UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2009

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

As of October 29, 2009, 8,857,586 common shares with a par value of $1.00 per share were outstanding (which includes 92,620 restricted common shares that were not vested at such date).

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED BALANCE SHEETS

(Millions, except share and per share amounts)	September 30, 2009 Unaudited	December 31, 2008
Assets		
Fixed maturity investments, at fair value (amortized cost: $5,768.3 and $5,631.5)	$ **5,936.2**	$ 5,480.5
Short-term investments, at amortized cost (which approximates fair value)	**2,336.6**	2,244.5
Common equity securities, at fair value (cost: $276.5 and $558.4)	**307.6**	552.7
Other long-term investments (cost: $373.9 and $431.2)	**377.5**	416.2
Convertible fixed maturity investments, at fair value (cost: $301.7 and $327.3)	**326.7**	308.8
Total investments	**9,284.6**	9,002.7
Cash (restricted: $102.7 and $225.7)	**258.1**	409.6
Reinsurance recoverable on unpaid losses	**1,230.6**	1,358.8
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	**1,603.5**	1,691.6
Reinsurance recoverable on paid losses	**41.0**	47.3
Insurance and reinsurance premiums receivable	**922.7**	835.7
Securities lending collateral		220.0
Funds held by ceding companies	**123.8**	163.3
Investments in unconsolidated affiliates	**356.1**	116.9
Deferred acquisition costs	**329.2**	323.0
Deferred tax asset	**512.6**	724.0
Ceded unearned premiums	**128.6**	111.3
Accrued investment income	**70.5**	67.4
Accounts receivable on unsettled investment sales	**47.0**	78.2
Other assets	**767.5**	746.0
Total assets	$ **15,675.8**	$ 15,895.8
Liabilities		
Loss and loss adjustment expense reserves	$ **6,953.6**	$ 7,400.1
Unearned insurance and reinsurance premiums	**1,655.4**	1,597.4
Debt	**1,050.5**	1,362.0
Securities lending payable	**1.7**	234.8
Deferred tax liability	**343.6**	306.0
Accrued incentive compensation	**153.6**	154.3
Funds held under reinsurance treaties	**85.3**	79.1
Ceded reinsurance payable	**152.1**	101.3
Accounts payable on unsettled investment purchases	**60.2**	7.5
Other liabilities	**972.1**	1,140.8
Total liabilities	**11,428.1**	12,383.3
Shareholders equity and noncontrolling interests		
White Mountains common shareholders equity		
White Mountains common shares at $1 par value per share - authorized 50,000,000 shares; issued and outstanding 8,857,586 and 8,808,843 shares	**8.9**	8.8
Paid-in surplus	**1,431.6**	1,419.4
Retained earnings	**2,116.2**	1,751.9
Accumulated other comprehensive income, after-tax:		
Equity in unrealized gains (losses) from investments in unconsolidated affiliates	**5.6**	(198.4)

Net unrealized foreign currency translation gains (losses)	**29.7**	(61.5)
Other	**(14.7)**	(21.4)
Total White Mountains common shareholders equity	**3,577.3**	2,898.8
Noncontrolling interests		
Noncontrolling interest - OneBeacon Ltd.	**337.4**	283.5
Noncontrolling interest - WMRe Preference Shares	**250.0**	250.0
Noncontrolling interest - consolidated limited partnerships and A.W.G Dewar	**83.0**	80.2
Total noncontrolling interests	**670.4**	613.7
Total equity	**4,247.7**	3,512.5
Total liabilities and equity	**$ 15,675.8**	$ 15,895.8

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Unaudited

(Millions, except per share amounts)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues:				
Earned insurance and reinsurance premiums	**$ 902.0**	$ 935.7	**$ 2,711.7**	$ 2,786.5
Net investment income	**66.2**	105.7	**204.5**	334.2
Net realized and unrealized investment gains (losses)	**170.7**	(429.7)	**362.3**	(627.0)
Other revenue	**63.8**	6.3	**109.6**	101.4
Total revenues	**1,202.7**	618.0	**3,388.1**	2,595.1
Expenses:				
Loss and loss adjustment expenses	**544.1**	697.6	**1,616.2**	1,969.0
Insurance and reinsurance acquisition expenses	**181.9**	190.5	**543.9**	556.0
Other underwriting expenses	**122.7**	120.4	**366.8**	364.6
General and administrative expenses	**75.1**	66.7	**187.8**	179.8
Accretion of fair value adjustment to loss and loss adjustment expense reserves	**3.5**	4.3	**8.6**	12.6
Interest expense on debt	**17.1**	20.4	**54.3**	61.5
Interest expense - dividends on preferred stock subject to mandatory redemption				11.8
Interest expense - accretion on preferred stock subject to mandatory redemption				21.6
Total expenses	**944.4**	1,099.9	**2,777.6**	3,176.9
Pre-tax income (loss)	**258.3**	(481.9)	**610.5**	(581.8)
Income tax (expense) benefit	**(73.9)**	151.6	**(174.8)**	187.1
Income (loss) before equity in earnings of unconsolidated affiliates and extraordinary item	**184.4**	(330.3)	**435.7**	(394.7)
Equity in earnings of unconsolidated affiliates	**8.3**	.8	**17.8**	7.2
Excess of fair value of acquired assets over cost				4.2
Net income (loss) before noncontrolling interests	**192.7**	(329.5)	**453.5**	(383.3)
Net income attributable to noncontrolling interest	**(33.1)**	52.8	**(83.3)**	40.6
Net income (loss) attributable to White Mountains common shareholders	**159.6**	(276.7)	**370.2**	(342.7)
Comprehensive income (loss), net of tax:				
Change in equity in net unrealized gains (losses) from investments in unconsolidated affiliates	**127.6**	(80.8)	**207.0**	(141.8)
Change in foreign currency translation and other	**80.8**	(133.2)	**98.8**	(83.0)
Comprehensive income (loss) before noncontrolling interests	**368.0**	(490.7)	**676.0**	(567.5)
Comprehensive net income attributable to noncontrolling interests	**.9**		**(.9)**	
Comprehensive income (loss) attributable to White Mountains common shareholders	**$ 368.9**	$ (490.7)	**$ 675.1**	$ (567.5)
Earnings (loss) per share attributable to White Mountains common shareholders				
Basic earnings (loss) per share	**$ 18.02**	$ (26.19)	**$ 41.85**	$ (32.53)
Diluted earnings (loss) per share	**18.02**	(26.19)	**41.84**	(32.53)
Dividends declared and paid per White Mountains common share	**$**	$	**$ 1.00**	$ 4.00

See Notes to Consolidated Financial Statements

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

	White Mountains Common Shareholders Equity				
(Millions)	**Common shareholders equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income (loss), after-tax**	**Non-controlling interest**
Balances at January 1, 2009	$ 2,898.8	$ 1,428.2	$ 1,751.9	$ (281.3)	$ 613.7
Cumulative effect adjustment - Symetra FAS 115-2			3.0	(3.0)	
Net income	370.2		370.2		83.3
Other comprehensive income, after-tax	304.9			304.9	.9
Dividends declared on common shares	(8.9)		(8.9)		
Dividends/distributions to noncontrolling interests					(29.1)
Issuances of common shares	.2	.2			
Contributions from noncontrolling interests					1.4
Amortization of restricted share and option awards	12.1	12.1			.2
Balances at September 30, 2009	**$ 3,577.3**	**$ 1,440.5**	**$ 2,116.2**	**$ 20.6**	**$ 670.4**

	White Mountains Common Shareholders Equity				
(Millions)	**Common shareholders equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income (loss), after-tax**	**Non-controlling interest**
Balances at January 1, 2008	$ 4,713.4	$ 1,691.2	$ 2,718.5	$ 303.7	$ 888.7
Cumulative effect adjustment - FAS 157	(.3)		(.3)		
Cumulative effect adjustment - FAS 159			199.6	(199.6)	
Net (loss) income	(342.7)		(342.7)		(44.8)
Other comprehensive loss, after-tax	(224.7)			(224.7)	.2
Dividends declared on common shares	(42.3)		(42.3)		
Dividends/distributions to noncontrolling interests					(83.5)
Issuances of common shares	8.6	8.6			
Contributions from noncontrolling interests					3.0
Repurchases and retirements of common shares	(59.3)	(21.9)	(37.4)		(64.2)
Amortization of restricted share and option awards	9.2	9.2			.3
Balances at September 30, 2008	**$ 4,061.9**	**$ 1,687.1**	**$ 2,495.4**	**$ (120.6)**	**$ 699.7**

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(Millions)	Nine Months Ended September 30, 2009	2008
Cash flows from operations:		
Net income (loss) - White Mountains and noncontrolling interests	**$ 453.5**	$ (383.3)
Charges (credits) to reconcile net income (loss) to net cash (used for) provided from operations:		
Net realized and unrealized investment (gains) losses	**(362.3)**	627.0
Excess of fair value of acquired assets over cost		(4.2)
Other operating items:		
Net change in loss and loss adjustment expense reserves	**(553.6)**	(76.2)
Net change in reinsurance recoverable on paid and unpaid losses	**241.3**	202.4
Net change in unearned insurance and reinsurance premiums	**.7**	163.0
Net change in funds held by ceding companies	**63.9**	10.4
Net change in deferred acquisition costs	**1.7**	(27.3)
Net change in ceded unearned premiums	**(2.9)**	(16.5)
Net change in funds held under reinsurance treaties	**5.6**	(28.1)
Net change in insurance and reinsurance premiums receivable	**(46.2)**	(59.2)
Net change in other assets and liabilities, net	**154.9**	(272.8)
Net cash (used for) provided from operations	**(43.4)**	135.2
Cash flows from investing activities:		
Net change in short-term investments	**(23.6)**	(938.8)
Sales of fixed maturity and convertible fixed maturity investments	**1,909.6**	3,333.4
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	**898.8**	1,205.5
Maturities of trust account investments		305.6
Sales of common equity securities	**302.0**	367.5
Distributions and redemptions of other long-term investments	**66.5**	44.4
Sales of consolidated and unconsolidated affiliates, net of cash sold		4.2
Contributions to other long-term investments	**(17.9)**	(50.4)
Purchases of common equity securities	**(42.6)**	(518.6)
Purchases of fixed maturity and convertible fixed maturity investments	**(2,810.2)**	(3,410.1)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired		(224.4)
Net change in unsettled investment purchases and sales	**83.9**	145.1
Net acquisitions of property and equipment	**(12.2)**	(9.3)
Net cash provided from investing activities	**354.3**	254.1
Cash flows from financing activities:		
Issuance of debt		475.0
Repayment of debt	**(242.8)**	(277.0)
Repurchase of debt	**(63.2)**	(22.3)
Settlement of interest rate swap	**(7.4)**	
Redemption of mandatorily redeemable preferred stock		(300.0)
Cash dividends paid to the Company s common shareholders	**(8.9)**	(42.3)
Cash dividends paid to OneBeacon Ltd. s noncontrolling common shareholders	**(14.7)**	(64.6)
Cash dividends paid to preferred shareholders		(11.8)
Cash dividends paid on White Mountains Re Group, Ltd. Preference Shares	**(9.4)**	(9.4)
OneBeacon Ltd. common shares repurchased and retired		(68.8)
Common shares repurchased		(59.3)

Proceeds from issuances of common shares		**.2**		
Proceeds from option exercises				.4
Net cash used for financing activities		**(346.2)**		(380.1)
Effect of exchange rate changes on cash		**6.8**		(2.0)
Net (decrease) increase in cash during the period		**(28.5)**		7.2
Cash balances at beginning of period (excludes restricted cash balances of $225.7 and $8.5)		**183.9**		162.8
Cash balances at end of period (excludes restricted cash balances of $102.7 and $50.8)	**$**	**155.4**	$	170.0
Supplemental cash flows information:				
Interest paid	**$**	**(58.2)**	$	(54.0)
Net receipts from (payments to) national governments	**$**	**27.3**	$	(86.2)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the Company or the Registrant) and its subsidiaries (collectively, with the Company, White Mountains) and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company s headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S.-based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, commercial and personal 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). At September 30, 2009, White Mountains owned 75.4% of OneBeacon Ltd. s outstanding common shares.

The White Mountains Re segment consists of White Mountains Re Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, White Mountains Re). White Mountains Re offers reinsurance capacity for property, casualty, accident & health, agriculture, aviation and space and certain other exposures on a worldwide basis through its subsidiaries, White Mountains Reinsurance Company of America (WMRe America , formerly known as Folksamerica Reinsurance Company) and Sirius International Insurance Corporation (WMRe Sirius). In September 2009, White Mountains Re substantially completed a reorganization of its reinsurance operations whereby the in-force business and infrastructure of White Mountains Re Bermuda Ltd. (WMRe Bermuda) was transferred to WMRe Sirius, which established a branch office in Bermuda to maintain the group s presence in the Bermuda market. With the anticipated completion of the reorganization in the first quarter of 2010, WMRe Bermuda will be run off as a subsidiary of WMRe Sirius. Through White Mountains Re Solutions, White Mountains Re also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally. Through 2008, White Mountains Re provided reinsurance advisory services, specializing primarily in property and other short-tailed lines of reinsurance, through White Mountains Re Underwriting Services Ltd. (WMRUS). White Mountains Re also includes Scandinavian Reinsurance Company, Ltd. (Scandinavian Re) which is in run off, and the consolidated results of the Tuckerman Capital II, LP fund (Tuckerman Fund II), which was transferred to White Mountains Re from Other Operations, effective June 30, 2008.

The Esurance segment consists of Esurance Holdings, Inc. and its subsidiaries and Answer Financial Inc. (AFI and, collectively, Esurance). Esurance sells personal auto insurance directly to customers online and through select online agents. AFI, which White Mountains acquired during 2008, is a personal insurance agency that sells insurance online and in call centers.

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), and its weather risk management business. Both WM Life Re and the weather risk management business are in run-off. The Other Operations segment also includes White Mountains investments in Lightyear Delos Acquisition Corporation (Delos), common shares and warrants to purchase common shares of Symetra Financial Corporation (Symetra) and the consolidated results of the Tuckerman Capital, LP fund (Tuckerman Fund I) and Tuckerman Fund II until its transfer to White Mountains Re, effective June 30, 2008 and various other entities not included in other segments. Prior to October 31, 2008, the Other Operations segment also included the International American Group, Inc. (the International American Group), which included American Centennial Insurance Company and British Insurance Company of Cayman, both of which were in run-off. On October 31, 2008, in a transaction with Berkshire Hathaway, Inc. (Berkshire), White Mountains exchanged its ownership interests in Commercial Casualty Insurance Company (previously a subsidiary of White Mountains Re) and the International American Group, and $707.9 million in cash, for 1,634,921 common shares of the Company held by Berkshire (the Berkshire Exchange).

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains that are of a normal recurring nature. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company s 2008 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company s 2008 Annual Report on Form 10-K for a complete discussion regarding White Mountains significant accounting policies.

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Noncontrolling Interests

Noncontrolling interests consist of the ownership interests of noncontrolling parties in consolidated subsidiaries and are presented separately as a component of equity on the balance sheet.

The percentage of the noncontrolling ownership interests in OneBeacon Ltd. at September 30, 2009 was 24.6%.

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

Recently Adopted Changes in Accounting Principles

Accounting Standards Codification

On June 29, 2009, the FASB issued Statement of Financial Accounting Standards (FAS) 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168), which establishes the FASB Accounting Standards Codification (Codification Accounting Standards Codification (ASC)) as the source of authoritative accounting principles to be applied in the preparation of financial statements in conformity with GAAP. FAS 168 (ASC 105-10) is effective for interim and annual periods ending after September 15, 2009. All existing non-SEC accounting and reporting standards were superseded by the Codification. White Mountains adopted the Codification for the interim period ending September 30, 2009. Adoption did not have any effect on the Company s accounting policies or financial statement presentation. However, because the Codification changes the basis for reference to authoritative GAAP guidance, the Company s footnote disclosures that reference such guidance reflect references to the codification. New accounting guidance is now issued by the FASB in the form of Accounting Standard Updates (ASUs). New guidance that became effective in 2009 prior to the adoption of Codification has been described below using the original FASB Statement reference with a parenthetical reference to the principal Codification section into which the Statement has been incorporated.

Subsequent Events

On May 28, 2009, the FASB issued FAS No. 165, *Subsequent Events* (FAS 165). FAS 165 (included in ASC 855-10) defines the period after the balance sheet date during which a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which a reporting entity should recognize events or transaction occurring after the balance sheet date and the disclosures required for events or transactions that occurred after the balance sheet date. Subsequent events that provide additional evidence about conditions that existed at the balance sheet date are to be recognized in the financial statements. Subsequent events that are conditions that arose after the balance sheet date but prior to the issuance of the financial statements are not recognized in the financial statements, but should be disclosed if failure to do so would render the financial statements misleading. FAS 165 requires disclosure of the date through which subsequent events have been evaluated. For subsequent events not recognized, disclosures should include a description of the nature of the event and either an estimate of its financial effect or a statement that such an estimate cannot be made. White Mountains adopted FAS 165 effective June 30, 2009. Adoption did not affect the recognition or disclosure of subsequent events. White Mountains evaluates subsequent events up to the date it files its Form 10-Q with the Securities and Exchange Commission for its financial statements. For the period ended September 30, 2009, this date was October 30, 2009.

Other-Than-Temporary Impairments

On June 30, 2009, White Mountains adopted FASB Staff Position (FSP) FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (included in ASC 320-10)*,* which amends the guidance for other-than temporary impairments for debt securities classified as held-to-maturity (HTM) or available-for-sale (AFS). FSP FAS 115-2 and FAS 124-2 requires that, when evaluating whether an impairment of a debt security is other than temporary, the reporting entity is to assess whether it has the intent the sell the security or if it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. In addition, if the present value of cash flows expected to be collected is less than the amortized cost of the security, a credit loss is deemed to exist and the security is considered to be impaired. The portion of the impairment loss related to a credit loss is to be recognized in earnings. The portion of the impairment loss related to factors other than credit loss is recognized as an unrealized loss.

White Mountains has made the fair value election for its investments in debt securities and, accordingly, all changes in the fair value of its debt securities are recognized in earnings regardless of whether such changes in fair value represent a temporary or other than temporary decline in value. As a result, adoption of FSP FAS 115-2 and FAS 124-2 did not impact White Mountains method of accounting for its portfolio of investment securities. However, White Mountains investment in Symetra is accounted for under the equity method. Symetra adopted FSP FAS 115-2 and FAS 124-2 as of March 31, 2009. Upon adoption, Symetra recognized a cumulative effect adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. As a result, for the quarter ended March 31, 2009, White Mountains recorded a $3.0 million cumulative effect adjustment to retained earnings and other comprehensive income, which represents its portion of the cumulative effect adjustment recorded by Symetra.

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Determining Fair Values in an Inactive Market and Distressed Transactions

On June 30, 2009, White Mountains adopted FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 (included in ASC 820-10-65) outlines factors to be considered by a reporting entity in determining whether a market for an asset or liability is active. In circumstances where the reporting entity concludes that there has been a significant decrease in the volume of market activity for an asset or liability as compared to normal market activity, transactions or quoted prices may not reflect fair value. In such circumstances, FSP 157-4 requires analysis of the transactions or quoted prices and, where appropriate, adjustment to market inputs to estimate fair value. In addition, FSP 157-4 requires interim disclosures to include a description of the inputs and valuation techniques used to estimate fair value and a discussion of changes during the period. Adoption of FSP 157-4 did not have a material effect on the White Mountains financial position or results of operations.

Interim Fair Value Disclosures

On June 30, 2009, White Mountains adopted FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (included in ASC 825-10-65), which requires disclosures about fair value of financial instruments within the scope of FAS No. 107 *Disclosures about Fair Value of Financial Instruments* (FAS 107) (included in ASC 825-10-50) for interim reporting periods. White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness and its perpetual preference shares. See **Note 13**.

Business Combinations and Noncontrolling Interests

On January 1, 2009, White Mountains adopted FAS No. 141 (Revised 2007), *Business Combinations A Replacement of FASB Statement No. 141* (FAS 141R) (included in ASC 805-10) and FAS No. 160, *Noncontrolling Interests-an amendment to ARB 51* (FAS 160) (included in ASC 810-10-65).

FAS 141R requires an acquiring company to recognize the fair value of all assets acquired and liabilities assumed at their fair values at the acquisition date, with certain exceptions. This represents a basic change in approach from the cost allocation method originally described in FAS 141, *Business Combinations* (FAS 141). In addition, FAS 141R changes the accounting for step acquisitions since it requires recognition of all assets acquired and liabilities assumed, regardless of the acquirer s percentage of ownership in the acquired company. This means that the acquirer will measure and recognize all of the assets, liabilities and goodwill, not just the acquirer s share. Changes subsequent to the acquisition date in the amount of deferred tax valuation allowances and income tax uncertainties arising from a business combination are generally recognized in income. Prior to adoption such changes were recognized through goodwill. FAS 141R applies prospectively to business combinations effective January 1, 2009. There was no effect on White Mountains financial position, results of operations or cash flows upon adoption.

FAS 160 requires all companies to account for noncontrolling interests (formerly referred to as minority interests) in subsidiaries as equity, clearly identified and presented separately from White Mountains equity. Once a controlling interest has been acquired, any subsequent acquisitions or dispositions of noncontrolling interests that do not result in a change of control are accounted for as equity transactions. Assets and liabilities acquired are measured at fair value only once, at the original acquisition date, (i.e., the date at which the acquirer gained control). The recognition and measurement requirements of FAS 160 are applicable prospectively upon adoption; the presentation and disclosure requirements must be retrospectively applied. Accordingly, upon adoption of FAS 160, White Mountains changed the presentation of its financial statements for prior periods to conform to the required presentation, as follows: noncontrolling interests are now presented on the balance sheets within equity, separate from White Mountains common shareholders equity; the portion of net income, extraordinary items and comprehensive income attributable to White Mountains common shareholders and the noncontrolling interests are presented separately on the consolidated statements of operations and comprehensive income; and the consolidated statements of shareholders equity includes a reconciliation of the noncontrolling interests at the beginning and end of each reporting period.

Derivatives Disclosures

On January 1, 2009, White Mountains adopted FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FAS 133* (FAS 161) (included in ASC 815-10-65-1). FAS 161 requires companies that use derivatives to provide expanded qualitative and quantitative information about their use of derivative instruments, including the objectives and strategies for using derivatives, details of credit-risk related contingent features, the amounts of derivatives used, where they have been reported in the financial statements and the effect of such instruments on a company s financial position, results of operations and cash flows. The adoption of FAS 161 had no effect on the White Mountains financial position or results of operations.

Participating Securities Granted in Share-Based Payment Transactions

On January 1, 2009, White Mountains adopted FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Transactions are Participating Securities.* FSP EITF 03-6-1(included in ASC 260-10-45 to 55) addresses whether instruments granted in share-based payment transactions should be considered participating securities prior to vesting. FSP EITF 03-6-1 requires that such instruments that hold unforfeitable rights to dividends or dividend equivalents, regardless of whether paid or unpaid, should be considered participating securities and accordingly should be included in the calculation of earnings per share under the two-class method instead of the treasury stock method. White Mountains issues restricted stock under employee incentive compensation plans that contain dividend participation features and that are considered participating securities.

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Since adoption, White Mountains has used the two-class method to calculate earnings per share. In accordance with the adoption provisions of FSP EITF 03-6-1 all prior period earnings per share data has been adjusted retroactively to conform to the provisions of FSP EITF 03-6-1.

Recent Accounting Pronouncements

Alternative Investments

On September 30, 2009, the FASB issued ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).* Alternative investments include ownership interests in hedge funds and private equity funds, which White Mountains includes in other long-term investments. Under the ASU, the fair value of an alternative investment may be estimated based on net asset value per share (NAV) as reported by the investee, subject to certain requirements. The investee must calculate its NAV in accordance with the measurement principles of ASC Topic 946 (*US GAAP for Investment Companies*), meaning that the investee s underlying investments have been measured at fair value. In addition, in circumstances where the investor intends to sell the investment for an amount that differs from the NAV, NAV may not be used to estimate fair value. The ASU also expands required disclosures, including the amount of unfunded commitments, a description of the terms and conditions upon which the investor may redeem investments, the circumstances in which an otherwise redeemable investment might not be redeemable (for instance, investment subject to a lockup period) as well as an estimate of when the restriction will lapse and, in circumstances where the investment cannot be redeemed but the investor receives distributions through the liquidation of the underlying assets, an estimate of the period of time over which the underlying assets are expected to be liquidated. The ASU is effective for interim and annual periods ending after December 15, 2009 and may be adopted early. White Mountains expects to adopt the ASU as of December 31, 2009. Adoption is not expected to have a material effect on White Mountains financial position, results of operations or cash flows.

Measuring Liabilities at Fair Value

On August 29, 2009, the FASB issued ASU 2009-05, *Measuring Liabilities at Fair Value* (included in ASC 820-10). The ASU provides additional guidance for circumstances where a quoted price in an active market for an identical liability is not available. The ASU permits use of the quoted price for an identical liability when traded as an asset or quoted prices for similar liabilities when traded as an asset. The ASU also notes that valuation techniques consistent with the fair value principles of ASC 820-10 may be used, including a present value technique or market approach based on the amount that the reporting entity would pay to transfer the identical liability or would receive to enter into an identical liability at the measurement date. The guidance in the ASU is effective for the first interim reporting period beginning after issuance, which would be the reporting period ending December 31, 2009 for White Mountains.

White Mountains measures its reinsured variable annuity guarantee liabilities at fair value. There is no active market for these liabilities and, accordingly, White Mountains uses a valuation technique that incorporates actuarial and capital market assumptions related to the projected cash flows over the term of the contracts. Some of the assumptions are based on observable market data, such as those related to capital markets inputs, and some are based on inputs not readily observable, such as mortality, surrender and lapse rates. Where observable inputs are available, White Mountains uses the most current inputs available. White Mountains is in the process of evaluating the ASU and the potential effect of adoption.

Transfers of Financial Assets and Amendments to FIN 46R

On June 12, 2009, the FASB issued FAS 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (FAS 166) and FAS 167, *Amendments to FIN46(R)* (FAS 167). FAS 166 eliminates the concept of a qualifying special-purpose entity (QSPE) and, accordingly, any existing QSPE must be evaluated for consolidation upon adoption of FAS 166. Under FAS 166, the appropriateness of de-recognition is evaluated based on whether or not the transferor has surrendered control of the transferred assets. The evaluation must consider any continuing involvement by the transferor. FAS 167 amends FIN 46R (included in ASC 810-10) to clarify the application of consolidation accounting for entities for which the controlling financial interest might not be solely indentified through voting rights. The guidance under FAS 167 still requires a reporting entity to perform an analysis to determine if its variable interests give it a controlling financial interest (also referred to as the primary beneficiary) in a variable interest entity (VIE), defined as the entity having both of the following: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. In addition, a reporting entity must assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining if it has the power to direct the activities of the VIE that most significantly affect the entity s economic performance. FAS 167 also amends FIN 46R to require ongoing reassessments of whether a reporting entity is the primary beneficiary of a VIE. The concept of a reconsideration event has been retained, but the list of reconsideration events has been changed. The list includes a change in facts and circumstances where the holders of an equity investment at risk as a group lose the power to direct the activities of the entity that most significantly affect the entity s economic performance and a troubled debt-restructuring, which was excluded as a reconsideration event under FIN 46R, is now defined as a reconsideration event. Both statements expand required disclosures and are effective as of the beginning of the first annual reporting period that begins after November 15, 2009. White Mountains is in the process of evaluating FAS 166 and FAS 167 and the potential effect of adoption.

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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 and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2009**	**2008**	**2009**	**2008**
Gross beginning balance	**$ 6,999.8**	$ 7,946.4	**$ 7,400.1**	$ 8,062.1
Less beginning reinsurance recoverable on unpaid losses	**(2,825.0)**	(3,327.6)	**(3,050.4)**	(3,467.9)
Net loss and LAE reserves	**4,174.8**	4,618.8	**4,349.7**	4,594.2
Loss and LAE reserves acquired - Helicon				13.7
Loss and LAE incurred relating to:				
Current year losses	**587.5**	714.2	**1,698.0**	1,915.9
Prior year losses	**(43.4)**	(16.6)	**(81.8)**	53.1
Total incurred losses and LAE	**544.1**	697.6	**1,616.2**	1,969.0
Accretion of fair value adjustment to loss and LAE reserves	**3.5**	4.3	**8.6**	12.6
Foreign currency translation adjustment to loss and LAE reserves	**13.4**	(33.1)	**24.0**	(8.7)
Loss and LAE paid relating to:				
Current year losses	**(277.1)**	(249.5)	**(662.9)**	(668.4)
Prior year losses	**(339.2)**	(366.7)	**(1,216.1)**	(1,241.0)
Total loss and LAE payments	**(616.3)**	(616.2)	**(1,879.0)**	(1,909.4)
Net ending balance	**4,119.5**	4,671.4	**4,119.5**	4,671.4
Plus ending reinsurance recoverable on unpaid losses	**2,834.1**	3,265.4	**2,834.1**	3,265.4
Gross ending balance	**$ 6,953.6**	$ 7,936.8	**$ 6,953.6**	$ 7,936.8

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2009

During the three and nine months ended September 30, 2009, White Mountains experienced $43.4 million and $81.8 million of net favorable loss reserve development.

For the three months ended September 30, 2009, OneBeacon had net favorable loss reserve development of $20.7 million that was primarily due to lower than expected severity on losses related to professional liability in specialty lines and commercial multi-peril in commercial lines. For the nine months ended September 30, 2009, OneBeacon had net favorable loss reserve development of $53.3 million that was primarily due to lower than expected severity on losses related to professional liability in specialty lines and commercial multi-peril in commercial lines, partially offset by adverse loss reserve development primarily related to New York personal injury protection litigation at AutoOne Insurance (AutoOne).

For the three months ended September 30, 2009, White Mountains Re had net favorable loss reserve development of $18.0 million. For the nine months ended September 30, 2009, White Mountains Re had net favorable loss reserve development of $22.8 million. The net favorable loss reserve development for both the three and nine months ended September 30, 2009 was primarily related to $20.0 million of losses that White Mountains Re ceded in the third quarter of 2009 under a retrocessional reinsurance contract related to the 2001 accident year. This favorable loss reserve development was substantially offset by $10.0 million of retroceded premiums and $7.0 million of interest charges on funds held under the contract recorded through pre-tax income. White Mountains Re has now recorded the full limit of loss cessions available under this contract.

For the three months ended September 30, 2009, Esurance had $4.7 million of net favorable loss reserve development. For the nine months ended September 30, 2009, Esurance had $5.7 million of net favorable loss reserve development.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2008

White Mountains experienced $16.6 million of net favorable loss reserve development and $53.1 million of net adverse loss reserve development during the three and nine months ended September 30, 2008, respectively.

For the three and nine months ended September 30, 2008, White Mountains Re had net adverse loss reserve development of $4.0 million and $87.7 million. The net adverse loss reserve development in the nine months ended September 30, 2008 primarily resulted from a comprehensive loss reserve review performed in the second quarter of 2008, as described below, and $40.5 million of construction defect losses from accident years 2001 and prior recorded in the first quarter of 2008, offset by net favorable loss reserve development from recent accident years.

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White Mountains Re management commenced a comprehensive loss reserve review (the Reserve Review) in the second quarter of 2008, primarily as a result of the $40.5 million adverse loss reserve development recorded in the first quarter of 2008 referred to above. The Reserve Review was conducted by management, including internal underwriting, claims and actuarial personnel, with assistance from external consultants. The Reserve Review included all of WMRe America s non-asbestos and environmental (A&E) casualty loss reserves as well as certain lines of business at WMRe Sirius. The Reserve Review resulted in $140.0 million of additional adverse loss reserve development at WMRe America, partially offset by $85.0 million of favorable loss reserve development at WMRe Sirius during the second quarter of 2008. The adverse loss reserve development at WMRe America was predominantly attributable to its casualty reinsurance book written in the 1996-2002 underwriting years, whereas the favorable loss reserve development at WMRe Sirius was predominantly attributable to its property reinsurance book.

For the three months ended September 30, 2008, OneBeacon had net favorable loss reserve development of $20.8 million that primarily related to professional liability in specialty lines and package business in commercial lines. For the nine months ended September 30, 2008, OneBeacon had net favorable loss reserve development of $33.0 million that primarily related to professional liability in specialty lines and package business in commercial lines, partially offset by adverse loss reserve development at AutoOne in personal lines and in run-off.

For the three and nine months ended September 30, 2008, Esurance did not record any net loss reserve development.

For the nine months ended September 30, 2008, the Other Operations segment had $1.6 million of net favorable loss reserve development.

Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for the acquisitions of OneBeacon, WMRe Sirius and Stockbridge Insurance Company, White Mountains was required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on their respective acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled.

White Mountains recognized $3.5 million and $8.6 million of charges for the three and nine months ended September 30, 2009, and $4.3 million and $12.6 million for the three and nine months ended September 30, 2008. As of September 30, 2009, the pre-tax un-accreted adjustment was $33.1 million.

Note 3. 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, 2009, OneBeacon had $17.3 million of reinsurance recoverables on paid losses and $2,438.5 million (gross of $194.2 million in purchase accounting adjustments) that will become recoverable if claims are paid in accordance with current reserve estimates. The collectability of balances due from OneBeacon s reinsurers is critical to OneBeacon s financial strength because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. Uncollectible amounts 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 paid and unpaid reinsurance recoverables and the reinsurer s A.M Best Company, Inc. (A.M. Best) rating.

Top Reinsurers (Millions)	Balance at September 30, 2009	% of Total	A.M. Best Rating(1)
National Indemnity Company and General Reinsurance Corporation (2)	$ 1,878.3	76%	A++
Tokio Marine and Nichido Fire (3)	76.6	3%	A++
Munich Reinsurance America	40.1	2%	A+
QBE Insurance Corporation	38.4	2%	A
Swiss Re Group	19.4	1%	A

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

(2) Includes $320.2 of Third Party Recoverables (as defined below), which NICO (as defined below) would pay under the terms of the NICO Cover (as defined below) if they are unable to collect from third party reinsurers. OneBeacon also has an additional $152.3 of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) Includes $41.6 of reinsurance recoverables from various third party reinsurers that are guaranteed by Tokio Marine and Nichido Fire under the terms of a 100% quota share reinsurance agreement between Houston General Insurance Company and Tokio Marine and Nichido Fire.

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 A&E claims and certain other exposures (the NICO Cover) and an adverse loss reserve development cover (the GRC Cover) from General Reinsurance Corporation (GRC) for up to $570.0 million, comprised of $400.0 million of adverse loss reserve development on losses occurring in years 2000 and prior and $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for under GAAP as a seller guarantee. NICO and GRC are wholly-owned subsidiaries of 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 September 30, 2009 it has used approximately $2.2 billion of the coverage provided by NICO. Through September 30, 2009 $1.2 billion of these incurred losses have been paid by NICO. Since entering into the NICO Cover, $54.7 million of the $2.2 billion of utilized coverage from NICO related to uncollectible Third Party Recoverables. To the extent that actual experience differs from White Mountains estimate of ultimate A&E losses and Third Party Recoverables, future losses could utilize some or all of the protection remaining under the NICO Cover.

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

Effective July 1, 2009, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2010. The program provides coverage for OneBeacon s personal and commercial property business as well as certain acts of terrorism. Under the program, the first $100 million of losses resulting from any single catastrophe are retained and the next $750 million of losses resulting from the catastrophe are reinsured. Any loss above $850 million would be retained. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

OneBeacon entered into a 30% homeowners quota share agreement with a group of reinsurers effective from January 1, 2009 through December 31, 2009. During the three and nine months ended September 30, 2009, OneBeacon ceded $16.5 million and $46.5 million, respectively, of written premiums from its Northeast homeowners business written through OneBeacon Insurance Company (OBIC) and its subsidiary companies, along with Adirondack Insurance Exchange and New Jersey Skylands Insurance Association in New York and New Jersey, respectively.

White Mountains Re

At September 30, 2009, White Mountains Re had $22.7 million of reinsurance recoverables on paid losses and $585.1 million of reinsurance that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies, the collectability of balances due from its reinsurers is critical to White Mountains Re s financial strength. White Mountains Re monitors the financial strength of its reinsurers on an ongoing basis. The following table provides a listing of White Mountains Re s top reinsurers based upon recoverable amounts, the percentage of total paid and unpaid reinsurance recoverables and the reinsurers A.M. Best ratings.

Top Reinsurers (Millions)		Balance at September 30, 2009	% of Total	A.M. Best Rating (2)	% Collateralized
Imagine Re (1)	$	**125.5**	21%	NR-5	100%
Olympus (1)(3)		**86.8**	14%	NR-5	100%
London Life (1)		**77.8**	13%	A	100%
General Re		**46.3**	8%	A++	4%
Swiss Re Group		**43.5**	7%	A	5%

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

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

(3) Gross of $30.0 due to Olympus Reinsurance Company Ltd. (Olympus) under an indemnity agreement with WMRe America.

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Note 4. Investment Securities

White Mountains invested assets comprise securities and other long-term investments held for general investment purposes. The portfolio of fixed maturity investments and common equity securities held for general investment purposes are classified as trading. Trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Realized and unrealized investment gains and losses on trading securities are reported pre-tax in revenues.

White Mountains has invested in mortgage-backed and asset-backed securities which are carried at fair value within fixed maturity investments. White Mountains investments in debt securities, including asset-backed securities are generally valued using industry standard pricing models. Key inputs, which are selected by management using its best judgment principally 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. At September 30, 2009, the market for White Mountains investments in asset-backed securities remained active and accordingly, White Mountains did not adjust the fair value estimates for the effect of illiquidity.

Realized gains and losses resulting from sales of investment securities are accounted for using the first-in first-out method. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of September 30, 2009 and December 31, 2008.

Other long-term investments comprise White Mountains investments in limited partnerships and limited liability corporations, which consists of hedge funds and private equity funds.

White Mountains recently exited its securities lending programs. White Mountains had participated in securities lending programs through both OneBeacon and White Mountains Re as a mechanism for generating additional investment income. Under the security lending arrangements, certain securities White Mountains owned were loaned to other institutions for short periods of time through a lending agent. The security lending counterparty was required to provide collateral for the loaned securities, which was then invested by the lending agent. The collateral was normally required at a rate of 102% of the fair value of the loaned securities. For OneBeacon s program prior to February 2009 and for the White Mountains Re s program, the collateral was fully controlled by the lending agent and could not be sold or re-pledged. The fair value of the securities lending collateral was recorded as both an asset and a liability, however, other than in the event of a default by the borrower, the collateral was not available to White Mountains and would have been remitted to the borrower by the lending agent upon return of the loaned securities. Because of these restrictions, White Mountains considered White Mountains Re s securities lending activities and OneBeacon s securities lending activities prior to February 2009 to be non-cash transactions.

In February 2009, OneBeacon amended the terms of its securities lending program to give it more control over the investment of borrowers collateral and to segregate the assets supporting that collateral from a collective investment vehicle managed by the lending agent into a separate account. Accordingly, purchases and sales of invested assets held in the separate account as well as changes in the payable to the borrower for the return of collateral are reflected in the investing and financing sections of the cash flow statement commencing with the quarter ended March 31, 2009.

During 2009, OneBeacon and White Mountains Re exited their securities lending programs. As of September 30, 2009, all loaned securities under the OneBeacon program had been returned except for two illiquid instruments for which OneBeacon holds $1.7 million in collateral. As of September 30, 2009, all loaned securities under the White Mountains Re program had been returned and all collateral returned to borrowers.

White Mountains recorded net realized and unrealized investment gains (losses) of $(0.5) million and $8.0 million for the three and nine months ended September 30, 2009 associated with its securities lending programs.

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Pre-tax net investment income for the three and nine months ended September 30, 2009 and 2008 consisted of the following:

Millions	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Investment income:				
Fixed maturity investments	**$ 70.4**	$ 90.6	**$ 201.5**	$ 275.2
Short-term investments	**1.3**	9.9	**5.0**	34.7
Common equity securities	**.3**	6.9	**3.1**	25.2
Other long-term investments	**3.7**	2.4	**3.7**	6.2
Convertible fixed maturity investments	**2.4**	2.0	**6.1**	5.8
Interest on funds held under reinsurance treaties	**(9.3)**	(.9)	**(7.0)**	(.1)
Total investment income	**68.8**	110.9	**212.4**	347.0
Less investment expenses	**(2.6)**	(5.2)	**(7.9)**	(12.8)
Net investment income, pre-tax	**$ 66.2**	$ 105.7	**$ 204.5**	$ 334.2

Net realized and unrealized investment gains and losses

White Mountains recognized $170.7 million and $362.3 million of net realized and unrealized investment gains for the three and nine months ended September 30, 2009 and $429.7 million and $627.0 million of net realized and unrealized investment losses for the three and nine months ended September 30, 2008.

Net realized investment gains (losses)

Millions	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Fixed maturity investments	**$ 12.3**	$ (75.1)	**$ (17.1)**	$ (105.6)
Short-term investments			**.2**	
Common equity securities		(38.4)	**(46.5)**	(19.6)
Other long-term investments	**20.9**	(10.3)	**(.6)**	(14.1)
Convertible fixed maturity investments	**1.4**	(5.2)	**3.6**	(7.6)
Net realized investment gains (losses), pre-tax	**$ 34.6**	$ (129.0)	**$ (60.4)**	$ (146.9)

For the three and nine months ended September 30, 2009, White Mountains recognized $27.7 million and $(38.3) million of after-tax realized gains (losses). During the three and nine months ended September 30, 2008, White Mountains recognized after-tax realized losses of $92.1 million and $101.1 million.

Net unrealized investment gains (losses)

The following table summarizes changes in the carrying value of investments measured at fair value:

Millions	Three Months Ended September 30, 2009 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings	Nine Months Ended September 30, 2009 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings
Fixed maturities	$ 152.7	$ (58.3)	$ 94.4	$ 383.7	$ (75.7)	$ 308.0
Common equity securities	22.3	(8.5)	13.8	46.5	(9.7)	36.8
Short-term investments	.1	.3	.4	(.2)	1.3	1.1
Convertible fixed maturity investments	33.0		33.0	43.4		43.4
Other long-term investments	(.2)	(5.3)	(5.5)	39.4	(6.0)	33.4
Net unrealized investment (losses) gains, pre-tax	**$ 207.9**	**$ (71.8)**	**$ 136.1**	**$ 512.8**	**$ (90.1)**	**$ 422.7**

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Millions	Three Months Ended September 30, 2008 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings	Nine Months Ended September 30, 2008 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings
Fixed maturities	$ (50.1)	$ 79.1	$ 29.0	$ (128.7)	$ 63.9	$ (64.8)
Common equity securities	(231.4)	(4.2)	(235.6)	(301.6)	(5.1)	(306.7)
Short-term investments	(.1)	(.8)	(.9)	(.1)	.7	.6
Convertible fixed maturity investments	(8.8)		(8.8)	(27.9)		(27.9)
Other long-term investments	(85.0)	.6	(84.4)	(81.5)	.2	(81.3)
Net unrealized investment (losses) gains, pre-tax	$ (375.4)	$ 74.7	$ (300.7)	$ (539.8)	$ 59.7	$ (480.1)

White Mountains recognized after-tax unrealized gains (losses) of $90.4 million and $280.8 million for the three and nine months ended September 30, 2009 and $(200.3) million and $(334.0) million for the three and nine months ended September 30, 2008.

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains fixed maturity investments as of September 30, 2009 and December 31, 2008, were as follows:

Millions	Cost or amortized cost	Gross unrealized gains	September 30, 2009 Gross unrealized losses	Net foreign currency gains(losses)	Carrying value
U.S. Government obligations	$ 693.0	$ 21.0	$ (.1)	$ (.7)	$ 713.2
Debt securities issued by industrial corporations	2,251.7	156.9	(11.8)	(35.2)	2,361.6
Municipal obligations	4.7	.2			4.9
Mortgage-backed and asset-backed securities	1,805.9	36.2	(43.9)	(.2)	1,798.0
Foreign government, agency and provincial obligations	939.3	28.0	(.7)	13.3	979.9
Preferred stocks	73.7	5.3	(.4)		78.6
Total fixed maturity investments	**$ 5,768.3**	$ 247.6	$ (56.9)	$ (22.8)	**$ 5,936.2**

Millions	Cost or amortized cost	Gross unrealized gains	December 31, 2008 Gross unrealized losses	Net foreign currency gains(losses)	Carrying value
U.S. Government obligations	$ 785.3	$ 24.4	$ (14.3)	$ 3.5	$ 798.9
Debt securities issued by industrial corporations	1,746.9	25.0	(112.2)	(12.4)	1,647.3
Municipal obligations	7.4	.3	(.1)		7.6
Mortgage-backed and asset-backed securities	2,321.1	21.2	(138.4)	37.3	2,241.2
Foreign government, agency and provincial obligations	696.6	28.3	(8.0)	14.2	731.1
Preferred stocks	74.2	.1	(19.9)		54.4
Total fixed maturity investments	$ 5,631.5	$ 99.3	$ (292.9)	$ 42.6	$ 5,480.5

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains common equity securities, convertible fixed maturities, and other long-term investments as of September 30, 2009 and December 31, 2008, were as follows:

	September 30, 2009				
Millions	**Cost or amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains(losses)**	**Carrying value**
Common equity securities	**$ 276.5**	$ 28.3	$ (8.6)	$ 11.4	**$ 307.6**
Convertible fixed maturities	**$ 301.7**	$ 26.3	$ (1.3)	$	**$ 326.7**
Other long-term investments	**$ 373.9**	$ 46.1	$ (42.5)	$	**$ 377.5**

	December 31, 2008				
Millions	**Cost or amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains(losses)**	**Carrying value**
Common equity securities	$ 558.4	$ 18.0	$ (44.9)	$ 21.2	$ 552.7
Convertible fixed maturities	$ 327.3	$ 3.2	$ (21.7)	$	$ 308.8
Other long-term investments	$ 431.2	$ 44.2	$ (65.2)	$ 6.0	$ 416.2

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Fair value measurements at September 30, 2009

White Mountains adopted FAS 157 (included in ASC 820-10) on January 1, 2008. FAS 157 established a hierarchy of fair value measurements based upon the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments;

Level 3 Valuations based on unobservable inputs.

White Mountains uses observable inputs for the vast majority of its investment portfolio. Fair value measurements for securities for which quoted prices are unavailable are estimated based upon reference to observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes and other relevant inputs. In circumstances where quoted prices or observable inputs are adjusted to reflect management s best estimate of fair value, such fair value measurements are considered a lower level measurement in the fair value hierarchy. Other long-term investments, which comprises limited partnerships and limited liability corporations, such as hedge funds and private equity funds for which the FAS 159 (included in ASC 825-10) fair value option has been elected are carried at fair value based upon White Mountains proportionate interest in the underlying partnership s or fund s net asset value, which is deemed to approximate fair value. The fair value of White Mountains investments in hedge funds and private equity funds has been estimated using net asset value because it reflects the fair value of the funds underlying investments. White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing each fund s audited financial statements and discussing each fund s pricing with the fund s manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of White Mountains investments in hedge funds and private equity funds have been classified as Level 3. In circumstances where the underlying investments are publicly traded, such as the investments made by hedge funds, the fair value of the underlying investments is determined using currently market prices. In circumstances where the underlying investments are not publicly traded, such as the investments made by private equity funds, the private equity fund managers have considered the need for a liquidity discount on each of the underlying investments when determining the fund s net asset value. In circumstances where White Mountains portion of a fund s net asset value is deemed to differ from fair value due to illiquidity or other factors associated with White Mountains investment in the fund, the net asset value is adjusted accordingly. At September 30, 2009 and December 31, 2008, White Mountains did not record an adjustment to the net asset value related to its investments in hedge funds or private equity funds.

The following tables summarize White Mountains fair value measurements for investments at September 30, 2009 and December 31, 2008, by level. The fair value measurements for derivative assets associated with White Mountains variable annuity business are presented in **Note 8**.

	September 30, 2009			
Millions	**Fair value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
US Government obligations	$ 713.2	$ 639.2	$ 73.1	$ .9

Debt securities issued by industrial corporations	2,361.6		2,340.9	20.7
Municipal obligations	4.9		4.9	
Mortgage-backed and asset-backed securities	1,798.0		1,713.9	84.1
Foreign government, agency and provincial obligations	979.9	110.3	869.6	
Preferred stocks	78.6		4.2	74.4
Fixed maturities	5,936.2	749.5	5,006.6	180.1
Common equity securities	307.6	134.0	50.3	123.3
Convertible fixed maturity investments	326.7		326.7	
Short-term investments	2,336.6	2,318.1	18.5	
Other long-term investments (1)	363.7			363.7
Total investments	$ 9,270.8	$ 3,201.6	$ 5,402.1	$ 667.1

(1) The fair value of other long-term investments excludes carrying value of $13.8 associated with other long-term investment limited partnerships accounted for using the equity method.

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	December 31, 2008			
Millions	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
US Government obligations	$ 798.9	$ 597.4	$ 201.5	$
Debt securities issued by industrial corporations	1,647.3		1,646.6	.7
Municipal obligations	7.6		7.6	
Mortgage-backed and asset-backed securities	2,241.2		2,136.7	104.5
Foreign government, agency and provincial obligations	731.1	92.0	639.1	
Preferred stocks	54.4		3.2	51.2
Fixed maturities	5,480.5	689.4	4,634.7	156.4
Common equity securities	552.7	399.2	40.2	113.3
Convertible fixed maturity investments	308.8		308.8	
Short-term investments	2,244.5	2,244.5		
Other long-term investments (1)	401.2			401.2
Total investments	$ 8,987.7	$ 3,333.1	$ 4,983.7	$ 670.9

(1) The fair value of other long-term investments excludes carrying value of $15.0 associated with other long-term investment limited partnerships accounted for using the equity method.

In addition to the investment portfolio described above, White Mountains has $48.5 million and $41.8 million of liabilities recorded at fair value and included in other liabilities as of September 30, 2009 and December 31, 2008. These liabilities relate to securities that have been sold short by limited partnerships that White Mountains invests in and is required to consolidate under GAAP. All of the liabilities included have been deemed to have a Level 1 designation.

The following table summarizes the changes in White Mountains Level 3 fair value measurements for the three and nine months ended September 30, 2009:

Millions	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	Total
Balance at January 1, 2009	$ 156.4	$ 113.3	$	$ 401.2	$ 670.9
Total realized and unrealized losses	(3.6)	(3.6)		(44.3)	(51.5)
Purchases	22.2		.7	45.5	68.4
Sales	(17.1)	(.4)		(22.2)	(39.7)
Transfers in	52.1				52.1
Transfers out	(39.4)				(39.4)
Balance at March 31, 2009	170.6	109.3	.7	380.2	660.8
Total realized and unrealized gains	17.9	7.9	.1	26.9	52.8
Purchases	6.7		3.4	2.1	12.2
Sales	(26.1)	(.2)	(.2)	(18.3)	(44.8)
Transfers in	36.9				36.9
Transfers out	(50.1)				(50.1)
Balance at June 30, 2009	155.9	117.0	4.0	390.9	667.8

Total realized and unrealized gains	18.5	6.4	.1	11.3	36.3
Purchases	19.7	.2	.7	5.2	25.8
Sales	(15.3)	(.3)	(1.3)	(43.7)	(60.6)
Transfers in	26.1				26.1
Transfers out	(24.8)		(3.5)		(28.3)
Balance at September 30, 2009	$ 180.1	$ 123.3	$	$ 363.7	$ 667.1

White Mountains uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturities at March 31, June 30, and September 30, 2009 comprise securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

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Level 3 measurements transfers in and out - Three-month period ended March 31, 2009

Observable inputs in the form of quoted market prices for similar securities became unavailable for one security with a fair value of $1.5 million that has been reflected as Transfers in to Level 3 measurements during the quarter ended March 31, 2009. Quoted market prices for this security had been used at December 31, 2008 to estimate fair value, and as such, this security was categorized as a Level 2 measurement at December 31, 2008. In addition, the estimated fair value for three securities of $50.6 million for which the quoted price provided by a third party source was deemed unreliable and could not be validated against an alternative source is reflected in Transfers in during the quarter ended March 31, 2009. The fair value of these securities was estimated using industry standard pricing models, in which management selected inputs using its best judgment. These inputs principally included benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. The pricing models used by White Mountains use the same valuation methodology for all Level 3 measurements for fixed maturities. These securities are considered to be Level 3 because the measurements are not directly observable. The estimated fair value for these securities determined using the industry standard pricing models was $3.2 million less than the estimated fair value based upon quoted prices provided by a third party. In addition, during the first quarter of 2009, three securities which had been classified as Level 3 measurements at December 31, 2008 were recategorized as Level 2 measurements when quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at March 31, 2009. These measurements comprise Transfers out of $(39.4) million for the period ended March 31, 2009.

Level 3 measurements transfers in and out - Three-month period ended June 30, 2009

The estimated fair value of $36.9 million for three securities for which the quoted market prices provided by a third party source were deemed to be unreliable and could not be validated against an alternative third party source were valued using industry standard pricing models described above and are reflected in Transfers in during the quarter ended June 30, 2009. These securities are considered to be Level 3 because the measurements are not directly observable. Quoted market prices for these securities had been used at March 31, 2009 to estimate fair value, and as such these securities were categorized as Level 2 measurements at March 31, 2009. The fair value for these securities determined using the industry standard pricing model was $3.2 million less than the estimated fair value based upon quoted prices provided by a third party. In addition, during the second quarter of 2009 twenty-eight securities which had been classified as Level 3 measurements at March 31, 2009 were recategorized as Level 2 measurements when quoted market prices that were considered reliable and could be validated against an alternative source were available at June 30, 2009. These measurements comprise Transfers out of $(50.1) million for the period ended June 30, 2009.

Level 3 measurements transfers in and out Three-month period ended September 30, 2009

The estimated fair value of $26.1 million for three securities for which the quoted market prices provided by a third party source were deemed to be unreliable and could not be validated against an alternative third party source were valued using industry standard pricing models described above and are reflected in Transfers in during the quarter ended September 30, 2009. These securities are considered to be Level 3 because the measurements are not directly observable. Quoted market prices for these securities had been used at June 30, 2009 to estimate fair value, and as such these securities were categorized as Level 2 measurements at June 30, 2009. The fair value for these securities determined using the industry standard pricing model was $2.7 million less than the estimated fair value based upon quoted prices provided by a third party. During the third quarter of 2009, nine securities which had been classified as Level 3 measurements at June 30, 2009 were recategorized as Level 2 measurements when quoted market prices that were considered reliable and could be validated against an alternative source were available at September 30, 2009. These measurements comprise Transfers out of $(24.8) million for fixed maturities and $(3.5) million for convertible fixed maturities for the period ended September 30, 2009.

The following table summarizes the amount of total gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 assets for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2009**	**2008**	**2009**	**2008**
Fixed maturities	**$ 24.2**	$ (2.1)	**$ 49.3**	$ (23.3)
Common equity securities	**6.3**	(12.3)	**11.2**	(16.4)
Convertible fixed maturities			**.1**	
Other long-term investments	**(3.5)**	(83.7)	**34.7**	(85.7)
Total unrealized investment gains (losses) - Level 3 assets	**$ 27.0**	$ (98.1)	**$ 95.3**	$ (125.4)

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Note 5. Debt

Refer to the Company s 2008 Annual Report on Form 10-K for a fuller discussion regarding White Mountains debt obligations as of December 31, 2008. White Mountains debt outstanding as of September 30, 2009 and December 31, 2008 consisted of the following:

Millions		September 30, 2009		December 31, 2008
OBH Senior Notes, at face value	$	**607.1**	$	676.0
Unamortized original issue discount		**(.7)**		(.9)
OBH Senior Notes, carrying value		**606.4**		675.1
WMRe Senior Notes, at face value		**400.0**		400.0
Unamortized original issue discount		**(.9)**		(1.0)
WMRe Senior Notes, carrying value		**399.1**		399.0
WTM Bank Facility				200.0
WTM Barclays Facility				
Mortgage Note				40.8
Sierra Note		**31.0**		31.1
Atlantic Specialty Note		**14.0**		16.0
Total debt	$	**1,050.5**	$	1,362.0

WTM Bank Facility

On September 21, 2009 White Mountains repaid the entire $200.0 million that had been drawn on the WTM Bank Facility.

WTM Barclays Facility

On June 10, 2009, White Mountains entered into a $33.3 million revolving credit facility with Barclays Bank PLC (the WTM Barclays Facility). The terms and conditions of the WTM Barclays Facility are similar to the existing WTM Bank Facility with the exception of the commitment term. The commitment under the WTM Barclays Facility terminates on June 9, 2010 whereas the commitments under the WTM Bank Facility terminate on June 19, 2012.

OBH Senior Notes

During the third quarter of 2009, OBIC purchased $21.0 million of outstanding OBH Senior Notes for $19.8 million, which resulted in a $1.0 million gain. During the second quarter of 2009, OBIC purchased $37.3 million of outstanding OBH Senior Notes for $35.2 million, which resulted in a $1.9 million gain. During the first quarter of 2009, OBH repurchased $10.6 million of outstanding OBH Senior Notes for $8.1

million, which resulted in a $2.5 million gain.

Mortgage Note on Real Estate Owned

On May 7, 2009, OneBeacon repaid $40.6 million, representing the entire outstanding principal balance on the Mortgage Note. At the time of repayment of the outstanding balance on the Mortgage Note, OneBeacon paid $7.4 million to settle the related interest rate swap that had been used to fix the rate of interest on the Mortgage Note. During the second quarter of 2009, OneBeacon recorded a $7.4 million pre-tax increase in other comprehensive income and a $7.4 million realized investment loss through net other revenues related to the settlement. During the three months ended March 31, 2009, OneBeacon repaid $0.2 million of principal in accordance with the terms of the Mortgage Note.

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Note 6. Income Taxes

The Company is domiciled in Bermuda and has subsidiaries domiciled in the United States and several other countries. The majority of White Mountains worldwide operations are taxed in the United States. Income earned or losses incurred by non-U.S. companies will generally be subject to an overall effective tax rate lower than that imposed by the United States.

White Mountains income tax expense (benefit) for the three and nine months ended September 30, 2009 and 2008 represented an effective tax rate of 28.6% and 28.6% and (31.5)% and (32.2)%. For the three and nine months ended September 30, 2009, White Mountains effective tax rates are different from the U.S. statutory rate of 35.0% primarily due to income generated in jurisdictions other than the United States. For the three and nine months ended September 30, 2008, White Mountains effective tax rates are different from the U.S. statutory rate of 35.0% primarily due to income generated in jurisdictions other than the United States, withholding taxes, non-deductible dividends and accretion on the Berkshire Preferred Stock.

In arriving at the effective tax rate for the three and nine months ended September 30, 2009, White Mountains is treating the change in unrealized investment gains (losses) and realized investment gains (losses) as discrete items separate from the other components of pre-tax income (loss). Therefore, the expense (benefit) of these net gains (losses) is calculated at the statutory rate applicable to the jurisdiction in which the gains (losses) are recorded. The majority of investment assets incurring current period net gains (losses) for the three and nine months ended September 30, 2009 are in the U.S. and Sweden, and are taxed at the statutory rates of 35.0% and 26.3%. The changes in unrealized investment gains (losses) and realized investment gains (losses) are treated as discrete items due to the inability to reliably estimate these amounts for the full year.

White Mountains records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. In determining whether or not a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carry-back and carry-forward periods and strategies that if executed would result in the realization of a deferred tax asset. As of September 30, 2009, the net U.S. deferred tax assets were approximately $357.5 million. During the next twelve months, it is possible that certain planning strategies will no longer be sufficient to utilize the entire deferred tax asset, which could result in material changes to White Mountains valuation allowance on deferred tax assets and tax provision. Utilization of the deferred tax asset is dependent on future profitability and generation of net capital gains.

White Mountains classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. With few exceptions, White Mountains is no longer subject to U.S. federal, state or non-U.S. income tax examinations for years before 2003.

In the second quarter of 2006, the Internal Revenue Service (IRS) commenced an examination of income tax returns for 2003 through 2004 for certain U.S. subsidiaries of OneBeacon, White Mountains Re and Esurance. On January 22, 2009, the Company received Form 4549-A (Income Tax Examination Changes) from the IRS relating to the examination of tax years 2003 and 2004. The IRS asserted that subsidiaries of the Company owed an additional $65.7 million of tax and a total of $132.3 million including interest, withholding tax and utilization of tax credits. The Company disagreed with the adjustments proposed by the IRS and filed a protest with the IRS Appeals Office. On October 14, 2009, a settlement was reached, which reduced the assessment to $24.9 million of tax and approximately $53 million including interest, withholding tax and utilization of credits. White Mountains expects to record a tax benefit of between $15 million and $17 million in the fourth quarter of 2009 from the settlement of the 2003 and 2004 tax examination.

In October 2008, the IRS commenced an examination of certain of White Mountains U.S. subsidiaries income tax returns for 2005 through 2006. As of September 30, 2009, the IRS has not proposed any significant adjustments to taxable income as a result of the 2005 through 2006 audit. White Mountains does not expect to receive any adjustments that would result in a material change to its financial position.

Note 7. Weather Contracts

During the second quarter of 2009, White Mountains sold Galileo Weather Risk Management Advisors LLC for nominal consideration. The outstanding weather derivative contracts have been retained by White Mountains. White Mountains is not writing any new weather derivative contracts and the existing contracts are being run off. As of September 30, 2009, there were eleven in-force positions. Four of the remaining positions will expire during 2009, six positions will expire during 2010 and the final position will expire on September 30, 2011.

For the three and nine months ended September 30, 2009, $3.5 million and $1.0 million of net losses were recognized on the weather and weather contingent derivatives portfolio. For the three and nine months ended September 30, 2008, $0.1 million of net losses and $6.6 million of net gains were recognized on the weather derivatives portfolio. As of September 30, 2009 and 2008, there were unamortized deferred gains of $2.4 million and $4.5 million, respectively.

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The fair values of the weather 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. Because of the significance of the unobservable inputs used to estimate the fair value of the weather risk contracts, the fair value measurements of the contracts are deemed to be Level 3 measurements in the fair value hierarchy.

The weather risk management contracts are summarized in the following table:

Millions	Nine Months Ended September 30, 2009		2008	
Net liability for weather derivative contracts as of January 1 (1)	**$**	**13.1**	$	17.9
Net consideration (paid) received during the period for new contracts		**(8.3)**		16.5
Net payments received (made) on contracts settled during the period		**.4**		(10.9)
Net increase (decrease) in fair value on settled and unsettled contracts		**1.0**		(6.6)
Net liability for weather derivative contracts as of September 30 (2)	**$**	**6.2**	$	16.9

(1) Includes unamortized deferred gains of $5.1 and $2.9 as of January 1, 2009 and 2008.

(2) Includes unamortized deferred gains of $2.4 and $4.5 as of September 30, 2009 and 2008.

The following table summarizes the maturity of contracts outstanding as of September 30, 2009:

Millions	< 1 Year		1-3 Years		3-5 Years		> 5 Years		Total	
Net asset for contracts actively quoted	$		$		$		$		$	
Net liability for contracts using internal pricing models		5.4		.8						6.2
Total net liability for weather contracts outstanding	$	5.4	$	.8	$		$		$	6.2(1)

(1) Includes $2.4 in unamortized deferred gains.

Note 8. Variable Annuity Reinsurance

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. At September 30, 2009, the total guarantee value was approximately ¥ 242.7 billion (approximately $2.7 billion at exchange rates on that date). The collective account values of the underlying variable annuities were approximately 86% of the guarantee value at September 30, 2009. The following table summarizes the pre-tax operating results of WM Life Re for the three and nine months ended September 30, 2009 and 2008:

Millions	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Fees, included in other revenues	**$ 7.3**	$ 6.3	**$ 21.1**	$ 19.3
Change in fair value of variable annuity liability, included in other revenues	**(20.2)**	(59.0)	**61.0**	(91.8)
Change in fair value of derivatives, included in other revenues	**7.4**	42.3	**(137.4)**	57.4
Foreign exchange, included in other revenues	**8.8**	(.2)	**(2.3)**	(.4)
Other investment income and gains (losses)	**3.0**	(.2)	**2.2**	(.5)
Total revenues	**6.3**	(10.8)	**(55.4)**	(16.0)
Change in fair value of variable annuity death benefit liabilities, included in other expenses	**(.2)**	(4.2)	**7.4**	(6.1)
Death benefit claims paid, included in other expenses	**(.6)**		**(1.8)**	
General and administrative expenses	**(1.3)**	.6	**(4.0)**	(1.6)
Pre-tax income (loss)	**$ 4.2**	$ (14.4)	**$ (53.8)**	$ (23.7)

For the nine months ended September 30, 2009 the change in the fair value of the variable annuity liability included $22.4 million recognized during the first quarter associated with change in projected surrender assumptions.

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All of White Mountains variable annuity reinsurance liabilities ($398.5 million) were classified as Level 3 measurements at September 30, 2009. The following table summarizes the changes in White Mountains variable annuity reinsurance guarantee liabilities and derivative instruments for the three and nine month periods ended September 30, 2009:

	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	**Level 3**	**Level 3 (1)**	**Level 2 (2)**	**Level 1 (3)**	**Total**
Balance at January 1, 2009	$ (467.1)	$ 198.3	$ 5.0	$ (24.9)	$ 178.4
Purchases		8.8			8.8
Realized and unrealized gains (losses)	34.8	(15.7)	(6.4)	(31.0)	(53.1)
Transfers in (out)					
Sales/settlements				11.6	11.6
Balance at March 31, 2009	(432.3)	191.4	(1.4)	(44.3)	145.7
Purchases		35.5			35.5
Realized and unrealized gains (losses)	54.2	(35.5)	4.4	(60.6)	(91.7)
Transfers in (out)					
Sales/settlements			(2.2)	105.7	103.5
Balance at June 30, 2009	(378.1)	191.4	.8	.8	193.0
Purchases		6.3			6.3
Realized and unrealized gains (losses)	(20.4)	12.4	3.9	(8.9)	7.4
Transfers in (out)					
Sales/settlements			(1.3)	18.9	17.6
Balance at September 30, 2009	$ (398.5)	$ 210.1	$ 3.4	$ 10.8	$ 224.3

(1) Comprises OTC (as defined below) instruments.

(2) Comprises interest rate swaps. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded.

(3) Comprises exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

The following summarizes realized and unrealized derivative gains (losses) recognized in other revenues for the three and nine months ended September 30, 2009 and 2008 and the carrying values at September 30, 2009 and December 31, 2008, by type of instrument:

	Three Months Ended September 30,		Nine Months Ended September 30.		Carrying Value	
					September 30,	December 31,
Type of Instrument (Millions)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Fixed income/Interest rate	**$ (10.8)**	$ .2	**$ (10.4)**	$ 2.2	**$ (2.5)**	$ (4.3)
Foreign exchange	**48.3**	15.9	**(44.4)**	11.0	**126.2**	60.2
Equity	**(30.1)**	26.2	**(82.6)**	44.2	**100.6**	122.5
Total	**$ 7.4**	$ 42.3	**$ (137.4)**	$ 57.4	**$ 224.3**	$ 178.4

WM Life Re enters into both over-the-counter (OTC) and exchange traded derivative instruments to economically hedge the liability from the variable annuity benefit guarantee. In the case of OTC derivatives, WM Life Re has exposure to credit risk for amounts that are uncollateralized by counterparties. WM Life Re s internal risk management guidelines establish net counterparty exposure thresholds that take into account over-the-counter counterparties credit ratings. WM Life Re has entered into master netting agreements with certain of its counterparties whereby the collateral provided (held) is calculated on a net basis. The following summarizes collateral provided to WM Life Re from counterparties:

Millions	**September 30, 2009**	December 31, 2008
Short term investments	**$ 13.5**	$ 10.6
Fixed maturity securities		53.7
Total	**$ 13.5**	$ 64.3

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Collateral held by or provided by WM Life Re in the form of fixed maturity securities comprise U.S. Treasury securities, which are recorded at fair value. Collateral in the form of short-term investments consists of money-market instruments, carried at amortized cost, which approximates fair value. The following summarizes the value, collateral held and net exposure on OTC derivative instruments recorded within other assets:

Millions	September 30, 2009		December 31, 2008	
OTC derivative instruments(1)	**$**	**222.0**	$	209.1
Collateral posted		**5.9**		
Collateral held		**(13.5)**		(64.3)
Net exposure on fair value of OTC instruments	**$**	**214.4**	$	144.8

(1) Value of OTC derivative instruments excludes adjustments for counterparty credit risk of $8.5 included in fair value under GAAP.

The following table summarizes uncollateralized amounts due under WM Life Re s OTC derivative contracts:

Counterparty (Millions)	Uncollateralized balance as of September 30, 2009		S&P Rating(1)
Bank of America (3)	**$**	**50.3**	A
Royal Bank of Scotland		**59.7**	A
Barclays		**41.0**	A+
Citigroup (3)		**48.2**	A
Other		**15.2**	(2)
Total	**$**	**214.4**	

(1) S&P ratings as detailed above are: AA (which is the third highest of twenty-one creditworthiness ratings), A+ (which is the fifth highest of twenty-one creditworthiness ratings), and A (which is the sixth highest of twenty-one creditworthiness ratings).

(2) The S&P ratings of the counterparties included in Other were A+ (65%) and AA (35%).

(3) Collateral provided (held) calculated under master netting arrangement.

The OTC derivative contracts are subject to restrictions on liquidation of the instruments and distribution of proceeds under collateral agreements. In addition to the OTC contracts, WM Life Re held cash and short-term investments posted as collateral to its reinsurance counterparties as follows:

Millions	September 30, 2009		December 31, 2008	
Cash	**$**	**102.7**	$	225.7
Short-term investments		**45.0**		30.3
Total	**$**	**147.7**	$	256.0

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Note 9. Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are based on the weighted average number of common shares outstanding including unvested restricted shares which are considered participating securities. Diluted earnings (loss) per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. The following table outlines the Company s computation of earnings (loss) per share for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Basic earnings (loss) per share numerators (in millions):				
Net income (loss) attributable to White Mountains common shareholders before extraordinary item	**$ 159.6**	$ (276.7)	**$ 370.2**	$ (346.9)
Extraordinary item excess of fair value of acquired net assets over cost				4.2
Net income (loss) attributable to White Mountains common shareholders	**159.6**	(276.7)	**370.2**	(342.7)
Dividends declared and paid			**(8.9)**	(42.3)
Undistributed earnings (loss)	**$ 159.6**	$ (276.7)	**$ 361.3**	$ (385.0)
Diluted earnings (loss) per share numerators (in millions):				
Net income (loss) attributable to White Mountains common shareholders before extraordinary item	**$ 159.6**	$ (276.7)	**$ 370.2**	$ (346.9)
Extraordinary item excess of fair value of acquired net assets over cost				4.2
Net income (loss) attributable to White Mountains common shareholders	**159.6**	(276.7)	**370.2**	(342.7)
Dividends declared and paid			**(8.9)**	(42.3)
Undistributed earnings (loss)	**$ 159.6**	$ (276.7)	**$ 361.3**	$ (385.0)
Basic earnings (loss) per share denominators (in thousands):				
Average common shares outstanding during the period	**8,769**	10,517	**8,768**	10,484
Average unvested restricted shares (1)	**89**	53	**79**	52
Basic earnings (loss) per share denominator	**8,858**	10,570	**8,847**	10,536
Diluted earnings (loss) per share denominator (in thousands):				
Average common shares outstanding during the period	**8,769**	10,517	**8,768**	10,484
Average unvested restricted shares (1)	**89**	53	**79**	52
Average outstanding dilutive options to acquire common shares (2)	**1**		**1**	
Diluted earnings (loss) per share denominator	**8,859**	10,570	**8,848**	10,536
Basic earnings (loss) per share (in dollars):				
Net income (loss) attributable to White Mountains common shareholders before extraordinary item	**$ 18.02**	$ (26.19)	**$ 41.85**	$ (32.94)
Extraordinary item - excess of fair value of acquired assets over cost				.41
Net income (loss) attributable to White Mountains common shareholders	**18.02**	(26.19)	**41.85**	(32.53)
Dividends declared and paid			**(1.00)**	(4.00)

Undistributed earnings (loss)	**$**	**18.02**	$	(26.19)	**$**	**40.85**	$	(36.53)
Diluted earnings (loss) per share (in dollars)								
Net income (loss) attributable to White Mountains common shareholders before extraordinary item	**$**	**18.02**	$	(26.19)	**$**	**41.84**	$	(32.94)
Extraordinary item - excess of fair value of acquired assets over cost								.41
Net income (loss) attributable to White Mountains common shareholders		**18.02**		(26.19)		**41.84**		(32.53)
Dividends declared and paid						**(1.00)**		(4.00)
Undistributed earnings (loss)	**$**	**18.02**	$	(26.19)	**$**	**40.84**	$	(36.53)

(1) Restricted shares outstanding vest either in equal annual installments, upon a stated date or upon the occurrence of a specified event (see **Note 12**).

(2) The diluted earnings per share denominator for the three and nine months ended September 30, 2009 includes 6,000 common shares issuable upon exercise of incentive options at an average stock price of $184.36 and $181.69 per common share. The diluted (loss) per share denominator for the three and nine months ended September 30, 2008 does not include 7,800 common shares issuable upon exercise of incentive options as they are anti-dilutive to the calculation (see **Note 12**).

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Note 10. 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. Financial information for White Mountains segments follows:

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Three months ended September 30, 2009					
Earned insurance and reinsurance premiums	$ 492.8	$ 213.4	$ 195.8	$	$ 902.0
Net investment income	34.4	22.0	6.2	3.6	66.2
Net realized and unrealized investment gains	117.6	27.0	12.9	13.2	170.7
Other revenue - foreign currency translation gains		23.2			23.2
Other revenue	5.7	10.0	13.4	11.5	40.6
Total revenues	**650.5**	**295.6**	**228.3**	**28.3**	**1,202.7**
Losses and LAE	298.2	104.3	141.6		544.1
Insurance and reinsurance acquisition expenses	101.4	40.9	39.6		181.9
Other underwriting expenses	79.4	23.9	19.4		122.7
General and administrative expenses	6.9	18.6	8.6	36.8	70.9
Amortization of AFI purchase accounting adjustments			4.2		4.2
Accretion of fair value adjustment to loss and LAE reserves	1.4	2.1			3.5
Interest expense on debt	9.1	6.6		1.4	17.1
Total expenses	**496.4**	**196.4**	**213.4**	**38.2**	**944.4**
Pre-tax income (loss)	**$ 154.1**	**$ 99.2**	**$ 14.9**	**$ (9.9)**	**$ 258.3**

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Three months ended September 30, 2008					
Earned insurance and reinsurance premiums	$ 471.2	$ 255.3	$ 209.2	$	$ 935.7
Net investment income	43.1	44.0	8.7	9.9	105.7
Net realized and unrealized investment losses	(355.9)	(42.2)	(15.7)	(15.9)	(429.7)
Other revenue - foreign currency translation loss		(43.9)			(43.9)
Other revenue	4.4	15.3	12.5	18.0	50.2
Total revenues	162.8	228.5	214.7	12.0	618.0
Losses and LAE	303.4	241.7	152.4	.1	697.6
Insurance and reinsurance acquisition expenses	92.6	56.9	41.0		190.5
Other underwriting expenses	74.3	24.6	20.9	.6	120.4
General and administrative expenses	7.1	16.8	11.7	25.2	60.8
Amortization of AFI purchase accounting adjustments			5.9		5.9
Accretion of fair value adjustment to loss and LAE reserves	3.0	1.3			4.3

Interest expense on debt	11.0	6.9	.1	2.4	20.4
Total expenses	491.4	348.2	232.0	28.3	1,099.9
Pre-tax loss	$ (328.6)	$ (119.7)	$ (17.3)	$ (16.3)	$ (481.9)

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Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Operations**	**Total**
Nine months ended September 30, 2009					
Earned insurance and reinsurance premiums	$ 1,470.8	$ 651.5	$ 589.4	$	$ 2,711.7
Net investment income	92.4	82.8	18.5	10.8	204.5
Net realized and unrealized investment gains	239.1	72.7	34.7	15.8	362.3
Other revenue - foreign currency translation gain		54.6			54.6
Other revenue	16.2	30.2	40.0	(31.4)	55.0
Total revenues	**1,818.5**	**891.8**	**682.6**	**(4.8)**	**3,388.1**
Losses and LAE	861.9	327.9	426.4		1,616.2
Insurance and reinsurance acquisition expenses	294.3	131.5	118.1		543.9
Other underwriting expenses	236.4	74.2	56.2		366.8
General and administrative expenses	18.9	52.0	26.2	76.9	174.0
Amortization of AFI purchase accounting adjustments			13.8		13.8
Accretion of fair value adjustment to loss and LAE reserves	4.1	4.5			8.6
Interest expense on debt	30.1	19.7		4.5	54.3
Total expenses	**1,445.7**	**609.8**	**640.7**	**81.4**	**2,777.6**
Pre-tax income (loss)	**$ 372.8**	**$ 282.0**	**$ 41.9**	**$ (86.2)**	**$ 610.5**

Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Operations**	**Total**
Nine months ended September 30, 2008					
Earned insurance and reinsurance premiums	$ 1,390.3	$ 769.0	$ 627.2	$	$ 2,786.5
Net investment income	137.8	141.9	25.1	29.4	334.2
Net realized and unrealized investment losses	(413.9)	(153.4)	(28.0)	(31.7)	(627.0)
Other revenue - foreign currency translation loss		(29.8)			(29.8)
Other revenue	10.6	16.0	28.3	76.3	131.2
Total revenues	1,124.8	743.7	652.6	74.0	2,595.1
Losses and LAE	878.7	611.4	479.5	(.6)	1,969.0
Insurance and reinsurance acquisition expenses	261.6	163.7	130.7		556.0
Other underwriting expenses	223.6	80.6	58.5	1.9	364.6
General and administrative expenses	14.5	25.8	22.4	106.5	169.2
Amortization of AFI purchase accounting adjustments			10.6		10.6
Accretion of fair value adjustment to loss and LAE reserves	9.0	3.6			12.6
Interest expense on debt	33.9	20.8	.5	6.3	61.5
Interest expense - dividends on preferred stock	11.8				11.8
Interest expense - accretion on preferred stock	21.6				21.6
Total expenses	1,454.7	905.9	702.2	114.1	3,176.9
Pre-tax loss	$ (329.9)	$ (162.2)	$ (49.6)	$ (40.1)	$ (581.8)

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Note 11. Investments in Unconsolidated Affiliates

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

Symetra

At September 30, 2009, White Mountains owned 24% of the common shares of Symetra on a fully converted basis, consisting of 17.4 million common shares and warrants to acquire an additional 9.5 million common shares. White Mountains accounts for its investment in common shares of Symetra using the equity method of accounting and accounts for its Symetra warrants as derivatives recording the warrants at fair value with changes in fair value recognized through the income statement as a realized investment gain or loss. Symetra s warrants are not publicly traded. Accordingly, the fair value measurement of the warrants is based on unobservable inputs and is classified as a Level 3 measurement.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra:

	2009			2008		
Millions	**Common Shares**	**Warrants**	**Total**	**Common Shares**	**Warrants**	**Total**
Carrying value of investment in Symetra as of January 1	**$ 54.0**	**$ 27.3**	**$ 81.3**	$ 241.3	$ 77.3	$ 318.6
Equity in earnings of Symetra (1)	**1.3**		**1.3**	.7		.7
Net unrealized losses from Symetra s fixed maturity portfolio	**(18.0)**		**(18.0)**	(20.7)		(20.7)
Increase (Decrease) in value of warrants		**.4**	**.4**		(4.3)	(4.3)
Carrying value of investment in Symetra as of March 31 (2)	**37.3**	**27.7**	**65.0**	221.3	73.0	294.3
Equity in earnings of Symetra (1)	**8.3**		**8.3**	5.3		5.3
Net unrealized gains (losses) from Symetra s fixed maturity portfolio	**97.9**		**97.9**	(39.0)		(39.0)
Increase (Decrease) in value of warrants		**3.1**	**3.1**		(7.0)	(7.0)
Carrying value of investment in Symetra as of June 30 (3)	**143.5**	**30.8**	**174.3**	187.6	66.0	253.6
Equity in earnings of Symetra (1)	**8.2**		**8.2**	.2		.2
Net unrealized gains (losses) from Symetra s fixed maturity portfolio	**126.3**		**126.3**	(81.4)		(81.4)
Increase (Decrease) in value of warrants		**11.3**	**11.3**		(13.3)	(13.3)
Carrying value of investment in Symetra as of Sept 30 (4)	**$ 278.0**	**$ 42.1**	**$ 320.1**	$ 106.4	$ 52.7	$ 159.1

(1) Equity in earnings is net of tax of $0.

(2) Includes White Mountains equity in net unrealized losses from Symetra s fixed maturity portfolio of $218.3 and $26.3 as of March 31, 2009 and 2008.

(3) Includes White Mountains equity in net unrealized losses from Symetra s fixed maturity portfolio of $120.4 and $65.3 as of June 30, 2009 and 2008.

(4) Includes White Mountains equity in net unrealized gains (losses) from Symetra s fixed maturity portfolio of $5.9 and $(146.7) as of September 30, 2009 and 2008.

In October 2009, Symetra filed a registration statement on Form S-1 with the Securities and Exchange Commission for a proposed initial public offering. The offering will consist of primary shares to be sold by Symetra and secondary shares to be sold by some of its existing stockholders.

Pentelia

White Mountains acquired a 33% equity interest in Pentelia Capital Management (PCM) for $1.6 million in April 2007. This investment is accounted for under the equity method. White Mountains investment in PCM as of September 30, 2009 was $1.6 million.

Delos

White Mountains owns approximately 18% of Delos and accounts for its investment in Delos under the equity method. For the three months ended September 30, 2009, White Mountains recorded $0.2 million of pre-tax equity in earnings and had essentially flat pre-tax equity in earnings for the nine months ended September 30, 2009. For the three and nine months ended September 30, 2009 White Mountains had $1.1 million and $0.3 million of pre-tax equity in unrealized investment gains from its investment in Delos. White Mountains investment in Delos at September 30, 2009 totaled $34.3 million.

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Note 12. Employee Share-Based Incentive Compensation Plans

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

Share-Based Compensation Based on White Mountains Common Shares

WTM Performance Shares

Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. Performance share awards vest, subject to the attainment of performance goals, at the end of a three-year period and are valued based on the market value of common shares at the time awards are paid. The following table summarizes performance share activity for the three and nine months ended September 30, 2009 and 2008 for WTM performance shares granted under the WTM Incentive Plan and phantom WTM performance shares granted under subsidiary plans (WTM Phantom Share Plans):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	**178,984**	**$ 2.9**	163,643	$ 36.5	**164,179**	**$ 4.4**	146,742	$ 47.3
Payments and deferrals (1)					**(51,960)**		(43,608)	(15.5)
New awards					**71,170**		61,998	
Forfeitures and cancellations					**(4,405)**		(1,489)	.1
Expense recognized		**5.7**		(5.4)		**4.2**		(.8)
Ending September 30,	**178,984**	**$ 8.6**	163,643	$ 31.1	**178,984**	**$ 8.6**	163,643	$ 31.1

(1) There were no payments made in 2009 for the 2006-2008 performance cycle. WTM performance share payments in 2008 for the 2005-2007 performance cycle ranged from 64% to 101% of target. Amounts include deposits of payout amounts into White Mountains deferred compensation plan at the election of participants.

If 100% of the outstanding WTM performance shares had been vested on September 30, 2009, the total additional compensation cost to be recognized would have been $25.7 million, based on current accrual factors (common share price and payout assumptions).

For the 2005-2007 performance cycle, the Company issued common shares for 1,700 performance shares earned and all other performance shares earned were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company or its subsidiaries.

Performance shares granted under the WTM Incentive Plan

The following table summarizes performance shares outstanding and accrued expense for performance shares awarded under the Incentive Plan at September 30, 2009 for each performance cycle:

Millions, except share amounts	Target WTM Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2007 2009	44,897	$
2008 2010	52,102	
2009 2011	62,155	7.7
Sub-total	159,154	7.7
Assumed forfeitures	(3,979)	(.2)
Total at September 30, 2009	**155,175**	**$ 7.5**

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Phantom Performance Shares granted under WTM Phantom Share Plans

The following table summarizes phantom WTM performance shares outstanding and accrued expense for awards made under the WTM Phantom Share Plans at September 30, 2009 for each performance cycle:

Millions, except share amounts	Target WTM Phantom Performance Shares Outstanding		Accrued Expense
Performance cycle:			
2007 2009	7,081	$	
2008 2010	8,323		
2009 - 2011	9,015		1.1
Sub-total	24,419		1.1
Assumed forfeitures	(610)		
Total at September 30, 2009	**23,809**	**$**	**1.1**

Restricted Shares

At September 30, 2009 and 2008, the Company had 92,620 and 53,200 unvested restricted shares outstanding under the WTM Incentive Plan. The following outlines the unrecognized compensation cost associated with the outstanding restricted share awards made under the WTM Incentive Plan for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2009			2008			2009			2008		
Millions, except share amounts	Restricted Shares		Unamortized Grant Date Fair Value	Restricted Shares		Unamortized Grant Date Fair Value	Restricted Shares		Unamortized Grant Date Fair Value	Restricted Shares		Unamortized Grant Date Fair Value
Non-vested,												
Beginning of period	**92,620**	**$**	**29.3**	53,200	$	27.1	**53,200**	**$**	**24.2**	54,000	$	26.7
Granted							**47,820**		**9.7**	6,200		3.1
Vested							**(8,400)**			(7,000)		
Forfeited												
Expense recognized			**(2.8)**			(1.4)			**(7.4)**			(4.1)
Non-vested at September 30	**92,620**	**$**	**26.5**	53,200	$	25.7	**92,620**	**$**	**26.5**	53,200	$	25.7

During the second quarter of 2009, White Mountains issued 2,500 restricted shares that cliff vest in November 2010.

During the first quarter of 2009, White Mountains issued 40,820 restricted shares that cliff vest on December 31, 2010 and 4,500 restricted shares that vest in equal installments at December 31, 2011, 2012 and 2013. If a recipient of the restricted shares that are scheduled to cliff vest on December 31, 2010 is terminated without cause after December 31, 2009 (as defined in the WTM Incentive Plan), 50% of the restricted shares will vest.

During the first quarter of 2008, White Mountains awarded 4,200 restricted shares that vest in equal annual installments over three years and 2,000 restricted shares that cliff vest in February 2011 based on continuous service throughout the award period.

During the first quarter of 2007, White Mountains made the following grants of restricted shares to the Company s Chairman and CEO in connection with his hiring: (1) 35,000 restricted shares that vest in equal annual installments over five years; (2) 15,000 restricted shares that vest in the event of a change in control of the Company before January 20, 2012. During the first quarter of 2007, White Mountains also awarded 4,000 restricted shares to other employees that cliff vest in February 2010 based on continuous service by the employee throughout the award period.

Of the unrecognized compensation cost at September 30, 2009, $17.9 million is expected to be recognized ratably over the remaining vesting periods and $8.6 million would be recognized in the event of a change in control before January 20, 2012. Upon vesting, all restrictions initially placed upon the restricted shares lapse.

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Non-Qualified Options

In January 2007, the Company issued 200,000 seven-year Non-Qualified Options to the Company s Chairman and CEO that vest in equal annual installments over five years and that have an initial exercise price of $650 per common share that escalates at an annual rate of 5% less the annual regular dividend rate (the Escalator). The fair value of the Non-Qualified Options at the grant date was estimated using a closed-form option model using an expected volatility assumption of 29.7%, a risk-free interest rate assumption of 1.1% (or 4.7% less the Escalator), a forfeiture assumption of 0%, an expected dividend rate assumption of 1.4% and a term assumption of seven years. The fair value of the Non-Qualified Options was $27.2 million at the grant date and is required to be recognized ratably over the five year vesting period. For the three months ended September 30, 2009 and 2008, White Mountains recognized $1.4 million of expense for both periods. For the nine months ended September 30, 2009 and 2008, White Mountains recognized $4.1 million of expense for both periods. At September 30, 2009, 80,000 Non-Qualified Options were exercisable at a strike price of $727.62.

Incentive Options

At September 30, 2009 and 2008, the Company had 6,000 and 7,800 Incentive Options outstanding which were granted to certain key employees on February 28, 2000 (the grant date) under the WTM Incentive Plan. The 81,000 Incentive Options originally granted were issued at an exercise price equal to the market price of the Company s underlying common shares on February 27, 2000. The exercise price escalates by 6% per annum over the life of the Incentive Options. The Incentive Options vest ratably over a ten-year service period. Upon the adoption of FAS 123R (included in ASC 718 and ASC 505), the grant date fair value of the awards as originally disclosed, adjusted for estimated future forfeitures, became the basis for recognition of compensation expense for the Incentive Options. The fair value of each Incentive Option award at the grant date was estimated using a closed-form option model using an expected volatility assumption of 18.5%, a risk-free interest rate assumption of 6.4% and an expected term of ten years.

The following table summarizes the Company s Incentive Option activity for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions, except share and per share amounts	**2009**	**2008**	**2009**	**2008**
Opening balance - outstanding Options	**6,000**	8,700	**6,000**	9,900
Forfeited				(600)
Exercised		(900)		(1,500)
Ending balance - outstanding Options	**6,000**	7,800	**6,000**	7,800
Outstanding Options - exercisable	**3,000**	1,800	**3,000**	1,800
Exercise price - outstanding Options at beginning of period	**$ 183.00**	$ 172.64	**$ 177.76**	$ 167.70
Value of Options exercised (1)	**$**	$ .3	**$**	$ .5
Exercise price - outstanding Options at September 30,	**$ 185.71**	$ 175.20	**$ 185.71**	$ 175.20

(1) Amount is equal to the number of options exercised multiplied by amount the ending market value exceeds the strike price on the date of exercise.

The total in-the-money value of all outstanding Incentive Options and those Incentive Options currently exercisable at September 30, 2009 was $0.7 million and $0.4 million. The Incentive Options expire in February 2010. White Mountains expects 3,000 Incentive Options to become exercisable in 2009 and will issue common shares when the Incentive Options are exercised.

Share-Based Compensation Based on OneBeacon Ltd. Common Shares

The OneBeacon Long-Term Incentive Plan (the OneBeacon Incentive Plan) provides for grants of various types of share-based and non share-based incentive awards to key employees of OneBeacon Ltd. and certain of its subsidiaries. OneBeacon s share-based incentive awards consist of OneBeacon performance shares, stock options granted in connection with OneBeacon s initial public offering and restricted stock units (RSUs).

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OneBeacon Performance Shares

OneBeacon performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. OneBeacon performance share awards vest, subject the attainment of performance goals, at the end of a three-year period and are valued based on the market value of OneBeacon Ltd. common shares at the time awards are paid. The following table summarizes performance share activity for the three and nine months ended September 30, 2009 and 2008 for OneBeacon performance shares granted under the OneBeacon Incentive Plan:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2009		**2008**		**2009**		**2008**	
Millions, except share amounts	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**
Beginning of period	**2,277,128**	**$ 8.0**	2,186,208	$ 9.7	**2,212,313**	**$ 4.6**	1,063,690	$ 9.2
Payments and deferrals (1)					**(137,400)**		(122,859)	(1.6)
New awards	**1,880**		29,518		**379,085**		1,426,618	
Forfeitures and cancellations	**(2,990)**		(4,090)	(.3)	**(177,980)**	**(.3)**	(155,813)	(.9)
Expense recognized		1.0		5.1		**4.7**		7.8
Ending September 30,	**2,276,018**	**$ 9.0**	2,211,636	$ 14.5	**2,276,018**	**$ 9.0**	2,211,636	$ 14.5

(1) OneBeacon performance share payments in March 2009 for the 2007-2008 performance cycle were at 1.4% of target. OneBeacon performance share payments in 2008 for the 2007 performance cycle were at 62.9% of target. Amounts include deposits into OneBeacon s deferred compensation plan.

If 100% of the outstanding OneBeacon performance shares had been vested on September 30, 2009, the total additional compensation cost to be recognized would have been $9.0 million, based on current accrual factors (common share price and payout assumptions).

The following table summarizes OneBeacon performance shares outstanding awarded under the OneBeacon Incentive Plan at September 30, 2009 for each performance cycle:

Millions, except share amounts	**Target OneBeacon Performance Shares Outstanding**	**Accrued Expense**
Performance cycle:		
2007 2009	683,142	$ .7
2008 2010	1,272,150	7.1
2009 2011	379,085	1.4
Sub-total	2,334,377	9.2
Assumed forfeitures	(58,359)	(.2)
Total at September 30, 2009	**2,276,018**	**$ 9.0**

Non-Qualified Options

In November 2006, in connection with its initial public offering, OneBeacon Ltd. issued to its key employees 1,420,000 fixed-price Non-Qualified Options to acquire OneBeacon Ltd. common shares. The following tables summarize option activity for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
Millions, except share amounts	**Target Options Outstanding**	**Accrued Expense**	**Target Options Outstanding**	**Accrued Expense**	**Target Options Outstanding**	**Accrued Expense**	**Target Options Outstanding**	**Accrued Expense**
Beginning of period	**1,108,220**	**$ 3.1**	1,237,872	$ 2.2	**1,237,872**	**$ 2.5**	1,324,306	$ 1.4
New awards								
Forfeitures and cancellations					**(129,652)**		(86,434)	
Exercised								
Expense recognized		**.3**		.4		**.9**		1.2
Ending September 30,	**1,108,220**	**$ 3.4**	1,237,872	$ 2.6	**1,108,220**	**$ 3.4**	1,237,872	$ 2.6

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The options vest in equal installments on each of the third, fourth and fifth anniversaries of their issuance and expire five and a half years from the date of issuance. The fair value of each option award at grant was estimated using a Black-Scholes option pricing model using an expected volatility assumption of 30%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. The options originally had a per share exercise price of $30.00. On May 27, 2008, the OneBeacon Compensation Committee of the Board of Directors (the OB Compensation Committee) amended the exercise price to $27.97 as a result of the $2.03 per share special dividend paid in the first quarter of 2008. The compensation expense associated with the options and the incremental fair value of the award modification is being recognized ratably over the remaining period.

Restricted Stock Units

The Non-Qualified Options granted by OneBeacon Ltd., in connection with its initial public offering, did not include a mechanism in the options to reflect the contribution to total return from the regular quarterly dividend. As a result, during the first quarter of 2008, OneBeacon granted 116,270 RSUs to actively employed option holders. The RSUs vest one-third on each of November 9, 2009, 2010 and 2011 subject to, for each vesting tranche of units, the attainment of 4% growth in OneBeacon s book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date. Upon vesting, the RSUs will be mandatorily deferred into one of OneBeacon s non-qualified deferred compensation plans and will be paid out in 2012 in cash or shares at the discretion of the OB Compensation Committee. The expense associated with the RSUs is being recognized over the vesting period. For the three and nine months ended September 30, 2009, OneBeacon recognized $0.3 million and $0.7 million of expense. For the three and nine months ended September 30, 2008, OneBeacon recognized $0.3 million and $0.7 million of expense. As of September 30, 2009, there were 102,140 RSUs outstanding.

Note 13. Fair Value of Financial Instruments

FAS 107, requires disclosure of fair value information of financial instruments. For certain financial instruments where quoted market prices are not available, the fair values of these financial instruments were estimated by discounting future cash flows using current market rates for similar obligations or using quoted market prices. Because considerable judgment is used, these estimates are not necessarily indicative of amounts that could be realized in a current market exchange. FAS 107 excludes certain financial instruments from disclosure, including insurance contracts, but not financial guarantees and investment contracts. White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness and its perpetual preference shares.

The following table summarizes the fair value and carrying value of financial instruments as of September 30, 2009 and December 31, 2008:

	September 30, 2009		December 31, 2008	
Millions	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
OBH Senior Notes	$ 579.4	$ 606.4	$ 483.3	$ 675.1
WMRe Senior Notes	362.5	399.1	254.0	399.0
WMRe Preference Shares(1)	187.5	250.0	117.5	250.0

(1) WMRe Preference Shares are recorded as noncontrolling interests.

Note 14. Subsequent Event

On October 14, 2009, a settlement was reached with the IRS regarding the audit of tax years 2003 and 2004. See **Note 6**.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains forward-looking statements . White Mountains intends statements that are not historical in nature, which are hereby identified as forward-looking statements, to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. White Mountains cannot promise that its expectations in such forward-looking statements will turn out to be correct. White Mountains actual results could be materially different from and worse than its expectations. See **FORWARD-LOOKING STATEMENTS** *for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.*

The following discussion also includes three non-GAAP financial measures - adjusted comprehensive income, White Mountains adjusted book value per share and total adjusted capital - that have been reconciled to their most comparable GAAP financial measures (see page 57). White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains financial performance and condition.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

Overview

White Mountains ended the third quarter of 2009 with an adjusted book value per share of $406, an increase of 7% and 15% for the three and nine months ended September 30, 2009, including dividends. White Mountains reported adjusted comprehensive income of $243 million and $469 million for the third quarter and first nine months of 2009, compared to adjusted comprehensive losses of $409 million and $426 million for the third quarter and first nine months of 2008. The 2009 results were driven primarily by strong investment results, foreign currency gains and improved underwriting results, as compared to the 2008 periods, which experienced significant investment and foreign currency losses.

OneBeacon ended the third quarter of 2009 with a book value per share of $14.44, an increase of 8% and 24% for the three and nine months ended September 30, 2009, including dividends. OneBeacon reported GAAP combined ratios of 97% and 95% for the third quarter and first nine months of 2009 compared to 100% and 98% for the third quarter and first nine months of 2008. The third quarter and first nine months of 2009 both included 4 points of net favorable loss reserve development compared to 4 points and 2 points in the third quarter and first nine months of 2008. White Mountains Re reported GAAP combined ratios of 79% and 82% for the third quarter and first nine months of 2009, compared to 127% and 111% for the third quarter and first nine months of 2008. Excluding the impact of a cession under a retrocessional reinsurance contract related to the 2001 accident year (see **White Mountains Re** discussion below), the combined ratios for the third quarter and first nine months of 2009 were 85% and 84%, respectively. Both 2009 periods benefited from lower catastrophe activity. Esurance reported GAAP combined ratios of 102% for both the third quarter and first nine months of 2009 compared to 102% and 107% for the third quarter and first nine months of 2008. Esurance s loss ratio was 72% for both the third quarter and first nine months of 2009 compared to 73% and 77% in the third quarter and first nine months of last year. The expense ratio was 30% for both the third quarter and first nine months of 2009, compared with 29% for the third quarter and 30% for the first nine months of last year. Operating income at AFI was $1 million and $4 million in the third quarter and first nine months of 2009. White Mountains GAAP pre-tax total return on invested assets was 4.3% and 8.7% for the third quarter and first nine months of 2009, compared to -5.1% and -3.7% for the third quarter and first nine months of 2008. White Mountains fixed income portfolio outperformed its benchmarks in both 2009 periods, while the equity, convertible and other long-term investment portfolio lagged the S&P 500 return over the same periods, largely because of the portfolio mix, which is more heavily weighted toward convertibles and other long-term investments than common stocks.

Total net written premiums decreased to $880 million and $2,742 million for the third quarter and first nine months of 2009 compared to $955 million and $2,913 million in the comparable 2008 periods, as all three business segments reported reduced written premiums in the 2009 periods. OneBeacon s net written premiums were $504 million for the third quarter and $1,471 million for the first nine months of 2009, decreases of 6% and 1% from the comparable periods of 2008, primarily due to competitive market conditions in personal auto and commercial lines, partially offset by increased written premiums across most specialty lines businesses. White Mountains Re s net written premiums were $171 million for the third quarter and $672 million for the first nine months of 2009, decreases of 18% and 14% from the comparable periods of 2008. The decreases were primarily in the U.S. casualty line of business where pricing, terms, and conditions generally continue to not meet White Mountains Re s underwriting standards, as well as reductions in the property catastrophe excess and credit lines of business. Esurance s net written premiums decreased by 4% and 7% for the third quarter and first nine months of 2009, to $205 million and $599 million, respectively, when compared to the same periods in 2008. Despite the decreased premium, new policy sales and customer retention improved in the third quarter of 2009 compared to the same period in 2008.

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Adjusted Book Value Per Share

The following table presents White Mountains adjusted book value per common share and reconciles this non-GAAP measure to the most comparable GAAP measure. (See **NON-GAAP FINANCIAL MEASURES** on page 57).

	Sept. 30, 2009	June 30, 2009	Dec. 31, 2008	Sept. 30, 2008
Book value per common share numerators (in millions):				
White Mountains common shareholders equity	**$ 3,577.3**	$ 3,204.1	$ 2,898.8	$ 4,061.9
Benefits to be received from share obligations under employee stock option plans	**1.1**	1.1	1.1	1.3
Book value per share numerator	**3,578.4**	3,205.2	2,899.9	4,063.2
Equity in net unrealized (gains) losses from Symetra s fixed maturity portfolio	**(5.9)**	120.4	197.3	146.7
Adjusted book value per common share numerator	**$ 3,572.5**	$ 3,325.6	$ 3,097.2	$ 4,209.9
Book value per common share denominators (in thousands of shares):				
Common shares outstanding	**8,857.6**	8,857.6	8,808.8	10,442.0
Share obligations under employee stock option plans	**6.0**	6.0	6.0	7.8
Book value per share denominator	**8,863.6**	8,863.6	8,814.8	10,449.8
Unearned restricted shares	**(68.0)**	(76.9)	(42.6)	(45.3)
Adjusted book value per common share denominator	**8,795.6**	8,786.7	8,772.2	10,404.5
Book value per common share	**$ 403.72**	$ 361.61	$ 328.97	$ 388.84
Adjusted book value per common share	**$ 406.17**	$ 378.48	$ 353.07	$ 404.62

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Review of Consolidated Results

White Mountains consolidated financial results for the three and nine months ended September 30, 2009 and 2008 follow:

	Three Months Ended September 30,