WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K
February 27, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Shares, par value $1.00 per share	New York Stock Exchange Bermuda Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	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

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2008, was $4,114,533,852.

As of February 27, 2009, 8,854,163 common shares, par value of $1.00 per share, were outstanding (which includes 90,120 restricted common shares that were not vested at such date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement to be filed with the Securities and Exchange Commission (SEC) pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), relating to the Registrant s Annual General Meeting of Members scheduled to be held June 4, 2009 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

GENERAL

White Mountains Insurance Group, Ltd. (the Company or the Registrant) is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. Within this report, the term White Mountains is used to refer to one or more entities within the consolidated organization, as the context requires. The Company s headquarters are located at Bank of Butterfield Building, 42 Reid Street, Hamilton, Bermuda HM 12, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S.-based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, commercial and personal products and services sold primarily through select independent agents and brokers. 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). As of December 31, 2008 and 2007, White Mountains owned 75.5% and 72.9% of OneBeacon Ltd. s outstanding common shares.

The White Mountains Re segment consists of White Mountains Re Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, White Mountains Re). White Mountains Re offers reinsurance capacity for property, casualty, accident & health, agriculture, aviation and space, and certain other exposures on a worldwide basis through its subsidiaries, White Mountains Reinsurance Company of America (WMRe America), which was formerly known as Folksamerica Reinsurance Company, Sirius International Insurance Corporation (WMRe Sirius) and White Mountains Re Bermuda Ltd. (WMRe Bermuda). White Mountains Re also includes Scandinavian Reinsurance Company, Ltd. (Scandinavian Re), which is in run-off, and the consolidated results of the Tuckerman Capital II, LP fund (Tuckerman Fund II), which was transferred to White Mountains Re from Other Operations, effective June 30, 2008.

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

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its weather risk management business, Galileo Weather Risk Management Ltd. and Galileo Weather Risks Advisors Limited (collectively, 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 its subsidiaries, which were disposed in October 2008. The Other Operations segment also includes White Mountains investments in Lightyear Delos Acquisition Corp. (Delos), common shares and warrants to purchase common shares of Symetra Financial Corporation (Symetra), and the consolidated results of the Tuckerman Capital, LP fund (Tuckerman Fund I) and Tuckerman Fund II until its transfer to

White Mountains Re, effective June 30, 2008.

White Mountains Operating Principles

White Mountains strives to operate within the spirit of four operating principles. These are:

Underwriting Comes First. An insurance enterprise must respect the fundamentals of insurance. There must be a realistic expectation of underwriting profit on all business written, and demonstrated fulfillment of that expectation over time, with focused attention to the loss ratio and to all the professional insurance disciplines of pricing, underwriting and claims management.

Maintain a Disciplined Balance Sheet. The first concern here is that insurance liabilities must always be fully recognized. Loss reserves and expense reserves must be solid before any other aspect of the business can be solid. Pricing, marketing and underwriting all depend on informed judgment of ultimate loss costs and that can be managed effectively only with a disciplined balance sheet.

Invest for Total Return. Historical insurance accounting has tended to hide unrealized gains and losses in the investment portfolio and over-reward reported investment income (interest and dividends). Regardless of the accounting, White Mountains must invest for the best growth in after-tax value over time. In addition to investing our bond portfolios for total after-tax return, that will also mean prudent investment in a balanced portfolio consistent with leverage and insurance risk considerations.

Table of Contents

Think Like Owners. Thinking like owners has a value all its own. There are stakeholders in a business enterprise and doing good work requires more than this quarter s profit. But thinking like an owner embraces all that without losing the touchstone of a capitalist enterprise.

ONEBEACON

OneBeacon, whose United States headquarters is in Canton, Massachusetts, is a property and casualty insurance writer that provides a range of specialty insurance products as well as a variety of segmented commercial and personal insurance products. With roots dating back to 1831, OneBeacon has been operating for more than 175 years and has many long-standing relationships with independent agencies, which constitute its primary distribution channel. At December 31, 2008 and 2007, OneBeacon had $7.9 billion and $9.5 billion of total assets and $1.2 billion and $1.9 billion of shareholders equity. At December 31, 2008 and 2007, White Mountains reported $284 million and $517 million of minority interest related to its ownership in OneBeacon. OneBeacon wrote approximately $2.0 billion and $1.9 billion in net written premiums in 2008 and 2007.

The following table presents the financial strength ratings assigned to OneBeacon s principal insurance operating subsidiaries:

	A.M. Best(1)	Standard & Poor s(2)	Moody s(3)	Fitch(4)
Rating	A (Excellent)	A (Strong)	A2 (Good)	A (Strong)
Outlook	Stable	Negative	Stable	Stable

(1) A is the third highest of fifteen financial strength ratings assigned by A.M. Best Company (A.M. Best).

(2) A is the sixth highest of twenty-one financial strength ratings assigned by Standard & Poor s (S&P).

(3) A2 is the sixth highest of twenty-one financial strength ratings assigned by Moody s Investor Service (Moody s)

(4) A is the sixth highest of twenty-one financial strength ratings assigned by Fitch Ratings (Fitch).

Property and Casualty Insurance Overview

Generally, property and casualty insurance companies write insurance policies in exchange for premiums paid by their customers (the insured). An insurance policy is a contract between the insurance company and the insured where the insurance company agrees to pay for losses suffered by the insured that are covered under the contract. Such contracts often are subject to subsequent legal interpretation by courts, legislative action and arbitration. Property insurance generally covers the financial consequences of accidental losses to the insured s property, such as a home and the personal property in it, or a business building, inventory and equipment. Casualty insurance (often referred to as liability insurance) generally covers the financial consequences of a legal liability of an individual or an organization resulting from negligent acts and omissions causing bodily injury and/or property damage to a third party. Claims on property coverage generally are reported and settled in a relatively short period of time, whereas those on casualty coverage can take years, even decades, to settle.

OneBeacon derives substantially all of its revenues from earned premiums, investment income and net realized and unrealized gains and losses on investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, investment income is generated, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities. Effective January 1, 2008, OneBeacon elected to report unrealized gains and losses on investments through income as a component of revenues. Prior to that, unrealized gains and losses were recorded directly to shareholders equity as a component of other comprehensive income.

Insurance companies incur a significant amount of their total expenses from policyholder losses, which are commonly referred to as claims . In settling policyholder losses, various loss adjustment expenses (LAE) are incurred, such as insurance adjusters fees and litigation expenses. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including their employees compensation and benefits.

The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company s combined ratio under accounting principles generally accepted in the United States (GAAP) is calculated by adding the ratio of incurred loss and LAE to earned premiums (the loss and LAE ratio) and the ratio of policy acquisition and other underwriting expenses to earned premiums (the expense ratio). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

Table of Contents

Lines of Business

OneBeacon s business is managed through three major underwriting units: specialty lines, commercial lines and personal lines. OneBeacon s specialty lines businesses are national in scope, while its commercial lines products are available in select territories throughout the United States and personal lines are exclusively available in the eight Northeastern states (the New England states, New York and New Jersey). OneBeacon also has run-off business, which primarily consists of national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group (Liberty Mutual) effective November 1, 2001.

For the twelve months ended December 31, 2008, 2007 and 2006, OneBeacon s net written premiums by line of business were as follows:

Net written premiums by line of business	**Year Ended December 31,**		
Millions	**2008**	**2007**	**2006**
Specialty	**$ 621.9**	$ 440.3	$ 433.9
Commercial	**722.1**	733.4	722.0
Personal	**618.7**	690.4	800.6
Run-off	**.4**	.3	1.1
Total	**$ 1,963.1**	$ 1,864.4	$ 1,957.6

Specialty lines

OneBeacon s specialty lines underwriting unit is a collection of niche businesses that focus on solving the unique needs of particular customer groups on a national scale. Each of these businesses maintains stand-alone operations and distribution channels targeting their specific customer groups. OneBeacon s specialty lines businesses provide distinct products and offer tailored coverages and services, managed by teams of market specialists. OneBeacon s specialty lines businesses include:

- *OneBeacon Professional Partners (OBPP):* Formed in 2002, OBPP specializes in professional liability insurance products for an increasingly broad range of industry groups. OBPP s original focus on health-care related liability insurance continues while expansion into non-health-care related liability insurance segments has increased over the last four years. Medical liability insurance for health-care industry segments, including hospitals, physician groups, managed care organizations, long-term care facilities and other non-hospital medical facilities, represents the most significant share of OBPP s business. Additionally, OBPP offers stop loss insurance to certain health-care providers through its provider excess insurance and HMO reinsurance products. Errors and omissions liability insurance coverage is also provided to business segments including law firms, in-house counsel, realtors and media organizations. Management liability coverage, specifically directors and officers and employment practices insurance, is offered on a limited basis to some of the business segments noted above. Underwriting, claims and risk control services are managed internally. OBPP s policies are primarily issued on a claims made basis, which covers losses reported during the time period when a liability policy is in effect, regardless of when the event causing the claim actually occurred.

- *International Marine Underwriters (IMU):* A leading provider of marine insurance, this business traces its roots back to the early 1900s. IMU coverages include physical damage or loss and general liability for cargo and commercial hull, both at primary and excess levels. IMU also offers coverage for marinas, including a package product with comprehensive property and liability coverage, and yachts. The offerings were strengthened by IMU s acquisition in October 2006 of yacht-specialist National Marine Underwriters, Inc., a yacht insurance managing general agency. IMU does not offer offshore energy products. Target customers include ferry operators and charter boats (hull), marina operators and boat dealers (package product) and private-pleasure yachts with hull values of less than $1 million.

- *A.W.G. Dewar (Dewar):* A leading provider of tuition reimbursement insurance since 1930, Dewar s product protects both schools and parents from the financial consequences of a student s withdrawal or dismissal from school. The tuition refund plan reimburses parents up to 100% of tuition and room and board fees when a student is obliged to leave school due to covered reasons, such as medical or expulsion. Dewar provides customized policies to independent schools and colleges in North America.

- *Specialty Accident and Health (A&H):* Formed in November 2006, this group provides accident insurance, principally to employer groups (mid-sized organizations to Fortune 1000 companies), associations and other affinity groups. A&H s products include corporate accident, travel accident and occupational accident coverage, which is primarily targeted to the trucking industry. In the fourth quarter of 2008, A&H launched OneBeacon Services to provide employer and other affinity groups with access to a suite of services to help manage today s emerging issues. Services include a discounted prescription drug program, identity theft resolution services and travel assistance services. The A&H group distributes products through independent agents and brokers and selectively markets directly to customers.

Table of Contents

- *OneBeacon Government Risks (OBGR):* Formed in March 2007, this group offers property and casualty products for government entities. The products include automobile, property, general liability and professional liability coverages. The professional liability offerings consist of law enforcement, public officials and employment practice coverage. Markets served include cities, towns, townships, counties, transit authorities, government agencies, special districts and pools (groups of public entities). OBGR strategically distributes its products through agents and brokers.

- *Specialty Collector Car and Boat:* In the second quarter of 2008, OneBeacon began to provide property and casualty insurance solutions through an exclusive partnership with Hagerty Insurance Agency and Hagerty Classic Marine Insurance Agency (Hagerty), the nation s premier collector car and classic boat agencies. Hagerty s specialty services include collector car and wooden boat insurance, vehicle valuation, financing and roadside assistance, as well as a variety of useful information resources. Its Hagerty Plus community of collector-car enthusiasts has over 280,000 members. Hagerty works proactively on hobby advocacy and supports the Collectors Foundation, a nonprofit organization formed by Hagerty and dedicated to the preservation of the hobby.

- *Entertainment Brokers International Insurance Services (EBI):* Acquired in the third quarter of 2008, EBI provides specialized commercial insurance products, including professional liability coverages, for the entertainment, sports and leisure industries. EBI continues to operate as a managing agency with a network of 500 independent agents and brokers. EBI also operates a brokerage operation offering excess workers compensation coverages and a high value homeowners product.

Each of these businesses maintains stand-alone operations and distribution channels targeting their specific customer groups. OneBeacon s specialty lines include several businesses focused on smaller property-casualty insurance segments where particular expertise and relationships with similarly focused distribution partners has resulted historically in strong operating results. These businesses maintain their competitive advantage through a deep knowledge of their respective customers and markets.

For the twelve months ended December 31, 2008, 2007 and 2006, OneBeacon s specialty lines net written premiums were as follows:

Specialty lines net written premiums	**Year Ended December 31, (1)**		
Millions	**2008**	**2007**	**2006**
OBPP	**$ 239.9**	$ 213.9	$ 179.3
IMU	**157.0**	158.6	139.9
Specialty collector car and boat	**110.0**		
Other on-going specialty lines	**115.0**	67.8	50.0
Total on-going specialty lines	**621.9**	440.3	369.2
Agri(2)			64.7
Total specialty lines	**$ 621.9**	$ 440.3	$ 433.9

(1) In the first quarter of 2008, OneBeacon began to include Community Banks within commercial lines. Community Banks was formerly reported in specialty lines. Prior periods have been reclassified to conform to the current presentation.

(2) OneBeacon sold the renewal rights to its Agri division policies on September 29, 2006.

Commercial lines

OneBeacon s specialized approach to commercial lines features a suite of customized products and services that target certain industry groups supported by teams of seasoned underwriting, risk control and claims specialists. This targeted industry focus has resulted in favorable loss ratios and strong customer retention levels. In recent years, OneBeacon has continued to selectively expand into new geographic territories that align well with its targeted approach. OneBeacon s commercial lines products include:

- *Multi-peril:* a package policy sold to small to mid-sized insureds or to members of trade associations or other groups that includes general liability and property insurance.

- *Automobile:* physical damage and liability coverage. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft or other causes. Automobile liability insurance covers bodily injury of others, damage to their property and costs of legal defense resulting from a collision caused by the insured.

- *Workers compensation:* covers an employer s liability for injuries, disability or death of employees, without regard to fault, as prescribed by state workers compensation law and other statutes.

- *Inland marine:* covers property that may be in transit or held by a bailee at a fixed location, movable goods that are often stored at different locations or property with an unusual antique or collector s value.

- *Property:* covers losses to a business premises, inventory and equipment as a result of weather, fire, theft and other causes.

- *Excess and surplus property:* provides excess property coverage against certain damages over and above those covered by primary policies or a large self-insured retention.

Table of Contents

- *General Liability:* covers businesses for any liability resulting from bodily injury and property damage arising from general business operations, accidents on a premises and products manufactured or sold.

- *Umbrella:* supplements existing insurance policies by covering losses from a broad range of insurance risks in excess of coverage provided by the primary insurance policy up to a specified limit.

OneBeacon s commercial lines underwriting unit is comprised of middle-market and small-business divisions.

Middle market:

OneBeacon s commercial lines middle-market business division targets select industry segments through its suite of @vantage products. OneBeacon s middle-market customers typically produce annualized gross premiums ranging from $25,000 to $1,000,000 and principally purchase package policies (combination policies offering property and liability coverage). OneBeacon targets 15 distinct customer groups with a primary focus on technology and financial services, as well as property and inland marine product offerings and excess property solutions. OneBeacon also produces some standard commercial business that is not targeted to a specific industry group. By partnering with OneBeacon s specialty lines businesses, OneBeacon s middle-market business can deliver a seamless, comprehensive OneBeacon solution, which management believes is a competitive advantage for OneBeacon and for its agents. Middle-market business is produced through regional and national agencies and brokers, and also provides excess property solutions primarily through surplus lines wholesalers. OneBeacon places particular emphasis on the following target segments and products:

- *Technology:* OneBeacon s target technology customer groups include hardware manufacturers, software companies, and telecommunications service providers with annual revenues up to $1 billion and fewer than 500 employees. OneBeacon s custom @vantage for Technology policies provide coverages for technology customers unique needs including specialized professional liability such as data privacy, communications and errors and omissions liability, both domestically and internationally. Within the technology segment OneBeacon specializes further with a product tailored for medical technology customers available on a claims-made or occurrence basis and that also provides protection worldwide. Within this class OneBeacon targets medical device manufacturers and operations.

- *Financial services:* This segment targets a broad range of financial services companies including credit unions, investment advisors, securities broker/dealers, insurance companies and commercial banks. Through its @vantage for Financial Services product, OneBeacon provides customers with broad property and general liability protection. For community banks with under $3 billion in assets, OneBeacon augments its property and general liability protection with specialized professional liability coverages.

- *Property and inland marine:* In this segment, OneBeacon offers a broad selection of products and services with a concentration in three key areas: construction, fine arts and transportation. OneBeacon s approach is to provide solutions that are creative and tailored to fit its customers needs with broad coverage forms, specialized risk control and claims handling. OneBeacon s target customers additionally benefit from OneBeacon s partnerships with job site and equipment theft prevention firms and fine arts appraisal and risk management organizations.

- *OneBeacon Specialty Property (OBSP):* OBSP provides excess property protection against certain damages over and above those covered by primary policies or a large self-insured retention. Target classes include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale and public entity and educational institutions. OBSP targets customers with low catastrophe-exposed risks. OneBeacon s excess property solutions are provided primarily through surplus lines wholesalers in all 50 states and the District of Columbia.

Small business:

OneBeacon s commercial lines small business division focuses on certain industry classes through its comprehensive business owners OnePac policy. OneBeacon targets 14 general industry groups as well as some association and affinity group businesses that provide a highly competitive solution for select agents. Coverages include automobile, workers compensation and umbrella augmented with customized coverages and limits aligned to OneBeacon s target classes. Small business customers typically generate annualized premiums ranging from $500 to $25,000. Small business is produced through regional and national agencies as well as aggregators representing smaller local agencies. OneBeacon s proprietary web platform, which expedites underwriting at the point of sale, enables growth in its newer territories while limiting the need for infrastructure. OneBeacon s small business service center provides customer administration for enrolled agents.

Table of Contents

For the years ended December 31, 2008, 2007 and 2006, commercial lines net written premiums were as follows:

Commercial lines net written premiums Millions	Year Ended December 31, (1) 2008	2007	2006
Middle market	**$ 566.6**	$ 595.6	$ 619.7
Small business	**155.5**	137.8	102.3
Total commercial lines	**$ 722.1**	$ 733.4	$ 722.0

(1) In the first quarter of 2008, OneBeacon began to include Community Banks within commercial lines. Community Banks was formerly reported in specialty lines. Prior periods have been reclassified to conform to the current presentation.

Personal Lines

OneBeacon s personal lines underwriting unit provides a comprehensive suite of personal insurance products sold through select independent agents with a focus on eight Northeastern states. OneBeacon s personal lines products include:

- *Automobile:* consists of physical damage and liability coverage. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft or other causes. Automobile liability insurance covers bodily injury of others, damage to their property and costs of legal defense resulting from a collision caused by the insured.

- *Homeowners:* covers losses to an insured s home, including its contents, as a result of weather, fire, theft and other causes and losses resulting from liability for acts of negligence by the insured or the insured s immediate family. OneBeacon also offers identity theft resolution assistance and identity theft expense reimbursement coverage as part of its homeowners policies.

- *Package:* consists of customized combination policies offering home and automobile coverage with optional umbrella and boatowners coverage.

OneBeacon s personal lines underwriting unit is comprised of traditional personal lines and AutoOne Insurance (AutoOne).

Traditional personal lines:

Within traditional personal lines, in addition to automobile, homeowners and package policy offerings, OneBeacon also includes management services provided to reciprocal insurance exchanges and the consolidation of the reciprocal insurance exchanges described below.

- *Traditional personal lines excluding reciprocals:* To maintain a high degree of flexibility, in 2004 OneBeacon created a highly segmented product suite, called OneChoice. OneChoice is a multi-tiered product suite that enables OneBeacon to offer a broader range of coverages to a full spectrum of customers through more sophisticated pricing models that have a greater statistical correlation between historical loss experience and price than traditional pricing models. This product suite offers both automobile and homeowners coverages as well as package policies such as OneChoice CustomPac, OneBeacon s flagship package policy. OneChoice products rely on multiple, objective pricing tiers and rules-based underwriting that enable agents to offer OneBeacon solutions to a broad array of their customers and increase its market penetration. OneBeacon regularly refines its product features and rating plans to optimize target market production. Ease of use is a critical aspect of this business. Investments in technology have provided opportunities for agents to access OneChoice through either OneBeacon s web-based proprietary agent portal or through comparative raters. OneBeacon believes that the availability of multiple channels to access its product offerings provides increased opportunities for new business.

- *Reciprocals:* OneBeacon provides management services for a fee to three reciprocal insurance exchanges, which OneBeacon refers to as reciprocals. The reciprocals offer the OneChoice product as described above. OneBeacon created and capitalized these reciprocals by lending them funds in exchange for surplus notes. Reciprocals are policyholder-owned insurance carriers organized as unincorporated associations. OneBeacon has no ownership interest in these reciprocals. As required by GAAP, White Mountains consolidated financial statements reflect the consolidation of these reciprocals. **See Note 18 Variable Interest Entities** of the accompanying consolidated financial statements. In the long term, as the reciprocals produce positive operating results and/or as third-party capital is invested, OneBeacon expects to derive value from reduced volatility in its year-to-year underwriting results. Further, OneBeacon will generate steady fee income for the various management services it provides to these associations and will receive the repayment of principal and interest on the surplus notes.

Table of Contents

AutoOne:

AutoOne is a market leader in assigned risk business in New York. Assigned risk plans provide automobile insurance for individuals unable to secure coverage in the voluntary market. Insurance carriers are obliged to accept future assignments from state assigned risk pools as a condition of maintaining a license to write automobile business in the state. However, carriers may satisfy their assigned risk obligation by buying out of their assignments through an agreement with an approved Assigned Risk Servicing Company or limit their assignments through the purchase and transfer of credits (for example, take-out, territorial and youthful driver credits). AutoOne offers services known as Limited Assignment Distribution (LAD) and Commercial Limited Assignment Distribution (CLAD) and credit programs to insurance carriers. AutoOne provides 28 LAD and CLAD programs in 21 states and the District of Columbia where assigned risk obligations may be assumed by a servicing carrier under a negotiated fee arrangement.

AutoOne also writes voluntary take-out business (policies taken out of the assigned risk pool and written in the voluntary market) by selecting policies from the assigned risk business it has assumed for its clients and from select insurance brokers that replace their clients assigned risk policies with AutoOne policies. AutoOne receives credits for all premium taken out of the assigned risk plan which it can use either to reduce its future assigned risk obligations or sell to other carriers that can use the credits to reduce their own quota obligations. In 2008, AutoOne wrote more take-out business than all other carriers in New York combined and all of its take-out credits were sold to other carriers to reduce their assigned risk quota obligations.

For the years ended December 31, 2008, 2007 and 2006, personal lines net written premiums were as follows:

Personal lines net written premiums	**Year Ended December 31,**		
Millions	**2008**	**2007**	**2006**
Traditional excluding reciprocals	**$ 296.4**	$ 338.0	$ 492.7
Reciprocals	**203.2**	221.3	93.2
Traditional personal lines	**499.6**	559.3	585.9
AutoOne	**119.9**	134.6	222.6
Other(1)	**(.8)**	(3.5)	(7.9)
Total personal lines	**$ 618.7**	$ 690.4	$ 800.6

(1) Represents elimination between traditional personal lines and AutoOne.

Run-off

Run-off primarily consists of national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual effective November 1, 2001. Beginning in 2001, national accounts and certain specialty programs were discontinued. On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual pursuant to a renewal rights agreement (the Liberty Agreement). The operating results and cash flows of policies renewed from November 1, 2001 through October 31, 2003 pursuant to the Liberty Agreement were shared between Liberty Mutual and OneBeacon. The Liberty Agreement pro-rated results so that OneBeacon assumed approximately two-thirds of the operating results from renewals through October 31, 2002 and approximately one-third of the operating results from renewals through October 31, 2003. The renewal rights under the Liberty Agreement expired on October 31, 2003. OneBeacon continues to manage claims from the discontinued national accounts and specialty programs business as well as the claims related to the business that was subject to the Liberty Agreement.

Geographic Concentration

OneBeacon s net written premiums are derived solely from business produced in the United States. Business from specialty, personal and commercial lines was produced in the following states:

	Year Ended December 31,		
Net written premiums by state	**2008**	**2007**	**2006**
New York	**21%**	22%	27%
Massachusetts	**14**	16	17
California	**9**	8	9
New Jersey	**8**	8	8
Connecticut	**6**	6	5
Maine	**5**	6	6
Other(1)	**37**	34	28
Total	**100%**	100%	100%

(1) No individual state is greater than 3% of specialty, personal or commercial net written premiums for the years ended December 31, 2008, 2007 and 2006.

Table of Contents

Marketing and Distribution

OneBeacon offers its products through a network comprised of independent agents, regional and national brokers and wholesalers. OneBeacon s distribution relationships consist of approximately 3,500 select agencies and brokers. In recent years, OneBeacon has expanded its distribution channels to include select managing general agencies (MGAs), either through acquisitions or exclusive relationships. These MGAs focus on a particular customer group with tailored products and services, and related expertise.

OneBeacon s specialty lines businesses are managed from locations logistically appropriate to their target markets. OBPP is based in Avon, Connecticut and distributes its products through select national and regional brokers and agents. IMU is headquartered in New York City and operates through ten locations throughout the United States. Its products are distributed through a network of select agencies that specialize in marine business. Dewar s affiliate, A.W.G. Dewar Agency, which is located in Quincy, Massachusetts, distributes tuition refund products to independent schools and colleges throughout North America. A&H conducts business through independent agents and brokers and selectively markets directly to customers. OBGR strategically distributes its products through agents and brokers. EBI, a recently acquired MGA, has locations in New York City and California.

Commercial lines products are available in select territories throughout the United States, whereas personal lines are exclusively available in the eight Northeastern states. The majority of OneBeacon s commercial and personal lines products are distributed through select independent insurance agents. OneBeacon protects the integrity of its franchise value by selectively appointing agents that demonstrate business and geographic profiles that align with its target markets and specialized capabilities. OneBeacon believes in the added value provided by independent insurance agents as they conduct more complete assessments of their clients needs, which result in more appropriate coverages and prudent risk management. OneBeacon also believes that independent agents will continue to be a significant force in overall industry premium production including facilitating the cross-selling of specialty, commercial and personal lines products.

New York-based AutoOne markets its LAD and CLAD services and New York take-out credits directly to insurance carriers seeking assigned risk solutions. AutoOne generates take-out credits by writing policies from select insurance brokers that were previously in the New York Automobile Insurance Plan (NYAIP), and sells these credits to insurance companies subject to NYAIP assignments.

Underwriting and Pricing

OneBeacon believes there must be a realistic expectation of attaining an underwriting profit on all the business it writes, as well as a demonstrated fulfillment of that expectation over time. Consistent with OneBeacon s underwriting comes first operating principle, adequate pricing is a critical component for achieving an underwriting profit. OneBeacon underwrites its book with a disciplined approach towards pricing its insurance products and is willing to forgo a business opportunity if it believes it is not priced appropriately to the exposure.

OneBeacon has used tiered rating plans since 2003 in both its commercial and personal lines, which permits it to offer more tailored price quotes to its customers based on underwriting criteria applicable to each tier. The enhanced accuracy and precision of OneBeacon s rate plans enable it to more confidently price its products to the exposure, and thereby permit OneBeacon s agency partners to deliver solutions to a broader range of customers.

OneBeacon also actively monitors pricing activity and measures usage of tiers, credits, debits and limits. In addition, OneBeacon regularly updates base rates to achieve targeted returns on capital and attempts to shift writings away from lines and classes where pricing is inadequate. To the extent changes in premium rates, policy forms or other matters are subject to regulatory approval (see **REGULATION United States** and **Risk Factors** ***Regulation may restrict our ability to operate***), OneBeacon proactively monitors its pending regulatory filings to facilitate, to the extent possible, their prompt processing and approval. Lastly, OneBeacon expends considerable effort to measure and verify exposures and insured values.

Competition

Property and casualty insurance is highly competitive. OneBeacon s competitors include numerous national and regional property and casualty insurers. The more significant competitive factors for most insurance products OneBeacon offers are price, product terms and claims service. OneBeacon s underwriting principles and dedication to independent agency distribution are unlikely to make OneBeacon the low-cost provider in most markets. However, while it is often difficult for insurance companies to differentiate their products to consumers, OneBeacon believes that its dedication to providing superior product offerings, expertise and local talent, claims service and disciplined underwriting provide a competitive advantage over typical low-cost providers. However, as the emergence and growth of competitors that have lower cost structures, such as direct writers, continues, OneBeacon will face greater pressure on its pricing which may impact its ability to compete.

Table of Contents

Claims Management

Effective claims management is a critical factor in achieving satisfactory underwriting results. OneBeacon maintains an experienced staff of appraisers, medical specialists, managers, staff attorneys and field adjusters strategically located throughout its operating territories. OneBeacon also maintains a special investigative unit designed to detect insurance fraud and abuse and support efforts by regulatory bodies and trade associations to curtail fraud.

Claims are separately organized by specialty, commercial, personal and run-off operations. This approach allows OneBeacon to better identify and manage claims handling costs. In addition, a shared claims service unit manages costs related to both staff and vendors. OneBeacon has adopted a total claims cost management approach that gives equal importance to controlling claims handling expenses, legal expenses and claims payments, enabling OneBeacon to lower the sum of the three. This approach requires the utilization of a considerable number of conventional metrics to monitor the effectiveness of various programs implemented to lower total loss cost. The metrics are designed to guard against implementation of an expense containment program that will cost OneBeacon more than it expects to save.

OneBeacon s claims department utilizes a claims workstation to record reserves, payments and adjuster activity and, with support from expert tools, assists each claim handler in the identification of recovery potential, estimating property damage, evaluating claims and identifying fraud. OneBeacon s commitment and performance in fighting insurance fraud has reduced claim costs and aided law enforcement investigations. Under OneBeacon s staff counsel program, OneBeacon s in-house attorneys defend the majority of new lawsuits, which has resulted in savings when compared to the cost of using outside counsel.

Calendar year reported claims in OneBeacon s run-off operations were 1,600 in 2008 compared to 1,800 in 2007, an 11% reduction, in part due to the lapse of time and the nature of run-off operations. These levels of reported claims are down from 2,400 in 2006, 3,400 in 2005 and 5,900 in 2004. Total open claims for run-off operations were 4,600 at December 31, 2008 compared to 5,500 at December 31, 2007, a 16% reduction, which reflects the success of OneBeacon s focus on settling claims from its run-off operations. Total open claims for run-off operations were 7,300 in 2006, 10,200 in 2005 and 14,600 in 2004.

OneBeacon has a reinsurance contract with National Indemnity Company (NICO) to help protect against potential asbestos and environmental (A&E) claims (the NICO Cover). See **Reinsurance Protection and Catastrophe Management**. NICO has retained a third-party administrator (TPA), Resolute New England (Resolute), formerly Cavell USA, to manage the claims processing for A&E claims reinsured under the NICO Cover. OneBeacon s claims department personnel are consulted by NICO and Resolute on major claims. As with all TPAs, claims department personnel continually monitor Resolute to ensure its controls, processes and settlements are appropriate.

Reinsurance Protection and Catastrophe Management

In the ordinary course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third party reinsurers in order to minimize loss from large risks or catastrophic events.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon s operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in an area affected by the event as well as the severity of the event. OneBeacon uses models (primarily AIR V.10) to estimate the probability of the occurrence of a catastrophic event as well as potential losses under various scenarios. OneBeacon uses this model output in conjunction with other data to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures. OneBeacon believes that its largest single event natural catastrophe exposures are Northeastern United States windstorms and California earthquakes.

OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective July 1, 2008, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2009. The program provides coverage for OneBeacon s personal and commercial property business, as well as certain acts of terrorism. Under the program, the first $150 million of losses resulting from any single catastrophe are retained and $650 million of the next $700 million of losses resulting from the catastrophe are reinsured. Any loss above $850 million would be retained. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium. OneBeacon anticipates that the $850 million limit is sufficient to cover Northeast windstorm losses with a 0.4%-0.5% probability of occurrence (1-in-250-year event to 1-in-200-year event).

Effective January 1, 2009, in an effort to further reduce its property catastrophe exposure in the Northeast, OneBeacon entered into a quota share agreement with a group of reinsurers, under which OneBeacon will cede 30% of its Northeast personal lines homeowners business written through OneBeacon Insurance Company (OBIC) and its subsidiary companies, along with Adirondack Insurance Exchange (Adirondack) and New Jersey Skylands Insurance Association in New York and New Jersey, respectively. The program provides supplemental protection to previously established reinsurance described above. The reinsurers are all rated A or better by A.M. Best. The program is expected to result in ceded premiums of approximately $65 million for all of 2009.

OneBeacon s property catastrophe reinsurance program does not cover personal or commercial property losses resulting from nuclear events or biological, chemical or radiological terrorist attacks or losses resulting from acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002 (the Terrorism Act or TRIA), as amended, committed by an individual or individuals acting on behalf of any foreign person or foreign interest. See **Terrorism**.

OneBeacon also purchases individual property reinsurance coverage for certain risks to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of $10 million up to $100 million. Individual risk facultative reinsurance may be purchased above $100 million where OneBeacon deems it appropriate. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of $10 million up to $100 million on an individual risk basis for terrorism losses. However, nuclear, biological, chemical and radiological terrorist attacks are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual risk or catastrophe losses involving workers compensation, general liability, automobile liability or umbrella liability in excess of $6 million up to $81 million. This program provides coverage for terrorism losses but does not provide coverage for losses resulting from nuclear, biological, chemical or radiological terrorist attacks.

In addition, OneBeacon has reinsurance contracts with two reinsurance companies rated AAA (Extremely Strong , the highest of twenty-one ratings) by Standard & Poor s and A++ (Superior , the highest of fifteen ratings) by A.M. Best. One is the reinsurance cover with NICO, which entitles OneBeacon to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to claims arising from business written by OneBeacon prior to 1992 for asbestos claims and prior to 1987 for environmental claims, and certain other exposures. As of December 31, 2008, OneBeacon has ceded estimated incurred losses of approximately $2.2 billion to the NICO Cover. Net losses paid totaled $1.1 billion as of December 31, 2008, with $109 million paid in 2008. The other contract is a reinsurance cover with General Reinsurance Corporation (GRC) for up to $570 million of additional losses on all claims arising from accident years 2000 and prior (the GRC Cover). As of December 31, 2008, OneBeacon has ceded estimated incurred losses of $550 million to the GRC 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 OneBeacon s 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.

Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectibility of balances due from reinsurers is critical to OneBeacon s financial strength. See **Note 4 Third Party Reinsurance** of the accompanying consolidated financial statements.

Terrorism

Since the terrorist attacks of September 11, 2001, OneBeacon has sought to mitigate the risk associated with any future terrorist attacks by limiting the aggregate insured value of policies in geographic areas with exposure to losses from terrorist attacks. This is accomplished by either limiting the total insured values exposed, or, where applicable, through the use of terrorism exclusions.

In December 2007, the United States government extended the Terrorism Act for seven more years until December 31, 2014. The Terrorism Act, originally enacted in 2002, established a federal backstop for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended, the law now also covers domestic acts of terrorism. The law limits the industry s aggregate liability by requiring the federal government to share 85% of certified losses once a company meets a specific retention or deductible as determined by its prior year s direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at $100 billion. In exchange for this backstop, primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage.

OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $178 million in 2009. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon s or the industry s retention levels in 2009, up to a total of $100 billion.

Table of Contents

OneBeacon s current property and casualty catastrophe reinsurance programs provide coverage for both certified and non-certified events as defined under the Terrorism Act, provided such losses are not the result of a nuclear, biological, chemical or radiological terrorist attack, or for certified acts committed by an individual or individuals acting on behalf of any foreign person or foreign interest. See **Business Reinsurance Protection and Catastrophe Management**.

OneBeacon closely monitors and manages its concentration of risk by geographic area. OneBeacon s guideline is to control its exposures so that its total maximum expected loss from a likely terrorism event within any half-mile radius in a metropolitan area or around a target risk will not exceed $200 million, or $300 million in all other areas. Reports monitoring OneBeacon s terrorism exposures are generated quarterly, and the exposure of potential new business located in areas of existing concentration or that individually present significant exposure is evaluated during the underwriting process. As a result, OneBeacon believes that it has taken appropriate actions to limit its exposure to losses from terrorist attacks and will continue to monitor its terrorism exposure in the future. Nonetheless, risks insured by us, including those covered by the Terrorism Act, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material.

Loss and Loss Adjustment Expense Reserves

OneBeacon establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See **CRITICAL ACCOUNTING ESTIMATES** in **Management s Discussion and Analysis of Financial Condition and Results of Operations** for a full discussion regarding OneBeacon s loss reserving process.

The following information presents (1) OneBeacon s reserve development over the preceding seven years and (2) a reconciliation of reserves in accordance with accounting principles and practices prescribed or permitted by insurance authorities (Statutory basis) to such reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

Section I of the table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including incurred but not reported (IBNR) reserves. In accordance with GAAP, the liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year.
Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency (the average number of claims submitted per policy during a given period of time) and severity (the average value of claims submitted per policy during a given period of time) patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008.
Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2008. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008.

11

Table of Contents

($ in millions)	June 1, 2001(1)	2001	2002	2003	2004	2005	2006	2007	2008
				OneBeacon Loss and LAE (2) Years Ended December 31,					
I. Liability for unpaid losses and LAE:									
Gross balance	$ 7,011.1	$ 8,425.2	$ 7,630.5	$ 6,237.7	$ 5,465.3	$ 5,713.4	$ 5,108.2	$ 4,718.8	$ 4,504.5
Less: reins. recoverables on unpaid losses and LAE	(2,316.7)	(3,609.7)	(3,560.6)	(2,980.4)	(2,704.5)	(3,382.0)	(3,079.7)	(2,850.6)	(2,708.4)
Net balance	$ 4,694.4	$ 4,815.5	$ 4,069.9	$ 3,257.3	$ 2,760.8	$ 2,331.4	$ 2,028.5	$ 1,868.2	$ 1,796.1
II. Cumulative net amount of liability paid through:									
1 year later	1,288.1	1,891.3	1,656.6	1,463.5	1,239.3	1,004.6	772.0	700.9	
2 years later	2,661.2	3,100.5	2,834.2	2,374.6	1,926.2	1,547.8	1,227.3		
3 years later	3,715.3	4,039.6	3,598.1	2,910.0	2,356.9	1,897.6			
4 years later	4,480.6	4,634.2	4,049.5	3,236.0	2,628.8				
5 years later	4,950.8	4,980.6	4,317.8	3,447.5					
6 years later	5,233.4	5,197.1	4,493.9						
7 years later	5,415.0	5,338.5							
8 years later	5,538.3								
III. Net liability re-estimated as of:									
1 year later	4,759.0	4,872.9	4,216.7	3,357.4	2,855.8	2,354.3	1,980.2	1,806.2	
2 years later	4,899.7	5,155.0	4,337.0	3,480.5	2,858.1	2,387.2	1,932.5		
3 years later	5,348.4	5,244.0	4,453.3	3,496.3	2,945.3	2,350.7			
4 years later	5,423.0	5,327.4	4,473.6	3,620.5	2,927.8				
5 years later	5,489.2	5,348.9	4,605.5	3,621.6					
6 years later	5,499.1	5,477.5	4,609.7						
7 years later	5,613.4	5,477.6							
8 years later	5,614.5								
IV. Cumulative net (deficiency)/redundancy	$ (920.1)	$ (662.1)	$ (539.8)	$ (364.3)	$ (167.0)	$ (19.3)	$ 96.0	$ 62.0	
Percent (deficient)/redundant	(19.6)%	(13.8)%	(13.3)%	(11.2)%	(6.0)%	(.8)%	4.7%	3.3%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III. above):									
Gross re-estimated liability	$ 9,891.6	$ 10,106.0	$ 9,184.2	$ 7,511.2	$ 6,444.6	$ 5,750.0	$ 4,999.6	$ 4,647.6	
Less: gross re-estimated reinsurance recoverable	(4,277.1)	(4,628.4)	(4,574.5)	(3,889.6)	(3,516.8)	(3,399.3)	(3,067.1)	(2,841.4)	
Net re-estimated liability	$ 5,614.5	$ 5,477.6	$ 4,609.7	$ 3,621.6	$ 2,927.8	$ 2,350.7	$ 1,932.5	$ 1,806.2	
VI. Cumulative gross (deficiency)/redundancy	$ (2,880.5)	$ (1,680.8)	$ (1,553.7)	$ (1,273.5)	$ (979.3)	$ (36.6)	$ 108.6	$ 71.2	
Percent (deficient)/redundant	(41.1)%	(20.0)%	(20.4)%	(20.4)%	(17.9)%	(.6)%	2.1%	1.5%	

(1) OneBeacon became a wholly-owned subsidiary of White Mountains on June 1, 2001.

(2) Amounts reported in the table do not include adjustments for purchase accounting related to the acquisition of OneBeacon.

The following table reconciles loss and LAE reserves determined on a Statutory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

	Year Ended December 31,		
Millions	2008	2007	2006
Statutory reserves	**$ 3,465.0**	$ 3,564.5	$ 3,863.9
Reinsurance recoverable on unpaid losses and LAE(1)	**1,073.9**	1,190.9	1,280.5
Other(2)	**(34.4)**	(36.6)	(36.2)
Reserves before purchase accounting	**4,504.5**	4,718.8	5,108.2
Purchase accounting	**(210.5)**	(238.5)	(270.5)
GAAP reserves	**$ 4,294.0**	$ 4,480.3	$ 4,837.7

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under statutory accounting.

(2) Represents long-term workers compensation loss and LAE reserve discount recorded in excess of statutorily defined discount.

Table of Contents

OneBeacon s Intermediate Holding Companies

OneBeacon s intermediate holding companies include OneBeacon U.S. Enterprises Holdings, Inc. (OBEH), formerly Fund American Enterprises Holdings, Inc., and OneBeacon U.S. Holdings, Inc. (OBH), formerly Fund American Companies, Inc., both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda.

In May 2003, OBH issued $700 million face value of senior unsecured notes through a public offering, at an issue price of 99.7% (the OBH Senior Notes). The OBH Senior Notes bear an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, until maturity in May 2013. During the third quarter of 2008, OneBeacon repurchased $24 million face value of its outstanding OBH Senior Notes for $22 million.

White Mountains provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the OBH Senior Notes. In consideration of this guarantee OneBeacon pays White Mountains a guarantee fee equal to 25 basis points per annum on the outstanding principal amount of the OBH Senior Notes. If White Mountains voting interest in OneBeacon Ltd. s common shares ceases to represent more than 50% of all of OneBeacon Ltd. s voting securities, OneBeacon Ltd. will seek to redeem, exchange or otherwise modify the OBH Senior Notes in order to fully and permanently eliminate White Mountains obligations under the guarantee. In the event that White Mountains guarantee is not eliminated, the guarantee fee will increase over time up to a maximum of 450 basis points.

As part of the financing for White Mountains acquisition of OneBeacon in June 2001, Berkshire Hathaway Inc. (Berkshire) invested a total of $300 million in cash, of which (1) $225 million was for the purchase of cumulative non-voting preferred stock of OBH (the Berkshire Preferred Stock), which had a $300 million redemption value; and (2) $75 million was for the purchase of warrants to acquire 1,724,200 common shares of the Company. During 2004, Berkshire exercised its warrants for $294 million in cash. During the fourth quarter of 2008, White Mountains executed an exchange transaction with Berkshire to transfer certain run-off businesses and a substantial amount of cash to Berkshire in exchange for substantially all of the common shares of White Mountains owned by Berkshire (See **Other Operations Berkshire Exchange).**

Also as part of the financing of the acquisition of OneBeacon, Zenith Insurance Company purchased $20 million in cumulative non-voting preferred stock of OBEH (the Zenith Preferred Stock).

In connection with the OneBeacon Offering, OneBeacon created two irrevocable grantor trusts and funded them with assets sufficient to provide for the remaining dividend and redemption payments for the $20 million Zenith Preferred Stock and the $300 million Berkshire Preferred Stock. Assets held in these trusts were used to redeem the Zenith Preferred Stock in June 2007 and the Berkshire Preferred Stock in May 2008.

WHITE MOUNTAINS RE

White Mountains Re is a global multi-line reinsurance organization that provides reinsurance for property, casualty, accident & health, agriculture, aviation and space, and certain other exposures on a worldwide basis through its subsidiaries, WMRe America, WMRe Sirius and WMRe Bermuda. WMRe America is a multi-line property and casualty reinsurer that provides reinsurance primarily in the United States, Canada, Continental Europe, Latin America, and the Caribbean. WMRe Sirius, which is the largest reinsurance company domiciled in Scandinavia based on gross written premiums, is a multi-line property and casualty reinsurer that provides reinsurance primarily in Europe, North America and Asia. In 2007, White Mountains Re increased the capital of WMRe Bermuda, its class 3 Bermuda domiciled reinsurance company, and in 2008 WMRe Bermuda commenced underwriting reinsurance.

White Mountains Re has offices in Belgium, Bermuda, Connecticut, Copenhagen, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich. At December 31, 2008 and 2007, White Mountains Re had $6.1 billion and $7.4 billion of total assets and $1.5 billion and $1.9 billion of shareholder s equity. White Mountains Re wrote approximately $931 million and $1,096 million in net written premiums in 2008 and 2007.

Table of Contents

The following table presents the financial strength ratings assigned to White Mountains Re s principal reinsurance operating subsidiaries:

	A.M. Best(1)	Standard & Poor s(2)	Moody s(3)	Fitch(4)
WMRe America				
Rating	A- (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable
WMRe Sirius				
Rating	A (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable
WMRe Bermuda				
Rating	A- (Excellent)	A- (Strong)	No Rating	A (Strong)
Outlook	Stable	Stable	N/A	Stable

(1) A is the third highest and A- is the fourth highest of fifteen financial strength ratings assigned by A.M. Best.

(2) A- is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor s.

(3) A3 is the seventh highest of twenty-one financial strength ratings assigned by Moody s.

(4) A is the sixth highest and A- is the seventh highest of twenty-one financial strength ratings assigned by Fitch.

White Mountains Re acquired Sirius Insurance Holdings Sweden AB and its subsidiaries from ABB Ltd. on April 16, 2004 for SEK 3.27 billion (approximately $427.5 million). The principal companies acquired were WMRe Sirius, Sirius America Insurance Company (Sirius America), which was subsequently sold in 2006, and Scandinavian Re, a reinsurance company that has been in run-off since 2002.

Since 2001 White Mountains Re has had a dedicated group of professionals who have managed several acquisitions of run-off interests in other insurance and reinsurance organizations (See **White Mountains Re Solutions**). Other recent corporate acquisitions and sales by White Mountains Re include the following:

- On January 7, 2008, White Mountains Re acquired Helicon Re Holdings, Ltd. and its wholly-owned subsidiary, Helicon Reinsurance Company, Ltd. (Helicon), a Bermuda-domiciled reinsurance company, for approximately $150 million in cash. White Mountains Re did not acquire any infrastructure or employees.

- On August 2, 2006, White Mountains Re sold Sirius America to an investor group led by Lightyear Capital for $139 million in cash. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity (Delos) and accounts for such interest under the equity method within its Other Operations segment.

Reinsurance Overview

Reinsurance is an arrangement in which a reinsurance company (the reinsurer) agrees to indemnify an insurance company (the ceding company for all or a portion of the insurance risks underwritten by the ceding company under one or more insurance policies. Reinsurance can benefit a ceding company in a number of ways, including reducing exposure on individual risks, providing catastrophe protections from large or multiple losses, and assisting in maintaining acceptable capital levels as well as financial and operating leverage ratios. Reinsurance can also provide a ceding company with additional underwriting capacity by permitting it to accept larger risks and underwrite a greater number of risks without a corresponding increase in its capital. Reinsurers may also purchase reinsurance, known as retrocessional reinsurance, to cover their own risks assumed from ceding companies. Reinsurance companies often enter into retrocessional agreements for many of the same reasons that ceding companies enter into reinsurance agreements.

Reinsurance is generally written on a treaty or facultative basis. Treaty reinsurance is an agreement whereby the reinsurer assumes a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of the agreement, usually one year. When underwriting treaty reinsurance, the reinsurer does not evaluate each individual risk and generally accepts the original underwriting decisions made by the ceding company. Treaty reinsurance is typically written on either a proportional or excess of loss basis. A proportional reinsurance treaty is an arrangement whereby a reinsurer assumes a predetermined proportional share of the premiums and losses generated on specified business. An excess of loss treaty is an arrangement whereby a reinsurer assumes losses that exceed a specific retention of loss by the ceding company. Facultative reinsurance, on the other hand, is underwritten on a risk-by-risk basis, which allows the reinsurer to determine pricing for each exposure.

White Mountains Re writes both treaty and facultative reinsurance, as well as primary direct business. The majority of White Mountains Re premiums are derived from excess of loss and proportional reinsurance contracts, which in 2008 amounted to 67% and 24%, respectively, of its total net written premiums, while primary direct business represented 9% of total net written premiums.

Table of Contents

A significant period of time normally elapses between the receipt of reinsurance premiums and the payment of reinsurance claims. While premiums are generally paid to the reinsurer upon inception of coverage, the claims process is delayed and generally begins upon the occurrence of an event causing an insured loss followed by: (1) the reporting of the loss by the insured to its broker or agent; (2) the reporting by the broker or agent to the ceding company; (3) the reporting by the ceding company to its reinsurance intermediary or agent; (4) the reporting by the reinsurance intermediary or agent to the reinsurer; (5) the ceding company s adjustment and payment of the loss; and (6) the payment to the ceding company by the reinsurer. During this time, reinsurers generate investment income on premium receipts, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities. The period of time between the receipt of premiums and the payment of claims is typically longer for a reinsurer than for a primary insurer.

Classes of Business

The following table shows White Mountains Re s net written premiums by class of business for the years ended December 31, 2008, 2007 and 2006:

Business class	**Year Ended December 31,**		
Millions	**2008**	**2007**	**2006**
Property catastrophe excess	**$ 202.0**	$ 188.4	$ 195.0
Other property	**283.6**	307.5	313.6
Casualty	**95.6**	175.7	278.6
Accident & health	**189.1**	178.8	229.1
Agriculture	**22.4**	69.0	50.4
Aviation and space	**54.9**	55.9	55.3
Other(1)	**83.5**	120.4	167.9
Total	**$ 931.1**	$ 1,095.7	$ 1,289.9

(1) Primarily consists of marine and credit and bonding business. Also includes $39 in 2006 of net written premiums at Sirius America, which White Mountains Re sold in August 2006.

Property Catastrophe Excess

Property catastrophe excess of loss treaties cover losses from catastrophic events. White Mountains Re writes a worldwide portfolio with the largest concentration of exposure in Europe, and seeks to set prices and terms on treaties wherever possible. The current U.S. book has a national focus supporting the lower and/or middle layers of large capacity programs. The exposures written in the international portfolio are diversified across many countries and regions.

Other Property

White Mountains Re is a leader in the broker market for property treaties written on a proportional and excess of loss basis and writes a limited number of large transactions with carefully chosen partners. In the United States, White Mountains Re s focus is primarily on proportional treaties in the excess & surplus lines segment of this market. The excess book contains similar excess & surplus exposures, complemented by a smaller amount of large national company and small regional company standard lines of business. The international book primarily consists of excess of loss, facultative and proportional treaty business in Europe.

Casualty

White Mountains Re s casualty treaty division will accept reinsurance submissions for all lines of general casualty and professional liability business with the exception of directors and officers coverage. In recent years, the book has been highly concentrated in general casualty lines. While the majority of business has been written on a pro rata basis, in the recent past, the business has shifted to excess of loss covers as primary rates have decreased. The casualty treaty department writes a book of casualty clash and workers compensation catastrophe business. Due to declining casualty premium rates, the overall casualty book of business has been declining since 2004, with the expectation that the book could grow again when premium rates improve to acceptable levels.

Accident & Health

White Mountains Re s accident & health business is composed of three major lines of business. In the largest line of business, White Mountains Re is a surplus lines insurer of international medical expenses written through International Medical Group, which is the agent writing on White Mountains Re s behalf. The second major line of business comprises proportional treaties covering employer medical stop loss for per person (specific) and per employer (aggregate) exposures. The third major line of business comprises medical, health and personal accident coverages written on an excess treaty and facultative basis.

Table of Contents

Agriculture

White Mountains Re primarily provides proportional coverage to companies writing U.S. government-sponsored Multi-Peril Crop Insurance (MPCI). White Mountains Re s participation is net of the government s stop loss reinsurance protection. White Mountains Re also provides coverage for crop-hail and certain named perils when bundled with MPCI business.

Aviation and Space

Aviation insurance covers loss of or damage to an aircraft and the aircraft operations liability to passengers, cargo and mail as well as to third parties. Additionally, liability arising out of non-aircraft operations such as hangars, airports and aircraft products can be covered. Space insurance covers loss of or damage to a satellite during launch and in orbit.

Other

Included in this class is marine, credit and contingency business written by proportional treaty, marine business written on a direct basis, a discontinued marine book and the run-off exposures from various acquisitions. White Mountains Re s A&E exposures are from the run-off of businesses acquired by WMRe America in the 1990s.

Bermuda Advisory Services

White Mountains Re began its reinsurance advisory business in January 2002, through its Bermuda-based subsidiary, WMRUS. WMRUS provided reinsurance underwriting advice and reinsurance portfolio analysis services to WMRe Sirius and WMRe America through December 31, 2008. In exchange for these services, WMRUS received fee income on the business it referred. On June 30, 2008, WMRe Bermuda commenced underwriting most of the WMRUS referred business previously underwritten by WMRe America and WMRe Sirius. WMRe Bermuda can still advise business to WMRe Sirius or WMRe America based on the client s request.

White Mountains Re Solutions

White Mountains Re Solutions is a Connecticut based division of White Mountains Specialty Underwriting, Inc. specializing in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally. Formed in 2000, the White Mountains Re Solutions team is comprised of financial, legal, actuarial and claims professionals experienced in the management and resolution of complex insurance liabilities as well as the structuring of transactions designed to enable owners to exit an insurance business and extract trapped capital. Acquisitions typically involve purchases at a significant discount to book value and undergo an extensive due diligence process. Value to White Mountains Re is derived not only from the discount purchase gain but also from the investment float on reserves under management, the settlement of claims below the carried level of reserves and the harvesting of other embedded assets including the value of shell companies and licenses.

Cumulative net income, after tax, related to acquisitions executed by White Mountains Re Solutions from inception through December 31, 2008 exceeds $130 million. Acquisitions managed by the White Mountains Re Solutions team since 2004 include:

- On December 22, 2006, White Mountains Re acquired Mutual Service Casualty Insurance Company (Mutual Service), a Minnesota-domiciled, run-off insurer for $34 million in cash. Mutual Service was renamed Stockbridge Insurance Company (Stockbridge) as part of a sponsored demutualization and conversion to a stock company which was formerly affiliated with Illinois-based Country Insurance & Financial Services (Country). As part of the transaction, Country provided Stockbridge with approximately $25 million of reinsurance protection in excess of Stockbridge s carried reserves as of September 30, 2006. White Mountains Re did not acquire any infrastructure or employees and managed Stockbridge s run-off administration through the use of a TPA under White Mountains Re s direction. On October 1, 2007, substantially all of the assets and liabilities of Stockbridge were transferred to WMRe America through a Transfer and Assumption Agreement. During the fourth quarter of 2007, White Mountains Re sold its 100% ownership interest in Stockbridge to a third party for approximately $26 million.

- On November 11, 2004, White Mountains Re acquired Denmark-based Tryg-Baltica Forsikring, internationalt forsikringsselskab A/S (Tryg-Baltica). Following the closing, White Mountains Re placed Tryg-Baltica into run-off, with select business renewed by WMRe Sirius. White Mountains Re did not acquire any infrastructure or employees and is managing the company s run-off administration.

- On March 31, 2004, White Mountains Re acquired the Sierra Insurance Group Companies (the Sierra Group). Subsequent to the acquisition, the Sierra Group companies, which wrote mainly workers compensation business, were placed into run-off and all of the acquired companies run-off claims administration was transferred to TPAs working under White Mountains Re s direction. During the fourth quarter of 2008, White Mountains Re sold its 100% remaining ownership interest in the Sierra Group (Commercial Casualty Insurance Company (CCIC)) to Berkshire as part of the Berkshire Exchange (See **Other Operations Berkshire Exchange**).

Table of Contents

Geographic Concentration

The following table shows White Mountains Re s net written premiums by geographic region for the years ended December 31, 2008, 2007 and 2006:

Geographic region Millions	Year Ended December 31, 2008		2007		2006	
United States	**$**	**568.2**	$	696.7	$	864.7
Europe		**303.3**		306.8		314.4
Canada, the Caribbean and Latin America		**5.4**		21.1		37.8
Asia and Other		**54.2**		71.1		73.0
Total	**$**	**931.1**	$	1,095.7	$	1,289.9

Marketing and Distribution

White Mountains Re obtains most of its reinsurance submissions from reinsurance intermediaries. Business submissions come from intermediaries that represent the ceding company. The process of placing an intermediary reinsurance program typically begins when a ceding company enlists the aid of a reinsurance intermediary in structuring a reinsurance program. The ceding company and the reinsurance intermediary will often consult with one or more lead reinsurers as to the pricing and contract terms for the reinsurance protection being sought. Once the ceding company has approved the terms quoted by the lead reinsurer, the reinsurance intermediary will offer participation to qualified reinsurers until the program is fully subscribed. White Mountains Re considers both the reinsurance intermediary and the ceding company to be its clients in any placement. White Mountains Re has developed strong business relationships over a long period of time with the management of many of its ceding companies.

White Mountains Re pays ceding companies a ceding commission under most proportional reinsurance treaties and some excess of loss reinsurance treaties. The ceding commission is generally based on the ceding company s cost of acquiring and administering the business being reinsured (e.g., commissions, premium taxes and certain miscellaneous expenses). Additionally, White Mountains Re pays reinsurance intermediaries commissions based on negotiated percentages of the premium they produce. The reinsurance intermediaries commissions constitute a significant portion of White Mountains Re s total acquisition costs.

During the years ended December 31, 2008, 2007 and 2006, White Mountains Re received no more than 10% of its gross written premiums from any individual ceding company. During 2008, 2007 and 2006, White Mountains Re received approximately 48%, 59% and 60%, respectively, of its gross reinsurance premiums written from three major, third-party reinsurance intermediaries as detailed in the following table:

Gross written premium by intermediary	Year Ended December 31, 2008	2007	2006
AON Re/Benfield(1)	**30%**	35%	39%
Guy Carpenter	**12**	17	12
Willis Re	**6**	7	9
	48%	59%	60%

(1) AON Re acquired Benfield during 2008

Underwriting and Pricing

White Mountains Re maintains a disciplined underwriting strategy which, while considering overall exposure, focuses on writing more business when market terms and conditions are favorable and reducing business volume during soft markets when terms and conditions become less favorable. White Mountains Re also employs a multi-line approach, offering clients a wide range of reinsurance products to satisfy their risk management needs.

White Mountains Re derives its business from a broad spectrum of ceding companies, including national, regional, specialty and excess and surplus lines writers, both in the United States and internationally. White Mountains Re s underwriters and pricing actuaries perform reviews of the underwriting, pricing, and general underwriting controls of potential ceding companies before quoting contract terms for its reinsurance products. White Mountains Re prices its products by assessing the desired return on the expected capital needed to write a given contract and on the expected underwriting results of the contract. White Mountains Re s pricing indications are based on a number of underwriting factors including historical results, analysis of exposure and estimates of future loss costs, a review of other programs displaying similar exposure characteristics and the ceding company s underwriting and claims experience. White Mountains Re s underwriters, actuaries and claims personnel perform audits to monitor certain ceding companies risk selection and pricing. Additionally, White Mountains Re s staff reviews the financial stability and creditworthiness of ceding companies. Such reviews provide important input to support underwriting decisions.

Table of Contents

White Mountains Re and other reinsurance companies have sought to mitigate the risks associated with future terrorist attacks in a similar manner as primary insurers. Reinsurers do not have the stringent regulations with respect to contract terms and policy exclusions that are generally imposed on primary insurers. For example, the Terrorism Act is not applicable to reinsurers. As a result, terrorism exclusions on reinsurance contracts are dictated by the marketplace. White Mountains Re evaluates terrorism exposure from its ceding companies and applies exclusions as it deems appropriate and as are permitted by market conditions. Reinsurance on commercial risks written by White Mountains Re subsequent to the terrorist acts of September 11, 2001 generally contains clauses that exclude acts of terrorism certified under the Terrorism Act. Reinsurance on personal risks written by White Mountains Re subsequent to the terrorist acts of September 11, 2001 generally contains exclusions related to nuclear, biological, radiological and chemical attacks.

Claims Management

White Mountains Re maintains a staff of experienced reinsurance claim specialists that work closely with reinsurance intermediaries to obtain specific claims information from ceding companies. White Mountains Re s claims staff also regularly performs selective on-site claim reviews to assess reinsureds claim handling abilities and reserve techniques. In addition, White Mountains Re s claims specialists review loss information provided by reinsureds for adequacy and accuracy. The results of these claim reviews are shared with the underwriters and actuaries to assist them in pricing products and establishing loss reserves.

White Mountains Re also uses TPAs for certain claims, including claims arising from certain of White Mountains Re s accident & health business and run-off claims related to certain acquired companies. White Mountains Re s claims staff performs on-site claim audits of certain TPAs to ensure the propriety of the controls and processes over claims serviced by the TPAs.

Competition

The worldwide reinsurance market is highly competitive. Competition in the worldwide reinsurance market is influenced by a variety of factors, including price charged and other terms and conditions offered, financial strength ratings, prior history and relationships, as well as expertise and the speed at which the company has historically paid claims.

White Mountains Re competes for reinsurance business in the United States, Bermuda, Europe, and other international reinsurance markets with numerous global competitors. White Mountains Re s competitors include reinsurance companies and underwriting syndicates at Lloyd s of London. Some of the companies that White Mountains Re competes directly with include ACE Limited, Arch Capital Group Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., General Reinsurance Corporation, Hannover Ruckversicherung AG, Lloyd s of London, Montpelier Re Holdings, Ltd. (Montpelier Re), Munich Re Group, Odyssey Re Holdings Corp., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., Renaissance Re Holdings Ltd., Swiss Re Group, Transatlantic Holdings, Inc. and XL Capital Ltd.

Catastrophe Risk Management

White Mountains Re has exposure to losses caused by hurricanes, earthquakes, tornadoes, winter storms, windstorms, floods, tsunamis, terrorist acts and other catastrophic events. In the normal course of business, White Mountains Re regularly manages its concentration of exposures to catastrophic events, primarily by limiting concentrations of exposure to what it deems acceptable levels and, if necessary, purchasing reinsurance. In addition, White Mountains Re seeks to limit loss that might arise from acts of terrorism in its reinsurance contracts by exclusionary provisions, where applicable. White Mountains Re also uses third-party global catastrophe models as well as its own proprietary models to calculate expected probable maximum loss (PML) from various natural catastrophic scenarios. White Mountains Re believes that its largest natural catastrophic exposures, net of reinsurance and based on a 250-year PML single event scenario, are European winter storms, United States Gulf Coast windstorms (i.e., Florida to Texas), California earthquakes, United States Atlantic Coast windstorms (i.e., Massachusetts to Florida) and, to a lesser extent, Japanese windstorms and earthquakes.

White Mountains Re currently monitors and prices its property catastrophe contracts using third-party software models and internally developed models as well as other methods. For contracts that White Mountains Re determines to have exposure to natural catastrophic perils, it models and assesses the exposure using the results in its underwriting process to ensure that the contracts it writes have an appropriate charge for the exposure.

Catastrophe exposure modeling is inherently uncertain due to process risk (the probability and magnitude of the underlying event, e.g. earthquake) and parameter risk (the probability of making inaccurate model assumptions). In particular, geographic and policy coverage data on the primary policies reinsured by White Mountains Re is essential. Accordingly, White Mountains Re s ability to accurately predict its catastrophe exposure is dependent on the quality and accuracy of data obtained from its clients.

Table of Contents

Additionally, catastrophe modeling is dependent upon several broad economic and scientific assumptions, such as storm surge (the water that is pushed toward the shore by the force of a windstorm), demand surge (the localized increase in prices of goods and services that often follow a catastrophe) and zone density (the percentage of insured perils that would be affected in a region by a catastrophe). Third party modeling software also does not encompass all territories in which White Mountains Re writes business.

White Mountains Re does not believe that it can rely solely upon catastrophe modeling to measure its exposure to natural catastrophic risk. For example, the losses arising from Hurricane Katrina for both White Mountains Re and the industry were substantially in excess of losses previously predicted by third party models from such an event. This was due to issues such as inadequate storm surge and demand surge assumptions in the models, as well as flooding from levees breaking, which was not fully contemplated in these models. Correspondingly, White Mountains Re also assesses catastrophe risk by monitoring total limits exposed to a catastrophe event in key zones.

The following table provides an estimate of White Mountains Re s three largest PML zones at January 31, 2009:

			White Mountains Re Net After-Tax Loss			
($ in millions)	**Modeled Industry Loss**	**Gross Loss**	**Net After Reinstatement**	**Net After Tax**	**Net After-Tax as % of GAAP Capital(1)**	**Net After-Tax as % of GAAP Common Equity(1)**
			1 in 250 year event			
Europe	$ 53,753	$ 648	$ 367	$ 308	12%	16%
Florida	167,282	376	347	295	12%	16%
California	69,344	301	283	243	10%	13%
			1 in 10,000 year event			
Europe	$ 137,314	$ 1,022	$ 565	$ 472	18%	25%
New Madrid	232,463	525	477	401	16%	21%
Florida	510,188	501	463	380	15%	20%

(1) GAAP capital and common equity at December 31, 2008 for White Mountains Re is determined on a legal-entity basis.

During 2007, to better manage its aggregate exposure to very large catastrophic events, White Mountains Re introduced an underwriting limit to the maximum net financial impact (NFI) it would suffer in the worst aggregate loss year modeled in third party software (i.e., the 10,000 year global annual aggregate PML). The calculation of the NFI begins with the 10,000 year global annual aggregate PML and takes account of reinstatement premiums, reinsurance recoverables net of uncollectible balances, and tax benefits. This amount is deducted from the planned legal entity comprehensive net income for the year to arrive at the NFI. The NFI does not include the potential impact of the loss events on White Mountains Re s investment portfolio.

For 2009, the NFI limit has been re-set at $775 million, which is approximately 30% and 40% of White Mountains Re s total legal entity GAAP capital and common equity at December 31, 2008, respectively. At January 1, 2009, White Mountains Re believes that it was under the $775 million NFI limit. The increase over the 2008 NFI limit of $650 million is due to major changes in the third-party models implemented in late 2008. Because such major changes occur rather frequently, White Mountains Re also monitors its NFI for global annual aggregate tail value at risk (TVaR) at the 100, 250, 500, and 1,000 year periods. TVaR represents the average loss for the named period through the 10,000 years (e.g. TVaR 250 represents the average loss for the worst forty modeled years).

White Mountains Re also monitors gross and net property catastrophe occurrence limits by country and region globally. Occurrence limits for peak zones in Europe, Japan, and the United States are assessed versus modeled catastrophe risk as another measure in understanding total property catastrophe exposure to large events.

Actual losses incurred by White Mountains Re resulting from any particular catastrophic event may be substantially different than modeled losses from such event.

The net after-tax loss table and NFI calculations referenced above reflect a full tax benefit at the applicable statutory rate in each jurisdiction, where applicable. There can be no assurance that a full tax benefit, or existing deferred tax assets, will be totally recoverable in each jurisdiction, or that a full or partial valuation allowance will not have to be applied against these amounts in White Mountains GAAP financial statements.

Table of Contents

Reinsurance Protection

For the year ending December 31, 2008, White Mountains Re s reinsurance protection primarily consisted of pro-rata and excess of loss protection to cover WMRe Sirius property catastrophe and aviation exposures. These reinsurance protections were designed to increase underwriting capacity, where appropriate, and to reduce potential loss exposure to any large event or frequency of smaller catastrophe events. In addition, in 2008, White Mountains Re purchased group excess of loss retrocessional protection for its non-U.S. and non-Japan earthquake-related exposures.

For 2007 and 2006, the majority of the White Mountains Re reinsurance protection was provided through WMRe America s quota share retrocessional arrangements with Olympus Reinsurance Company, Ltd. (Olympus) and Helicon. WMRe America ceded 35% of its 2007 underwriting year property excess of loss business to Olympus and Helicon, with each sharing approximately 55% and 45%, respectively. White Mountains Re received fee income based on premiums ceded to Olympus and Helicon. WMRe America did not cede any of its 2008 underwriting year business to Olympus. Additionally, WMRe Sirius purchased pro-rata and excess of loss protections to cover its property catastrophe and aviation exposures. These reinsurance protections were designed to increase WMRe Sirius underwriting capacity, where appropriate, and to reduce its potential loss exposure to a large event or frequency of smaller catastrophe events.

The White Mountains Re reinsurance recoverable balances due from Olympus are fully collateralized in the form of assets in a trust, funds held and offsetting balances payable for all recoverable amounts recorded as of December 31, 2008. WMRe America did not renew the quota share arrangements with Olympus and Helicon for 2008. Olympus will continue to be responsible for the payment of losses on exposures that have been ceded to it and will continue to earn premiums related primarily to the run-off of underwriting year 2007 business. White Mountains Re acquired Helicon on January 7, 2008, and its business was transferred and assumed by WMRe Bermuda in 2008.

At December 31, 2008, White Mountains Re had $25 million of reinsurance recoverables on paid losses and $546 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. Because retrocessional reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies, the collectability of balances due from its retrocessionaires is critical to its financial strength. White Mountains Re monitors the financial strength and ratings of retrocessionaires on an ongoing basis. See **Note 4- Third Party Reinsurance** to the accompanying consolidated financial statements for a discussion of White Mountains Re s top reinsurers.

Loss and Loss Adjustment Expense Reserves

White Mountains Re establishes reserves that are estimates of future amounts needed to pay claims and related expenses for insured events that have already occurred. See **CRITICAL ACCOUNTING ESTIMATES** in **Management s Discussion and Analysis of Financial Condition and Results of Operations** for a full discussion regarding White Mountains Re s loss reserving process.

The following information presents (1) White Mountains Re s reserve development over the preceding ten years and (2) a reconciliation of reserves on a regulatory basis to reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

Section I of the 10 year table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including IBNR reserves. In accordance with GAAP, the liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year.
Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency and severity patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2008. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008.

Table of Contents

White Mountains Re Loss and LAE
Year ended December 31,

($ in millions)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
I. Liability for unpaid loss and LAE:											
Gross balance	$ 723.2	$ 768.0	$ 1,479.9	$ 1,581.4	$ 1,588.4	$ 1,699.4	$ 3,864.3	$ 4,308.8	$ 3,708.8	$ 3,252.1	$ 2,735.4
Less reinsurance recoverable on unpaid losses and LAE	(130.2)	(137.3)	(702.8)	(879.5)	(809.8)	(741.1)	(1,149.8)	(1,633.6)	(1,142.5)	(806.2)	(545.6)
Net balance	$ 593.0	$ 630.7	$ 777.1	$ 701.9	$ 778.6	$ 958.3	$ 2,714.5	$ 2,675.2	$ 2,566.3	$ 2,445.9	$ 2,189.8
II. Cumulative amount of net liability paid through:											
1 year later	161.3	53.3	350.1	230.6	250.7	321.5	941.0	949.4	721.7	726.2	
2 years later	211.4	290.7	492.2	391.2	420.8	521.8	1,369.4	1,442.9	1,302.0		
3 years later	364.6	500.1	596.9	501.4	559.1	710.8	1,684.9	1,942.5			
4 years later	544.0	589.3	666.7	602.7	690.9	834.7	2,052.4				
5 years later	604.8	678.2	735.2	739.3	804.5	941.0					
6 years later	669.5	728.6	833.9	830.6	885.7						
7 years later	721.8	806.4	899.9	895.8							
8 years later	778.3	869.0	949.9								
9 years later	832.6	907.3									
10 years later	863.7										
III. Net Liability re-estimated as of:											
1 year later	602.3	648.8	782.7	704.9	828.9	984.9	2,771.9	2,893.2	2,575.4	2,525.7	
2 years later	611.3	671.9	767.7	758.7	856.9	1,059.6	2,802.9	3,032.5	2,775.8		
3 years later	615.9	693.8	815.7	800.5	929.8	1,148.1	2,917.9	3,164.9			
4 years later	631.5	751.1	850.8	872.2	1,023.8	1,270.2	3,063.6				
5 years later	677.0	778.8	918.5	968.4	1,138.6	1,425.0					
6 years later	694.8	857.0	998.2	1,077.8	1,280.5						
7 years later	768.7	916.6	1,097.7	1,196.4							
8 years later	807.8	1,016.5	1,188.2								
9 years later	900.4	1,090.6									
10 years later	963.5										
IV. Cumulative net deficiency	$ (370.5)	$ (459.9)	$ (411.0)	$ (494.4)	$ (501.9)	$ (466.6)	$ (349.1)	$ (489.7)	$ (209.5)	$ (79.7)	
Percent deficient	(62.5)%	(72.9)%	(52.9)%	(70.4)%	(64.5)%	(48.7)%	(12.9)%	(18.3)%	(8.2)%	(3.3)%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):											
Gross re-estimated liability	$ 1,350.8	$ 1,398.4	$ 2,096.1	$ 2,200.0	$ 2,160.9	$ 2,251.7	$ 4,400.1	$ 5,016.0	$ 3,941.9	$ 3,310.8	
Less: gross re-estimated reinsurance recoverable	(387.3)	(307.8)	(908.0)	(1,023.6)	(880.4)	(826.8)	(1,336.5)	(1,851.2)	(1,166.1)	(785.1)	
Net re-estimated liability	$ 963.5	$ 1,090.6	$ 1,188.2	$ 1,196.4	$ 1,280.5	$ 1,425.0	$ 3,063.6	$ 3,164.9	$ 2,775.8	$ 2,525.7	
VI. Cumulative gross deficiency	$ (627.6)	$ (630.4)	$ (616.2)	$ (638.6)	$ (572.5)	$ (552.3)	$ (535.8)	$ (707.3)	$ (233.1)	$ (58.5)	
Percent deficient	(86.8)%	(82.1)%	(41.6)%	(40.4)%	(36.0)%	(32.5)%	(13.9)%	(16.4)%	(6.3)%	(1.8)%	

The cumulative net deficiency in the table above includes adverse development from A&E claims. White Mountains Re s exposure to A&E claims results mainly from asbestos claims arising from treaty and facultative contracts written prior to 1985 at two companies acquired by WMRe America MONY Reinsurance Corporation in 1991 and Christiania General Insurance Corporation in 1996. As a result, the table above reflects reserve development on A&E business that was not underwritten by White Mountains Re.

White Mountains Re s net incurred losses from A&E claims have totaled $200 million over the past ten years. Although losses arising from A&E claims were on contracts that were not underwritten by White Mountains Re, White Mountains Re is liable for any additional losses arising from such contracts. Accordingly, White Mountains Re cannot guarantee that it will not incur additional A&E losses in the future. Refer to **CRITICAL ACCOUNTING ESTIMATES** in **Management s Discussion and Analysis of Financial Condition and Results of Operations** for further details of White Mountains Re s A&E reserves.

The following table reconciles loss and LAE reserves determined on a regulatory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

	December 31,		
Millions	**2008**	**2007**	**2006**
Regulatory reserves	**$ 2,373.9**	$ 2,821.6	$ 2,866.3
Reinsurance recoverable on unpaid losses and LAE(1)	**1,058.8**	573.5	875.6
Discount on loss reserves	**105.4**	121.0	141.6
Reserves allocated to other segments	**(299.3)**	(218.6)	(123.6)
WM Life Re (2)	**(467.1)**	(12.6)	
Purchase accounting and other	**(36.3)**	(32.8)	(51.1)
GAAP reserves	**$ 2,735.4**	$ 3,252.1	$ 3,708.8

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under regulatory accounting.

(2) WM Re fronted the reinsurance contracts for, and is 100% reinsured by, WM Life Re. These instruments are reported as reinsurance contracts under Swedish statutory regulations. For U.S. GAAP purposes, the liabilities are transferred to WM Life Re and reported as derivative instruments.

Table of Contents

White Mountains Re Financing Activities

In May 2007, White Mountains Re Group, Ltd. (WMRe Group), an intermediate holding company of White Mountains Re, issued $250 million non-cumulative perpetual preference shares, with a $1,000 per share liquidation preference (the WMRe Preference Shares), and received $246 million of proceeds, net of $4 million of issuance costs and commissions. These shares were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. Holders of the WMRe Preference Shares receive dividends on a non-cumulative basis when and if declared by WMRe Group. The holders of the WMRe Preference Shares have the right to elect two directors to WMRe Group s board in the event of non-payment of dividends for six quarterly dividend periods. The right ceases upon the payment of dividends for four quarterly periods or the redemption of the WMRe Preference Shares. In addition, WMRe Group may not declare or pay dividends on its common shares (other than stock dividends and dividends paid for purposes of any employee benefit plans of WMRe Group and its subsidiaries) unless it is current on its most recent dividend period. The dividend rate is fixed at an annual rate of 7.506% until June 30, 2017 and dividends are paid on a semi-annual basis. After June 30, 2017, the dividend rate will be paid at a floating annual rate, equal to the greater of (1) the 3 month LIBOR plus 3.20% or (2) 7.506% and dividends will be paid on a quarterly basis. The WMRe Preference Shares are redeemable solely at the discretion of WMRe Group on or after June 30, 2017 at their liquidation preference of $1,000 per share, plus any declared but unpaid dividends. Prior to June 30, 2017, WMRe Group may elect to redeem the WMRe Preference Shares at an amount equal to the greater of (1) the aggregate liquidation preference of the shares to be redeemed and (2) the sum of the present values of the aggregate liquidation preference of the shares to be redeemed and the remaining scheduled dividend payments on the shares to be redeemed (excluding June 30, 2017), discounted to the redemption date on a semi-annual basis at a rate equal to the rate on a comparable treasury issue plus 45 basis points. In the event of liquidation of WMRe Group, the holders of the WMRe Preference Shares would have preference over the common shareholders and would receive a distribution equal to the liquidation preference per share, subject to availability of funds.

In March 2007, WMRe Group issued $400 million face value of senior unsecured notes at an issue price of 99.715% (the WMRe Senior Notes) and received $392 million of proceeds, net of issuance costs and commissions. The WMRe Senior Notes, which were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933, bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, including an interest rate lock agreement, the WMRe Senior Notes yield an effective rate of 6.49% per annum.

ESURANCE

The Esurance group of companies, with its U.S. headquarters in San Francisco, has been part of White Mountains since October 2000. Esurance markets personal auto insurance directly to customers and through select online agents. Most customer interaction with the company takes place via Esurance s website, *www.esurance.com*. Through the website, customers can get real-time quotes, compare quotes from other insurance companies, purchase their policies, report claims, watch vehicle repairs, make changes to their policy and manage their accounts. At December 31, 2008, Esurance had approximately 461,000 policies-in-force. In 2008, White Mountains purchased Answer Financial, a national property and casualty insurance agency that sells policies online and through call centers utilizing a comparison quoting platform. The Answer Financial platform now generates the comparison quoting option on Esurance s website. By leveraging the complementary capabilities of both Esurance and Answer Financial, the companies can generate significant incremental revenue at favorable acquisition costs and provide a better shopping experience for customers. As of December 31, 2008, the Esurance segment had 745,000 policies-in-force, including 284,000 policyholders at Answer Financial (which excludes 17,000 policies-in-force that were placed with Esurance).

Esurance s underwriting companies, Esurance Insurance Company, Esurance Insurance Company of New Jersey and Esurance Property and Casualty Insurance Company are rated A- (Excellent, the fourth highest of fifteen ratings) with a stable outlook by A.M. Best. Over the past several years, Esurance has ceded a large percentage of its business to certain other subsidiaries of White Mountains, primarily for capital management purposes. This business is included in the Esurance segment. At December 31, 2008 and 2007, Esurance had $1,096 million and $1,013 million of total assets and $438 million and $445 million of shareholder s equity, respectively.

Table of Contents

Geographic Concentration

As of December 31, 2008, Esurance writes business in thirty states. These states represent approximately 86% of the premium volume for the entire U.S. personal auto insurance market. For the years ended December 31, 2008, 2007 and 2006, Esurance had net written premiums of $823 million, $799 million and $596 million, respectively, which were distributed in the following states:

	Year Ended December 31,		
Net written premiums by state	**2008**	**2007**	**2006**
California	**24%**	22%	19%
Florida	**16**	16	17
New York	**7**	7	9
Texas	**5**	6	6
Washington	**5**	5	4
Pennsylvania	**4**	5	5
Michigan	**4**	5	6
New Jersey	**4**	4	5
Other	**31**	30	29
Total	**100%**	100%	100%

Marketing and Distribution

Esurance targets technology-savvy consumers who rely on the Internet to manage their financial services needs. Esurance has a diverse marketing mix and features its animated icon, Erin Esurance , across its advertising channels. In 2008, Esurance continued to advertise on national television, in select local markets, online through search engines (e.g., Google and Yahoo! Search), and through a variety of insurance, finance, and automotive web sites. Esurance also has marketing relationships with professional and college sports teams, as well as various environmental and community organizations. Diversified advertising channels and the strong recall of Erin Esurance have resulted in ongoing growth in brand awareness, particularly among Esurance s target customer base of web-savvy individuals. Esurance is the third largest issuer of auto insurance quotes on the Internet, behind only GEICO and Progressive, and also the third most recognizable brand for online auto insurance among consumers of online goods and services.

Underwriting and Pricing

Esurance collects and verifies detailed underwriting information in real-time while customers complete transactions online. Real-time access to customer information allows Esurance to continually develop and refine its highly segmented, tiered pricing models. Esurance believes that its tiered pricing models have a greater statistical correlation with historical loss experience than traditional pricing models have shown. As a result, Esurance is able to quote rates to customers that closely correspond to the individual risk characteristics of the customer, enabling Esurance to focus on keeping insurance rates competitive without compromising the company s loss ratio targets.

Competition

Esurance competes with national and regional personal auto insurance companies, though Esurance s main competition comes from other direct writers like GEICO and Progressive.

By leveraging web-enabled technology, Esurance can capture data real-time and respond quickly to changing loss trends. Esurance is able to continually refine pricing, enhance its auto product, and optimize dollars spent on marketing with the assortment of customer information that is at the company s disposal. Web technology also allows Esurance to provide 24/365 customer service and claims handling cost effectively.

Esurance s paperless business process allows the company to significantly reduce operating costs typically associated with policy processing, verification and endorsement activities. As a result, the company is able to achieve efficient, low-cost acquisition and operating expense structures. Further, Esurance s paperless business model is the foundation of the company s environmental commitment, which helps differentiate Esurance from its competitors.

Claims Management

Esurance takes initial notice of claims at its loss reporting unit in Sioux Falls, South Dakota, which is available for customers 24 hours a day, 365 days a year. The loss reporting unit then transfers claims to regional claim offices in Arizona, California, Colorado, Florida, Georgia, New Jersey, New York, Texas and Wisconsin where claims are handled and adjusted.

Table of Contents

Esurance s claims organization leverages technology to reduce cycle times and achieve strict claims performance metrics. Rapid response to and resolution of claims creates a stronger relationship with customers, while also decreasing ancillary claims costs, such as rental car fees. Additionally, Esurance maintains a special investigative unit designed to detect insurance fraud, and actively supports efforts by regulatory bodies and trade associations to curtail the cost of insurance fraud.

Catastrophe Risk Management

Esurance s sole line of business is personal auto insurance that covers liabilities and physical damage arising from the operation of automobiles. The majority of Esurance s customers elect coverage for physical damage (79%), resulting in exposure to catastrophe losses from hurricanes, hailstorms, earthquakes and other acts of nature. Generally, catastrophe costs are low for personal auto in relation to other lines of business, such as homeowners and commercial property. Additionally, Esurance s broad geographic distribution limits its concentration of risk and the potential for losses to accumulate from a single event.

Answer Financial

Answer Financial is one of the largest online personal insurance agencies in the United States, operating in all 50 states, with headquarters in southern California. Products offered through Answer Financial include personal auto insurance, homeowners, renters and condo insurance. Answer Financial, which sold its first internet policy completely online in January 2005, allows insurance shoppers to easily compare prices from the nation s leading personal auto and homeowners insurance carriers and purchase their policy through Answer Financial s website. Insurance shoppers can also call one of Answer Financial s licensed insurance agents for quotes.

Answer Financial currently offers comparative quotes from 13 insurance carriers. The business model is focused on distribution through financial services and retail partners and utilizes a broad comparison quoting platform. Several large employers also work with Answer Financial to serve their employees insurance needs. Answer Financial sells policies in 50 states plus the District of Columbia. Answer Financial sold over 150,000 new policies in 2008 and has approximately 300,000 policies-in-force as of December 31, 2008.

Answer Financial markets to consumers primarily through its financial services and retail partners. The marketing includes placement on partner websites, inserts in partner mailers and phone transfers and referrals. Answer Financial s marketing focuses on the ability of the consumer to easily get comparative quotes for their insurance needs, whether it is online or via the phone with a licensed agent. The partner model is a cost effective way to reach insurance consumers.

Answer Financial competes primarily with national and independent agents. By leveraging technology, its comparative quoting platform and its relationship with a number of large national insurance carriers, Answer Financial makes it easier for the consumer to get comparative quotes and save money on their personal auto and home insurance.

Esurance Loss and Loss Adjustment Expense Information

Esurance establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Uncertainties in projecting estimates of ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled (i.e., the claim-tail). Esurance writes only short-tail personal auto insurance policies, which somewhat reduces the uncertainty inherent in its loss and LAE reserves when compared to insurance companies that write long-tail policies, such as workers compensation. See **CRITICAL ACCOUNTING ESTIMATES** in **Management s Discussion and Analysis of Financial Condition and Results of Operations** for a full discussion regarding Esurance s loss reserving process.

Management believes that Esurance s loss and LAE reserves as of December 31, 2008 are adequate; however, ultimate loss and LAE may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Adverse loss and LAE reserve development, if any, would impact Esurance s future results of operations.

The following information presents (1) Esurance s loss and LAE reserve development over the eight years since inception and (2) a reconciliation of loss and LAE reserves on a Statutory basis to loss and LAE reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

Section I of the table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including IBNR reserves. In accordance with GAAP, the liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Table of Contents

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall claim frequency and claim severity patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2008. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008.

	Esurance Loss and LAE(1)(2) Years Ended December 31,							
($ in millions)	2001	2002	2003	2004	2005	2006	2007	2008
I. Liability for unpaid loss and LAE:								
Gross balance	$ 4.0	$ 15.5	$ 39.1	$ 63.0	$ 94.1	$ 167.4	$ 285.3	$ 370.7
Less: reinsurance recoverables on unpaid loss and LAE				(.1)	(.1)	(.5)	(2.2)	(1.4)
Net balance	$ 4.0	$ 15.5	$ 39.1	$ 62.9	$ 94.0	$ 166.9	$ 283.1	$ 369.3
II. Cumulative net amount of net liability paid through:								
1 year later	2.5	9.3	18.9	35.8	62.4	125.3	164.7	
2 years later	3.3	12.2	24.5	47.4	89.9	168.7		
3 years later	3.9	13.7	28.2	54.3	101.2			
4 years later	4.1	14.6	29.6	56.9				
5 years later	4.1	14.6	30.0					
6 years later	4.1	14.6						
7 years later	4.1							
III. Net liability re-estimated as of:								
1 year later	4.0	16.0	34.0	54.9	97.2	196.4	288.0	
2 years later	4.4	15.3	29.4	55.5	107.3	206.5		
3 years later	4.3	14.4	29.5	58.2	109.7			
4 years later	4.2	14.6	30.3	58.4				
5 years later	4.1	14.6	30.2					
6 years later	4.1	14.6						
7 years later	4.1							
IV. Cumulative net (deficiency)/redundancy	$ (.2)	$ .9	$ 8.9	$ 4.6	$ (15.7)	$ (39.7)	$ (4.9)	$
Percent (deficient)/redundant	(3.8)%	5.9%	22.7%	7.3%	(16.7)%	(23.8)%	(1.7)%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III. above):								
Less: Gross unpaid loss and LAE latest re-estimate	$ 4.1	$ 14.6	$ 30.4	$ 59.0	$ 110.1	$ 208.5	$ 290.0	$
Reinsurance recoverable latest re-estimate			(.2)	(.6)	(.4)	(2.0)	(1.9)	
Net unpaid loss and LAE latest re-estimate	$ 4.1	$ 14.6	$ 30.2	$ 58.4	$ 109.7	$ 206.5	$ 288.0	$
VI. Cumulative Gross (deficiency)/redundancy	$ (.2)	$ .9	$ 8.7	$ 4.0	$ (16.0)	$ (41.1)	$ (4.7)	$
Percent (deficient)/redundant	(3.8)%	5.9%	22.3%	6.4%	(17.0)%	(24.6)%	(1.7)%	

(1) The table consists of reserve information for Esurance Insurance Company, Esurance Property & Casualty Insurance Company, Esurance Insurance Company of New Jersey and business ceded by Esurance to WMRe America, OneBeacon and WMRe Sirius.

(2) Esurance became a subsidiary of White Mountains during 2000.

The following table reconciles loss and LAE reserves determined on a Statutory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

	December 31,		
Millions	**2008**	**2007**	**2006**
Statutory reserves	**$ 70.0**	$ 64.3	$ 43.3
Reserves allocated from other segments	**299.3**	218.6	123.6
Reinsurance recoverable on unpaid losses and LAE(1)	**1.4**	2.4	.5
GAAP reserves	**$ 370.7**	$ 285.3	$ 167.4

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under regulatory accounting.

Table of Contents

OTHER OPERATIONS

White Mountains Other Operations segment consists of the operations of the Company, the Company s intermediate subsidiary holding companies, White Mountains weather risk management and variable annuity reinsurance businesses, the consolidated results of Tuckerman Fund I and Tuckerman Fund II (until its transfer to the White Mountains Re segment, effective June 30, 2008), WM Advisors and White Mountains investments in unconsolidated affiliates, as well as the International American Group until its disposition in October 2008.

Berkshire Exchange

On October 31, 2008, White Mountains completed the transaction with Berkshire that was announced on March 10, 2008, through which Berkshire exchanged substantially all of its 16.3% stake in White Mountains (1,634,921 of its 1,724,200 common shares) for 100% of a White Mountains subsidiary, which held CCIC, the International American Group and $708 million in cash (the Berkshire Exchange). Upon the closing of the exchange transaction, CCIC and the International American Group had a combined fair value of $85 million and a combined GAAP book value of $59 million.

WM Advisors

WM Advisors is a registered investment adviser that manages White Mountains investments in fixed income and equity securities, including hedge funds, limited partnerships and private equities. WM Advisors also has investment management agreements with third parties, most notably with Symetra. At December 31, 2008, WM Advisors had approximately $26 billion in assets under management, $8 billion of which related to consolidated subsidiaries of White Mountains.

WM Advisors has a sub-advisory agreement with Prospector Partners LLC (Prospector), a registered investment adviser, under which Prospector manages most of White Mountains publicly-traded common equity and convertible securities. Prospector also provides consulting and advisory services to White Mountains through a separate agreement with WM Advisors on matters such as capital management, asset allocation, hedge fund and private equity investments and mergers and acquisitions.

Galileo

During 2006, White Mountains entered into the weather risk management business through its newly formed subsidiary, Galileo. Galileo sells weather and weather contingent risk management products, typically in derivative form, that are designed to assist corporate and governmental customers, primarily energy companies, utilities and construction companies, in managing their economic exposure to variations in weather conditions. Galileo then manages its weather and weather contingent derivative portfolio through the employment of a variety of risk management strategies to preserve its expected margins. These strategies include geographical diversification of risk exposures and economic hedging through the use of weather and commodity derivatives traded in both the over-the-counter and exchange-traded derivative markets. Additionally, Galileo may economically hedge portions of its risk exposure by buying and selling similar weather risk contracts with different counterparties. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then purchase an option from another counterparty that pays Galileo if it becomes too cold in that same location. Galileo may also diversify its risk exposure by entering into contracts that protect different clients with opposite exposures to the same quantifiable weather element. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then sell another option that protects a different customer if it becomes too warm in that same location. Risk management is undertaken on a portfolio-wide basis in order to maintain a portfolio that Galileo believes is well diversified and that remains within the aggregate risk tolerance established by senior management.

Weather derivatives, which usually take the form of swaps or options, are contracts with financial settlements based on the performance of an index linked to a quantifiable weather element, such as temperature, precipitation, snowfall or windspeed. Typical contracts span several months such as a summer or winter season. A weather swap is a contract that requires one of the contractual parties to make a payment to the other contractual party when a weather index rises above or falls below a specified level, or strike . Therefore, upon settlement of a weather swap, Galileo may make or receive a payment. A weather call option is a contract that entitles the purchaser to receive a payment when the weather index exceeds a specified strike, and a weather put option is a contract that entitles the purchaser to receive a payment when the weather index is less than a specified strike. Every weather derivative is defined by a series of terms, including strike, location, notional payout rate (per unit or event), maximum payout, time period and reference index, which are calculated from weather data collected from a specified weather station.

Weather contingent derivative products are weather derivatives with an additional commodity price trigger. Due to the dual trigger nature, weather contingent products are usually in the form of a call or put option. For example, a temperature contingent gas call will usually pay a client if temperatures are colder than an agreed upon trigger and natural gas prices are above a second trigger.

Table of Contents

To reduce its capital at risk, in October 2008 Galileo entered into a collateralized excess of loss and surplus share treaty which had the effect of capping Galileo s value-at-risk at $12 million for the 2008-2009 winter season, down from its original intent of $75 million. (See **Item 7A Quantitative and Qualitative Disclosures About Market Risk- Weather Derivative Risk** for a further discussion of Galileo s value-at-risk.) Galileo s book does include exposures beyond the 2008-2009 winter season, however all but two transactions run off in 2009. In connection with this risk-reduction strategy, White Mountains extracted $25 million in capital from Galileo during the fourth quarter of 2008 and has extracted an additional $30 million during the first quarter of 2009. At December 31, 2008, Galileo had total assets of $84 million and shareholder s equity of $45 million.

Beginning in October 2008, WMRe Bermuda agreed to provide guarantees of the obligations of Galileo to Galileo s counterparty in certain weather related product transactions. The guarantees require WMRe Bermuda to pay the full amount of Galileo s obligations to the counterparty in the event of Galileo s failure to pay these obligations. In the event of a payment, WMRe Bermuda would be eligible to exercise all of the rights of the counterparty against Galileo. As of December 31, 2008, WMRe Bermuda had ten outstanding guarantees of Galileo transactions, the total principal amount of which was approximately $84 million. The guarantees from WMRe Bermuda replaced guarantees that had previously been provided by OneBeacon. OneBeacon had provided guarantees of the obligations of Galileo to Galileo s counterparty in certain weather related product transactions from February of 2006 to October of 2008. As of December 31, 2007, OBIC had eight outstanding guarantees of Galileo transactions, the total principal amount of which was approximately $49 million.

WM Life Re

During 2006, White Mountains entered into the variable annuity reinsurance business through a newly formed subsidiary, WM Life Re. WM Life Re reinsures death and living benefit guarantees associated with certain variable annuities issued in Japan. White Mountains Re fronted the reinsurance contracts for, and is 100% reinsured by, WM Life Re.

WM Life Re has assumed the risk related to a shortfall between the account value and the guaranteed value that must be paid by the ceding company to an annuitant or to an annuitant s beneficiary in accordance with the underlying annuity contracts. The guaranteed value of the annuity contracts is equal to the initial single premium paid by the annuitant. The annuity accounts are invested in four index funds: a Japanese government bond fund (roughly 35%), a foreign government bond fund (roughly 35%); a Japanese equity fund (roughly 15%) and a foreign equity fund (roughly 15%). The account is rebalanced monthly to maintain these same investment allocations. Over the life of the annuity contracts, the ceding company charges fees and expenses to its annuitant s accounts that would effectively be reimbursed by the ceding company if the account value is less than the guaranteed value at the at the earlier of a 10-year period or death. This guarantee made by the ceding company to its annuitants was economically equivalent to guaranteeing that the underlying investment accounts would earn a return of approximately 2.7% per annum. The average account value of annuity contracts covered by WM Life Re was approximately 104% of their guarantee value at the inception of the reinsurance contracts. Accordingly, the guarantee made in WM Life Re s contracts was economically equivalent to guaranteeing that the underlying investment accounts would earn a return of approximately 2.3% per annum.

WM Life Re reinsured ¥200 billion (approximately $1.7 billion at the then current exchange rate) of guarantees in September 2006 and an additional ¥56 billion ($0.47 billion) in March 2007. WM Life Re has not subsequently written any additional business and is currently evaluating options to run-off or exit its existing business. As of December 31, 2008, the total guarantee value was approximately ¥245 billion (approximately $2.7 billion at exchange rates on that date). The average annual premium charged by WM Life Re under these contracts is equal to 1.11% times the total guarantee value.

Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese Yen, as well as with increases in market volatilities. In 2008, particularly in the fourth quarter, as a result of worldwide declines in equity markets, interest rates and the strengthening of the Japanese Yen, the underlying investment accounts declined substantially and at December 31, 2008 the collective account values were approximately 82% of the guarantee value. The liability is also affected by annuitant related behavioral and actuarial assumptions, including surrender and mortality rates.

WM Life Re uses derivative instruments, including put options, interest rate swaps, and futures contracts on major equity indices, currency pairs and government bonds, to mitigate the market risks associated with changes in the fair value of the reinsured variable annuity guarantees. WM Life Re measures its net exposure to changes in relevant interest rates, foreign exchange rates and equity markets on a daily basis and adjusts its economic hedge positions within risk guidelines established by senior management. WM Life Re continually fair values its liability and the related hedge assets. The guarantee is economically equivalent to having sold put options on a basket of the four index funds. WM Life Re also monitors the effects of annuitant related experience against actuarial assumptions (surrender and mortality rates) on a weekly basis and adjusts relevant assumptions and economic hedge positions if required.

Table of Contents

Under the terms of its reinsurance contracts, WM Life Re is required to hold eligible assets (generally cash, short-term investments and hedge assets such as options and futures) equal to the fair value of the liability, as defined in the reinsurance contracts, for the benefit of the cedant. Increases in the fair value of the liability in excess of the increase in value of the hedge assets, such as occurs in the case of decreases in surrender assumptions or underperformance of the hedging portfolio, must therefore be funded on a current basis while the actual amounts that must be paid to settle the contracts may not be known and generally will not become payable for a number of years. White Mountains contributed an additional $155 million into WM Life Re during 2008 and February 2009 to fulfill this requirement.

See **Item 7 - CRITICAL ACCOUNTING ESTIMATES** - **Fair Value Measurements** for a discussion of the sensitivity of WM Life Re s results to changes in market and annuitant-related variables.

Tuckerman Fund I and Tuckerman Fund II

White Mountains owns approximately 90% of Tuckerman Fund I and approximately 45% of Tuckerman Fund II (collectively, the Tuckerman Funds). The Tuckerman Funds are managed by Tuckerman Capital, a private investment firm that focuses on acquisitions of small manufacturing companies, and are consolidated within White Mountains financial statements. Tuckerman Capital focuses its acquisition efforts on companies with enterprise values ranging from $5 million to $25 million and with established track records of success. The companies owned by the Tuckerman Funds are manufacturers of highly engineered, non-commodity products across a broad range of industries.

At December 31, 2008 and 2007, the Tuckerman Fund I and Tuckerman Fund II had $86 million and $91 million of total assets and accounted for $22 million and $32 million of White Mountains net assets. During 2008, White Mountains investment in Tuckerman Fund II was transferred from Other Operations to the White Mountains Re segment.

International American Group

The International American Group, which White Mountains transferred to Berkshire in October 2008 as part of the Berkshire Exchange, consisted of American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (British Insurance Company), both of which were property and casualty insurance and reinsurance companies in run-off. At December 31, 2007 American Centennial had $78 million of total assets and $11 million of shareholder s equity. At December 31, 2007 British Insurance Company had $18 million of total assets and $6 million of shareholder s equity.

INVESTMENTS

White Mountains long term investment philosophy has historically been to maximize its after-tax total risk-adjusted return. Under this approach, each dollar of after-tax investment income and realized and unrealized gains and losses is valued equally. White Mountains recently shifted its investment philosophy from a total return focus to a capital preservation focus in response to the significant declines and high volatility in equity markets, the lack of liquidity in the credit markets and the widening of credit spreads on fixed income securities experienced in the latter half of 2008. In particular, White Mountains significantly reduced the size of its equity portfolio and now has a larger percentage of its invested assets in cash and short term investments than it has in the past under a total return approach. White Mountains expects to return to its long term total return investment philosophy in the future when conditions are more favorable.

White Mountains investment portfolio mix as of December 31, 2008 consisted in large part of high-quality, fixed maturity investments and short-term investments, as well as equity investments and other investments, such as hedge funds, limited partnerships and private equities. White Mountains management believes that prudent levels of investments in common equity securities and other investments within its investment portfolio are likely to enhance long-term after-tax total returns without significantly increasing the risk profile of the portfolio. See **Portfolio Composition** in **Management s Discussion and Analysis of Financial Condition and Results of Operations** .

White Mountains overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to credit risks. White Mountains also actively manages the average duration of the portfolio, about 2 years including short-term investments and about 3 years excluding short-term investments at December 31, 2008, to seek the highest after-tax, risk-adjusted total returns.

Prospector s equity investment strategy is to maximize absolute risk-adjusted total return through investments in a variety of equity and equity-related instruments, using a bottom-up, value discipline. Preservation of capital is of the utmost importance. Using a value orientation, Prospector invests in relatively concentrated positions in the United States and other developed markets.

Table of Contents

Prospector Offshore Fund, Ltd.

White Mountains owns approximately 60% of the Prospector Offshore Fund, Ltd. (Prospector Fund). The Prospector Fund is managed by Prospector, a registered investment advisor, and is consolidated within White Mountains financial statements. The Prospector Fund is an open-ended mutual fund that pursues investment opportunities in a variety of equity and equity-related instruments, with a principal focus on the financial services sector and a special emphasis on the insurance industry.

At December 31, 2008 and 2007, the Prospector Fund had $128 million and $207 million of total assets and accounted for $52 million and $64 million of White Mountains net assets.

Montpelier Re

In December 2001, White Mountains, the Benfield Group plc and several other private investors established Montpelier Re and its wholly-owned subsidiary Montpelier Reinsurance Ltd. On October 15, 2002, Montpelier Re successfully completed an initial public offering and its common shares are listed on the New York Stock Exchange. White Mountains initially invested $180 million in Montpelier Re in exchange for 10.8 million common shares and warrants to acquire 4.8 million additional common shares of Montpelier Re.

During 2004, White Mountains purchased additional warrants to acquire 2.4 million common shares of Montpelier Re from an existing warrant holder and White Mountains sold 4.5 million common shares of Montpelier Re to third parties. During 2006, White Mountains sold an additional 5.4 million shares of its common share investment in Montpelier Re to third parties.

At December 31, 2006, White Mountains investment in Montpelier Re warrants and common shares totaled $67 million. On May 1, 2007, White Mountains sold all of its remaining interest in Montpelier Re, which consisted of 939,039 common shares and warrants to purchase 7,172,376 common shares, for total proceeds of $65 million and recognized an after tax loss of $1.8 million.

Investments in Unconsolidated Affiliates

Symetra

In 2004, White Mountains, Berkshire and several other private investors capitalized Symetra in order to purchase the life and investment operations of Safeco Corporation for $1.35 billion. The acquired companies focus mainly on group insurance, individual life insurance, structured settlements and retirement services. Symetra had an initial capitalization of approximately $1.4 billion, consisting of $1,065 million of common equity and $315 million of debt. White Mountains invested $195 million in Symetra in exchange for 2.0 million common shares of Symetra. In addition, White Mountains and Berkshire each received warrants to acquire an additional 1.1 million common shares of Symetra at

$100 per share. White Mountains owns approximately 19% of the outstanding common shares of Symetra and approximately 24% of Symetra on a fully-converted basis including the warrants. Three White Mountains designees serve on Symetra s seven member board of directors. White Mountains accounts for its investment in common shares of Symetra under the equity method and accounts for its Symetra warrants as a derivative investment at fair value.

On October 26, 2007, Symetra executed a 7.7-for-1 stock dividend (substantially equivalent to an 8.7-for-1 stock split) that increased White Mountains investment in Symetra s common shares from 2.0 million to 17.4 million, and the number of warrants to acquire additional common shares from 1.1 million at $100 per share to 9.5 million at $11.49 per share. The stock split, affected in the form of a dividend, had no effect on White Mountains percentage of ownership in Symetra.

The following table presents the financial strength ratings assigned to Symetra s principal insurance operating subsidiaries:

	A.M. Best(1)	**Standard & Poor s(2)**	**Moody s(3)**	**Fitch(4)**
Rating	A (Excellent)	A (Strong)	A2 (Good)	A+ (Strong)
Outlook	Stable	Negative	Stable	Negative

(1) A is the third highest of fifteen financial strength ratings assigned by A.M. Best.

(2) A is the sixth highest of twenty-one financial strength ratings assigned by Standard & Poor s.

(3) A2 is the sixth highest of twenty-one financial strength ratings assigned by Moody s.

(4) A+ is the fifth highest of twenty-one financial strength ratings assigned by Fitch.

Symetra s total revenues and net income for the years ended December 31, 2008, 2007, and 2006 were $1,454 million and $24 million, $1,590 million and $167 million, and $1,568 million and $159 million. As of December 31, 2008 and 2007, Symetra had total assets of $19.2 billion and $19.6 billion and shareholders equity of $288 million and $1.3 billion. Symetra s shareholders equity excluding unrealized losses from its fixed maturity investments was $1.3 billion at both December 31, 2008 and 2007.

Table of Contents

As of December 31, 2008 and 2007, White Mountains investment in Symetra common shares was $251 million and $247 million, excluding $197 million and $6 million, respectively, of equity in unrealized losses from Symetra s fixed maturity investments. As of December 31, 2008 and 2007, White Mountains investment in Symetra warrants was $27 million and $77 million. Since inception, White Mountains has received cash dividends from Symetra of $47 million on its common share investment and $26 million on its warrant investment.

Pentelia

In April 2007, White Mountains invested $50 million in Pentelia Investment Limited (Pentelia), a fund that invests in insurance-related investment assets. White Mountains has determined that its investment in Pentelia is a variable interest entity. However, since White Mountains is not the primary beneficiary, it accounted for its interests in Pentelia as an equity method investment in an unconsolidated affiliate at December 31, 2007. During the first quarter of 2008, Pentelia raised additional equity capital. Subsequent to the capital raise, White Mountains ownership interest in Pentelia was reduced from 17% to approximately 13%. Accordingly, White Mountains investment in Pentelia is now accounted for as a trading security in other investments. Changes in fair value of White Mountains investment in Pentelia are recognized in the net change in unrealized investment gains and losses. White Mountains exposure to loss is limited to the carrying value of its investment in Pentelia. At December 31, 2008, White Mountains redeemed $10 million, or 22%, of its investment in Pentelia. As of December 31, 2008, the carrying value of White Mountains investment in Pentelia was $35 million.

White Mountains also obtained an equity interest of 33% in Pentelia Capital Management (PCM) for $1.6 million in April 2007. This investment is accounted for under the equity method. As of December 31, 2008 and 2007, White Mountains investment in PCM was $1.6 million for both periods.

Delos

On August 3, 2006, White Mountains Re sold Sirius America to Delos. As part of the transaction, White Mountains invested $32 million in Delos, representing an equity interest of approximately 18%, which is accounted for as an equity method investment in an unconsolidated affiliate. As of December 31, 2008, White Mountains total investment in Delos was $34 million.

Securities Lending

White Mountains participates in securities lending programs through both OneBeacon and White Mountains Re as a mechanism for generating additional investment income. Under the security lending arrangements, certain securities White Mountains owns are loaned to other institutions for short periods of time through a lending agent. The security lending counterparty is required to provide collateral for the loaned securities, which is then invested by the lending agent. The collateral is required at a rate of 102% of the fair value of the loaned securities, is controlled by the lending agent and may not be sold or re-pledged. In the event that the lending agent does not return the full amount of collateral to the security lending counter party, White Mountains is obligated to make up any deficiency.

White Mountains has some exposure to troubled financial services companies in the collateral received under its securities lending program. A portion of the collateral received for securities loaned out under the program was invested in formerly highly rated troubled financial services companies and in highly rated sub-prime mortgage-backed securities. At December 31, 2008, there is a $15 million collateral shortfall ($7 million at OneBeacon and $8 million at White Mountains Re) that relates primarily to these securities. Additionally, there are approximately $5 million of sub-prime mortgage-backed securities at White Mountains Re that are in the securities lending collateral accounts at December 31, 2008. In February 2009, the value that can be loaned under White Mountains   securities lending programs cannot exceed approximately $170 million.

In February 2009, OneBeacon amended the terms of its securities lending program to give it more control over the investment of borrowers collateral and to segregate the assets supporting that collateral into a segregated account. Pursuant to the amendment, (i) the guidelines for the investment of any new cash collateral, as well as the reinvestment of cash, were narrowed to permit investment in only cash equivalent securities, (ii) OneBeacon has the authority to direct the lending agent to both sell specific collateral securities in its segregated account and to not sell certain collateral securities which the lending agent proposes to sell, and (iii) OneBeacon and the lending agent agreed to manage the securities lending program toward an orderly wind-down, which OneBeacon believes will be completed over an approximately 1 to 2 year period. As of the date of the amendment, the market value of the securities on loan was approximately $64 million. White Mountains is currently exploring options for exiting White Mountains Re s securities lending program.

Table of Contents

REGULATION

United States

White Mountains U.S.-based insurance and reinsurance operating subsidiaries are subject to regulation and supervision in each of the states where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. White Mountains believes that it is in compliance with all applicable laws and regulations pertaining to its business that would have a material effect on its financial position in the event of non-compliance.

Over the last several years most states have implemented laws that establish standards for current, as well as continued, state accreditation. In addition, the National Association of Insurance Commissioners (NAIC) has adopted risk-based capital (RBC) standards for property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. The current RBC ratios of White Mountains active U.S.-based insurance and reinsurance operating subsidiaries are satisfactory and such ratios are not expected to result in any adverse regulatory action. White Mountains is not aware of any current recommendations by regulatory authorities that would be expected to have a material effect on its results of operations or liquidity.

As a condition of its license to do business in certain states, White Mountains U.S.-based insurance and reinsurance operating subsidiaries are required to participate in mandatory shared market mechanisms. Each state dictates the types of insurance and the level of coverage that must be provided. The most common type of shared market mechanism in which White Mountains is required to participate is an assigned risk plan. Many states operate assigned risk plans. The NYAIP and New Jersey commercial automobile insurance plans are two such shared market mechanisms in which OneBeacon is required to participate. These plans require insurers licensed within the applicable state to accept the applications for insurance policies of customers who are unable to obtain insurance in the voluntary market. The total number of such policies an insurer is required to accept is based on its market share of voluntary business in the state. Underwriting results related to assigned risk plans are typically adverse. Accordingly, OneBeacon may be required to underwrite policies with a higher risk of loss than it would otherwise accept.

Reinsurance facilities are another type of shared market mechanism. Reinsurance facilities require an insurance company to accept all applications submitted by certain state designated agents. The reinsurance facility then allows the insurer to cede some of its business to the reinsurance facility so that the facility will reimburse the insurer for claims paid on ceded business. Typically, however, reinsurance facilities operate at a deficit, which is funded through assessments against the same insurers. The Massachusetts Commonwealth Automobile Reinsurers is one such reinsurance facility in which OneBeacon is compelled to participate. As a result, OneBeacon could be required to underwrite policies with a higher risk of loss than it would otherwise voluntarily accept.

The insurance laws of many states generally provide that property and casualty insurers doing business in those states belong to a statutory property and casualty guaranty association. The purpose of these guaranty associations is to protect policyholders by requiring that solvent property and casualty insurers pay certain insurance claims of insolvent insurers. These guaranty associations generally pay these claims by assessing solvent insurers proportionately based on the insurer s share of voluntary written premiums in the state. While most guaranty associations provide for recovery of assessments through rate increases, surcharges or premium tax credits, there is no assurance that insurers will ultimately recover these assessments. At December 31, 2008, the reserve for such assessments at OneBeacon totaled $17 million.

Many states have laws and regulations that limit an insurer s ability to exit a market. For example, certain states limit a private passenger automobile insurer s ability to cancel and non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing from one or more lines of insurance business in the state, unless the state regulators approve the company s withdrawal plans. State regulators may refuse to approve such plans on the grounds that they could lead to market disruption. Such laws and regulations may restrict White Mountains ability to exit unprofitable markets.

Nearly all states have insurance laws requiring personal property and casualty insurers to file price schedules, policy or coverage forms, and other information with the state s regulatory authority. In most cases, such price schedules and/or policy forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that prices are adequate, not excessive and not discriminatory. For example, Massachusetts, a state where OneBeacon has a sizable presence, had previously set virtually all aspects of automobile insurance rates, including agent commissions. While the state is now transitioning to a system of managed competition, existing regulations continue to challenge an insurer s ability to adequately price its product, which often leads to unsatisfactory underwriting results.

White Mountains U.S.-based insurance and reinsurance operating subsidiaries are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. White Mountains investment portfolio at December 31, 2008 complied with such laws and regulations in all material respects.

Table of Contents

One of the primary sources of cash inflows for the Company and certain of its intermediary holding companies is dividends received from its insurance and reinsurance operating subsidiaries. Under the insurance laws of the states under which White Mountains U.S.-based insurance and reinsurance operating subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities. See **Item 7 - LIQUIDITY AND CAPITAL RESOURCES - Dividend Capacity** for further discussion.

White Mountains is subject to regulation under certain state insurance holding company acts. These regulations contain reporting requirements relating to the capital structure, ownership, financial condition and general business operations of White Mountains insurance and reinsurance operating subsidiaries. These regulations also contain special reporting and prior approval requirements with respect to certain transactions among affiliates. Since the Company is an insurance holding company, the domiciliary states of its insurance and reinsurance operating subsidiaries impose regulatory application and approval requirements on acquisitions of White Mountains common shares which may be deemed to confer control over those subsidiaries, as that concept is defined under the applicable state laws. Acquisition of 10% of White Mountains common shares, or in some states as little as 5%, may be deemed to confer control under the insurance laws of some jurisdictions, and the application process for approval can be extensive and time consuming.

While the federal government does not directly regulate the insurance business, federal legislation and administrative policies affect the insurance industry. In addition, legislation has been introduced from time to time in recent years that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry. In December of 2007, the United States government extended the Terrorism Act until December 31, 2014. The Terrorism Act was originally enacted in 2002 and established a federal backstop for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended, the law now covers domestic acts of terrorism. In exchange for this backstop , primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. OneBeacon is actively complying with the requirements of the Terrorism Act in order to ensure its ability to be reimbursed by the federal government for any losses it may incur as a result of future terrorist acts. (See **Terrorism** in the **ONEBEACON** section of this Item for a further discussion of the Terrorism Act). A number of additional enacted and pending legislative measures could lead to increased consolidation and increased competition for business and for capital in the financial services industry. White Mountains cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect such measures may have on its insurance and reinsurance operations.

Environmental cleanup of polluted waste sites is subject to both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 (Superfund) and comparable state statutes govern the cleanup and restoration of waste sites by potentially responsible parties (PRPs). These laws can impose liability for the entire cost of clean-up upon any PRP, regardless of fault. The insurance industry in general is involved in extensive litigation regarding coverage issues arising out of the cleanup of waste sites by insured PRPs and as a result has disputed many such claims. From time to time, comprehensive Superfund reform proposals are introduced in Congress, but none has yet been enacted. At this time, it remains unclear as to whether Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims. The NICO Cover includes coverage for such exposures at OneBeacon; however, there can be no assurance that the coverage provided under the NICO Cover will ultimately prove to be adequate.

Sweden

WMRe Sirius is subject to regulation and supervision by the Swedish Financial Supervisory Authorities (the FSA). As Sweden is a member of the European Union (the EU), this supervision covers all locations within the EU. Generally, the FSA has broad supervisory and administrative powers over such matters as licenses, standards of solvency, investments, methods of accounting, form and content of financial statements, minimum capital and surplus requirements, annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. White Mountains believes that it is in compliance with all applicable laws and regulations pertaining to its business that would have a material effect on its financial position in the event of non-compliance.

In accordance with provisions of Swedish law, WMRe Sirius is permitted to transfer up to the full amount of its pre-tax income, subject to certain limitations, into an untaxed reserve referred to as a safety reserve, which equaled $1.2 billion at December 31, 2008. Under GAAP, an amount equal to the safety reserve, net of the related deferred tax liability established at the Swedish tax rate of 26.3%, is classified as shareholder s equity. Generally, this deferred tax liability is only required to be paid by WMRe Sirius if it fails to maintain predetermined levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on WMRe Sirius safety reserve ($309 million at December 31, 2008) is included in solvency capital. Access to the safety reserve is restricted to coverage of aggregate losses and requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, major rating agencies include the $1.2 billion balance of the safety reserve, without any provision for deferred taxes, in WMRe Sirius capital when assessing WMRe Sirius financial strength.

Table of Contents

Bermuda Insurance Regulation

The Insurance Act 1978 of Bermuda and related regulations, as amended (the Insurance Act), regulates the insurance businesses of WMRe Bermuda, Scandinavian Re, Galileo and WM Life Re, and provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer under the Insurance Act by the Bermuda Monetary Authority (BMA). The BMA, in deciding whether to grant registration, has broad discretion to act as it thinks fit in the public interest. The BMA is required by the Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise to operate an insurance business. In addition, the BMA is required by the Insurance Act to determine whether a person who proposes to control 10 percent, 20 percent, 33 percent or 50 percent (as applicable) of the voting powers of a Bermuda registered insurer or its parent company is a fit and proper person to exercise such degree of control.

The continued registration of an applicant as an insurer is subject to the applicant complying with the terms of its registration and such other conditions as the BMA may impose from time to time. The Insurance Act also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies.

The Insurance Act imposes on Bermuda insurance companies solvency and liquidity standards as well as auditing and reporting requirements. White Mountains believes that it is in compliance with all applicable laws and regulations pertaining to its business that would have a material effect on its financial position in the event on non-compliance.

Certain Other Bermuda Law Considerations

White Mountains is an exempted company organized under the Companies Act 1981 of Bermuda (the Companies Act). As a result, White Mountains needs to comply with the provisions of the Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(1) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(2) the realizable value of the company s assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Under White Mountains bye-laws, each common share is entitled to dividends if, and when, dividends are declared by its board of directors, subject to any preferred dividend rights of the holders of any preference shares. Issued share capital is the aggregate par value of the company s issued shares, and the share premium account is the aggregate amount paid for issued shares over and above their par value. Share premium accounts may be reduced in certain limited circumstances. In addition, the Companies Act regulates return of capital, reduction of capital and any purchase or redemption of shares by White Mountains.

Although White Mountains is incorporated in Bermuda, it has been designated as a non-resident of Bermuda for exchange control purposes by the BMA. Pursuant to its non-resident status, White Mountains may hold any currency other than Bermuda dollars and convert that currency into any other currency, other than Bermuda dollars, without restriction.

Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 and the Exchange Control Act 1972, and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the BMA pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA in its policy dated June 1, 2005 provides that where any equity securities, including White Mountains common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equities securities of such company remain so listed. The New York Stock Exchange is deemed to be an appointed stock exchange under Bermuda law. Notwithstanding the above general permission, the BMA has granted White Mountains permission to, subject to its common shares being listed on an appointed stock exchange, (a) issue and transfer its shares, up to the amount of its authorized capital from time to time, to persons resident and non-resident of Bermuda for exchange control purposes; (b) issue and transfer options, warrants, depositary receipts, rights, and other securities; and (c) issue and transfer loan notes and other debt instruments and options, warrants, receipts, rights over loan notes and other debt instruments to persons resident and non-resident of Bermuda for exchange control purposes.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place in Bermuda. As exempted companies, White Mountains may not, without the express authorization of the Bermuda legislature or under a license granted by the Bermuda Minister of Finance, participate in various specified business transactions, including:

- the acquisition or holding of land in Bermuda, except land held by way of lease or tenancy agreement which is required for White Mountains business and held for a term not exceeding 50 years, or which is used to provide accommodation or recreational facilities for White Mountains officers and employees and held with the consent of the Bermuda Minister of Finance, for a term not exceeding 21 years;

Table of Contents

- the taking of mortgages on land in Bermuda in excess of $50,000;
- the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government or public authority securities; or
- subject to some exceptions, the carrying on of business of any kind in Bermuda for which White Mountains is not licensed in Bermuda.

Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian) is available who meets the minimum standard requirements for the advertised position. In 2001, the Bermuda government announced a new policy limiting the duration of work permits to six years, with certain exemptions for key employees. In addition, exempted companies, such as White Mountains, must comply with Bermuda resident representation provisions under the Companies Act which require that a minimum number of offices must be filled by persons who are ordinarily resident in Bermuda.

RATINGS

Insurance and reinsurance companies are evaluated by various rating agencies in order to measure each company s financial strength. Higher ratings generally indicate financial stability and a stronger ability to pay claims. White Mountains believes that strong ratings are important factors in the marketing of insurance and reinsurance products to agents and consumers and ceding companies.

Rating agencies also evaluate the general creditworthiness of debt securities issued by companies. Their ratings are then used by existing or potential investors to assess the likelihood of repayment on a particular debt issue. White Mountains believes that strong debt ratings are important factors that provide better financial flexibility when issuing new debt or restructuring existing debt.

The following table presents the financial strength ratings assigned to White Mountains principal insurance and reinsurance operating subsidiaries and the debt ratings for White Mountains principal financial instruments as of February 27, 2009:

	A.M. Best(1)	Standard & Poor s(2)	Moody s(3)	Fitch(4)
OneBeacon				
Rating	A (Excellent)	A (Strong)	A2 (Good)	A (Strong)
Outlook	Stable	Negative	Stable	Stable
WMRe America				
Rating	A- (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable

WMRe Sirius				
Rating	A (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable
WMRe Bermuda				
Rating	A- (Excellent)	A- (Strong)	No Rating	A (Strong)
Outlook	Stable	Stable	N/A	Stable
Esurance				
Rating	A- (Excellent)	No Rating	No Rating	No Rating
Outlook	Stable	N/A	N/A	N/A
OBH Senior Notes(5)				
Rating	bbb (Adequate)	BBB (Adequate)	Baa2 (Medium Grade)	BBB (Good)
Outlook	Stable	Negative	Stable	Stable
WMRe Senior Notes				
Rating	bbb- (Adequate)	BBB- (Adequate)	Baa3 (Medium Grade)	BBB (Good)
Outlook	Stable	Stable		