WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
August 03, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended June 30, 2016

OR

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

For the transition period from to

Commission file number 1-8993

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

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

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

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

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

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

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

As of July 31, 2016, 4,930,938 common shares with a par value of $1.00 per share were outstanding (which includes 66,469 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Table of Contents

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

(Millions, except share amounts)	June 30, 2016	December 31, 2015
Assets	Unaudited	
Fixed maturity investments, at fair value	$4,362.8	$ 2,630.2
Short-term investments, at amortized cost (which approximates fair value)	421.8	211.2
Common equity securities, at fair value	407.5	1,113.9
Other long-term investments	329.2	315.8
Total investments	5,521.3	4,271.1
Cash (restricted: $0.0 and $5.8)	135.0	173.0
Reinsurance recoverable on unpaid losses	162.8	186.0
Reinsurance recoverable on paid losses	20.7	7.5
Insurance premiums receivable	240.4	220.3
Deferred acquisition costs	113.9	107.6
Deferred tax asset	122.2	112.8
Ceded unearned insurance premiums	34.5	29.5
Accrued investment income	16.0	13.9
Accounts receivable on unsettled investment sales	21.5	41.9
Goodwill and intangible assets	53.3	55.4
Other assets	239.4	273.2
Assets held for sale	384.6	4,790.4
Total assets	$7,065.6	$ 10,282.6
Liabilities		
Loss and loss adjustment expense reserves	$1,376.6	$ 1,389.8
Unearned insurance premiums	619.7	610.5
Debt	289.8	337.6
Accrued incentive compensation	106.3	140.7
Ceded reinsurance payable	23.9	29.9
Funds held under insurance contracts	140.9	137.8
Accounts payable on unsettled investment purchases	69.9	—
Other liabilities	188.5	199.9
Liabilities held for sale	150.6	3,068.4
Total liabilities	2,966.2	5,914.6
Equity		
White Mountains's common shareholders' equity		
White Mountains's common shares at $1 par value per share - authorized 50,000,000 shares; issued and outstanding 4,963,921 and 5,623,735 shares	5.0	5.6
Paid-in surplus	868.1	972.6
Retained earnings	3,006.6	3,084.9
Accumulated other comprehensive loss, after tax:		
Net unrealized foreign currency translation losses	(.7)	(145.6)
Pension liability and other	(3.8)	(4.3)
Total White Mountains's common shareholders' equity	3,875.2	3,913.2
Non-controlling interests	224.2	454.8
Total equity	4,099.4	4,368.0
Total liabilities and equity	$7,065.6	$ 10,282.6

See Notes to Consolidated Financial Statements

1

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per share amounts)	2016	2015	2016	2015
Revenues:				
Earned insurance premiums	$274.7	$321.8	$556.8	$611.1
Net investment income	19.2	13.2	37.1	25.8
Net realized and unrealized investment gains (losses)	28.1	(15.0)	57.6	10.0
Other revenue	36.2	48.7	76.0	76.1
Total revenues	358.2	368.7	727.5	723.0
Expenses:				
Loss and loss adjustment expenses	182.0	196.2	343.1	364.1
Insurance acquisition expenses	50.1	57.8	102.8	110.8
Other underwriting expenses	51.0	53.0	106.4	109.0
General and administrative expenses	73.1	63.4	160.2	134.3
Interest expense	4.1	3.4	8.6	6.9
Total expenses	360.3	373.8	721.1	725.1
Pre-tax (loss) income from continuing operations	(2.1)	(5.1)	6.4	(2.1)
Income tax benefit (expense)	6.0	2.2	15.7	(2.4)
Net income (loss) from continuing operations	3.9	(2.9)	22.1	(4.5)
Gain (loss) from sale of discontinued operations, net of tax	366.6	(.1)	366.6	7.9
Net (loss) income from discontinued operations, net of tax	(8.0)	(.4)	(6.9)	62.9
Income (loss) before equity in earnings of unconsolidated affiliates	362.5	(3.4)	381.8	66.3
Equity in earnings of unconsolidated affiliates, net of tax	—	6.8	—	14.1
Net income	362.5	3.4	381.8	80.4
Net (income) loss attributable to non-controlling interests	(21.4)	.9	(27.7)	8.2
Net income attributable to White Mountains's common shareholders	341.1	4.3	354.1	88.6
Other comprehensive (loss) income, net of tax:				
Change in equity in net unrealized gains from investments in Symetra common shares, net of tax	—	(61.8)	—	(32.9)
Change in foreign currency translation, pension liability and other, net of tax	—	.2	.1	.2
Change in foreign currency translation and other from discontinued operations, net of tax	(5.2)	44.0	32.0	(43.6)
Recognition of foreign currency translation and other from sale of Sirius Group, net of tax	113.3	—	113.3	—
Comprehensive income (loss)	449.2	(13.3)	499.5	12.3

Other comprehensive (loss) income attributable to non-controlling interests	—	—	—	—
Comprehensive income (loss) attributable to White Mountains's common shareholders	$449.2	$(13.3)	$499.5	$12.3
Income (loss) per share attributable to White Mountains's common shareholders				
Basic income per share				
Continuing operations	$(3.44)	$.80	$(1.07)	$2.96
Discontinued operations	70.37	(.08)	67.64	11.84
Total consolidated operations	$66.93	$.72	$66.57	$14.80
Diluted income per share				
Continuing operations	$(3.43)	$.80	$(1.06)	$2.96
Discontinued operations	70.22	(.08)	67.56	11.84
Total consolidated operations	$66.79	$.72	$66.50	$14.80
Dividends declared per White Mountains's common share	$—	$—	$1.00	$1.00

See Notes to Consolidated Financial Statements

2

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

(Millions)	White Mountains's Common Shareholders' Equity Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2016	$ 978.2	$ 3,084.9	$ (149.9)	$ 3,913.2	$ 454.8	$ 4,368.0
Net income	—	354.1	—	354.1	27.7	381.8
Net change in foreign currency translation	—	—	32.0	32.0	—	32.0
Net change in pension liability and other accumulated comprehensive items	—	—	.1	.1	—	.1
Recognition of foreign currency translation and other accumulated comprehensive items from the sale of Sirius Group	—	—	113.3	113.3	—	113.3
Total comprehensive income	—	354.1	145.4	499.5	27.7	527.2
Dividends declared on common shares	—	(5.4)	—	(5.4)	—	(5.4)
Dividends to non-controlling interests	—	—	—	—	(12.1)	(12.1)
Repurchases and retirements of common shares	(120.4)	(427.0)	—	(547.4)	—	(547.4)
Issuances of common shares	9.1	—	—	9.1	—	9.1
Deconsolidation of non-controlling interests associated with the sale of Sirius Group	—	—	—	—	(250.0)	(250.0)
Acquisition from non-controlling interests - OneBeacon	(2.7)	—	—	(2.7)	(8.8)	(11.5)
Issuance of shares to non-controlling interests	—	—	—	—	.3	.3
Net contributions from non-controlling interests	—	—	—	—	11.9	11.9
Amortization of restricted share awards	8.9	—	—	8.9	.4	9.3
Balance at June 30, 2016	$ 873.1	$ 3,006.6	$ (4.5)	$ 3,875.2	$ 224.2	$ 4,099.4

(Millions)	White Mountains's Common Shareholders' Equity Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2015	$ 1,034.7	$ 3,010.5	$ (49.5)	$ 3,995.7	$ 542.7	$ 4,538.4
Net income (loss)	—	88.6	—	88.6	(8.2)	80.4
Net change in unrealized gains from investments in unconsolidated affiliates	—	—	(32.9)	(32.9)	—	(32.9)
Net change in foreign currency translation	—	—	(43.8)	(43.8)	(.1)	(43.9)
Net change in pension liability and other	—	—	.4	.4	.1	.5

accumulated comprehensive items						
Total comprehensive income (loss)	—	88.6	(76.3)	12.3	(8.2)	4.1
Dividends declared on common shares	—	(6.0)	—	(6.0)	—	(6.0)
Dividends to non-controlling interests	—	—	—	—	(21.9)	(21.9)
Repurchases and retirements of common shares	(8.8)	(23.9)	—	(32.7)	—	(32.7)
Issuances of common shares	.9	—	—	.9	—	.9
Redemption of Prospector Offshore Fund	—	—	—	—	(31.5)	(31.5)
Acquisition from non-controlling interests -	(2.2)	—	—	(2.2)	(2.7)	(4.9)
Other						
Net contributions from non-controlling interests	—	—	—	—	5.8	5.8
Amortization of restricted share awards	6.6	—	—	6.6	(.3)	6.3
Balance at June 30, 2015	$ 1,031.2	$ 3,069.2	$ (125.8)	$ 3,974.6	$ 483.9	$4,458.5

See Notes to Consolidated Financial Statements

3

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

	Six Months Ended June 30,	
(Millions)	2016	2015
Cash flows from operations:	Unaudited	Unaudited
Net income	$381.8	$ 80.4
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized and unrealized investment gains	(57.6)	(10.0)
Deferred income tax expense (benefit)	12.8	(6.3)
Net loss (income) from discontinued operations	6.9	(62.9)
Net gain on sale of discontinued operations	(366.6)	(7.9)
Net gain on sale of unconsolidated subsidiaries	—	(16.1)
Amortization and depreciation	22.5	20.9
Undistributed equity in earnings from unconsolidated affiliates, net of tax	—	(14.1)
Other operating items:		
Net change in loss and loss adjustment expense reserves	(13.5)	7.0
Net change in reinsurance recoverable on paid and unpaid losses	10.0	5.8
Net change in unearned insurance premiums	8.9	39.0
Net change in deferred acquisition costs	(6.3)	(10.0)
Net change in funds held by ceding entities	—	(12.2)
Net change in ceded unearned premiums	(5.0)	(25.4)
Net change in funds held under insurance treaties	3.2	21.6
Net change in insurance premiums receivable	(19.5)	(52.5)
Net change in ceded reinsurance payable	(6.8)	34.6
Net change in restricted cash	5.8	2.8
Net change in other assets and liabilities, net	(120.7)	(17.5)
Net cash used for operations - continuing operations	(144.1)	(22.8)
Net cash used for operations - discontinued operations	(43.1)	(12.9)
Net cash used for operations	(187.2)	(35.7)
Cash flows from investing activities:		
Net change in short-term investments	(207.7)	(49.7)
Sales of fixed maturity and convertible investments	1,453.5	680.8
Maturities, calls and paydowns of fixed maturity and convertible investments	316.5	136.7
Sales of common equity securities	851.3	306.8
Distributions and redemptions of other long-term investments	10.1	49.1
Sales of consolidated and unconsolidated subsidiaries, net of cash sold	2,248.5	24.0
Net settlement of investment cash flows with discontinued operations	(409.7)	7.3
Purchases of other long-term investments	(13.3)	(28.6)
Purchases of common equity securities	(141.4)	(275.1)
Purchases of fixed maturity and convertible investments	(3,467.0)	(953.6)
Purchases of consolidated and unconsolidated subsidiaries, net of cash acquired	(8.1)	(2.4)
Net change in unsettled investment purchases and sales	90.3	56.2
Net acquisitions of property and equipment	(3.7)	54.9
Net cash provided from investing activities - continuing operations	719.3	6.4
Net cash provided from investing activities - discontinued operations	229.6	59.3
Net cash provided from investing activities	948.9	65.7
Cash flows from financing activities:		
Draw down of debt and revolving line of credit	102.5	15.0
Repayment of debt and revolving line of credit	(150.5)	(15.0)

Proceeds from issuances of common shares	3.7	—
Payments on capital lease obligation	(1.0)	(2.8)
Cash dividends paid to the Company’s common shareholders	(5.4)	(6.0)
Cash dividends paid to OneBeacon Ltd.’s non-controlling common shareholders	(9.5)	(9.9)
Common shares repurchased	(541.5)	(17.1)
OneBeacon Ltd. common shares repurchased and retired	(11.5)	(1.6)
Distribution to non-controlling interest shareholders	(.7)	(1.0)
Contributions to discontinued operations	(3.0)	(6.1)
Acquisition of additional shares from non-controlling interest	—	(9.1)
Payments of contingent consideration related to purchases of consolidated subsidiaries	(7.8)	—
Capital contributions from BAM members	16.7	11.5
Net cash used for financing activities - continuing operations	(608.0)	(42.1)
Net cash provided from (used for) financing activities - discontinued operations	9.0	(2.0)
Net cash used for financing activities	(599.0)	(44.1)
Effect of exchange rate changes on cash (excludes $0.0 and ($2.1) related to discontinued operations)	—	—
Net change in cash during the period - continuing operations	(32.8)	(58.5)
Cash balances at beginning of period (excludes restricted cash balances of $5.8 and $23.7 and discontinued operations cash balances of $148.9 and $114.5)	167.2	232.9
Cash held for sale at the beginning of period	1.2	2.1
Cash held for sale at the end of period	.6	2.7
Cash balances at end of period (excludes restricted cash balances of $0.0 and $20.9 and discontinued operations cash balances of $1.3 and $156.8)	$ 135.0	$ 173.8
Supplemental cash flows information:		
Interest paid	$ (.5)	$ (73.3)
Net income tax refund from national governments	$ 13.5	$ 7.5

See Notes to Consolidated Financial Statements

4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and include the accounts of White Mountains Insurance Group, Ltd. (the "Company" or the "Registrant"), its subsidiaries (collectively, with the Company, "White Mountains") and other entities required to be consolidated under GAAP. The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its insurance and reinsurance subsidiaries and affiliates. The Company's headquarters is located at 26 Reid 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's reportable segments are OneBeacon, HG Global/BAM and Other Operations. As discussed further in Note 2 - "Significant Transactions", on April 18, 2016, White Mountains completed its sale of Sirius International Insurance Group, Ltd., and its subsidiaries (collectively, "Sirius Group") to CM International Holding PTE Ltd. ("CMI"), the Singapore-based investment arm of China Minsheng Investment Corp., Ltd. (See Note 2 - "Significant Transactions"). On June 9, 2016, White Mountains entered into an agreement to sell Tranzact Holdings, LLC ("Tranzact") to an affiliate of Clayton, Dubilier & Rice, LLC, which was completed on July 21, 2016. Accordingly, for the quarter and six months ended June 30, 2016, Sirius Group and Tranzact have been presented as discontinued operations in the statement of operations and comprehensive income. Prior year amounts have been reclassified to conform to the current period's presentation. The assets and liabilities of Tranzact are classified as held for sale in the balance sheet as of June 30, 2016 and December 31, 2015. The assets and liabilities of Sirius Group are classified as held for sale in the balance sheet as of December 31, 2015. (See Note 17 - "Discontinued Operations").

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. ("OneBeacon Ltd."), an exempted Bermuda limited liability company that owns a family of property and casualty insurance companies (collectively, "OneBeacon"). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products in the United States through independent agencies, regional and national brokers, wholesalers and managing general agencies. As of June 30, 2016 and December 31, 2015, White Mountains owned 76.1% and 75.5% of OneBeacon Ltd.'s outstanding common shares.

The HG Global/BAM segment consists of HG Global Ltd. ("HG Global") and the consolidated results of Build America Mutual Assurance Company ("BAM"). BAM is a municipal bond insurer domiciled in New York that was established in 2012 to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503.0 million of surplus notes issued by BAM (the "BAM Surplus Notes"). HG Global, through its wholly-owned subsidiary, HG Re Ltd. ("HG Re"), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of June 30, 2016 and December 31, 2015, White Mountains owned 96.9% of HG Global's preferred equity and 88.4% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, GAAP requires White Mountains to consolidate BAM's results in its financial statements. BAM's results are attributed to non-controlling interests.

White Mountains's Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC ("WM Advisors"), White Mountains's variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. ("Life Re Bermuda"), which completed its runoff with all of its contracts maturing by June 30, 2016, and its U.S.-based service provider, White Mountains Financial Services LLC (collectively, "WM Life Re"), and White Mountains's ownership positions in QL Holdings, LLC (together with its subsidiaries "MediaAlpha") and Wobi Insurance Agency Ltd. ("Wobi"). The Other Operations segment also includes Abiaka Holdings, LLC, Star & Shield Services LLC, Star & Shield Risk Management LLC ("SSRM"), and Star & Shield Claims Services LLC (collectively "Star & Shield"). Star & Shield provides management services for a fee to Star & Shield Insurance Exchange ("SSIE"), a reciprocal that is owned by its members, who are policyholders. White Mountains holds surplus notes issued by SSIE (the "SSIE Surplus Notes") but does not have an ownership interest in SSIE. However, because SSRM's role as the attorney-in-fact to SSIE gives it the power to direct the significant economic activities of SSIE, White Mountains is required to consolidate SSIE in its GAAP financial statements. SSIE's results do not affect White Mountains's common shareholders' equity as they are attributable to non-controlling interests.

All significant intercompany transactions have been eliminated in consolidation. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. These interim financial statements include all adjustments considered necessary by management to fairly state the financial position, results of operations and cash flows of White Mountains. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company's 2015 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 2015 Annual Report on Form 10-K for a complete discussion regarding White Mountains's significant accounting policies.

Recently Adopted Changes in Accounting Principles

Business Combinations - Measurement Period Adjustments
Effective January 1, 2016, White Mountains adopted ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which requires adjustments to provisional amounts recorded in connection with a business combination that are identified during the measurement period to be recorded in the reporting period in which the adjustment amounts are determined, rather than as retroactive adjustments to prior periods. White Mountains has not recognized any adjustments to estimated purchase accounting amounts for the year to date period ended June 30, 2016 and accordingly, there was no effect to White Mountains's financial statements upon adoption.

Fair Value Measurements
On January 1, 2016, White Mountains adopted ASU 2015-07, Fair Value Measurement - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (ASC 820), which eliminates the requirement to disclose the fair value hierarchy level for investments for which fair value is measured at net asset value using the practical expedient in ASC 820. White Mountains measures the fair value of its investments in hedge funds and private equity funds using this practical expedient. Upon adoption, these fair value measurements are no longer classified within the fair value hierarchy. Prior year amounts have been modified to conform to the current year's disclosures.

Amendments to Consolidation Analysis
On January 1, 2016, White Mountains adopted ASU 2015-02, Amendments to the Consolidation Analysis (ASC 810) which amends the guidance for determining whether an entity is a variable interest entity ("VIE"). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and, with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. Adoption of ASU 2015-02 did not affect the consolidation analysis for any of White Mountains's investments.

Share-Based Compensation Awards
On January 1, 2016, White Mountains adopted ASU 2014-12, Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASC 718). The new guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost is to be recognized in the period when it becomes probable the performance target will be achieved in an amount equal to the compensation cost attributable to the periods for which service has been rendered. Adoption did not have a significant effect on White Mountains's financial position, results of operations, cash flows, presentation or disclosures.

Debt Issuance Costs

On January 1, 2016, White Mountains adopted ASU 2015-03, Imputation of Interest (ASC 835), which requires debt issuance costs to be presented as a deduction from the carrying amount of the related debt, consistent with the treatment required for debt discounts. The new guidance requires amortization of debt issuance costs to be classified within interest expense and also requires disclosure to the debt's effective interest rate. White Mountains has applied the guidance retrospectively and as a result has reclassified $1.9 million of unamortized debt issuance costs from other assets to debt as of December 31, 2015, reflecting these amounts as a reduction from the related debt, and has modified its disclosures to include the required effective interest rate on its debt. As of June 30, 2016, the unamortized debt issuance costs included in debt is $2.0 million.

Recently Issued Accounting Pronouncements

Short-Duration Contracts

In May 2015, the FASB issued ASU 2015-09, Disclosures about Short Duration Contracts (ASC 944), which requires expanded footnote disclosures about loss and loss adjustment expense (“LAE”) reserves. Under the new guidance, some disclosures currently presented outside of White Mountains’s financial statements, such as loss development tables and a reconciliation of loss development data to the loss and LAE reserves reflected on the balance sheet, will become part of the financial statement footnotes. In addition, the loss development tables required to be presented under the new ASU must be presented on a disaggregated basis by accident year rather than by reporting year as currently presented. Some of the expanded disclosures are new requirements, such as the disclosure of reserves for losses incurred but not reported (“IBNR”) plus expected development on reported claims, which must be presented by accident year on a disaggregated basis. The new guidance also requires new disclosures about claim frequency data together with descriptions of the approach used to measure that data. Qualitative descriptions of methodologies and assumptions used to develop IBNR estimates must be presented together with the amounts of IBNR to which they relate, along with a discussion of any significant changes in methodology and assumptions and the related effect upon the loss reserves. The new guidance will be effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016 with retrospective restatement of prior periods required. White Mountains will modify its financial statement footnote disclosures to conform to the requirements of ASU 2015-09 upon adoption, including revisions to prior year’s disclosures.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (ASC 326), which establishes new guidance for the recognition of credit losses for financial assets measured at amortized cost. The new ASU, which applies to financial assets that have the contractual right to receive cash, including reinsurance receivables, requires reporting entities to estimate the credit losses expected over the life of a credit exposure using historical information, current information and reasonable and supportable forecasts that affect the collectability of the financial asset. ASU 2016-13 is effective for annual periods beginning after January 1, 2020, including interim periods. White Mountains is evaluating the expected impact of this new guidance.

Stock Compensation

In March 2016, the Board issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASC 718) which is intended to simplify certain aspects of the accounting for share-based compensation. The new guidance provides an accounting policy election to account for forfeitures by either applying an assumption, as required under existing guidance, or by recognizing forfeitures when they actually occur. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. White Mountains does not expect a significant effect upon adoption.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842). The new guidance requires lessees to recognize lease assets and liabilities on the balance sheet for both operating and financing leases, with the exception of leases with an original term of 12 months or less. Under existing guidance recognition of lease assets and liabilities is not required for operating leases. The lease assets and liabilities to be recognized are both measured initially based on the present value of the lease payments. Under the new guidance, a sale-leaseback transaction must meet the recognition criteria under ASC 606, Revenues in order to be accounted for as sale. The new guidance is effective for White Mountains for years beginning after December 15, 2018, including interim periods therein. White Mountains is evaluating the expected impact of this new guidance and available adoption methods.

Financial Instruments - Recognition and Measurement

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 825-10). The new guidance requires all equity securities with readily determinable fair values to be measured at fair value with changes therein recognized through current period earnings. In addition, the new ASU requires a qualitative assessment for equity investments without readily determinable fair values to identify impairment, and for impaired equity security investments to be measured at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. White Mountains has taken the fair value election for its portfolio of equity security investments and, accordingly, does not expect the adoption of ASU 2016-01 to have a significant impact on its financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606), which modifies the guidance for revenue recognition. The scope of the new ASU excludes insurance contracts but is applicable to certain fee arrangements, such as third party investment management fees charged by White Mountains Advisors as well as commissions and other non-insurance revenues. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (ASC 606), which delayed the effective date of ASU 2014-09 to annual and interim reporting periods beginning after December 15, 2017. White Mountains is in the process of evaluating the new guidance and has not yet determined the potential effect of adoption on its financial position, results of operations, or cash flows.

Note 2. Significant Transactions

Sale of Sirius Group

On April 18, 2016, White Mountains completed the sale of Sirius Group to CMI for approximately $2.6 billion. $161.8 million of this amount was used to purchase certain assets to be retained by White Mountains out of Sirius Group, including shares of OneBeacon. The amount paid at closing was based on an estimate of Sirius Group’s closing date tangible common shareholder’s equity. White Mountains recorded $366.6 million of gain from sale of Sirius Group in discontinued operations and $113.3 million in other comprehensive income from discontinued operations for a total increase to book value of $479.9 million in the second quarter of 2016.

Through April 18, 2016, Sirius Group’s results are reported as discontinued operations and assets and liabilities held for sale within White Mountains’s GAAP financial statements. Assets held for sale do not include White Mountains’s investment in OneBeacon and certain other investments that were held in the Sirius Group legal entities as of December 31, 2015. The value of these investments, net of related tax effects, was approximately $686.2 million, of which $528.6 million was Symetra common shares, as of December 31, 2015.

As part of the sale of Sirius Group, White Mountains purchased Ashmere Insurance Company (“Ashmere”), a subsidiary formerly owned by Sirius Group. Ashmere is currently under an agreement to be sold and the completion of the sale is pending regulatory approval. As of June 30, 2016, Ashmere's assets and liabilities are presented as held for sale.

The transactions to purchase of the investments in OneBeacon and the other investments held by Sirius Group prior to the closing are presented in the statement of cash flows as net settlement of investment cash flows with discontinued operations.

In connection with the transaction, White Mountains caused Sirius Group to purchase several industry loss warranty contracts to mitigate the potential impact of major events on Sirius Group’s balance sheet pending the close of the sale to CMI (the “ILW Covers”). The cost and potential economic benefit provided by the coverage under the ILW Covers inure to White Mountains. The contracts have expired. The following summarizes the ILW Covers:

Scope	Limit	Industry Loss Trigger
United States first event	$75.0 million	$40.0 billion
United States first event	$22.5 million	$50.0 billion
United States second event	$45.0 million	$15.0 billion
Japan first event	$25.0 million	$12.5 billion

Symetra

On February 1, 2016, White Mountains sold its investment in Symetra Financial Corporation (“Symetra”) for proceeds of $658.0 million, or $32.00 per share. (See Note 14 - “Investments in Unconsolidated Affiliates”).

OneBeacon Crop Business

On July 31, 2015, OneBeacon exited its multiple peril crop insurance (“MPCI”) and its related crop-hail business (collectively, “Crop Business”) as its exclusive managing general agency, Climate Crop Insurance Agency (“CCIA”), exited the business through a sale of the agency to an affiliate of AmTrust. As a result of the transaction, OneBeacon and CCIA agreed to an early termination of the existing five-year agreement. In connection with the termination of the agreement, OneBeacon received a payment of $3.0 million. Also related to the transaction, OneBeacon withdrew its

2016 Plan of Operations, which previously authorized it to write MPCI for the 2016 Reinsurance Year, and affiliates of AmTrust agreed to reinsure the Company's remaining net Crop Business exposure for the 2015 Reinsurance Year under a related 100% quota share reinsurance agreement which, coupled with other transfer and assignment agreements as well as communications with policyholders and agents, had the effect of assumption reinsurance. As a result of this transaction, the Company has no material net exposure related to the Crop Business.

Tranzact

White Mountains acquired 63.2% of Tranzact for a purchase price of $177.7 million in October 2014. Immediately following the closing, Tranzact completed a recapitalization that resulted in the return of $44.2 million to White Mountains. On June 9, 2016, White Mountains entered into an agreement to sell Tranzact to an affiliate of Clayton, Dubilier & Rice, LLC. As a result, Tranzact’s results are reported as discontinued operations and assets and liabilities held for sale within White Mountains’s GAAP financial statements. On July 21, 2016, White Mountains completed the sale of Tranzact and received net proceeds of $221.3 million. (See Note 17 - “Discontinued Operations”).

Wobi

On February 19, 2014, White Mountains acquired 54% of the outstanding common shares of Wobi for NIS 14.4 million (approximately $4.1 million based upon the foreign exchange spot rate at the date of acquisition). During 2014, in addition to the common shares, White Mountains also purchased NIS 31.5 million (approximately $9.0 million based upon the foreign exchange spot rate at the dates of acquisition) of newly-issued convertible preferred shares of Wobi. Wobi is the only price comparison/aggregation business in Israel, with an insurance carrier panel that represents 80% of the premiums written in the Israeli insurance market. Wobi sells four insurance lines of business, primarily personal auto, and operates as an agency, charging upfront commissions on all insurance policy sales. Wobi also offers a pension products comparison service for Israeli customers and is paid transaction fees when customers use the service to connect to companies that sell those pension products.

During the three and six months ended June 30, 2016, White Mountains purchased NIS 16.4 million (approximately $4.4 million based upon the foreign exchange spot rate at the dates of acquisition) of convertible preferred shares of Wobi, increasing its ownership share to 96.5% on a fully converted basis.

During 2015, Wobi acquired Tnuva Finansit Ltd. (“Cashboard”) in two transactions for a total of NIS 35.9 million (approximately $8.9 million based upon the foreign exchange spot rate at the dates of acquisition). The acquisition of Cashboard accelerated Wobi’s development of its pension products comparison service. As of the acquisition date, Wobi recognized total assets acquired of $5.5 million, including $0.3 million of goodwill and $2.8 million of other intangible assets and total liabilities assumed of $1.2 million at their estimated acquisition date fair values.

Star & Shield

On January 31, 2014, White Mountains acquired certain assets and liabilities of Star & Shield Holdings LLC, including SSRM, the attorney-in-fact for SSIE, for a purchase price of $1.8 million. SSIE is a Florida-domiciled reciprocal insurance exchange providing private passenger auto insurance to the public safety community and their families. White Mountains invested $21.0 million of surplus notes issued by SSIE. Principal and interest on the surplus notes are payable to White Mountains only with approval from the Florida Office of Insurance Regulation. SSIE is a variable interest entity (“VIE”). As a result of SSRM’s role as the attorney-in-fact to SSIE and the investment in SSIE’s Surplus Notes, White Mountains is required to consolidate SSIE.

In response to the significant increases in both frequency and severity of accidents in the private passenger automobile insurance market in the State of Florida, SSIE voluntarily ceased writing new policies effective July 1, 2016 and will voluntarily cease renewing policies at a future date, subject to regulatory approval.

As a result, in June 2016, White Mountains wrote down its investment in SSIE surplus notes to its estimated net realizable value of $1.0 million. White Mountains consolidates the issuer of the surplus notes, Star & Shield Insurance Exchange and, accordingly the impact of the write down is eliminated in pre-tax income. However, the write down resulted in a $20.0 million decrease to net income attributable to White Mountains's common shareholders and a corresponding increase to net income attributable to non-controlling interests.

At June 30, 2016 and December 31, 2015, consolidated amounts included total assets of $12.3 million and $14.2 million and total liabilities of $8.5 million and $30.3 million, respectively, of SSIE. For the three months ended June 30, 2016 and 2015, SSIE had pre-tax gain of $20.0 million and pre-tax loss of $0.8 million that were recorded in net gain (loss) attributable to non-controlling interests. For the six months ended June 30, 2016 and 2015, SSIE had pre-tax income of $19.9 million and pre-tax loss of $1.9 million that were recorded in net gain (loss) attributable to non-controlling interests. The decrease in total liabilities and increase in pre-tax income in the current year is due to the $20.0 million write down of the surplus notes at SSIE.

9

Note 3. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense ("LAE") reserve activities of White Mountains's insurance and reinsurance subsidiaries for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2016	2015	2016	2015
Gross beginning balance	$1,343.8	$1,304.0	$1,389.8	$1,342.2
Less beginning reinsurance recoverable on unpaid losses	(150.4)	(141.6)	(186.0)	(161.6)
Net loss and LAE reserves	1,193.4	1,162.4	1,203.8	1,180.6
SSIE reserves held for sale at beginning of the period [1]	5.3	6.5	5.5	7.7
Loss and LAE incurred relating to:				
Current year losses	166.7	196.5	327.9	366.3
Prior year losses	15.3	(.3)	15.2	(2.2)
Total incurred losses and LAE	182.0	196.2	343.1	364.1
Loss and LAE paid relating to:				
Current year losses	(38.1)	(43.9)	(61.2)	(67.2)
Prior year losses	(123.5)	(111.4)	(272.1)	(275.4)
Total loss and LAE payments	(161.6)	(155.3)	(333.3)	(342.6)
SSIE reserves held for sale at end of the period [1]	(5.3)	(6.1)	(5.3)	(6.1)
Net ending balance	1,213.8	1,203.7	1,213.8	1,203.7
Plus ending reinsurance recoverable on unpaid losses	162.8	147.1	162.8	147.1
Gross ending balance	$1,376.6	$1,350.8	$1,376.6	$1,350.8

[1] See Note 17 - "Discontinued Operations".

Loss and LAE incurred relating to prior year losses for the three and six months ended June 30, 2016

For the three and six months ended June 30, 2016, White Mountains experienced net unfavorable loss reserve development of $15.3 million and $15.2 million.

During both the three and six months ended June 30, 2016, OneBeacon experienced net unfavorable loss reserve development of $15.4 million on prior accident year reserves. During both the three and six months ended June 30, 2016, the net unfavorable development was primarily related to OneBeacon's Healthcare business and Programs business, partially offset by favorable loss reserve development in its financial services, property, technology and accident businesses.

During the second quarter of 2016, OneBeacon recognized $20.0 million of unfavorable loss reserve development and also increased the current accident year provision related to its Healthcare business. Paid and incurred activity in the second quarter for extended care facilities coverage within OneBeacon's Healthcare business increased above expectations and above what was experienced in the first quarter of 2016. Extended care facilities coverage provides liability insurance for assisted living, memory care and continuing care facilities, among others. In addition, there were two large claims from the managed care errors and omissions coverage within OneBeacon's Healthcare business that contributed to the adverse loss reserve development.

For the three and six months ended June 30, 2016, SSIE had net favorable loss reserve development of $0.1 million and $0.2 million.

Loss and LAE incurred relating to prior year losses for the three and six months ended June 30, 2015

For the three and six months ended June 30, 2015, White Mountains experienced net favorable loss reserve development of $0.3 million and $2.2 million.

During the three months ended June 30, 2015, OneBeacon experienced no net loss and LAE reserve development on prior accident year reserves. For the six months ended June 30, 2015, OneBeacon had net favorable loss reserve development of $1.8 million. For the three and six months ended June 30, 2015, SSIE had net favorable loss reserve development of $0.3 million and $0.4 million.

Note 4. Third Party Reinsurance

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

OneBeacon

At June 30, 2016, OneBeacon had $20.7 million and $162.8 million of reinsurance recoverables on paid and unpaid losses. At December 31, 2015, OneBeacon had $7.5 million and $186.0 million of reinsurance recoverables on paid and unpaid losses. Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength and ratings of its reinsurers on an ongoing basis. Uncollectible amounts related to the ongoing specialty business historically have not been significant.

In the first quarter of 2016, OneBeacon entered into a 50% quota share reinsurance agreement related to its Financial Institutions business.

Effective May 1, 2016, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2017. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first $20.0 million of losses resulting from any single catastrophe are retained, with 100.0% of the next $110.0 million of losses resulting from the catastrophe being reinsured. Any part of a catastrophe loss in excess of $130.0 million would be retained in full. In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

Note 5. Investment Securities

White Mountains’s invested assets consist of investment securities and other long-term investments held for general investment purposes. The portfolio of investment securities includes fixed maturity investments, short-term investments, common equity securities, and other-long term investments which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Realized and unrealized investment gains and losses on trading securities are reported in pre-tax revenues.

White Mountains’s fixed maturity investments are generally valued using industry standard pricing methodologies. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

Realized investment gains and losses resulting from sales of investment securities are accounted for using the specific identification method. Premiums and discounts on all fixed maturity investments are amortized or accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized or accreted cost, which approximated fair value as of June 30, 2016 and December 31, 2015.

Other long-term investments consist primarily of hedge funds, private equity funds, direct investments in privately held common and convertible securities and the OneBeacon surplus notes.

Net Investment Income

White Mountains's net investment income is comprised primarily of interest income associated with White Mountains's fixed maturity investments, dividend income from its equity investments and interest income from its short-term investments.

Pre-tax net investment income for the three and six months ended June 30, 2016 and 2015 consisted of the following:

Millions	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Investment income:				
Fixed maturity investments	$17.9	$12.4	$32.5	$24.8
Short-term investments	.5	.1	.6	.1
Common equity securities	.9	2.1	2.0	4.3
Other long-term investments	.6	.9	3.4	.9
Total investment income	19.9	15.5	38.5	30.1
Third-party investment expenses	(.7)	(2.3)	(1.4)	(4.3)
Net investment income, pre-tax	$19.2	$13.2	$37.1	$25.8

Net Realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains (losses) consisted of the following:

Millions	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Net realized investment gains, pre-tax	$2.7	$42.3	$259.5	$57.1
Net unrealized investment gains (losses), pre-tax	25.4	(57.3)	(201.9)	(47.1)
Net realized and unrealized investment gains (losses), pre-tax	28.1	(15.0)	57.6	10.0
Income tax (expense) benefit attributable to net realized and unrealized investment gains (losses)	(9.9)	4.5	(18.4)	(2.6)
Net realized and unrealized investment gains (losses), after tax	$18.2	$(10.5)	$39.2	$7.4

Net realized investment gains (losses)

Net realized investment gains (losses) for the three and six months ended June 30, 2016 and 2015 consisted of the following:

Millions	Three Months Ended June 30, 2016 Net realized gains (losses)	Net foreign currency gains	Total net realized gains (losses) reflected in earnings	Three Months Ended June 30, 2015 Net realized gains	Net foreign currency losses	Total net realized gains reflected in earnings
Fixed maturity investments	$1.8	$ —	$ 1.8	$1.6	$ —	$ 1.6
Short-term investments	.1	—	.1	—	—	—
Common equity securities	3.8	—	3.8	25.5	(.1)	25.4
Other long-term investments	(3.0)	—	(3.0)	15.3	—	15.3
Net realized investment gains (losses), pre-tax	2.7	—	2.7	42.4	(.1)	42.3
Income tax expense attributable to net realized investment gains (losses)	(.4)	—	(.4)	(12.7)	—	(12.7)

Net realized investment gains (losses), after tax	$2.3	$ —	$ 2.3	$29.7	$ (.1)	$ 29.6

12

Millions	Six Months Ended June 30, 2016 Net realized gains (losses)	Net foreign currency gains	Total net realized (losses) gains reflected in earnings	Six Months Ended June 30, 2015 Net realized gains	Net foreign currency gains	Total net realized gains reflected in earnings
Fixed maturity investments	$.7	$ —	$ .7	$2.1	$ —	$ 2.1
Short-term investments	.2	—	.2	—	—	—
Common equity securities	261.4	—	261.4	47.5	.4	47.9
Other long-term investments	(2.8)	—	(2.8)	7.1	—	7.1
Net realized investment gains, pre-tax	259.5	—	259.5	56.7	.4	57.1
Income tax expense attributable to net realized investment gains	(43.3)	—	(43.3)	(17.2)	—	(17.2)
Net realized investment gains, after tax	$216.2	$ —	$ 216.2	$39.5	$ .4	$ 39.9

Net unrealized investment gains (losses)

The following table summarizes net unrealized investment gains (losses) and changes in the carrying value of investments measured at fair value:

Millions	Three Months Ended June 30, 2016 Net unrealized gains (losses)	Net foreign currency losses	Total net unrealized gains (losses) reflected in earnings	Three Months Ended June 30, 2015 Net unrealized losses	Net foreign currency gains	Total net unrealized losses reflected in earnings
Fixed maturity investments	$20.7	$ —	$ 20.7	$(13.4)	$ —	$ (13.4)
Short-term investments	—	—	—	—	—	—
Common equity securities	(10.6)	—	(10.6)	(22.6)	1.6	(21.0)
Other long-term investments	15.5	(.2)	15.3	(23.1)	.2	(22.9)
Net unrealized investment gains (losses), pre-tax	25.6	(.2)	25.4	(59.1)	1.8	(57.3)
Income tax (expense) benefit attributable to net unrealized investment gains (losses)	(9.5)	—	(9.5)	17.3	(.1)	17.2
Net unrealized investment gains (losses), after tax	$16.1	$ (.2)	$ 15.9	$(41.8)	$ 1.7	$ (40.1)

Millions	Six Months Ended June 30, 2016 Net unrealized gains (losses)	Net foreign currency gains	Total net unrealized gains (losses) reflected in earnings	Six Months Ended June 30, 2015 Net unrealized losses	Net foreign currency losses	Total net unrealized losses reflected in earnings
Fixed maturity investments	$42.4	$ —	$ 42.4	$(2.0)	$ —	$ (2.0)
Short-term investments	—	—	—	—	—	—
Common equity securities	(260.4)	2.4	(258.0)	(25.3)	(2.4)	(27.7)
Other long-term investments	13.5	.2	13.7	(16.6)	(.8)	(17.4)
Net unrealized investment (losses) gains, pre-tax	(204.5)	2.6	(201.9)	(43.9)	(3.2)	(47.1)
Income tax benefit (expense) attributable to net unrealized investment (losses) gains	24.9	—	24.9	14.7	(.1)	14.6
Net unrealized investment (losses) gains, after tax	$(179.6)	$ 2.6	$ (177.0)	$(29.2)	$ (3.3)	$ (32.5)

The following table summarizes the amount of total gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 investments for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2016	2015	2016	2015
Fixed maturity investments	$.8	$(.2)	$1.3	$—
Common equity securities	—	4.7	—	2.9
Other long-term investments	11.8	(5.5)	12.9	.2
Total unrealized investment gains (losses), pre-tax - Level 3 investments	$12.6	$(1.0)	$14.2	$3.1

Investment Holdings

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains's fixed maturity investments as of June 30, 2016 and December 31, 2015 were as follows:

Millions	June 30, 2016 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$261.2	$ .7	$ —	$ —	$261.9
Debt securities issued by corporations	1,046.9	19.3	(.1)	—	1,066.1
Municipal obligations	294.8	8.2	(.1)	—	302.9
Mortgage and asset-backed securities	2,646.8	10.4	(2.0)	—	2,655.2
Foreign government, agency and provincial obligations	1.0	.2	—	—	1.2
Preferred stocks	78.3	6.4	—	—	84.7
Total fixed maturity investments	$4,329.0	$ 45.2	$ (2.2)	$ —	$4,372.0
Less: fixed maturity investments reclassified to assets held for sale related to SSIE					9.2
Total fixed maturity investments					$4,362.8

Millions	December 31, 2015 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$160.4	$ —	$ (.4)	$ —	$160.0
Debt securities issued by corporations	1,001.0	4.3	(5.3)	—	1,000.0
Municipal obligations	227.8	2.2	(1.2)	—	228.8
Mortgage and asset-backed securities	1,170.6	2.0	(5.6)	—	1,167.0
Foreign government, agency and provincial obligations	1.0	.2	—	—	1.2
Preferred stocks	78.3	4.4	—	—	82.7
Total fixed maturity investments	$2,639.1	$ 13.1	$ (12.5)	$ —	$2,639.7
Less: fixed maturity investments reclassified to assets held for sale related to SSIE					9.5
Total fixed maturity investments					$2,630.2

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains's common equity securities and other long-term investments as of June 30, 2016 and December 31, 2015 were as follows:

Millions	June 30, 2016 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency (losses)	Carrying value
Common equity securities	$374.1	$ 43.5	$ (10.1)	$ —	$ 407.5
Other long-term investments	$305.0	$ 36.7	$ (10.3)	$ (2.2)	$ 329.2

Millions	December 31, 2015 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency (losses)	Carrying value
Common equity securities	$822.5	$ 302.8	$ (11.4)	$ —	$1,113.9
Other long-term investments	$304.5	$ 32.0	$ (18.4)	$ (2.3)	$315.8

Other Long-term Investments

Other long-term investments consist of the following as of June 30, 2016 and December 31, 2015:

Millions	Carrying Value at June 30, 2016	December 31, 2015
Hedge funds and private equity funds, at fair value[(1)]	$127.8	$ 127.8
Private equity securities and limited liability companies, at fair value[(1)]	84.3	82.1
Surplus notes investments, at fair value[(1)]	62.8	51.5
Private convertible preferred securities[(1)]	34.1	32.7
Tax advantaged federal affordable housing development fund[(2)]	13.4	14.7
Partnership investments accounted for under the equity method	3.5	3.8
Other	3.3	3.2
Total other-long term investments	$329.2	$ 315.8

(1) See Fair Value Measurements by Level table.

(2) Fund accounted for using the proportional amortization method.

15

Hedge Funds and Private Equity Funds

White Mountains holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. As of June 30, 2016, White Mountains held investments in 5 hedge funds and 24 private equity funds. The largest investment in a single fund was $21.5 million as of June 30, 2016. The following table summarizes investments in hedge funds and private equity funds by investment objective and sector as of June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
Millions	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short equity REIT	$20.5	$ —	$20.6	$ —
Long/short banks and financial	13.6	—	12.8	—
Other	3.5	—	3.6	—
Total hedge funds	37.6	—	37.0	—
Private equity funds				
Aerospace/Defense/Government	25.9	23.5	19.8	30.3
Manufacturing/Industrial	24.8	20.2	24.9	2.5
Energy infrastructure & services	19.1	3.2	20.7	3.4
Multi-sector	11.1	2.1	14.8	2.1
Private equity secondaries	3.8	2.1	4.4	2.1
Healthcare	3.5	.4	3.8	.4
Insurance	1.7	41.3	2.0	41.3
Real estate	.3	.1	.4	.1
Direct lending/Mezzanine debt	—	37.5	—	—
Total private equity funds	90.2	130.4	90.8	82.2
Total hedge funds and private equity funds included in other long-term investments	$127.8	$ 130.4	$127.8	$ 82.2

Redemption of investments in certain hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period.

The following summarizes the June 30, 2016 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

	Notice Period			
Millions	30-59 days	60-89 days	90-119 days	Total
Redemption frequency	notice	notice	notice	
Monthly	$—	$ —	$ —	$—
Quarterly	14.6	—	—	14.6
Semi-annual	—	20.5	—	20.5
Annual	—	—	2.5	2.5
Total	$14.6	$ 20.5	$ 2.5	$37.6

Certain of White Mountains’s investments in hedge funds are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund’s underlying investments are liquidated. As of June 30, 2016, the fair value of hedge funds in liquidation was $1.0 million. The actual amount of the final distribution remittances remain subject to market fluctuations. The date at which such remittances will be received is not determinable as of June 30, 2016.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. As of June 30, 2016, redemptions of $2.5 million are outstanding that would be subject to market fluctuations. The date at which such redemptions will be received is not determinable as of June 30, 2016. Redemptions are recorded as receivables when the investment is no longer subject to market fluctuations.

Investments in private equity funds are generally subject to a “lock-up” period during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund’s underlying investments. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors.

As of June 30, 2016, investments in private equity funds were subject to lock-up periods as follows:

Millions	1-3 years	3 – 5 years	5 – 10 years	>10 years	Total
Private Equity Funds — expected lock-up period remaining	$27.1	$3.5	$59.6	$—	$90.2

OneBeacon Surplus Notes

In the fourth quarter of 2014, in conjunction with OneBeacon's sale of its runoff business to an affiliate of Armour Group Holdings Limited (the "OneBeacon Runoff Transaction"), OneBeacon provided financing in the form of surplus notes with a par value of $101.0 million, which had a fair value of $62.8 million and $51.5 million as of June 30, 2016 and December 31, 2015, respectively. Subsequent to closing, the surplus notes are included in OneBeacon’s investment portfolio, classified within other long-term investments.

The internal valuation model used to estimate the fair value is based on discounted expected cash flows. The estimated fair value of the surplus notes is sensitive to changes in U.S. treasury rates and public corporate debt credit spreads, as well as changes in estimates with respect to other variables including a discount to reflect the private nature of the notes (and the related lack of liquidity), the credit quality of the notes based on the financial performance of the Issuer relative to expectations, and the timing, amount, and likelihood of interest and principal payments on the notes, which are subject to regulatory approval and therefore may vary from the contractual terms. An interest payment of $2.4 million was received in the six months ended June 30, 2016. OneBeacon has assumed for valuation purposes that subsequent interest payments will begin in year five (2020) and principal repayments begin on a graduated basis in year ten (2025) for the seller priority note and year fifteen (2030) for the pari passu note. Although these variables involve considerable judgment, the Company does not currently expect any resulting changes in the estimated value of the surplus notes to be material to its financial position.

Below is a table illustrating the valuation adjustments taken to arrive at estimated fair value of the surplus notes as of June 30, 2016 and December 31, 2015:

Millions	Type of Surplus Note Seller Priority	Type of Surplus Note Pari Passu	Total as of June 30, 2016	Total as of December 31, 2015
Par Value	$57.9	$43.1	$101.0	$ 101.0
Fair value adjustments to reflect:				
Current market rates on public debt and contract-based repayments(1)	2.7	(8.4)	(5.7)	(15.1)
Regulatory approval (2)	(7.4)	(12.5)	(19.9)	(24.2)
Liquidity adjustment (3)	(9.0)	(3.6)	(12.6)	(10.2)
Total adjustments	(13.7)	(24.5)	(38.2)	(49.5)
Fair value(4)	$44.2	$18.6	$62.8	$ 51.5

(1) Represents the value of the surplus notes, at current market yields on comparable publicly traded debt, and assuming issuer is allowed to make principal and interest payments when its financial capacity is available, as measured by statutory capital in excess of a 250% RBC score.

(2) Represents anticipated timing of securing regulatory approvals for interest and principal payments to reflect graduated changes in Issuer’s statutory surplus. The monetary impact of the anticipated timing is measured based on credit spreads of publicly traded debt with roughly equivalent percentages of discounted payments missed.

(3) Represents impact of liquidity spread to account for OneBeacon’s sole ownership of the surplus notes, lack of a trading market and ongoing regulatory approval risk.

(4) The increase in the fair value of the surplus notes during the six months ended June 30, 2016 was driven primarily by the narrowing of non-investment grade credit spreads as well as the time value of money benefit generated by moving six months closer to modeled cash receipts, partially offset by the impact of an interest payment received in

the first quarter of 2016.

Fair value measurements as of June 30, 2016

Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). Quoted prices in active markets for identical assets or liabilities have the highest priority ("Level 1"), followed by observable inputs other than quoted prices, including prices for similar but not identical assets or liabilities ("Level 2") and unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority ("Level 3").

White Mountains used quoted market prices or other observable inputs to determine fair value for 91% of its investment portfolio as of June 30, 2016. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equity securities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs are primarily comprised of fixed maturity investments, which have been disaggregated into classes, including debt securities issued by corporations, municipal obligations, mortgage and asset-backed securities, foreign government, agency and provincial obligations and preferred stocks. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Investments valued using Level 2 inputs also include certain ETFs that track U.S. stock indices such as the S&P 500 but are traded on foreign exchanges and that management values using the fund's published NAV to account for the difference in market close times. Level 3 fair value estimates based upon unobservable inputs include White Mountains's investments in surplus notes, as well as certain investments in fixed maturity investments, common equity securities and other long-term investments where quoted market prices are unavailable or are not considered reasonable. Transfers between levels are based on investments held as of the beginning of the period.

White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services White Mountains uses have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted market prices are unavailable or are not considered reasonable, White Mountains estimates the fair value using industry standard pricing methodologies and observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, credit ratings, prepayment speeds, reference data including research publications and other relevant inputs. Given that many fixed maturity investments do not trade on a daily basis, the outside pricing services evaluate a wide range of fixed maturity investments by regularly drawing parallels from recent trades and quotes of comparable securities with similar features. The characteristics used to identify comparable fixed maturity investments vary by asset type and take into account market convention.

White Mountains's process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of its fixed maturity investments and includes, but is not limited to, evaluation of pricing methodologies, and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from alternate independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and $1.0 million from the expected price based on these procedures are considered outliers. Also considered outliers are prices that haven't changed from period to period and prices that have trended unusually compared to market conditions. In circumstances where the results of White Mountains's review process does not appear to support the market price provided by the pricing services, White Mountains challenges the price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question.

The valuation process above is generally applicable to all of White Mountains's fixed maturity investments. The techniques and inputs specific to asset classes within White Mountains's fixed maturity investments for Level 2 securities that use observable inputs are as follow:

Debt securities issued by corporations: The fair value of debt securities issued by corporations is determined from an evaluated pricing model that uses information from market sources and integrates relative credit information, observed market movements, and sector news. Key inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features and market research publications.

Mortgage and asset-backed securities: The fair value of mortgage and asset-backed securities is determined from an evaluated pricing model that uses information from market sources and leveraging similar securities. Key inputs include benchmark yields, reported trades, underlying tranche cash flow data, collateral performance, plus new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including issuer, vintage, loan type, collateral attributes, prepayment speeds, default rates, recovery rates, cash flow stress testing, credit quality ratings and market research publications.

Municipal obligations: The fair value of municipal obligations is determined from a pricing model that uses information from market makers, brokers-dealers, buy-side firms, and analysts along with general market information. Key inputs include benchmark yields, reported trades, issuer financial statements, material event notices and new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including type, coupon, credit quality ratings, duration, credit enhancements, geographic location and market research publications.

Foreign government, agency and provincial obligations: The fair value of foreign government, agency and provincial obligations is determined from an evaluated pricing model that uses feeds from data sources in each respective country, including active market makers and inter-dealer brokers. Key inputs include benchmark yields, reported trades, broker-dealer quotes, two-sided markets, benchmark securities, bids, offers, local exchange prices, foreign exchange rates and reference data including coupon, credit quality ratings, duration and market research publications.

Preferred stocks: The fair value of preferred stocks is determined from an evaluated pricing model that calculates the appropriate spread over a comparable security for each issue. Key inputs include exchange prices (underlying and common stock of same issuer), benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features and market research publications.

Level 3 valuations are generated from techniques that use assumptions not observable in the market. These unobservable assumptions reflect White Mountains's assumptions that market participants would use in valuing the investment. Generally, certain securities may start out as Level 3 when they are originally issued but as observable inputs become available in the market, they may be reclassified to Level 2.
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 periodic and audited annual financial statements of hedge funds and private equity funds and discussing each fund's pricing with the fund manager throughout the year. 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. The fair value of White Mountains's investments in hedge funds and private equity funds has been determined using net asset value.

Fair Value Measurements by Level

The following tables summarize White Mountains's fair value measurements for investments as of June 30, 2016 and December 31, 2015 by level. The major security types were based on the legal form of the securities. White Mountains has disaggregated its fixed maturity investments based on the issuing entity type, which impacts credit quality, with debt securities issued by U.S. government entities carrying minimal credit risk, while the credit and other risks associated with other issuers, such as corporations, foreign governments, municipalities or entities issuing mortgage-backed or asset-backed securities vary depending on the nature of the issuing entity type. White Mountains further disaggregates debt securities issued by corporations and common equity securities by industry sector because investors often reference commonly used benchmarks and their subsectors to monitor risk and performance. Accordingly, White Mountains has further disaggregated these asset classes into subclasses based on the similar sectors and industry classifications it uses to evaluate investment risk and performance against commonly used benchmarks, such as the Barclays U.S. Intermediate Aggregate and S&P 500 indices.

	June 30, 2016			
Millions	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$261.9	$252.3	$9.6	$—
Debt securities issued by corporations:				
Consumer	333.5	—	333.5	—
Health Care	157.3	—	157.3	—
Financials	154.8	—	154.8	—
Industrial	139.0	—	139.0	—
Utilities	94.3	—	94.3	—
Energy	60.6	—	60.6	—
Technology	57.3	—	57.3	—
Communications	43.3	—	43.3	—
Materials	26.0	—	26.0	—
Total debt securities issued by corporations	1,066.1	—	1,066.1	—
Mortgage and asset-backed securities	2,655.2		2,573.2	82.0
Municipal obligations	302.9	—	302.9	—
Foreign government, agency and provincial obligations	1.2	.6	.6	—
Preferred stocks	84.7	—	13.5	71.2
Total fixed maturity investments(4)	4,372.0	252.9	3,965.9	153.2
Short-term investments(4)	422.1	422.1	—	—
Common equity securities:				
Consumer	152.8	152.8	—	—
Exchange traded funds (1)	87.5	65.6	21.9	—
Health Care	36.4	36.4	—	—
Communications	32.7	32.7	—	—
Technology	24.8	24.8	—	—
Other	73.3	—	73.3	—
Total common equity securities	407.5	312.3	95.2	—
Other long-term investments (2)(3)	184.5	—	—	184.5
Total investments(4)	$5,386.1	$987.3	$4,061.1	$337.7

(1) ETFs traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated a level 2 measurement.

(2) Excludes carrying value of $3.5 associated with other long-term investment limited partnerships accounted for using the equity method. Excludes carrying value of $13.4 associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.
(3) Excludes carrying value of $127.8 associated with hedge funds and private equity funds for which fair value is measured at net asset value using the practical expedient.
(4) Includes carrying value of $9.2 in fixed maturity investments and $0.3 in short-term investments that are classified as assets held for sale related to SSIE.

	December 31, 2015			
Millions	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$160.0	$133.4	$26.6	$—
Debt securities issued by corporations:				
Consumer	253.3	—	253.3	—
Financials	175.9	—	175.9	—
Health Care	151.3	—	151.3	—
Industrial	135.6	—	135.6	—
Energy	82.0	—	82.0	—
Utilities	61.5	—	61.5	—
Technology	60.0	—	60.0	—
Communications	49.2	—	49.2	—
Materials	31.2	—	31.2	—
Total debt securities issued by corporations	1,000.0	—	1,000.0	—
Mortgage and asset-backed securities	1,167.0	—	1,167.0	—
Municipal obligations	228.8	—	228.8	—
Foreign government, agency and provincial obligations	1.2	.6	.6	—
Preferred stocks	82.7	—	12.7	70.0
Total fixed maturity investments(4)	2,639.7	134.0	2,435.7	70.0
Short-term investments(4)	211.3	211.3	—	—
Common equity securities:				
Financials	694.7	694.7	—	—
Exchange traded funds(1)	141.8	120.5	21.3	—
Consumer	70.0	70.0	—	—
Communications	43.7	43.7	—	—
Health Care	35.7	35.7	—	—
Technology	27.0	27.0	—	—
Industrial	26.6	26.6	—	—
Other	74.4	—	74.4	—
Total common equity securities	1,113.9	1,018.2	95.7	—
Other long-term investments (2)(3)	169.5	—	—	169.5
Total investments(4)	$4,134.4	$1,363.5	$2,531.4	$239.5

(1) ETFs traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated a level 2 measurement.
(2) Excludes carrying value of $3.8 associated with other long-term investment limited partnerships accounted for using the equity method. Excludes carrying value of $14.7 associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.
(3) Excludes carrying value of $127.8 associated with hedge funds and private equity funds for which fair value is measured at net asset value using the practical expedient.
(4) Includes carrying value of $9.5 in fixed maturity investments and $0.1 in short-term investments that are classified as assets held for sale related to SSIE.

Debt securities issued by corporations

The following table summarizes the ratings of debt securities issued by corporations held in White Mountains's investment portfolio as of June 30, 2016 and December 31, 2015:

Millions	Fair Value at June 30, 2016	Fair Value at December 31, 2015
AAA	$—	$ —
AA	125.7	95.2
A	376.6	397.7
BBB	563.8	507.1
Other	—	—
Debt securities issued by corporations[1]	$1,066.1	$ 1,000.0

[1] Credit ratings are assigned based on the following hierarchy: 1) Standard & Poor's and 2) Moody's.

Mortgage and Asset-backed Securities

White Mountains purchases commercial mortgage-backed securities ("CMBS") and residential mortgage-backed securities ("RMBS") with the goal of maximizing risk adjusted returns in the context of a diversified portfolio. White Mountains considers sub-prime mortgage-backed securities as those that have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., White Mountains considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

White Mountains categorizes mortgage-backed securities as "non-prime" (also called "Alt A" or "A-") if they are backed by collateral that has overall credit quality between prime and sub-prime based on White Mountains's review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. White Mountains's non-agency RMBS portfolio is generally moderate-term and structurally senior. White Mountains does not own any collateralized loan obligations. White Mountains does not own any collateralized debt obligations, with the exception of $31.2 million of non-agency residential mortgage resecuritization tranches, each a senior tranche in its own right and each collateralized by a single earlier vintage Super Senior or Senior non-agency RMBS.

The following table summarizes the carrying value of White Mountains's mortgage and asset-backed securities as of June 30, 2016 and December 31, 2015:

	June 30, 2016			December 31, 2015		
Millions	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	$284.7	$284.7	$ —	$265.5	$265.5	$ —
FNMA	203.5	152.5	51.0	42.2	42.2	—
FHLMC	37.5	37.5	—	22.8	22.8	—
Total Agency[1]	525.7	474.7	51.0	330.5		