

WHITE MOUNTAINS INSURANCE GROUP LTD

Form 10-Q

October 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda

(State or other jurisdiction of  
incorporation or organization)

94-2708455

(I.R.S. Employer  
Identification No.)

80 South Main Street,

Hanover, New Hampshire

(Address of principal executive offices)

03755-2053

(Zip Code)

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

As of October 28, 2013, 6,176,739 common shares with a par value of \$1.00 per share were outstanding (which includes 95,630 restricted common shares that were not vested at such date).

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

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## Part I. FINANCIAL INFORMATION.

## Item 1. Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.  
CONSOLIDATED BALANCE SHEET

(Millions, except share amounts)	September 30, 2013	December 31, 2012
Assets	Unaudited	
Fixed maturity investments, at fair value	\$ 4,914.0	\$5,196.2
Short-term investments, at amortized cost (which approximates fair value)	648.0	630.6
Common equity securities, at fair value	1,110.7	1,029.7
Convertible fixed maturity investments, at fair value	84.8	127.4
Other long-term investments	300.0	294.2
Total investments	7,057.5	7,278.1
Cash (restricted: \$74.4 and \$249.8)	411.0	462.4
Reinsurance recoverable on unpaid losses	416.0	429.1
Reinsurance recoverable on paid losses	18.8	17.9
Insurance and reinsurance premiums receivable	684.9	556.3
Funds held by ceding companies	101.1	127.4
Investments in unconsolidated affiliates	331.7	387.9
Deferred acquisition costs	188.2	195.3
Deferred tax asset	555.5	569.6
Ceded unearned insurance and reinsurance premiums	116.4	91.8
Accrued investment income	33.7	45.9
Accounts receivable on unsettled investment sales	38.2	3.9
Other assets	397.3	503.0
Assets held for sale	1,957.2	2,226.8
Total assets	\$ 12,307.5	\$ 12,895.4
Liabilities		
Loss and loss adjustment expense reserves	\$ 3,108.1	\$3,168.9
Unearned insurance and reinsurance premiums	1,010.3	924.1
Variable annuity benefit guarantee	143.7	441.5
Debt	676.3	751.2
Deferred tax liability	329.6	341.3
Accrued incentive compensation	161.6	159.0
Ceded reinsurance payable	153.6	116.5
Funds held under reinsurance treaties	89.1	43.7
Accounts payable on unsettled investment purchases	28.1	11.4
Other liabilities	362.7	452.8
Liabilities held for sale	1,957.2	2,226.8
Total liabilities	8,020.3	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 6,176,739 and 6,290,964 shares	6.2	6.3
Paid-in surplus	1,040.4	1,050.9
Retained earnings	2,684.4	2,542.7
Accumulated other comprehensive income, after tax:		
Equity in net unrealized (losses) gains from investments in unconsolidated affiliates	(23.5	) 57.7
Net unrealized foreign currency translation gains	93.5	85.7

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Pension liability and other	(11.0	)	(11.5	)
Total White Mountains' common shareholders' equity	3,790.0		3,731.8	
Non-controlling interests				
Non-controlling interest - OneBeacon Ltd.	263.3		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	(80.7	)	(36.0	)
Non-controlling interest - other	48.0		44.4	
Total non-controlling interests	497.2		526.4	
Total equity	4,287.2		4,258.2	
Total liabilities and equity	\$ 12,307.5		\$ 12,895.4	
See Notes to Consolidated Financial Statements				

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

(Millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenues:				
Earned insurance and reinsurance premiums	\$500.4	\$536.8	\$1,493.3	\$1,545.3
Net investment income	27.3	37.6	84.5	119.8
Net realized and unrealized investment gains	28.2	72.7	66.1	123.2
Other revenue	18.2	50.3	46.9	81.0
Total revenues	574.1	697.4	1,690.8	1,869.3
Expenses:				
Loss and loss adjustment expenses	278.3	308.1	797.2	821.7
Insurance and reinsurance acquisition expenses	106.7	107.6	281.0	326.2
Other underwriting expenses	80.4	76.6	244.0	228.4
General and administrative expenses	41.5	58.7	125.5	146.3
Interest expense on debt	11.9	11.3	32.4	33.1
Total expenses	518.8	562.3	1,480.1	1,555.7
Pre-tax income from continuing operations	55.3	135.1	210.7	313.6
Income tax expense	(8.2 )	(47.8 )	(49.2 )	(85.3 )
Net income from continuing operations	47.1	87.3	161.5	228.3
Loss from sale of discontinued operations, net of tax	—	(91.0 )	—	(91.0 )
Net income (loss) from discontinued operations, net of tax	.4	(15.8 )	4.8	(24.5 )
Income (loss) before equity in earnings of unconsolidated affiliates	47.5	(19.5 )	166.3	112.8
Equity in earnings of unconsolidated affiliates, net of tax	8.6	7.7	24.9	24.4
Net income (loss)	56.1	(11.8 )	191.2	137.2
Net loss attributable to non-controlling interests	1.1	30.9	12.7	2.0
Net income attributable to White Mountains' common shareholders	57.2	19.1	203.9	139.2
Other comprehensive income, net of tax:				
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates	(7.2 )	32.3	(81.2 )	59.3
Change in foreign currency translation and other	46.6	39.6	8.4	33.3
Comprehensive income	96.6	91.0	131.1	231.8
Comprehensive (income) loss attributable to non-controlling interests	(.1 )	.4	(.1 )	.4
Comprehensive income attributable to White Mountains' common shareholders	\$96.5	\$91.4	\$131.0	\$232.2

Income (loss) per share attributable to White Mountains' common shareholders

Basic income (loss) per share				
Continuing operations	\$9.20	\$19.11	\$32.05	\$36.96
Discontinued operations	.06	(16.21 )	.78	(16.77 )
Total consolidated operations	\$9.26	\$2.90	\$32.83	\$20.19
Diluted income (loss) per share				
Continuing operations	\$9.20	\$19.11	\$32.05	\$36.96
Discontinued operations	.06	(16.21 )	.78	(16.77 )
Total consolidated operations	\$9.26	\$2.90	\$32.83	\$20.19
Dividends declared per White Mountains' common share	\$—	\$—	\$1.00	\$1.00
See Notes to Consolidated Financial Statements				

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)	—	203.9	—	203.9	(12.7 )	191.2
Net change in unrealized losses from investments in unconsolidated affiliates	—	—	(81.2 )	(81.2 )	—	(81.2 )
Net change in foreign currency translation	—	—	7.8	7.8	—	7.8
Net change in pension liability and other accumulated comprehensive items	—	—	.5	.5	0.1	.6
Total comprehensive income (loss)	—	203.9	(72.9 )	131.0	(12.6 )	118.4
Dividends declared on common shares	—	(6.2 )	—	(6.2 )	—	(6.2 )
Dividends to non-controlling interests	—	—	—	—	(25.1 )	(25.1 )
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	—	—	—	—	7.7	7.7
Amortization of restricted share awards	12.2	—	—	12.2	.8	13.0
Balance at September 30, 2013	\$1,046.6	\$2,684.4	\$59.0	\$3,790.0	\$ 497.2	\$4,287.2

(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 (loss)	—	139.2	—	139.2	(2.0 )	137.2
Net change in unrealized gains from investments in unconsolidated affiliates	—	—	59.3	59.3	—	59.3
Net change in foreign currency translation	—	—	34.7	34.7	—	34.7
Net change in pension liability and other accumulated comprehensive items	—	—	(1.0 )	(1.0 )	(.4 )	(1.4 )
Total comprehensive income (loss)	—	139.2	93.0	232.2	(2.4 )	229.8
	—	(6.6 )	—	(6.6 )	—	(6.6 )



Dividends declared on common shares						
Dividends to non-controlling interests	—	—	—	—	(24.5 )	(24.5 )
Repurchases and retirements of common shares	(172.6 )	(344.9 )	—	(517.5 )	—	(517.5 )
Issuances of common shares	5.8	—	—	5.8	—	5.8
Net contributions from non-controlling interests	—	—	—	—	13.0	13.0
Amortization of restricted share awards	9.9	—	—	9.9	.6	10.5
Allocation of fair value of net assets acquired to noncontrolling interests	\$(2.2 )	\$—	\$—	\$(2.2 )	\$ 2.2	\$—
Balance at September 30, 2012	\$1,102.2	\$2,577.4	\$129.7	\$3,809.3	\$ 569.1	\$4,378.4

See Notes to Consolidated Financial Statements

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

Unaudited

(Millions)	Nine Months Ended September 30,	
	2013	2012
Cash flows from operations:		
Net income	\$191.2	\$137.2
Charges (credits) to reconcile net income to net cash (used for) provided from operations:		
Net realized and unrealized investment gains	(66.1	) (123.2
Deferred income tax expense	5.4	50.4
Net (income) loss from discontinued operations	(4.8	) 24.5
Net loss on sale of discontinued operation	—	91.0
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	(24.9	) (24.4
Other operating items:		
Net change in loss and loss adjustment expense reserves	(95.1	) (241.6
Net change in reinsurance recoverable on paid and unpaid losses	15.5	98.1
Net change in unearned insurance and reinsurance premiums	91.2	206.6
Net change in variable annuity benefit guarantee liabilities	(297.8	) (96.1
Net change in variable annuity benefit guarantee derivative instruments	6.8	48.3
Net change in deferred acquisition costs	7.6	(21.9
Net change in funds held by ceding companies	36.0	5.3
Net change in ceded unearned premiums	(30.6	) (22.1
Net change in funds held under reinsurance treaties	44.8	1.9
Net change in insurance and reinsurance premiums receivable	(143.8	) (206.9
Net change in ceded reinsurance payable	53.2	31.5
Net change in restricted cash	175.4	111.8
Net change in other assets and liabilities, net	88.6	(43.4
Net cash provided from operations - continuing operations	22.7	27.0
Net cash used for operations - discontinued operations	(93.5	) (155.6
Net cash used for operations	(70.8	) (128.6
Cash flows from investing activities:		
Net change in short-term investments	(9.9	) (127.3
Sales of fixed maturity and convertible fixed maturity investments	3,350.9	4,918.8
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	380.0	408.7
Sales of common equity securities	412.5	99.7
Distributions and redemptions of other long-term investments	36.6	20.9
Sales of consolidated and unconsolidated affiliates, net of cash sold	31.3	9.8
Funding of operational cash flows for discontinued operations	(93.5	) (155.6
Purchases of other long-term investments	(31.7	) (28.8
Purchases of common equity securities	(357.6	) (284.2
Purchases of fixed maturity and convertible fixed maturity investments	(3,403.8	) (4,239.0
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(9.2	) —
Net change in unsettled investment purchases and sales	(17.8	) (149.5
Net acquisitions of property and equipment	(10.4	) (1.5
Net cash provided from investing activities - continuing operations	277.4	472.0

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Net cash provided from investing activities - discontinued operations	93.5	155.6	
Net cash provided from investing activities	370.9	627.6	
Cash flows from financing activities:			
Draw down of revolving line of credit	150.0	—	
Repayment of revolving line of credit	(225.0)	) —	
Payments on capital lease obligation	(4.0)	) —	
Cash dividends paid to the Company's common shareholders	(6.2)	) (6.6	)
Cash dividends paid to OneBeacon Ltd.'s non-controlling common shareholders	(14.9)	) (14.9	)
Cash dividends paid on SIG Preference Shares	(9.4)	) (9.4	)
Common shares repurchased	(79.8)	) (517.5	)
Capital contributions from non-controlling interest of consolidated LPs	1.6	—	
Redemptions paid to non-controlling interest of consolidated LPs	(.7)	) —	
Purchase of interest rate cap	(9.9)	) —	
Collateral provided by interest rate cap counterparties	9.7	—	
Capital contributions from BAM members	11.5	—	
Net cash used for financing activities - continuing operations	(177.1)	) (548.4	)
Net cash (used for) provided from financing activities - discontinued operations	—	—	
Net cash used for financing activities	(177.1)	) (548.4	)
Effect of exchange rate changes on cash	1.0	3.0	
Net change in cash during the period	124.0	(46.4	)
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 \$74.4 and \$341.7)	\$336.6	\$207.5	
Supplemental cash flows information:			
Interest paid	\$(32.0)	) \$(21.4	)
Net income tax payments to national governments	\$(1.5)	) \$(6.5	)
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, 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 property and casualty insurance companies (collectively, “OneBeacon”). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products in the United States through independent agencies, regional and national brokers, wholesalers and managing general agencies. During the third quarter of 2013, OneBeacon formed Split Rock Insurance, Ltd. (“Split Rock”), a Bermuda-based reinsurance company, to reinsure certain of its risks. As of both September 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 September 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 September 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 September 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 nine months ended September 30, 2013, BAM reported \$11.4 million and \$52.4 million in after-tax 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. The SIG Preference Shares have an initial fixed annual dividend rate of 7.506%. In June 2017, the fixed rate will move to a floating rate equal to the greater of (i) 7.506% and (ii) 3-month LIBOR plus 320 bps. In July 2013, SIG executed a 5-year forward LIBOR cap (the "Interest Rate Cap") for the period from June 2017 to June 2022 to protect against a significant increase in interest rates during that 5-year period. The Interest Rate Cap fixes the annual dividend rate on the SIG Preference Shares from June 2017 to June 2022 at 8.30%. The Interest Rate Cap is recorded in other assets at fair value. Changes in fair value are recorded in other revenue. At September 30, 2013 and December 31, 2012, the non-controlling equity interest in White Mountains' consolidated limited partnerships was \$45.1 million and \$41.5 million. At September 30, 2013 and December 31, 2012, the non-controlling equity interest in A.W.G. Dewar Inc, a subsidiary of OneBeacon, was \$2.9 million and \$2.8 million. On September 30, 2013, Sirius Group purchased the remaining 25.0% ownership in one of its subsidiaries, Passage2Health Limited, and now owns 100.0%. At December 31, 2012, the non-controlling equity interest in Passage2Health Limited was \$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.)

### 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.

## Recently Issued Accounting Pronouncements

### Unrecognized Tax Benefits

On July 18, 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASC 740). The new ASU requires balance sheet presentation of an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ("NOL") carryforward or tax credit carryforward rather than as a liability. The exception is in



circumstances where a carryforward is not available to settle the additional taxes that might arise upon disallowance of the tax position under the tax law of the applicable jurisdiction. Prior to the issuance of ASU 2013-11, the guidance for unrecognized tax benefits under ASC 740 did not provide explicit guidance on whether an entity should present an unrecognized tax benefit as a liability or as a reduction of NOL carryforwards or other tax credits. In circumstances where an NOL carryforward is not available to offset settlement of any additional taxes arising from a disallowed tax position, the unrecognized tax benefit should be presented as a liability. The new guidance becomes effective for fiscal periods beginning on or after December 15, 2013 and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective adoption is allowed. White Mountains does not expect adoption to significantly affect its balance sheet.

## 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 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 of \$52.5 million and \$145.8 million for the three and nine months ended September 30, 2012, or 15.7% of OneBeacon's net written premiums for both periods.

### WM Solutions

In the first quarter of 2013, WM Solutions acquired American Fuji Fire and Marine Insurance Company (“American Fuji”), an American International Group, Inc. (“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 approval and is expected to close in the second quarter of 2014. As a result of the agreement, the OneBeacon runoff business is reported as discontinued operations (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 September 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 September 30, 2013, no shares were repurchased. During the nine months ended September 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 September 30, 2012, the Company repurchased 50,000 common shares under the board authorization for \$26.4 million at an average share price of \$528. During the nine months ended September 30, 2012, the Company repurchased 1,037,191 common shares for \$517.4 million at an average share price of \$499,

which were comprised of (1) 217,801 common shares repurchased under the board authorization for \$107.6 million at an average share price of \$494; (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 nine months ended September 30, 2013 and 2012:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gross beginning balance	\$3,057.9	\$5,329.8	\$3,168.9	\$5,702.3
Less beginning reinsurance recoverable on unpaid losses	(388.6 )	(2,369.4 )	(429.1 )	(2,507.3 )
Net loss and LAE reserves	2,669.3	2,960.4	2,739.8	3,195.0
Less: Beginning net loss and LAE reserves for OneBeacon’s runoff business <sup>(1)</sup>	—	(296.0 )	—	(384.1 )
Loss and LAE reserves acquired - American Fuji	—	—	21.3	—
Loss and LAE incurred relating to:				
Current year losses	289.9	318.2	822.8	842.9
Prior year losses	(11.6 )	(10.1 )	(25.6 )	(21.2 )
Total incurred losses and LAE	278.3	308.1	797.2	821.7
Accretion of fair value adjustment to loss and LAE reserves	.2	1.1	1.5	9.4
Foreign currency translation adjustment to loss and LAE reserves	12.3	12.0	(1.9 )	11.7
Loss and LAE paid relating to:				
Current year losses	(90.0 )	(101.1 )	(209.9 )	(223.9 )
Prior year losses	(178.0 )	(181.5 )	(655.9 )	(726.8 )
Total loss and LAE payments	(268.0 )	(282.6 )	(865.8 )	(950.7 )
Net ending balance	2,692.1	2,703.0	2,692.1	2,703.0
Plus ending reinsurance recoverable on unpaid losses	416.0	356.8	416.0	356.8
Gross ending balance	\$3,108.1	\$3,059.8	\$3,108.1	\$3,059.8

<sup>(1)</sup> 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 nine months ended September 30, 2013  
During the three and nine months ended September 30, 2013, White Mountains experienced \$11.6 million and \$25.6 million of net favorable loss reserve development.

For the three months ended September 30, 2013, OneBeacon had net unfavorable loss reserve development of \$3.8 million primarily driven by its property and entertainment businesses. For the nine months ended September 30, 2013, OneBeacon had net favorable loss reserve development of \$0.1 million. For the three and nine months ended September 30, 2013, Sirius Group had net favorable loss reserve development of \$15.4 million and \$25.5 million primarily due to decreases in property loss reserves, mostly from recent underwriting years, in addition to reductions in loss reserves for the Japan earthquake.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2012  
During the three and nine months ended September 30, 2012, White Mountains experienced \$10.1 million and \$21.2 million of net favorable loss reserve development.

For the three and nine months ended September 30, 2012, OneBeacon had net favorable loss reserve development of \$2.3 million and \$7.6 million primarily related to professional liability lines, multiple peril liability lines and other general liability lines.

For the three and nine months ended September 30, 2012, Sirius Group had net favorable loss reserve development of \$7.8 million and \$13.6 million. With the completion of a ground-up asbestos reserve study in the third quarter of 2012, Sirius Group increased asbestos loss reserves by \$33.0 million and \$45.0 million in the three and nine months ended September 30, 2012. These increases were more than offset by reductions in liability and property 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 \$0.2 million and \$1.5 million of such charges, recorded as loss and LAE for the three and nine months ended September 30, 2013, and \$1.1 million and \$9.4 million for the three and nine months ended September 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 Reinsurance Company, Ltd. (“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. As of September 30, 2013, the remaining pre-tax un-accreted adjustment was \$4.2 million.

#### Note 4. Third Party Reinsurance

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

#### OneBeacon

At September 30, 2013, OneBeacon had \$5.9 million of reinsurance recoverables on paid losses and \$80.2 million of reinsurance recoverables on 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 September 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 largest reinsurance recoverable amounts by reinsurer, 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).

(Millions)	Balance at September 30, 2013	% of Total	A.M. Best Rating <sup>(1)</sup>
Hannover Ruckversich	\$10.3	12%	A+
Munich Reinsurance America	6.6	8%	A+
Platinum Underwriters	5.6	7%	A
Hartford Steam Boiler	4.8	6%	A++
Swiss Reinsurance America Corp	4.6	5%	A+

<sup>(1)</sup> 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.

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## Sirius Group

At September 30, 2013, Sirius Group had \$12.9 million of reinsurance recoverables on paid losses and \$335.8 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 largest reinsurance recoverable amounts by reinsurer, the percentage of total recoverables and the reinsurers' A.M. Best Rating.

(Millions)	Balance at September 30, 2013	% of Total	A.M. Best Rating <sup>(1)</sup>	% Collateralized	
Berkshire Hathaway	\$56.0	16%	A++	—	%
Swiss Re Group	31.3	9%	A+	1	%
Olympus Reinsurance Company <sup>(2)</sup>	23.0	7%	NR-5	100	%
Lloyds of London <sup>(3)</sup>	17.5	5%	A	10	%
GIC of India	14.7	4%	A-	1	%

<sup>(1)</sup> 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), "A-" (Excellent, which is the fourth highest of sixteen financial strength ratings) and "NR-5" (Not formally followed).

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

<sup>(3)</sup> 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 September 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 nine months ended September 30, 2013 and 2012 consisted of the following:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Investment income:				
Fixed maturity investments	\$25.1	\$33.0	\$76.3	\$105.1
Short-term investments	1.1	.5	2.9	2.3
Common equity securities	4.4	4.8	14.0	13.8
Convertible fixed maturity investments	.7	2.0	2.1	5.9
Other long-term investments	1.2	.7	2.7	2.2
Interest on funds held under reinsurance treaties	—	—	.2	—
Total investment income	32.5	41.0	98.2	129.3
Less third-party investment expenses	(5.2 )	(3.4 )	(13.7 )	(9.5 )
Net investment income, pre-tax	\$27.3	\$37.6	\$84.5	\$119.8

## Net Realized and Unrealized Investment Gains and Losses

Net realized and unrealized investment gains and losses for the three and nine months ended September 30, 2013 and 2012 consisted of the following:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net realized investment gains, pre-tax	\$11.7	\$23.7	\$60.2	\$40.5
Net unrealized investment gains, pre-tax	16.5	49.0	5.9	82.7
Net realized and unrealized investment gains, pre-tax	28.2	72.7	66.1	123.2
Income tax expense attributable to net realized and unrealized investment gains	(1.2 )	(12.3 )	(2.5 )	(28.3 )
Net realized and unrealized investment gains, after tax	\$27.0	\$60.4	\$63.6	\$94.9

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Net realized investment gains (losses)

Net realized investment gains (losses) for the three and nine months ended September 30, 2013 and 2012 consisted of the following:

Millions	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Net realized gains (losses)	Net foreign exchange gains (losses)	Total net realized gains (losses) reflected in earnings	Net realized gains (losses)	Net foreign currency gains (losses)	Total net realized gains (losses) reflected in earnings
Fixed maturity investments	\$ (9.1 )	\$ (.3 )	\$ (9.4 )	\$ 32.2	\$ (3.2 )	\$ 29.0
Short-term investments	—	(.6 )	(.6 )	—	(3.4 )	(3.4 )
Common equity securities	23.5	(3.0 )	20.5	3.9	—	3.9
Convertible fixed maturity investments	(.2 )	—	(.2 )	1.1	—	1.1
Other long-term investments	(1.1 )	3.0	1.9	(6.0 )	(1.2 )	(7.2 )
Forward contracts	(.5 )	—	(.5 )	.3	—	.3
Net realized investment gains (losses), pre-tax	12.6	(.9 )	11.7	31.5	(7.8 )	23.7
Income tax expense attributable to net realized investment (losses) gains	(.4 )	.4	—	(9.4 )	2.0	(7.4 )
Net realized investment gains (losses), after tax	\$ 12.2	\$ (.5 )	\$ 11.7	\$ 22.1	\$ (5.8 )	\$ 16.3
Millions	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Net realized gains (losses)	Net foreign exchange gains (losses)	Total net realized gains (losses) reflected in earnings	Net realized gains (losses)	Net foreign currency gains (losses)	Total net realized gains (losses) reflected in earnings
Fixed maturity investments	\$ 12.9	\$ (14.4 )	\$ (1.5 )	\$ 73.5	\$ (4.0 )	\$ 69.5
Short-term investments	.2	—	.2	—	(3.9 )	(3.9 )
Common equity securities	60.7	(3.0 )	57.7	(2.2 )	—	(2.2 )
Convertible fixed maturity investments	(.7 )	—	(.7 )	3.2	—	3.2
Other long-term investments	4.8	—	4.8	(24.8 )	(1.6 )	(26.4 )
Forward contracts	(.3 )	—	(.3 )	.3	—	.3
Net realized investment gains (losses), pre-tax	77.6	(17.4 )	60.2	50.0	(9.5 )	40.5
Income tax expense attributable to net realized investment (losses) gains	(17.8 )	5.1	(12.7 )	(15.3 )	2.5	(12.8 )
	\$ 59.8	\$ (12.3 )	\$ 47.5	\$ 34.7	\$ (7.0 )	\$ 27.7

Net realized investment gains  
(losses),  
after tax

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## Net unrealized investment gains (losses)

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

Millions	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings	Net unrealized gains (losses)	Net foreign currency gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$9.3	\$(30.5)	\$(21.2)	\$27.2	\$(40.6)	\$(13.4)
Short-term investments	—	.1	.1	—	.1	.1
Common equity securities	35.6	(2.0)	33.6	65.1	(.1)	65.0
Convertible fixed maturity investments	2.4	(.1)	2.3	(.6)	—	(.6)
Other long-term investments	3.1	(1.4)	1.7	1.6	(3.7)	(2.1)
Forward contracts	—	—	—	—	—	—
Net unrealized investment gains (losses), pre-tax	50.4	(33.9)	16.5	93.3	(44.3)	49.0
Income tax expense attributable to net unrealized investment (losses) gains	(8.6)	7.4	(1.2)	(16.7)	11.8	(4.9)
Net unrealized investment gains (losses), after tax	\$41.8	\$(26.5)	\$15.3	\$76.6	\$(32.5)	\$44.1
Millions	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings	Net unrealized gains (losses)	Net foreign currency gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$(94.8)	\$6.2	\$(88.6)	\$35.5	\$(36.9)	\$(1.4)
Short-term investments	—	—	—	—	.1	.1
Common equity securities	85.2	(1.0)	84.2	71.5	(.1)	71.4
Convertible fixed maturity investments	(.5)	—	(.5)	(2.9)	—	(2.9)
Other long-term investments	7.6	3.2	10.8	18.2	(2.7)	15.5
Forward contracts	—	—	—	—	—	—
Net unrealized investment gains (losses), pre-tax	(2.5)	8.4	5.9	122.3	(39.6)	82.7
Income tax expense attributable to net unrealized investment (losses) gains	13.1	(2.9)	10.2	(25.9)	10.4	(15.5)
Net unrealized investment gains (losses), after tax	\$10.6	\$5.5	\$16.1	\$96.4	\$(29.2)	\$67.2

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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 nine months ended September 30, 2013 and 2012:

Millions	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Fixed maturity investments	\$(2.2 )	\$(1.0 )	\$(2.4 )	\$7.3
Common equity securities	(.7 )	.8	—	1.8
Other long-term investments	.9	2.9	8.7	11.3
Total unrealized investment gains, pre-tax - Level 3 investments	\$(2.0 )	\$2.7	\$6.3	\$20.4

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Investment Holdings

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains' fixed maturity investments as of September 30, 2013 and December 31, 2012 were as follows:

Millions	September 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	\$ 390.8	\$ .6	\$ (.8 )	\$ (2.4 )	\$ 388.2
Debt securities issued by corporations	2,303.1	48.5	(12.7 )	(21.7 )	2,317.2
Municipal obligations	5.3	.5	(.3 )	—	5.5
Mortgage-backed and asset-backed securities	1,931.2	2.8	(12.4 )	(5.8 )	1,915.8
Foreign government, agency and provincial obligations	452.7	4.0	(7.6 )	(6.3 )	442.8
Preferred stocks	79.9	4.5	—	(.2 )	84.2
Total fixed maturity investments including assets held for sale	\$ 5,163.0	\$ 60.9	\$ (33.8 )	\$ (36.4 )	\$ 5,153.7
Fixed maturity investments reclassified to assets held for sale related to the Runoff Transaction					(239.7 )
Total fixed maturity investments					\$ 4,914.0

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

Millions	September 30, 2013				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	\$ 881.5	\$ 233.8	\$ (3.5 )	\$ (1.1 )	\$ 1,110.7
Convertible fixed maturity investments	\$ 79.7	\$ 5.8	\$ (.6 )	\$ (.1 )	\$ 84.8
Other long-term investments	\$ 252.6	\$ 77.8	\$ (27.4 )	\$ (3.0 )	\$ 300.0

December 31, 2012

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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

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## 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 September 30, 2013, White Mountains held investments in 15 hedge funds and 39 private equity funds. The largest investment in a single fund was \$16.7 million at September 30, 2013. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at September 30, 2013 and December 31, 2012:

Millions	September 30, 2013		December 31, 2012	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
<b>Hedge funds</b>				
Long/short equity	\$61.4	\$ —	\$60.3	\$ —
Long/short credit & distressed	22.0	—	22.7	—
Long diversified strategies	1.6	—	1.7	—
Long/short equity REIT	16.7	—	16.0	—
Long/short equity activist	15.3	—	13.6	—
Long bank loan	.2	—	.3	—
Total hedge funds	117.2	—	114.6	—
<b>Private equity funds</b>				
Multi-sector	26.6	7.2	23.3	5.4
Energy infrastructure & services	45.5	13.4	36.3	15.6
Distressed residential real estate	9.4	—	15.8	—
Real estate	9.4	3.3	11.6	3.3
Private equity secondaries	9.6	3.1	10.5	3.1
International multi-sector, Europe	4.3	4.9	5.1	5.0
Manufacturing/Industrial	12.7	15.5	9.9	29.1
Healthcare	7.0	2.8	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	4.5	20.5	2.8	22.2
Venture capital	1.6	.3	2.2	.3
Total private equity funds	133.0			