WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
May 02, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended March 31, 2008

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, 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 May 1, 2008, 10,570,234 common shares with a par value of $1.00 per share were outstanding (which includes 53,200 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED BALANCE SHEETS

(Millions, except share and per share amounts)	March 31, 2008 Unaudited	December 31, 2007
Assets		
Fixed maturity investments, at fair value (amortized cost: $6,607.7 and $7,193.0)	**$ 6,842.6**	$ 7,371.5
Common equity securities, at fair value (cost: $1,378.5 and $1,333.9)	**1,520.7**	1,550.7
Short-term investments, at amortized cost (which approximates fair value)	**2,372.2**	1,327.3
Other investments (cost: $543.9 and $539.2)	**642.5**	603.3
Convertible fixed maturity investments, at fair value (cost: $473.4 and $484.3)	**463.0**	490.6
Trust account investments, at amortized cost (fair value $310.9 and $307.0)	**309.2**	305.6
Total investments	**12,150.2**	11,649.0
Cash (restricted: $42.4 and $8.5)	**229.6**	171.3
Reinsurance recoverable on unpaid losses	**1,635.3**	1,702.9
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	**1,740.0**	1,765.0
Reinsurance recoverable on paid losses	**88.2**	59.5
Insurance and reinsurance premiums receivable	**976.2**	877.0
Securities lending collateral	**481.1**	661.6
Funds held by ceding companies	**231.7**	231.1
Investments in unconsolidated affiliates	**362.3**	406.3
Deferred acquisition costs	**325.9**	326.0
Deferred tax asset	**253.5**	236.6
Ceded unearned premiums	**171.9**	123.1
Accrued investment income	**78.6**	83.2
Accounts receivable on unsettled investment sales	**35.3**	201.1
Other assets	**605.0**	611.9
Total assets	**$ 19,364.8**	$ 19,105.6
Liabilities		
Loss and loss adjustment expense reserves	**$ 8,038.0**	$ 8,062.1
Unearned insurance and reinsurance premiums	**1,753.8**	1,605.2
Debt	**1,666.0**	1,192.9
Securities lending payable	**481.1**	661.6
Deferred tax liability	**390.2**	353.2
Incentive compensation payable	**118.9**	224.2
Funds held under reinsurance treaties	**98.7**	103.0
Ceded reinsurance payable	**124.6**	124.8
Accounts payable on unsettled investment purchases	**106.3**	46.4
Other liabilities	**864.6**	873.1
Preferred stock subject to mandatory redemption:		
Held by Berkshire Hathaway Inc. (redemption value $300.0)	**288.9**	278.3
Total liabilities	**13,931.1**	13,524.8
Minority interest - OneBeacon, Ltd.	**407.4**	517.2
Minority interest - WMRe Group Preference Shares	**250.0**	250.0
Minority interest - consolidated limited partnerships	**97.1**	100.2

Total minority interest		**754.5**		867.4
Common shareholders equity				
Common shares at $1 par value per share - authorized 50,000,000 shares; issued and outstanding 10,570,234 and 10,553,572 shares		**10.6**		10.5
Paid-in surplus		**1,690.6**		1,680.7
Retained earnings		**2,837.6**		2,718.5
Accumulated other comprehensive income, after-tax:				
Net unrealized gains on investments				208.9
Equity in unrealized losses from investments in unconsolidated affiliates		**(26.0)**		(1.9)
Net unrealized foreign currency translation gains		**170.0**		99.3
Other		**(3.6)**		(2.6)
Total common shareholders equity		**4,679.2**		4,713.4
Total liabilities, minority interest and common shareholders equity	**$**	**19,364.8**	$	19,105.6

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

Unaudited

(Millions, except per share amounts)	Three Months Ended March 31, 2008		2007	
Revenues:				
Earned insurance and reinsurance premiums	**$**	**929.1**	$	938.0
Net investment income		**116.8**		118.0
Net realized investment (losses) gains		**(13.0)**		73.9
Net unrealized investment losses		**(105.0)**		
Other revenue		**10.0**		36.2
Total revenues		**937.9**		1,166.1
Expenses:				
Loss and loss adjustment expenses		**638.7**		613.3
Insurance and reinsurance acquisition expenses		**186.7**		192.6
Other underwriting expenses		**116.8**		137.7
General and administrative expenses		**58.2**		52.9
Accretion of fair value adjustment to loss and loss adjustment expense reserves		**4.2**		5.1
Interest expense on debt		**19.4**		16.8
Interest expense - dividends on preferred stock subject to mandatory redemption		**7.1**		7.6
Interest expense - accretion on preferred stock subject to mandatory redemption		**10.5**		8.2
Total expenses		**1,041.6**		1,034.2
Pre-tax (loss) income		**(103.7)**		131.9
Income tax benefit (provision)		**32.9**		(31.2)
(Loss) income before equity in earnings of unconsolidated affiliates, extraordinary item, and minority interest		**(70.8)**		100.7
Equity in earnings of unconsolidated affiliates		**.4**		10.5
Excess of fair value of acquired assets over cost		**4.2**		
Minority interest		**9.4**		(19.0)
Net (loss) income		**(56.8)**		92.2
Change in net unrealized gains and losses for investments held				65.1
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates		**(20.5)**		6.5
Change in foreign currency translation and other		**56.8**		(3.8)
Recognition of net unrealized gains and losses for investments sold				(50.9)
Comprehensive net (loss) income	**$**	**(20.5)**	$	109.1
Basic (loss) earnings per share	**$**	**(5.40)**	$	8.56
Diluted (loss) earnings per share		**(5.40)**		8.54
Dividends declared and paid per common share	**$**	**2.00**	$	2.00

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

Unaudited

(Millions)	**Common shareholders equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income, after-tax**
Balances at January 1, 2008	$ 4,713.4	$ 1,691.2	$ 2,718.5	$ 303.7
Cumulative effect adjustment - FAS 157	(.3)		(.3)	
Cumulative effect adjustment - FAS 159			199.6	(199.6)
Net loss	(56.8)		(56.8)	
Other comprehensive income, after-tax	36.3			36.3
Dividends declared on common shares	(21.2)		(21.2)	
Issuances of common shares	8.2	8.2		
Repurchases and retirements of common shares	(3.3)	(1.1)	(2.2)	
Amortization of restricted share and option awards	2.9	2.9		
Balances at March 31, 2008	**$ 4,679.2**	**$ 1,701.2**	**$ 2,837.6**	**$ 140.4**

(Millions)	**Common shareholders equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income, after-tax**
Balances at January 1, 2007	$ 4,455.3	$ 1,727.5	$ 2,496.0	$ 231.8
Cumulative effect adjustment - taxes (FIN 48)	.2		.2	
Net income	92.2		92.2	
Other comprehensive income, after-tax	17.0			17.0
Dividends declared on common shares	(21.7)		(21.7)	
Issuances of common shares	.2	.2		
Repurchases and retirements of common shares	(2.5)	(2.5)		
Amortization of restricted share and option awards	2.2	2.2		
Balances at March 31, 2007	**$ 4,542.9**	**$ 1,727.4**	**$ 2,566.7**	**$ 248.8**

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(Millions)	Three Months Ended March 31, 2008	2007
Cash flows from operations:		
Net (loss) income	**$ (56.8)**	$ 92.2
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized investment losses (gains)	**13.0**	(73.9)
Net unrealized investment losses	**105.0**	
Excess of fair value of acquired assets over cost	**(4.2)**	
Minority interest	**(9.4)**	19.0
Other operating items:		
Net change in loss and loss adjustment expense reserves	**(116.3)**	(126.4)
Net change in reinsurance recoverable on paid and unpaid losses	**76.7**	167.0
Net change in unearned insurance and reinsurance premiums	**109.2**	167.3
Net change in funds held by ceding companies	**16.1**	11.9
Net change in deferred acquisition costs	**7.7**	(19.7)
Net change in ceded unearned premiums	**(43.3)**	(46.2)
Net change in funds held under reinsurance treaties	**(4.6)**	(15.2)
Net change in insurance and reinsurance premiums receivable	**(79.2)**	(96.1)
Net change in other assets and liabilities, net	**(40.8)**	(221.5)
Net cash used for operations	**(26.9)**	(141.6)
Cash flows from investing activities:		
Net change in short-term investments	**(1,019.6)**	(101.8)
Sales of fixed maturity and convertible fixed maturity investments	**1,527.2**	1,331.7
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	**359.4**	333.2
Maturities of trust account investments	**3.4**	6.9
Sales of common equity securities	**138.4**	136.1
Sales of other investments	**34.9**	27.6
Sales of consolidated and unconsolidated affiliates, net of cash sold	**4.2**	16.7
Purchases of other investments	**(40.4)**	(11.3)
Purchases of common equity securities	**(162.1)**	(125.9)
Purchases of fixed maturity and convertible fixed maturity investments	**(1,144.9)**	(1,393.8)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	**(182.0)**	
Net change in unsettled investment purchases and sales	**225.8**	(78.7)
Net acquisitions of property and equipment	**(3.3)**	(3.7)
Net cash (used for) provided from investing activities	**(259.0)**	137.0
Cash flows from financing activities:		
Issuance of debt	**475.0**	394.4
Repayment of debt	**(2.0)**	(322.0)
Interest rate swap agreements		(2.4)
Cash dividends paid to the Company s common shareholders	**(21.2)**	(21.7)
Cash dividends paid to OneBeacon Ltd. s minority common shareholders	**(54.7)**	(5.9)
Cash dividends paid to preferred shareholders		(7.6)
OneBeacon Ltd. common shares repurchased and retired	**(52.8)**	
Common shares repurchased	**(3.3)**	(2.5)
Proceeds from option exercises	**.1**	.2
Net cash provided from financing activities	**341.1**	32.5
Effect of exchange rate changes on cash	**3.1**	(.6)
Net increase in cash during the period	**58.3**	27.3

Cash balances at beginning of period		**171.3**		159.0
Cash balances at end of period	**$**	**229.6**	$	186.3
Supplemental cash flows information:				
Interest paid	**$**	**(14.0)**	$	(7.2)
Net payments to national governments		**(21.5)**		(53.6)

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the Company or the Registrant) and its subsidiaries (collectively with the Company, White Mountains) and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company s headquarters is located at Bank of Butterfield Building, 42 Reid Street, Hamilton, Bermuda HM 12, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations. Significant transactions among White Mountains segments have been eliminated in this report.

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), substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the OneBeacon Acquisition). During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd. s common shares in an initial public offering (the OneBeacon Offering). At March 31, 2008 White Mountains owned 74.7% 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, Folksamerica Reinsurance Company (Folksamerica), Sirius International Insurance Corporation (Sirius International), and White Mountains Re Bermuda Ltd. (WMRe (Bermuda)), formerly Fund American Reinsurance Company, Ltd. White Mountains Re also provides reinsurance advisory services, specializing primarily in property and other short-tailed lines of reinsurance, through White Mountains Re Underwriting Services Ltd. (WMRUS).

The Esurance segment consists of Esurance Holdings, Inc., and its subsidiaries (collectively, Esurance). Esurance, sells personal auto insurance directly to customers online and through select online agents.

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its weather risk management business (Galileo), its variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), as well as the International American Group, Inc. (the International American Group) and various other entities not included in other segments. The International American Group includes American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (British Insurance Company), both of which are in run-off. The Other Operations segment also includes White Mountains investments in common shares and warrants to purchase common shares of Symetra Financial Corporation (Symetra) and the consolidated results of Tuckerman Capital, LP and Tuckerman Capital II, LP funds (Tuckerman Funds).

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains and are of a normal recurring nature. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company s 2007 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation. Refer to the Company s 2007 Annual Report on Form 10-K for a complete discussion regarding White Mountains significant accounting policies.

Minority Interest

Minority interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of income attributable to minority interests is presented net of related income taxes in the statement of income and comprehensive income. The change in unrealized investment gains, foreign currency translation and the change in the fair value of the interest rate swap to hedge OneBeacon s exposure to variability in the interest rate on its mortgage note are presented in accumulated other comprehensive income net of minority interest. The percentage of the noncontrolling shareholders ownership interest in OneBeacon Ltd. at March 31, 2008 and December 31, 2007 was 25.3% and 27.1%.

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 and dividends thereon are included in minority interest on the balance sheet and as minority interest expense on the statement of income and comprehensive income, respectively.

Recently Adopted Changes in Accounting Principles

Fair Value Measurements

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (FAS 157). FAS 157 provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under FAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). The Statement establishes a fair value 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). The fair value hierarchy in FAS 157 prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets or liabilities have the highest priority (Level 1), followed by prices determined based on observable inputs including prices for similar but not identical assets or liabilities (Level 2) and followed by prices based on assumptions that include significant unobservable inputs, having the lowest priority (Level 3).

Fair Value Option

On January 1, 2008, the Company adopted SFAS No.159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 allows companies to make an election on an individual instrument basis to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. White Mountains has made the fair value election for its portfolio of available for sale (AFS) securities, its investments in investment partnerships and for its assumed variable annuity GMDB guarantee liabilities.

Upon adoption of FAS 159, the Company s portfolio of AFS securities were reclassified as trading. Realized and unrealized investment gains and losses on trading securities are reported, pre-tax in revenues. Prior to adoption, unrealized investment gains and losses on AFS securities were reported net, after-tax, as a separate component of shareholders equity. Changes in net unrealized investment gains and losses on AFS securities, net of the effect of adjustment for minority interest and after-tax, were reported as a component of other comprehensive income.

White Mountains investments in limited partnerships comprises investments in hedge funds, private equity funds and other investment limited partnerships. Prior to January 1, 2008, changes in White Mountains interests in limited partnerships accounted for under the equity method were included in net realized investment gains and changes in interests in limited partnerships not accounted for under the equity method were reported, after-tax, as a component of shareholders equity, with changes therein reported as a component of other comprehensive income. Effective January 1, 2008, the Company has made the fair value election for most of its limited partnership investments in hedge funds and private equity funds. For the limited partnership investments for which the Company has made the fair value election, changes in fair value are reported in revenues on a pre-tax basis. For those investment limited partnerships for which the Company has not made the fair value election, the Company continues to account for its interests under the equity method.

Upon adoption, the Company recorded an adjustment to increase opening retained earnings and decrease accumulated other comprehensive income by $199.6 million to reclassify net unrealized gains and net unrealized foreign currency translation gains related to AFS securities and investments in limited partnerships.

In addition, White Mountains recorded an adjustment to decrease opening retained earnings and increase other liabilities by $0.3 million for the change in the GMDB liabilities arising from measurement at fair value. The Company believes that making the election for its portfolio of investment securities and investments in hedge funds and private equity funds will result in reporting its investment results on a basis consistent with one of its operating principles, namely to manage investments for total return. With respect to the variable annuity GMDB guarantees, making the election will result in recognition of changes in fair value on the same basis used by the Company to economically hedge its variable annuity guarantee liabilities.

Recent Accounting Pronouncements

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (FAS 141R). FAS 141R is effective for fiscal years beginning after December 15, 2008. White Mountains is in the process of evaluating the potential effect of adoption. 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. 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. Assets and liabilities arising from contractual contingencies are to be recognized at the acquisition date, at fair value. Non-contractual contingencies are to be recognized when it is more likely than not that they meet the FASB Concepts Statement No. 6, *Elements of Financial Statements,* criteria for an asset or liability. Acquisition related costs, such as legal fees and due diligence costs would be expensed and would not be recognized as part of goodwill**.** Changes in the amount of deferred taxes arising from a business combination are to be recognized in either income or through a change in contributed capital, depending on the circumstances. Previously under FAS 109, such changes were recognized through goodwill. The classification of insurance and reinsurance contracts are re-evaluated at the acquisition date only if their terms were changed in connection with the acquisition**.**

Non-controlling interests

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests-an amendment to ARB 51* (FAS 160). FAS 160 is effective for fiscal years beginning after December 15, 2008. FAS 160 requires all companies to account for minority interests in subsidiaries as equity, clearly identified and presented separately from parent company equity. Once a controlling interest has been acquired, any subsequent acquisitions or dispositions of noncontrolling interest that do not result in a change of control are to be 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. Upon adoption, the Company would be required to reflect the ownership interests in its consolidated subsidiaries within equity.

Note 2. Significant Transactions and Agreements

Berkshire Exchange

During the first quarter of 2008, White Mountains entered into an exchange agreement with Berkshire Hathaway Inc. (Berkshire) to transfer certain runoff businesses and a substantial amount of cash to Berkshire in exchange for substantially all of the common shares of White Mountains owned by Berkshire (the Berkshire Exchange).

Under the terms of the agreement, Berkshire would exchange all or substantially all of its 16.3% stake in White Mountains (1,724,200 common shares) for 100% of a White Mountains subsidiary, which will hold Commercial Casualty Insurance Company, International American Group, Inc. and $751 million in cash, subject to adjustment.

In anticipation of the Berkshire Exchange, White Mountains drew the $475 million available on its revolving credit facility (the WTM Bank Facility) to provide the necessary funds at the holding company level required for the transaction (see Note 6). In April 2008, the Company repaid $175 million of the borrowings on the WTM Bank Facility (see Note 15).

Helicon

On January 7, 2008, White Mountains Re acquired Helicon Re Holdings, Ltd. for approximately $150.2 million, which resulted in the recognition of an extraordinary gain of $4.2 million. Helicon Re Holdings, Ltd. is the parent of Helicon Reinsurance Company, Ltd. (Helicon), which in 2006 and 2007 provided quota share retrocessional coverage to White Mountains Re.

Answer Financial

During the first quarter of 2008, White Mountains acquired 42% of the outstanding debt and equity of Answer Financial Inc. (AFI), an online personal insurance agency, for $30.2 million. During the first quarter of 2008, White Mountains accounted for its investment in AFI under the equity method (see Note 12). Subsequent to March 31, 2008, White Mountains ownership in AFI increased to 68.9% (see Note 15).

Note 3. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense (LAE) reserve activities of White Mountains insurance subsidiaries for the three months ended March 31, 2008 and 2007:

Millions	Three Months Ended March 31, 2008	2007
Gross beginning balance	**$ 8,062.1**	$ 8,777.2
Less beginning reinsurance recoverable on unpaid losses	**(3,467.9)**	(4,015.7)
Net loss and LAE reserves	**4,594.2**	4,761.5
Loss and LAE reserves acquired - Helicon	**13.7**	
Loss and LAE incurred relating to:		
Current year losses	**618.3**	630.1
Prior year losses	**20.4**	(16.8)
Total incurred losses and LAE	**638.7**	613.3
Accretion of fair value adjustment to loss and LAE reserves	**4.2**	5.1
Foreign currency translation adjustment to loss and LAE reserves	**25.9**	3.7
Loss and LAE paid relating to:		
Current year losses	**(149.0)**	(142.5)
Prior year losses	**(465.0)**	(478.8)
Total loss and LAE payments	**(614.0)**	(621.3)
Net ending balance	**4,662.7**	4,762.3
Plus ending reinsurance recoverable on unpaid losses	**3,375.3**	3,873.7
Gross ending balance	**$ 8,038.0**	$ 8,636.0

White Mountains experienced $20.4 million of unfavorable development on prior accident year loss reserves during the three months ended March 31, 2008. White Mountains Re had net unfavorable development of $33.0 million, which was offset by $12.6 million of net favorable development at OneBeacon.

The net unfavorable development at White Mountains Re of $33.0 million included $40.5 million of unfavorable development related to construction defect claims from accident years 2003 and prior. These losses were offset by $7.5 million of net favorable development primarily from recent accident years. The construction defect claims represent building contractors loss exposures from reinsurance programs that were underwritten by Folksamerica during the 1995 through 2001 underwriting years, primarily from California or a neighboring state. The adverse development was recognized following the receipt of significantly late reported claims.

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

In connection with purchase accounting for the acquisitions of OneBeacon, Sirius International 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. Accordingly, White Mountains recognized $4.2 million of such charges for the three months ended March 31, 2008, and $5.1 million for the three months ended March 31, 2007. As of March 31, 2008, the outstanding pre-tax unaccreted adjustment was $54.4 million.

Note 4. Third Party Reinsurance

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

OneBeacon

At March 31, 2008, OneBeacon had $20.5 million of reinsurance recoverables on paid losses and $2,818.4 million (gross of $217.1 million in purchase accounting adjustments) that will become recoverable if claims are paid in accordance with current reserve estimates. The collectibility of balances due from OneBeacon s reinsurers is critical to OneBeacon s financial strength because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have historically not been significant. The following table provides a listing of OneBeacon s top reinsurers, excluding industry pools and associations, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurer s A.M. Best rating.

Top Reinsurers (Millions)	**% of Total**

	Balance at March 31, 2008		A.M. Best Rating (1)
Subsidiaries of Berkshire (NICO and GRC) (2)	$ **2,049.7**	78.2%	A++
Nichido (formerly Tokio Fire and Marine Insurance Company)	**57.6**	2.2%	A++
Munich Re America (formerly American Re-insurance Company)	**46.3**	1.8%	A+
Swiss Re	**26.5**	1.0%	A+
Liberty Mutual Insurance Group and subsidiaries (3)	**25.7**	1.0%	A

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

(2) Includes $404.0 of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover (as defined below) if they are unable to collect from third party reinsurers. OneBeacon also has an additional $304.6 of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) At March 31, 2008, OneBeacon had assumed balances payable and expenses payable of approximately $26.4 under its renewal rights agreement with Liberty Mutual Insurance Group (Liberty Mutual), which expired on October 31, 2003.

In connection with the OneBeacon Acquisition, the seller caused OneBeacon to purchase two reinsurance contracts: a full risk-transfer cover from National Indemnity Company (NICO) for up to $2.5 billion in old asbestos and environmental (A&E) claims and certain other exposures (the NICO Cover) and an adverse development cover (the GRC Cover) from General Reinsurance Corporation (GRC) for up to $570.0 million, comprised of $400.0 million of adverse development on losses occurring in years 2000 and prior in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for as a seller guarantee under GAAP in accordance with Emerging Issues Task Force Technical Matter Document No. D-54 (EITF Topic D-54). NICO and GRC are wholly-owned subsidiaries of Berkshire.

Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables (Third Party Recoverables) from certain of OneBeacon s third party reinsurers in existence at the time the NICO Cover was executed. As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. White Mountains estimates that on an incurred basis, net of Third Party Recoverables, as of March 31, 2008 it has used approximately $2.1 billion of the coverage provided by NICO. Through March 31, 2008 $1.0 billion of these incurred losses have been paid by NICO. Since entering into the NICO Cover, $40.4 million of the $2.1 billion of utilized coverage from NICO related to uncollectible Third Party Recoverables. To the extent that actual experience differs from White Mountains estimate of ultimate A&E losses and Third Party Recoverables, future losses could utilize some or all of the protection remaining under the NICO Cover.

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

Effective, July 1, 2007, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2008. The program provides coverage for all OneBeacon property business including automobile physical damage, as well as terrorism coverage for non-TRIA events (excluding nuclear, biological, chemical and radiological). Under the program, the first $150 million of losses resulting from a single catastrophe are retained by OneBeacon and $650 million of the next $700 million of losses resulting from the catastrophe are reinsured. Any loss above $850 million would be retained by OneBeacon. 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.

White Mountains Re

At March 31, 2008, White Mountains Re had $67.2 million of reinsurance recoverables on paid losses and $742.4 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies, the collectibility of balances due from its reinsurers is critical to White Mountains Re s financial strength. White Mountains Re monitors the financial strength of 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 recoverables and the reinsurers A.M. Best ratings.

Top Reinsurers (Millions)	Balance at March 31, 2008	% of Total	A.M. Best Rating (2)	% Collateralized
Olympus (1)(3)	$ **193.2**	24%	NR-4	100%
Imagine Re (1)	**163.6**	20%	A-	100%

General Re	**93.6**	12%	A++	1%
London Life (1)	**93.1**	11%	A	100%
St. Paul Travelers Group	**57.2**	7%	A+	%

(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-4 (Not rated per company request), A++ (Superior, which is the highest of fifteen ratings), A+ (Superior, which is the second highest of fifteen ratings), A (Excellent, which is the third highest of fifteen ratings), and A- (Excellent, which is the fourth highest of fifteen ratings).

(3) Gross of $117.7 due to Olympus Reinsurance Company Ltd. (Olympus) under an indemnity agreement with Folksamerica Holdings, Inc.

Note 5. Investment Securities

White Mountains invested assets comprise securities and other investments held for general investment purposes and those held in a segregated trust account established in connection with the OneBeacon Offering to economically defease the $300 million mandatorily redeemable preferred stock held by Berkshire (the Berkshire Preferred Stock).

White Mountains portfolio of fixed maturity investments and common equity securities held for general investment purposes were classified as AFS for the year ended December 31, 2007. Effective January 1, 2008, the portfolio of fixed maturity investments and common equity securities held for general investment purposes were reclassified as trading. AFS and trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Prior to January 1, 2008, changes in net unrealized investment gains and losses on AFS securities, net of the effect of adjustment for minority interest and after-tax, were reported as a component of other comprehensive income. Realized and unrealized investment gains and losses on trading securities are reported pre-tax in revenues. See ***Recently Adopted Changes in Accounting Principles*** section of Note 1 for further discussion.

Prior to January 1, 2008, the Company accounted for its convertible bonds in accordance with FAS 155, *Accounting for Certain Hybrid Instruments, an amendment to Statements No. 133 and 140* (FAS 155). Convertible bonds were recorded at fair value which changes therein recorded as realized investment gains or losses. On January 1, 2008, White Mountains has elected the fair value option under FAS 159 for its investment in convertible bonds, which continue to be recorded at fair value. Upon adoption of FAS 159, changes in fair value are recorded in revenues through unrealized investment gains.

White Mountains has invested in mortgage backed and asset-backed securities which are carried at fair value within fixed maturity investments. Fair values are based on quoted market prices when available. 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.

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

Realized gains and losses resulting from sales of investment securities are accounted for using the weighted average method. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of March 31, 2008 and December 31, 2007. Short-term investments held in the segregated trust account are included in the total of investments held in trust.

Other investments comprise White Mountains investments in limited partnerships, hedge fund and private equity interests.

Pre-tax net investment income for the three months ended March 31, 2008 and 2007 consisted of the following:

Millions	Three Months Ended March 31, 2008	2007
Investment income:		
Fixed maturity investments	**$ 97.1**	$ 96.3
Short-term investments	**12.3**	17.9
Common equity securities	**9.1**	5.0
Other		1.1
Convertible fixed maturity investments	**1.7**	1.1
Total investment income	**120.2**	121.4
Less investment expenses	**(3.4)**	(3.4)
Net investment income	**$ 116.8**	$ 118.0

Pre-tax realized investment (losses) gains consisted of the following:

Millions	Three Months Ended March 31, 2008	2007
Fixed maturity investments	**$ (12.6)**	$ 8.2
Common equity securities	**3.4**	48.1
Other investments	**(7.7)**	17.7
Convertible fixed maturity investments	**3.9**	(.1)
Net realized investment (losses) gains	**$ (13.0)**	$ 73.9

The Company recognizes declines in fair value deemed to be other-than-temporary impairments as realized losses. For the three months ended March 31, 2007, no such charges were taken. Effective January 1, 2008, upon adoption of FAS 159, for all investment securities for which the fair election has been made, all changes in fair value are included in revenues.

White Mountains ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated affiliates at March 31, 2008 and December 31, 2007 were as follows:

Millions	March 31, 2008	December 31, 2007
Investment securities, available for sale:		
Gross unrealized investment gains	**$**	$ 396.8
Gross unrealized investment losses		(85.7)
Net unrealized gains from investment securities		311.1
Net unrealized losses from investments in unconsolidated affiliates	**(26.0)**	(1.9)
Total net unrealized investment (losses) gains, before tax	**(26.0)**	309.2
Deferred income taxes on net unrealized gains		(99.0)
Minority interest		(3.2)
Total net unrealized investment (losses) gains, after-tax	**$ (26.0)**	$ 207.0

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains fixed maturity investments as of March 31, 2008 and December 31, 2007, were as follows:

	March 31, 2008				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government obligations	$ 735.1	$ 46.3	$	$	$ 781.4
Debt securities issued by industrial corporations	2,031.6	26.5	(44.1)	58.7	2,072.7
Municipal obligations	42.3	1.0			43.3
Mortgage-backed and asset-backed securities	2,965.3	28.7	(25.4)	2.3	2,970.9
Foreign government obligations	727.3	8.8	(2.3)	125.6	859.4
Preferred stocks	106.1	1.5	(.9)	8.2	114.9
Total fixed maturity investments	**$ 6,607.7**	$ 112.8	$ (72.7)	$ 194.8	**$ 6,842.6**

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	December 31, 2007				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government obligations	$ 1,250.9	$ 30.5	$ (1.7)	$	$ 1,279.7
Debt securities issued by industrial corporations	2,095.8	30.7	(31.1)	35.3	2,130.7
Municipal obligations	11.9	.5			12.4
Mortgage-backed and asset-backed securities	2,882.6	21.4	(7.3)	1.9	2,898.6
Foreign government obligations	792.3	2.6	(5.2)	86.6	876.3
Preferred stocks	159.5	8.2	(2.3)	8.4	173.8
Total fixed maturity investments	$ 7,193.0	$ 93.9	$ (47.6)	$ 132.2	$ 7,371.5

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains common equity securities and other investments as of March 31, 2008 and December 31, 2007, were as follows:

	March 31, 2008				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	**$ 1,378.5**	$ 176.0	$ (58.4)	$ 24.6	**$ 1,520.7**
Other investments	**$ 543.9**	$ 113.4	$ (12.5)	$ (2.3)	**$ 642.5**

	December 31, 2007				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	$ 1,333.9	$ 234.8	$ (34.8)	$ 16.8	$ 1,550.7
Other investments(1)	$ 539.2	$ 68.1	$ (3.3)	$ (.7)	$ 603.3

(1) Prior to the adoption of FAS 159, equity changes in White Mountains interest in limited partnerships accounted for using the equity method were reported as realized gains (losses) through earnings and a corresponding increase (decrease) in the cost of the investment. Effective with the adoption of FAS 159 on January 1, 2008, White Mountains now reports equity changes in limited partnership interests through net unrealized investment gains (losses) in earnings. Consequently, on January 1, 2008, White Mountains reduced the cost and increased the gross unrealized gains of its investments in limited partnerships by $48.8.

Fair value measurements at March 31, 2008

The Company adopted FAS 157 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, 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 FAS 157 fair value hierarchy. Other investments, which comprises limited partnerships, hedge fund and private equity interests for which the SFAS 159 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. In circumstances where the partnership net asset value is deemed to differ from fair value due to illiquidity or other factors, net asset value is adjusted accordingly.

The following table summarizes White Mountains fair value measurements for investments at March 31, 2008, by level:

	March 31, 2008			
Millions	**Fair value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed maturities	$ 6,842.6	$ 728.0	$ 5,927.9	$ 186.7
Common equity securities	1,520.7	1,386.3	1.0	133.4
Convertible fixed maturity investments	463.0		460.2	2.8
Short-term investments	2,372.2	2,372.2		
Other investments(1)	633.5			633.5
Total investments	$ 11,832.0	$ 4,486.5	$ 6,389.1	$ 956.4

(1) The fair value of other investments excludes carrying value of $9.0 associated with other investment limited partnerships accounted for using the equity method.

The following table summarizes the changes in White Mountains Level 3 fair value measurements for the three months ended March 31, 2008:

Millions	**Fixed Maturities**	**Common equity securities**	**Convertible fixed maturities**	**Other investments**	**Total**
Balance at January 1, 2008	$ 297.9	$ 308.6	$ 23.2	$ 596.4	$ 1,226.1
Total realized and unrealized losses	(3.9)	(2.1)		(16.0)	(22.0)
Purchases	16.0	8.5	2.8	35.7	63.0
Sales	(88.4)	(23.3)	(23.2)	(35.0)	(169.9)
Transfers in (out)	(34.9)	(158.3)		52.4	(140.8)
Balance at March 31, 2008	$ 186.7	$ 133.4	$ 2.8	$ 633.5	$ 956.4
Amount of total losses included in earnings attributable to the change in unrealized losses related to assets still held at March 31, 2008	$ (3.9)	$ (2.8)	$	$ (17.8)	$ (24.5)

Transfers out of Level 3 measurements for fixed maturities relate primarily to securities recently acquired at January 1, 2008 and for which observable inputs were unavailable at that date. Such securities were manually priced using a combination of market inputs such as benchmark interest rates, market comparables and/or broker quotes. Transfers out of Level 3 measurements for common equity securities related to securities for which pricing information did not represent current market inputs at January 1, 2008. This was deemed to render the fair value measurements as based upon unobservable inputs and were accordingly classified within Level 3. Although the prices for these securities were based upon unobservable market inputs, the fair value measurements did not differ materially from fair values based upon current market inputs at the reporting date. When observable pricing inputs subsequently became available, the fair value measurements for these fixed maturity and common equity securities were reclassified to Levels 1 and/or 2. Transfers into Level 3 for investment partnerships relates to the Company s investment in Pentelia which was previously accounted for under the equity method (see Note 12). When the Company s investment fell below the threshold for equity method accounting, the Company began accounting for the investment as a FAS 115 security, classified as trading.

Changes in fair value for the three months ended March 31, 2008

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

Millions		**Net unrealized gains (losses)**		**Net foreign exchange gains (losses)**		**Total changes in fair value reflected in earnings**
Fixed maturities	$	3.8	$	2.2	$	6.0
Common equity securities		(82.1)		(.7)		(82.8)
Short-term investments		.3		1.2		1.5
Convertible fixed maturities		(16.5)				(16.5)
Other investments		(13.2)				(13.2)
Net unrealized investment (losses) gains	**$**	**(107.7)**	**$**	**2.7**	**$**	**(105.0)**

Note 6. Debt

White Mountains   debt outstanding as of March 31, 2008 and December 31, 2007 consisted of the following:

Millions		March 31, 2008		December 31, 2007
Fund American Senior Notes, at face value	**$**	**700.0**	$	700.0
Unamortized original issue discount		**(1.0)**		(1.1)
Fund American Senior Notes, carrying value		**699.0**		698.9
WMRe Senior Notes, at face value		**400.0**		400.0
Unamortized original issue discount		**(1.1)**		(1.1)
WMRe Senior Notes, carrying value		**398.9**		398.9
WTM Bank Facility		**475.0**		
Fund American Bank Facility				
Mortgage Note		**40.8**		40.8
Sierra Note		**36.3**		36.3
Atlantic Specialty Note		**16.0**		18.0
Total debt	**$**	**1,666.0**	$	1,192.9

WMRe Senior Notes

On March 19, 2007, WMRe Group issued $400.0 million face value of senior unsecured notes at an issue price of 99.715% (the   WMRe Senior Notes   ) for net proceeds of $392.0 million after taking into effect both deferrable and non-deferrable issuance costs, including the interest rate lock agreement described below. The WMRe Senior Notes were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. The WMRe Senior Notes bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017.

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

In anticipation of the issuance of the WMRe Senior Notes, White Mountains Re entered into an interest rate lock agreement to hedge its interest rate exposure from the date of the agreement until the pricing of the WMRe Senior Notes. The agreement was terminated on March 15, 2007 with a loss of $2.4 million, which was recorded in other comprehensive income. The loss is being reclassified from accumulated other comprehensive income over the life of the WMRe Senior Notes using the interest method and is included in interest expense. At March 31, 2008, the unamortized balance of the loss remaining in accumulated other comprehensive income was $2.2 million.

Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, including the interest rate lock agreement, the WMRe Senior Notes yield an effective rate of 6.49% per annum. White Mountains recorded $6.5 million and $.7 million of interest expense, inclusive of amortization of issuance costs and the interest rate lock agreement, on the WMRe Senior Notes for the three months ended March 31, 2008 and 2007.

At March 31, 2008, White Mountains was in compliance with all of the covenants under the WMRe Senior Notes.

Bank Facilities

The WTM Bank Facility is a $475 million revolving credit facility that matures in June 2012. As of March 31, 2008, in anticipation of the Berkshire Exchange, White Mountains had drawn the full $475 million under the WTM Bank Facility (see Note 2) at an effective interest rate of 3.1%. White Mountains recorded $.6 million in interest expense on this borrowing for the three months ended March 31, 2008. In April 2008, the Company repaid $175 million of the borrowings and extended the balance at an effective interest rate of 3.3%.

OneBeacon, through its wholly-owned subsidiary Fund American Companies, Inc. (Fund American), has a $75 million revolving credit facility that matures in November 2011 (the Fund American Bank Facility), which was undrawn as of March 31, 2008.

The WTM Bank Facility and the Fund American Bank Facility contain various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings and include maintaining certain minimum net worth and maximum debt to capitalization standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under these facilities and result in acceleration of principal repayment on any amounts outstanding. At March 31, 2008, White Mountains was in compliance with all of the covenants under the WTM Bank Facility and the Fund American Bank Facility, and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

Note 7. Income Taxes

The Company is domiciled in Bermuda and has subsidiaries domiciled in several 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 provision (benefit) for the first quarter of 2008 represented an effective tax rate of (31.7)%, while the effective tax rate in the first quarter of 2007 was 23.7%. White Mountains   effective tax rates were different from the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States, the change in unrealized investment gains (losses) pursuant to FAS 159, withholding taxes and non-deductible dividends and accretion on the Berkshire Preferred Stock.

In arriving at the effective tax rate for the quarter ended March 31, 2008, White Mountains is treating the change in unrealized investment gains (losses) as a discrete item separate from the other components of pre-tax income (loss). Therefore, the benefit of these net losses is calculated at the statutory rate applicable to the jurisdiction in which the losses are recorded. The majority of investment assets incurring current period net losses for the quarter ended March 31, 2008 are recorded in the U.S. and Sweden, and are taxed at the statutory rate of 35% and 28%, respectively. White Mountains believes that the treatment for the change in unrealized investment gains (losses) as a discrete item is appropriate since a reliable estimate for the full year cannot be made.

On January 1, 2007, White Mountains adopted FASB Interpretation No. 48, *Accounting for Uncertainy in Income Taxes* (FIN 48   ). FIN 48 prescribes when the benefit of a given tax position should be recognized and how it should be measured. In connection with the adoption of FIN 48, White Mountains has recognized a $.2 million decrease in the liability for unrecognized tax benefits, primarily as a result of reductions in its estimates of accrued interest. The effect of adoption has been recorded as an adjustment to opening retained earnings.

Under FIN 48*,* 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. The Internal Revenue Service (IRS   ) commenced an examination of certain of White Mountains   U.S. subsidiaries   income tax returns for 2003 through 2004 in the second quarter of 2006 that is anticipated to be completed by the end of 2008. As of March 31, 2008, White Mountains has received proposed adjustments relating to the deductibility of certain expenses that, if sustained, would reduce the balance of unrecognized tax benefits recorded. However, the final outcome of the on-going IRS examination is still uncertain and White Mountains cannot estimate the range of possible changes to its unrecognized tax benefits at this time. White Mountains does not expect to receive any adjustments that would result in a material change to its financial position.

Note 8. Weather Contracts

For the three months ended March 31, 2008 and 2007, Galileo recognized $4.0 million and $1.0 million of net gains on its weather and weather contingent derivatives portfolio, excluding unamortized deferred gains of $4.6 million and $.3 million, respectively. The fair values of Galileo s risk management products are subject to change in the near-term and reflect management s best estimate based on various factors including, but not limited to, realized and forecasted weather conditions, changes in interest or foreign currency exchange rates and other market factors. Estimating the fair value of derivative instruments that do not have quoted market prices requires management s judgment in determining amounts that could reasonably be expected to be received from or paid to a third party to settle the contracts. Such amounts could be materially different from the amounts that might be realized in an actual transaction to settle the contract with a third party. Because of the significance of the unobservable inputs used to estimate the fair value of Galileo s weather risk contracts, the fair value measurements of the contracts are deemed to be Level 3 measurements in the FAS 157 fair value hierarchy.

Galileo s weather risk management contracts are summarized in the following table:

Millions	Three Months Ended March 31, 2008		2007	
Net liability for weather derivative contracts as of January 1 (1)	$	17.9	$	12.1
Net consideration received during the period for new contracts		8.4		.9
Net payments made on contracts settled during the period		(7.8)		(7.9)
Net decrease in fair value on settled and unsettled contracts		(4.0)		(1.0)
Net liability for weather derivative contracts as of March 31 (2)	$	14.5	$	4.1

(1) Includes unamortized deferred gains of $2.9 and $4.7 as of January 1, 2008 and 2007.

(2) Includes unamortized deferred gains of $4.6 and $.3 as of March 31, 2008 and 2007.

The following table summarizes the maturity of contracts outstanding as of March 31, 2008:

Millions	< 1 Year		1-3 Years		3-5 Years		> 5 Years		Total
Net (asset) liability for contracts actively quoted	$	(.3)	$		$		$		$	(.3)
Net liability for contracts using internal pricing models		5.5		9.3						14.8
Total net liability for weather contracts outstanding	$	5.2	$	9.3	$		$		$	14.5(1)

(1) Amount includes $4.6 in unamortized deferred gains.

<u>Note 9. Variable Annuity Reinsurance</u>

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

At March 31, 2008 and December 31, 2007, the liability recorded for the variable annuity benefit guarantees which is included in other liabilities, was $96.0 million and $12.7 million, respectively of which $5.4 million and $.4 million, respectively, were life insurance liabilities.

At March 31, 2008 and December 31, 2007, the fair value of WM Life Re s derivative contracts was $80.3 million and $43.7 million, which are included in other assets. For the three months ended March 31, 2008 and 2007, WM Life Re had gains and (losses) from derivatives of $55.8 million and $(3.2) million.

At March 31, 2008, WM Life Re had $42.4 million of cash and $5.0 million of securities deposited as collateral with counterparties. In addition, at March 31, 2008, derivative financial instruments with a fair value of $51.8 million were subject to restrictions over liquidation of the instruments and distribution of proceeds under collateral agreements with counterparties. At December 31, 2007, WM Life Re had $8.5 million of cash and $5.0 million of securities deposited as collateral with counterparties.

All of the Company s variable annuity reinsurance liabilities ($96.0 million) were classified as Level 3 measurements at March 31, 2008.

The following table summarizes the changes in the Company s variable annuity reinsurance liabilities and derivative instruments classified as Level 3 measurements for the three months ended March 31, 2008**:**

Millions	**Liabilities**	**Derivative Instruments**
Balance at January 1, 2008	$ (12.7)	$ 38.9
Purchases		10.9
Realized and unrealized gains (losses)	(83.3)	23.1
Transfers in (out)		
Sales/settlements		
Balance at March 31, 2008	$ (96.0)	$ 72.9

Note 10. (Loss) Earnings Per Share

Basic (loss) earnings per share amounts are based on the weighted average number of common shares outstanding excluding unvested restricted common shares (Restricted Shares). Diluted (loss) earnings per share amounts are based on the weighted average number of common shares and the net effect of potentially dilutive common shares outstanding, based on the treasury stock method. The following table outlines the Company s computation of (loss) earnings per share for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,			
		2008		**2007**
Basic (loss) earnings per share numerators (in millions):				
(Loss) income before extraordinary item	**$**	**(61.0)**	$	92.2
Extraordinary item - excess of fair value of acquired net assets over cost		**4.2**		
Net (loss) income	**$**	**(56.8)**	$	92.2
Diluted (loss) earnings per share numerators (in millions):				
(Loss) income before extraordinary item	**$**	**(61.0)**	$	92.2
Extraordinary item - excess of fair value of acquired net assets over cost		**4.2**		
Net (loss) income	**$**	**(56.8)**	$	92.2
Basic (loss) earnings per share denominators (in thousands):				
Average common shares outstanding during the period		**10,562**		10,824
Average unvested Restricted Shares		**(50)**		(48)
Basic (loss) earnings per share denominator		**10,512**		10,776
Diluted (loss) earnings per share denominator (in thousands):				
Average common shares outstanding during the period		**10,562**		10,824
Average unvested Restricted Shares (1)		**(53)**		(48)
Average outstanding dilutive options to acquire common shares (2)				20
Diluted (loss) earnings per share denominator		**10,509**		10,796
Basic (loss) earnings per share (in dollars):				
(Loss) income before extraordinary item	**$**	**(5.81)**	$	8.56
Extraordinary item - excess of fair value of acquired assets over cost		**.41**		
Net (loss) income	**$**	**(5.40)**	$	8.56
Diluted (loss) earnings per share (in dollars)				
(Loss) income before extraordinary item	**$**	**(5.81)**	$	8.54
Extraordinary item - excess of fair value of acquired assets over cost		**.41**		
Net (loss) income	**$**	**(5.40)**	$	8.54

(1) Restricted Shares outstanding vest either upon a stated date or upon the occurrence of a specified event (see Note 14). In accordance with FAS No. 123(R), the diluted (loss) earnings per share denominator is reduced by the number of Restricted Shares that represent the unamortized compensation cost at March 31, 2008 and 2007. Such amounts are computed using the treasury stock method.

(2) The diluted loss per share denominator for the three months ended March 31, 2008 does not include common shares issuable upon exercise of incentive options as they are anti-dilutive to the calculation. The diluted earnings per share denominator for the three months ended March 31, 2007 includes 27,450 common shares issuable upon exercise of incentive options at an average strike price of $159.33 per common share. The non-qualified options were not included in the diluted (loss) earnings per share denominator as their inclusion would be anti-dilutive for the periods presented (see Note 14).

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Note 11. 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 March 31, 2008					
Earned insurance and reinsurance premiums	$ 455.3	$ 266.8	$ 207.0	$	$ 929.1
Net investment income	50.1	50.5	7.9	8.3	116.8
Net realized investment gains (losses)	3.7	(12.2)	(1.5)	(3.0)	(13.0)
Net unrealized losses on investments	(59.1)	(40.3)	(5.6)		(105.0)
Other revenue	3.6	(12.9)	3.1	16.2	10.0
Total revenues	**453.6**	**251.9**	**210.9**	**21.5**	**937.9**
Losses and LAE	300.9	168.2	168.4	1.2	638.7
Insurance and reinsurance acquisition expenses	84.7	55.6	46.4		186.7
Other underwriting expenses	70.1	27.0	19.0	.7	116.8
General and administrative expenses	4.4	5.1	.6	48.1	58.2
Accretion of fair value adjustment to loss and LAE reserves	3.0	1.2			4.2
Interest expense on debt	11.5	6.9		1.0	19.4
Interest expense - dividends and accretion on preferred stock	17.6				17.6
Total expenses	**492.2**	**264.0**	**234.4**	**51.0**	**1,041.6**
Pre-tax loss	**$ (38.6)**	**$ (12.1)**	**$ (23.5)**	**$ (29.5)**	**$ (103.7)**

Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Operations**	**Total**
Three months ended March 31, 2007					
Earned insurance and reinsurance premiums	$ 468.9	$ 298.3	$ 170.8	$	$ 938.0
Net investment income	50.6	48.1	6.2	13.1	118.0
Net realized investment gains (losses)	54.9	19.9	1.0	(1.9)	73.9
Other revenue	3.1	(3.6)	3.0	33.7	36.2
Total revenues	577.5	362.7	181.0	44.9	1,166.1
Losses and LAE	288.2	194.6	130.3	.2	613.3
Insurance and reinsurance acquisition expenses	78.3	69.6	44.7		192.6
Other underwriting expenses	90.9	31.3	14.7	.8	137.7
General and administrative expenses	2.4	6.6	.1	43.8	52.9
Accretion of fair value adjustment to loss and LAE reserves	4.0	1.1			5.1
Interest expense on debt	11.4	1.2		4.2	16.8
Interest expense - dividends and accretion on preferred stock					