of federal benefit. In connection with the adoption of FIN 48, White Mountains has recognized a $0.2 million decrease in the liability for unrecognized tax benefits, primarily as a result of reductions in its estimates of accrued interest. The effect of adoption has been recorded as an adjustment to opening retained earnings.

At January 1, 2007, White Mountains had $70.6 million of unrecognized tax benefits. If recognized, $60.3 million would increase net income. Because of the impact of deferred tax accounting, exposure for certain temporary differences would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. There have been no material changes to these balances since adoption.

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 2003. The Internal Revenue Service (IRS) commenced an examination of White Mountains U.S. income tax returns for 2003 through 2004 in the second quarter of 2006 that is anticipated to be completed by the end of 2008. As of March 31, 2007 the IRS has not proposed any significant adjustments to taxable income. White Mountains does not expect to receive any adjustments that would result in a material change to its financial position.

White Mountains does not anticipate any significant changes to its total unrecognized tax benefits within the next twelve months.

Recent Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). The Statement provides a revised definition of fair value and guidance on the methods used to measure fair value. The Statement also expands financial statement disclosure requirements for fair value information. The Statement establishes a fair value hierarchy that distinguishes between assumptions based on market data from independent sources (observable inputs) and a reporting entity s internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs). The fair value hierarchy in FAS 157 prioritizes inputs within three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). The guidance in FAS 157 is applicable to derivatives as well as other financial instruments measured at fair value and nullifies the guidance in EITF 02-3, FAS 133 and FAS 155 that provided for the deferral of gains at the date of initial measurement. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application allowed for entities that have not issued financial statements in the fiscal year of adoption. White Mountains has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

Fair Value Option

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). The Statement allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. Unrealized gains and losses on assets or liabilities for which the fair value option has been elected are to be reported in earnings. The Statement requires additional disclosures for instruments for which the election has been made, including a description of management s reasons for making the election. The Statement is effective as of fiscal years beginning after November 15, 2007 and is to be adopted prospectively and concurrent with the adoption of FAS 157. White Mountains has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

Note 2. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense (LAE) reserve activities of White Mountains insurance subsidiaries for the three months ended March 31, 2007 and 2006:

Millions	Three Months Ended March 31, 2007	2006
Gross beginning balance	**$ 8,777.2**	$ 10,231.2
Less beginning reinsurance recoverable on unpaid losses	**(4,015.7)**	(5,025.7)
Net loss and LAE reserves	**4,761.5**	5,205.5
Loss and LAE incurred relating to:		
Current year losses	**630.1**	553.8
Prior year losses	**(16.8)**	10.2
Total incurred loss and LAE	**613.3**	564.0
Accretion of fair value adjustment to loss and LAE reserves	**5.1**	5.2
Foreign currency translation adjustment to loss and LAE reserves	**3.7**	8.0
Loss and LAE paid relating to:		
Current year losses	**(142.5)**	(157.3)
Prior year losses	**(478.8)**	(498.4)
Total loss and LAE payments	**(621.3)**	(655.7)
Net ending balance	**4,762.3**	5,127.0
Plus ending reinsurance recoverable on unpaid losses	**3,873.7**	4,860.0
Gross ending balance	**$ 8,636.0**	$ 9,987.0

White Mountains experienced $16.8 million of favorable development on prior accident year loss reserves during the three months ended March 31, 2007. OneBeacon and White Mountains Re had net favorable development of $12.0 million and $7.4 million, respectively, which was offset by $2.6 million of unfavorable development at Esurance.

During the three months ended March 31, 2006, White Mountains experienced $10.2 million of net unfavorable development on prior accident year loss reserves. White Mountains Re experienced adverse development on the 2005 storms of $36 million ($8 million, $18 million and $10 million on Katrina, Rita and Wilma, respectively), which was partially offset by $26 million in favorable development, primarily from White Mountains Re s property lines not impacted by catastrophes.

In connection with purchase accounting for the acquisitions of OneBeacon, Sirius and Stockbridge Insurance Company, White Mountains was required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on OneBeacon s, Sirius and Stockbridge Insurance Company s acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled. Accordingly, White Mountains recognized $5.1 million and $5.2 million of such charges for the three months ended March 31, 2007 and 2006.

Note 3. Third Party Reinsurance

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

OneBeacon

At March 31, 2007, OneBeacon had $20.5 million of reinsurance recoverables on paid losses and $3,053.6 million (gross of $233.1 million in purchase accounting adjustments) that will become recoverable if claims are paid in accordance with current reserve estimates. The collectibility of balances due from OneBeacon s reinsurers is critical to OneBeacon s financial strength because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have historically not been significant. The following table provides a listing of OneBeacon s top reinsurers, excluding industry pools and associations, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurer s A.M. Best rating.

Top Reinsurers ($ in millions)	Balance at March 31, 2007	% of Total		A.M. Best Rating (1)
Subsidiaries of Berkshire (NICO and GRC) (2)	$ 2,185.6	71	%	A++
Nichido (formerly Tokio Fire and Marine Insurance Company)	58.3	2	%	A++
Munich RE America (formerly America Reinsurance Company)	56.2	2	%	A
Liberty Mutual Insurance Group and subsidiaries (3)	37.7	1	%	A
Swiss Re	22.5	1	%	A+

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

(2) Includes $404.0 million of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover (as defined below) if they are unable to collect from third party reinsurers. OneBeacon also has an additional $377.0 million of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) At March 31, 2007, OneBeacon had assumed balances receivable and expenses receivable of approximately $34.0 million under its renewal rights agreement with Liberty Mutual Insurance Group (Liberty Mutual), which expired on October 31, 2003.

In connection with the OneBeacon Acquisition, the seller caused OneBeacon to purchase two reinsurance contracts: a full risk-transfer cover from National Indemnity Company (NICO) for up to $2.5 billion in old asbestos and environmental (A&E) claims and certain other exposures (the NICO Cover) and an adverse development cover (the GRC Cover) from General Reinsurance Corporation (GRC) for up to $570.0 million, comprised of $400.0 million of adverse development on losses occurring in years 2000 and prior in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller

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guarantee of loss and LAE reserves and are therefore accounted for as a seller guarantee under GAAP in accordance with Emerging Issues Task Force Technical Matter Document No. D-54 (EITF Topic D-54). NICO and GRC are wholly-owned subsidiaries of Berkshire Hathaway Inc. (Berkshire).

Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables (Third Party Recoverables) from certain of OneBeacon s third party reinsurers in existence at the time the NICO Cover was executed. As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. White Mountains estimates that on an incurred basis, net of Third Party Recoverables, as of March 31, 2007 it has used approximately $2.1 billion of the coverage provided by NICO. Approximately $878 million of these incurred losses have been paid by NICO through March 31, 2007. Since entering into the NICO Cover, $29.7 million of the $2.1 billion of utilized coverage from NICO related to uncollectible Third Party Recoverables. To the extent that actual experience differs from White Mountains estimate of ultimate A&E losses and Third Party Recoverables, future losses could utilize some or all of the protection remaining under the NICO Cover.

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

White Mountains Re

At March 31, 2007, White Mountains Re had $111.1 million of reinsurance recoverables on paid losses and $1,022.1 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies, the collectibility of balances due from its reinsurers is critical to White Mountains Re s financial strength. White Mountains Re monitors the financial strength of certain reinsurers on an ongoing basis. The following table provides a listing of White Mountains Re s top reinsurers based upon recoverable amounts, the percentage of total recoverables and the reinsurers A.M. Best ratings.

Top Reinsurers (Millions)	**Balance at March 31, 2007**	**% of Total**	**A.M. Best Rating (2)**	**% Collateralized**
Olympus (1)(3)	$ 491.7	43 %	NR-4	100 %
Imagine Re (1)	186.8	16 %	A-	100 %
London Life (1)	93.1	8 %	A	100 %
General Re	88.2	8 %	A++	3 %
The Travelers Companies	60.7	5 %	A+	%

(1) Represents non-U.S. insurance entities which balances are fully collateralized through Funds Held, Letters of Credit or Trust Agreements.

(2) A.M. Best ratings as detailed above are: NR-4 (Not rated per company request), A++ (Superior, which is the highest of fifteen ratings), A+ (Superior, which is the second highest of fifteen ratings), A (Excellent, which is the third highest of fifteen ratings), and A- (Excellent, which is the fourth highest of fifteen ratings).

(3) Gross of amounts due to Olympus under an indemnity agreement with FHC.

Note 4. Investment Securities

White Mountains invested assets comprise securities and other investments held for general investment purposes and those held in two segregated trust accounts.

White Mountains portfolio of fixed maturity investments and common equity securities held for general investment purposes are classified as available for sale and are reported at fair value as of the balance sheet date as determined by quoted market prices. Net unrealized investment gains and losses on available for sale securities are reported net, after-tax, as a separate component of shareholders equity. Changes in net unrealized investment gains and losses, net of the effect of adjustments for minority interest and after-tax, are reported as a component of other comprehensive income.

Asset-backed securities are included in fixed maturity investments and consist primarily of pooled collateralized mortgage obligations, are classified as available for sale and carried at fair value. Fair values for asset-backed securities are based on quoted market prices from a third party pricing service. Income on 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.

White Mountains portfolio of fixed maturity investments held in the segregated trust accounts are classified as held to maturity as the Company has the ability and intent to hold the investments until maturity. Securities classified as held to maturity are recorded at amortized cost.

Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, the financial health of and specific prospects for the issuer and the ability and intent to hold the investment to recovery. Investment losses that are other than temporary are recognized in earnings. Realized gains and losses resulting from sales of investment securities are accounted for using the weighted average method. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment.

Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of March 31, 2007 and December 31, 2006. Short-term investments held in the segregated trust account are included in the total of investments held in trust.

Other investments comprise White Mountains investments in limited partnerships, warrants, equity method investments and an interest rate swap accounted for as a cash flow hedge.

Net investment income for the three months ended March 31, 2007 and 2006 consisted of the following:

Millions	**Three Months Ended March 31, 2007**	**2006**
Investment income:		
Fixed maturity investments	**$ 96.3**	$ 81.5
Short-term investments	**17.9**	9.3
Common equity securities	**5.0**	6.8
Other	**1.1**	2.9
Convertible fixed maturity investments	**1.1**	.4
Total investment income	**121.4**	100.9
Less investment expenses	**(3.4)**	(2.4)
Net investment income, pre-tax	**$ 118.0**	$ 98.5

Realized investment gains (losses) consisted of the following:

Millions	**Three Months Ended March 31, 2007**	**2006**
Fixed maturity investments	**$ 8.2**	$ 3.8
Common equity securities	**48.1**	15.2
Other investments	**17.7**	1.8
Convertible fixed maturity investments	**(.1)**	7.7
Net realized investment gains, pre-tax	**$ 73.9**	$ 28.5

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Net realized gains increased by $45.4 million in the first quarter of 2007 compared to the first quarter of 2006, mainly due to the sale of certain convertible fixed maturity and equity securities in industry sectors that experienced significant appreciation during the first quarter, principally energy and natural resources.

White Mountains ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated affiliates at March 31, 2007 and December 31, 2006 were as follows:

Millions	March 31, 2007	December 31, 2006
Investment securities:		
Gross unrealized investment gains	**$ 367.0**	$ 353.6
Gross unrealized investment losses	**(40.3)**	(52.2)
Net unrealized gains from investment securities	**326.7**	301.4
Net unrealized gains from investments in unconsolidated affiliates	**6.8**	.3
Total net unrealized investment gains, before tax	**333.5**	301.7
Income taxes attributable to such gains	**(112.2)**	(103.2)
Minority interest	**(6.6)**	(4.5)
Total net unrealized investment gains, after-tax	**$ 214.7**	$ 194.0

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains fixed maturity investments as of March 31, 2007 and December 31, 2006, were as follows:

	March 31, 2007				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government obligations	$ 1,303.9	$ 11.1	$ (7.3)	$	$ 1,307.7
Debt securities issued by industrial corporations	2,087.9	22.2	(16.7)	20.4	2,113.8
Municipal obligations	12.0	.5			12.5
Asset-backed securities	2,890.4	15.1	(3.8)	3.1	2,904.8
Foreign government obligations	664.9	1.8	(6.1)	52.7	713.3
Preferred stocks	107.6	12.7	(.4)	7.9	127.8
Total fixed maturity investments	**$ 7,066.7**	$ 63.4	$ (34.3)	$ 84.1	**$ 7,179.9**

	December 31, 2006				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government obligations	$ 1,651.3	$ 5.0	$ (11.9)	$	$ 1,644.4
Debt securities issued by industrial corporations	2,048.8	21.8	(23.6)	25.4	2,072.4
Municipal obligations	15.5	.5			16.0
Asset-backed securities	2,899.1	10.8	(7.5)	2.3	2,904.7
Foreign government obligations	657.2	2.1	(6.1)	55.2	708.4
Preferred stocks	105.1	16.8	(.4)	7.9	129.4
Total fixed maturity investments	**$ 7,377.0**	$ 57.0	$ (49.5)	$ 90.8	**$ 7,475.3**

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains common equity securities, other investments and convertible fixed maturity investments as of March 31, 2007 and December 31, 2006, were as follows:

Millions	March 31, 2007 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	**$ 1,009.4**	$ 235.8	$ (5.4)	$ 5.4	**$ 1,245.2**
Other investments	**$ 465.3**	$ 67.5	$ (.6)	$	**$ 532.2**
Convertible fixed maturity investments	**$ 485.5**	$ .3	$	$	**$ 485.8**

Millions	December 31, 2006 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	**$ 972.0**	$ 237.2	$ (1.3)	$ 4.7	**$ 1,212.6**
Other investments	**$ 467.1**	$ 59.1	$ (1.4)	$	**$ 524.8**
Convertible fixed maturity investments	**$ 435.9**	$ .3	$	$	**$ 436.2**

Impairment

Temporary losses on investment securities are recorded as unrealized losses. Temporary losses do not impact net income and earnings per share but serve to reduce comprehensive net income, shareholders equity and tangible book value. Unrealized losses subsequently identified as other-than-temporary impairments are recorded as realized losses. Other-than-temporary impairments previously recorded as unrealized losses do not impact comprehensive net income, shareholders equity and tangible book value but serve to reduce net income and earnings per share.

White Mountains methodology of assessing other-than-temporary impairments is based on security-specific facts and circumstances as of the balance sheet date. As a result, subsequent adverse changes in an issuers credit quality or subsequent weakening of market conditions that differ from expectations could result in additional other-than-temporary impairments. In addition, the sale of a fixed maturity security with a previously recorded unrealized loss would result in a realized loss. Either of these situations would adversely impact net income and earnings per share but would not impact comprehensive net income, shareholders equity or tangible book value.

The following table presents an analysis of the continuous periods during which White Mountains has held investment positions which were carried at an unrealized loss as of March 31, 2007 (excluding short-term investments):

($ in millions)	March 31, 2007 0-6 Months	6-12 Months	> 12 Months	Total
Fixed maturity investments:				
Number of positions	197	41	331	569
Market value	$ 1,226.9	$ 337.5	$ 1,843.3	$ 3,407.7
Amortized cost	$ 1,230.8	$ 339.5	$ 1,871.7	$ 3,442.0
Unrealized loss	$ (3.9)	$ (2.0)	$ (28.4)	$ (34.3)
Common equity securities:				
Number of positions	106	7	4	117
Market value	$ 117.9	$ 17.1	$ 1.1	$ 136.1
Cost	$ 122.2	$ 18.2	$ 1.1	$ 141.5
Unrealized loss	$ (4.3)	$ (1.1)	$	$ (5.4)
Other investments:				
Number of positions	3	1	2	6
Market value	$ 7.3	$ 3.5	$ 3.9	$ 14.7
Cost	$ 7.5	$ 3.5	$ 4.3	$ 15.3
Unrealized loss	$ (.2)	$	$ (.4)	$ (.6)
Total:				
Number of positions	306	49	337	692
Market value	$ 1,352.1	$ 358.1	$ 1,848.3	$ 3,558.5
Amortized cost	$ 1,360.5	$ 361.2	$ 1,877.1	$ 3,598.8
Unrealized loss	$ (8.4)	$ (3.1)	$ (28.8)	$ (40.3)
% of total gross unrealized losses	20.8 %	7.7 %	71.5 %	100.0 %

For the three months ended March 31, 2007, White Mountains did not experience any material other-than-temporary impairment charges. White Mountains believes that the gross unrealized losses relating to its fixed maturity investments at March 31, 2007 resulted primarily from increases in market interest rates from the dates that certain investments within that portfolio were acquired as opposed to fundamental changes in the credit quality of the issuers of such securities. White Mountains views these decreases in value as being temporary because it has the intent and ability to retain such investments until recovery. However, should White Mountains determine that it no longer has the intent and ability to hold a fixed maturity investment that has an existing unrealized loss resulting from an increase in market interest rates until it recovers, this loss would be realized through the income statement at the time such determination is made. White Mountains also believes that the gross unrealized losses recorded on its common equity securities and its other investments at March 31, 2007 resulted primarily from decreases in quoted market values from the dates that certain investments securities within that portfolio were acquired as opposed to fundamental changes in the issuer s financial performance and near-term financial prospects. Therefore, these decreases are also viewed as being temporary. However, due to the inherent risk involved in investing in the equity markets, it is possible that the decrease in market value of these investments may ultimately prove to be other than temporary. As of March 31, 2007, White Mountains investment portfolio did not include any investment securities with an after-tax unrealized loss of more than $3.0 million for more than a six-month period.

Note 5. Debt

White Mountains debt outstanding as of March 31, 2007 and December 31, 2006 consisted of the following:

Millions	March 31, 2007	December 31, 2006
FAC Senior Notes, at face value	**$ 700.0**	$ 700.0
Unamortized original issue discount	**(1.3)**	(1.3)
FAC Senior Notes, carrying value	**698.7**	698.7
WMRe Senior Notes, at face value	**400.0**	
Unamortized original issue discount	**(1.1)**	
WMRe Senior Notes, carrying value	**398.9**	
WTM Bank Facility		320.0
FAC Bank Facility		
Mortgage Note	**40.8**	40.8
Sierra Note	**27.2**	27.2
Atlantic Specialty Note	**18.0**	20.0
Total debt	**$ 1,183.6**	$ 1,106.7

WMRe Senior Notes

On March 19, 2007, White Mountains Re issued $400.0 million face value of senior unsecured notes at an issue price of 99.715% (the WMRe Senior Notes) for net proceeds of $392.0 million after taking into effect both deferrable and non-deferrable issuance costs, including the interest rate lock agreement described below. The WMRe Senior Notes were issued in an offering that is exempt from the registration requirements of the Securities Act of 1933. The WMRe Senior Notes bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017. The net proceeds from the WMRe Senior Notes were distributed to White Mountains and were used in part to repay the $320 million in outstanding borrowings on White Mountains revolving credit facility (the WTM Bank Facility). In accordance with the mandatory commitment reduction provision in the WTM Bank Facility, following the issuance of the WMRe Senior Notes the revolving credit facility commitment was reduced from $500 million to $304 million.

White Mountains Re deferred $3.6 million in expenses related to the issuance of the WMRe Senior Notes (including $2.6 million in underwriting fees), which are being recognized into interest expense over the life of the WMRe Senior Notes.

In anticipation of the issuance of the WMRe Senior Notes, White Mountains Re entered into an interest rate lock agreement to hedge its interest rate exposure from the date of the agreement until the pricing of the WMRe Senior Notes. The agreement was terminated on March 15, 2007 with a loss of $2.4 million, which was recorded in other comprehensive income. The loss is being reclassified from accumulated other comprehensive income over the life of the WMRe Senior Notes using the interest method and is included in interest expense. At March 31, 2007, the unamortized balance of the loss remaining in accumulated other comprehensive income was $2.4 million.

Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, including the interest rate lock agreement, the WMRe Senior Notes yield an effective rate of 6.49% per annum. White Mountains recorded $.7 million of interest expense on the WMRe Senior Notes in the first quarter of 2007, inclusive of amortization of issuance costs and the interest rate lock agreement.

Note 6. Weather Contracts

During 2006, White Mountains entered into the weather risk management business through its newly formed subsidiary, Galileo. Galileo offers weather risk management products, which, at March 31, 2007, were all in the form of derivative financial instruments. All weather derivatives are recognized as either assets or liabilities in the balance sheet. The fair value for exchange traded contracts are based upon quoted market prices, where available. Where quoted market prices are not available, management uses available market data and internal pricing models based upon consistent statistical methodologies to estimate the fair value. The gain or loss at the inception date for contracts valued based upon internal pricing models are deferred and amortized into income over the period at risk for each underlying contract. At March 31, 2007, Galileo has unamortized deferred gains of $0.3 million.

Galileo enters into weather derivative contracts with the objective of generating profits in normal climatic conditions. Accordingly, Galileo s weather derivatives are not designed to meet the GAAP criteria for hedge accounting. Galileo initially recognizes the premium paid or received as an asset or liability, respectively, and recognizes any subsequent changes in fair value as they occur in other revenues within the income statement. For the period ended March 31, 2007, Galileo recognized $1.0 million of net gains on its weather derivatives portfolio. The fair values of Galileo s risk management products are subject to change in the near-term and reflect management s best estimate based on various factors including, but not limited to, realized and forecasted weather conditions, changes in interest or foreign currency exchange rates and other market factors. Estimating the fair value of derivative instruments that do not have quoted market prices requires management s judgment in determining amounts that could reasonably be expected to be received from or paid to a third party to settle the contracts. Such amounts could be materially different from the amounts that might be realized in an actual transaction to settle the contract with a third party.

At March 31, 2007, Galileo had recorded a net liability of $1.0 million for exchange traded weather derivative contracts and a net liability of $3.1 million for weather derivative contracts valued based on internal pricing models. Galileo requires certain counterparties to provide cash collateral that it invests until the underlying contract has settled. At March 31, 2007, Galileo had recorded a $25.3 million liability for collateral received.

Galileo s weather risk management contracts, all of which mature within one year, are summarized in the following table:

(Millions)	**Carrying Value**
Net liability for weather derivative contracts at January 1, 2007 (1)	$ 12.1
Net consideration received for new contracts	0.9
Net payments made on contracts settled	(7.9)
Net decrease in fair value on settled and unsettled contracts	(1.0)
Net liability for weather derivative contracts at March 31, 2007 (2)	$ 4.1

(1) Amount includes $4.7 million of deferred gains

(2) Amount includes $.3 million of deferred gains

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Note 7. Variable Annuity Reinsurance

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

Guaranteed minimum accumulation benefits (GMABs) are paid to an annuitant for any shortfall between accumulated account value at the end of the accumulation period and the annuitant s total deposit, less any withdrawal payments made to the annuitant during the accumulation period. GMABs meet the definition of a derivative for accounting purposes and are accounted for under FAS 133. Therefore, GMABs are carried at fair value, with changes thereon recognized in income in the period of the change. The liability for the reinsured GMAB contracts has been determined using internal valuation models that use assumptions for interest rates, equity markets, foreign exchange rates and market volatilities at the valuation date, as well as annuitant-related actuarial assumptions, including surrender and mortality rates.

If an annuitant dies during the accumulation period of an annuity contract, guaranteed minimum death benefits (GMDBs) are paid to the annuitant s beneficiary for shortfalls between accumulated account value at the time of an annuitant s death and the annuitant s total deposit, less any living benefit payments or withdrawal payments previously made to the annuitant. GMDBs are accounted for as life insurance liabilities in accordance with Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (the SOP). The life insurance liability for the reinsured GMDB contracts has been calculated based on investment returns, mortality, surrender rates and other assumptions. The life insurance liability as of March 31, 2007 and December 31, 2006 was $.2 million and $.1 million.

The valuation of these liabilities involve significant judgment and is subject to change based upon changes in capital market assumptions and emerging surrender and mortality experience of the underlying contracts in force. At March 31, 2007, the liability recorded for the variable annuity benefit guarantees was $(13.9) million, which is included in other liabilities.

WM Life Re has entered into derivative contracts that are designed to economically hedge against changes in the fair value of living and death benefit liabilities associated with its variable annuity reinsurance arrangements. The derivatives include futures and over-the-counter option contracts on interest rates, major equity indices, and foreign currencies. All derivative instruments are recorded as assets or liabilities at fair value on the balance sheet. These derivative financial instruments do not meet the hedging criteria under FAS 133, and accordingly, changes in fair value are recognized in the current period as gains or losses in the income statement. At March 31, 2007, the fair value of these derivative contracts, which is recorded in other assets, was $22.7 million and had losses of $3.2 million for the three month period ended March 31, 2007, which are included in other revenues. In connection with these derivative contracts, WM Life Re has deposited collateral comprising $7.7 million of cash and $4.9 million of securities with counterparties.

Note 8. Earnings Per Share

Basic earnings per share amounts are based on the weighted average number of common shares outstanding excluding certain unearned restricted common shares (Restricted Shares), which are being expensed over the vesting period and were anti-dilutive for all periods presented. Diluted earnings per share amounts are based on the weighted average number of common shares and the net effect of potentially dilutive common shares outstanding, based on the treasury stock method. The following table outlines the Company s computation of earnings per share for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007	2006
Basic earnings per share numerator (in millions):		
Net income	**$ 92.2**	$ 96.0
Diluted earnings per share numerator (in millions):		
Net income	**$ 92.2**	$ 96.0
Basic earnings per share denominator (in thousands):		
Average common shares outstanding during the period	**10,824**	10,780
Average unearned Restricted Shares	**(48)**	(13)
Basic earnings per share denominator	**10,776**	10,767
Diluted earnings per share denominator (in thousands):		
Average common shares outstanding during the period	**10,824**	10,780
Average unearned Restricted Shares (1)	**(48)**	(3)
Average outstanding dilutive options to acquire common shares (2)	**20**	25
Diluted earnings per share denominator	**10,796**	10,802
Basic earnings per share (in dollars):		
Net income	**$ 8.56**	$ 8.92
Diluted earnings per share (in dollars):		
Net income	**$ 8.54**	$ 8.89

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(1) Restricted Shares outstanding vest either upon a stated anniversary date or upon the occurrence of a specified event. See Note 12. In accordance with the adoption of FAS No. 123(R), the diluted earnings per share denominator is reduced by the number of Restricted Shares representative of the unamortized compensation cost at March 31, 2007. Such amounts are computed under the treasury stock method.

(2) The diluted earnings per share denominator for the quarter ended March 31, 2007 includes the effects of options to acquire 27,450 common shares at an average strike price of $159.33 per common share. The diluted earnings per share denominator for the quarter ended March 31, 2006 includes the effects of options to acquire 33,865 common shares at an average strike price of $150.67.

Note 9. Segment Information

White Mountains has determined that its reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations. White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company s subsidiaries and affiliates; (ii) the manner in which the Company s subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board of Directors. Significant intercompany transactions among White Mountains segments have been eliminated herein. Segment information for all prior periods has been restated for the effect of the Reorganization (See Note 1). Financial information for White Mountains segments follows:

Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Operations**	**Total**
Three months ended March 31, 2007					
Earned insurance and reinsurance premiums	$ 468.9	$ 298.3	$ 170.8		$ 938.0
Net investment income	50.6	48.1	6.2	13.1	118.0
Net realized investment gains (losses)	54.9	19.9	1.0	(1.9)	73.9
Other revenue	3.1	(3.6)	3.0	33.7	36.2
Total revenues	**577.5**	**362.7**	**181.0**	**44.9**	**1,166.1**
Loss and LAE	288.2	194.6	130.3	0.2	613.3
Insurance and reinsurance acquisition expenses	78.3	69.6	44.7		192.6
Other underwriting expenses	90.9	31.3	14.7	0.8	137.7
General and administrative expenses	2.4	6.6	0.1	43.8	52.9
Accretion of fair value adjustment to loss and LAE reserves	4.0	1.1			5.1
Interest expense on debt	11.4	1.2		4.2	16.8
Interest expense - dividends and accretion on preferred stock	15.8				15.8
Total expenses	**491.0**	**304.4**	**189.8**	**49.0**	**1,034.2**
Pre-tax income (loss)	**$ 86.5**	**$ 58.3**	**$ (8.8)**	**$ (4.1)**	**$ 131.9**

Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Operations**	**Total**
Three months ended March 31, 2006					
Earned insurance and reinsurance premiums	$ 480.2	$ 315.6	$ 105.2	$	$ 901.0
Net investment income	45.1	41.1	3.6	8.7	98.5
Net realized investment gains (losses)	27.1	2.5	.9	(2.0)	28.5
Other revenue	5.5	4.4	2.1	17.8	29.8
Total revenues	557.9	363.6	111.8	24.5	1,057.8
Loss and LAE	303.7	186.6	75.2	(1.5)	564.0
Insurance and reinsurance acquisition expenses	86.3	70.3	29.0		185.6
Other underwriting expenses	83.9	20.4	11.1	.5	115.9
General and administrative expenses	4.4	2.2		38.0	44.6
Accretion of fair value adjustment to loss and LAE reserves	5.8	(.6)			5.2
Interest expense on debt	11.4	.4		(.1)	11.7
Interest expense - dividends and accretion on preferred stock	14.0				14.0
Total expenses	509.5	279.3	115.3	36.9	941.0
Pre-tax income (loss)	$ 48.4	$ 84.3	$ (3.5)	$ (12.4)	$ 116.8

Note 10. Investments in Unconsolidated Affiliates

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

Symetra

White Mountains owns 24% of the common shares of Symetra on a fully converted basis, consisting of 2.0 million common shares and warrants to acquire an additional 1.1 million common shares. White Mountains accounts for its investment in Symetra s common shares using the equity method of accounting an