

WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
August 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended **June 30, 2007**

OR

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

For the transition period from _____ to _____

Commission file number **1-8993**

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of
incorporation or organization)

94-2708455

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

**80 South Main Street,
Hanover, New Hampshire**

(Address of principal executive offices)

03755-2053

(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 1, 2007, 10,842,538 common shares with a par value of \$1.00 per share were outstanding (which includes 54,000 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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

(Millions, except share and per share amounts)	June 30, 2007 Unaudited	December 31, 2006
Assets		
Fixed maturity investments, at fair value (amortized cost: \$7,470.1 and \$7,377.0)	\$ 7,524.9	\$ 7,475.3
Common equity securities, at fair value (cost: \$1,160.5 and \$972.0)	1,402.7	1,212.6
Short-term investments, at amortized cost (which approximates fair value)	1,152.9	1,344.9
Other investments (cost: \$478.0 and \$467.1)	558.5	524.8
Convertible fixed maturity investments, at fair value (amortized cost: \$542.8 and \$435.9)	544.7	436.2
Trust account investments, at amortized cost (fair value \$310.9 and \$337.9)	312.0	338.9
Total investments	11,495.7	11,332.7
Cash	172.9	159.0
Reinsurance recoverable on unpaid losses	1,864.3	2,134.5
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	1,828.9	1,881.2
Reinsurance recoverable on paid losses	57.7	159.4
Insurance and reinsurance premiums receivable	1,007.3	913.6
Securities lending collateral	554.0	649.8
Funds held by ceding companies	366.7	452.8
Investments in unconsolidated affiliates	381.0	335.5
Deferred acquisition costs	351.6	320.3
Deferred tax asset	222.4	276.0
Ceded unearned premiums	130.9	87.9
Accrued investment income	85.8	87.4
Accounts receivable on unsettled investment sales	24.3	8.5
Other assets	640.8	645.1
Total assets	\$ 19,184.3	\$ 19,443.7
Liabilities		
Loss and loss adjustment expense reserves	\$ 8,364.7	\$ 8,777.2
Unearned insurance and reinsurance premiums	1,735.7	1,584.9
Debt	1,183.6	1,106.7
Securities lending payable	554.0	649.8
Deferred tax liability	312.0	311.5
Long-term incentive compensation payable	181.5	285.2
Reserves for structured contracts	87.3	147.1
Funds held under reinsurance treaties	110.4	141.6
Ceded reinsurance payable	125.4	138.4
Accounts payable on unsettled investment purchases	32.0	66.8
Other liabilities	775.6	913.7
Preferred stock subject to mandatory redemption:		
Held by Berkshire Hathaway Inc. (redemption value \$300.0)	259.2	242.3
Held by others (redemption value \$20.0)		20.0
Total liabilities	13,721.4	14,385.2
Minority interest - OneBeacon Insurance Group, Ltd.	526.0	490.7
Minority interest - White Mountains Re Group, Ltd. Preference Shares	250.0	
Minority interest - consolidated limited partnerships	111.6	112.5

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Total minority interest	887.6	603.2
Common shareholders' equity		
Common shares at \$1 par value per share - authorized 50,000,000 shares; issued and outstanding 10,842,538 and 10,782,753 shares	10.8	10.8
Paid-in surplus	1,721.1	1,716.7
Retained earnings	2,647.5	2,496.0
Accumulated other comprehensive income, after-tax:		
Net unrealized gains on investments	144.0	194.0
Net unrealized foreign currency translation gains	52.8	37.2
Other	(.9)	.6
Total common shareholders' equity	4,575.3	4,455.3
Total liabilities, minority interest and common shareholders' equity	\$ 19,184.3	\$ 19,443.7

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Unaudited

(Millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Revenues:				
Earned insurance and reinsurance premiums	\$ 960.7	\$ 953.5	\$ 1,898.7	\$ 1,854.5
Net investment income	126.7	104.4	244.7	202.9
Net realized investment gains	89.1	106.5	163.0	135.0
Other revenue	34.1	36.5	70.3	66.3
Total revenues	1,210.6	1,200.9	2,376.7	2,258.7
Expenses:				
Loss and loss adjustment expenses	592.1	763.8	1,205.4	1,327.8
Insurance and reinsurance acquisition expenses	203.6	187.7	396.2	373.3
Other underwriting expenses	136.2	122.8	273.9	238.7
General and administrative expenses	62.4	22.3	115.3	66.9
Accretion of fair value adjustment to loss and loss adjustment expense reserves	5.5	6.4	10.6	11.6
Interest expense on debt	18.3	11.9	35.1	23.6
Interest expense - dividends on preferred stock subject to mandatory redemption	7.5	7.5	15.1	15.1
Interest expense - accretion on preferred stock subject to mandatory redemption	8.8	6.9	17.0	13.3
Total expenses	1,034.4	1,129.3	2,068.6	2,070.3
Pre-tax income	176.2	71.6	308.1	188.4
Income tax benefit (provision)	(55.8)	) 29.3	(87.0)	) 2.4
Income before equity in earnings of unconsolidated affiliates and minority interest	120.4	100.9	221.1	190.8
Minority interest	(26.4)	) .1	(45.4)	) (2.8)
Equity in earnings of unconsolidated affiliates	8.6	14.8	19.1	23.8
Net income	102.6	115.8	194.8	211.8
Change in net unrealized gains and losses for investments held	(31.4)	) (63.0)	40.2	) (96.2)
Change in foreign currency translation and other	17.9	11.9	14.1	32.9
Recognition of net unrealized gains and losses for investments sold	(39.3)	) (51.5)	(90.2)	) (75.4)
Comprehensive net income	\$ 49.8	\$ 13.2	\$ 158.9	\$ 73.1
Basic earnings per share	\$ 9.51	\$ 10.75	\$ 18.07	\$ 19.67
Diluted earnings per share	9.49	10.72	18.03	19.61
Dividends declared and paid per common share	\$ 2.00	\$ 2.00	\$ 4.00	\$ 4.00

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

Unaudited

(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income, after-tax	Unearned compensation
Balances at January 1, 2007	\$ 4,455.3	\$ 1,727.5	\$ 2,496.0	\$ 231.8	\$
Cumulative effect adjustment - taxes (FIN 48)	.2		.2		
Net income	194.8		194.8		
Other comprehensive income, after-tax	(35.9)			(35.9)	
Dividends declared on common shares	(43.5)		(43.5)		
Issuances of common shares	1.8	1.8			
Repurchases and retirements of common shares	(2.5)	(2.5)			
Amortization of restricted share and option awards	5.1	5.1			
Balances at June 30, 2007	\$ 4,575.3	\$ 1,731.9	\$ 2,647.5	\$ 195.9	\$
(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income, after-tax	Unearned compensation
Balances at January 1, 2006	\$ 3,833.2	\$ 1,727.2	\$ 1,899.8	\$ 208.1	\$ (1.9)
Net income	211.8		211.8		
Other comprehensive income, after-tax	(138.7)			(138.7)	
Cumulative effect adjustment - hybrid instruments (FAS 155)			9.2	(9.2)	
Cumulative effect adjustment - share-based compensation (FAS 123R)		(1.9)			1.9
Dividends declared on common shares	(43.1)		(43.1)		
Issuances of common shares	.2	.2			
Amortization of restricted share and option awards	.9	.9			
Balances at June 30, 2006	\$ 3,864.3	\$ 1,726.4	\$ 2,077.7	\$ 60.2	\$

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(Millions)	Six Months Ended	
	June 30, 2007	2006
Cash flows from operations:		
Net income	\$ 194.8	\$ 211.8
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized investment gains	(163.0)	(135.0)
Minority interest	45.4	2.8
Other operating items:		
Net change in loss and loss adjustment expense reserves	(412.9)	(532.0)
Net change in reinsurance recoverable on paid and unpaid losses	424.6	340.7
Net change in unearned insurance and reinsurance premiums	149.7	130.4
Net change in funds held by ceding companies	85.6	62.8
Net change in deferred acquisition costs	(31.3)	(33.8)
Net change in ceded unearned premiums	(42.6)	36.9
Net change in funds held under reinsurance treaties	(31.0)	(34.8)
Net change in insurance and reinsurance premiums receivable	(92.2)	(34.4)
Net change in other assets and liabilities, net	(195.6)	(165.1)
Net cash used for operations	(68.5)	(149.7)
Cash flows from investing activities:		
Net change in short-term investments	191.9	(109.8)
Sales of fixed maturity investments	3,047.1	2,344.7
Maturities, calls and paydowns of fixed maturity investments	546.5	445.3
Sales of common equity securities	268.0	252.3
Sales of other investments	85.0	23.3
Purchases of other investments	(22.6)	(40.4)
Purchases of common equity securities	(392.1)	(280.0)
Purchases of fixed maturity investments	(3,800.9)	(2,488.8)
Purchases of unconsolidated affiliates	(51.6)	
Sale of shares of OneBeacon Ltd.	16.7	
Maturities of trust account investments	33.8	
Net change in unsettled investment purchases and sales	(50.4)	18.4
Net acquisitions of property and equipment	(12.7)	(8.5)
Net cash (used for) provided from investing activities	(141.3)	156.5
Cash flows from financing activities:		
Issuance of White Mountains Re Group, Ltd. Preference Shares, net of issuance costs	246.6	
Issuance of debt	394.4	50.0
Repayment of debt	(322.0)	
Redemption of mandatorily redeemable preferred stock	(20.0)	
Interest rate swap agreement	(2.4)	
Cash dividends paid to the Company's common shareholders	(43.5)	(43.1)
Cash dividends paid to OneBeacon Ltd.'s minority common shareholders	(11.8)	
Cash dividends paid to preferred shareholders	(15.1)	(15.1)
Cash dividends paid on White Mountains Re Group, Ltd. Preference Shares	(1.9)	
Common shares repurchased	(2.5)	
Proceeds from issuances of common shares	1.8	.1
Net cash provided from (used for) financing activities	223.6	(8.1)
Effect of exchange rate changes on cash	.1	5.2
Net increase in cash during the period	13.9	3.9
Cash balances at beginning of period	159.0	187.7
Cash balances at end of period	\$ 172.9	\$ 191.6

Supplemental cash flows information:

Interest paid	\$ (29.0)	\$ (22.5)
Net Federal income taxes (paid) received	(71.4)	17.5

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**Note 1. Summary of Significant Accounting Policies*****Basis of presentation***

These interim consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the Company or the Registrant) and its subsidiaries (collectively, White Mountains) and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company's headquarters 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. Significant intercompany transactions among White Mountains' segment have been eliminated herein.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), a Bermuda-based company that owns a family of U.S.-based property and casualty insurance companies (collectively OneBeacon), substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the OneBeacon Acquisition). During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd.'s common shares in an initial public offering (the OneBeacon Offering). In connection with the OneBeacon Offering, White Mountains undertook an internal reorganization (the Reorganization) and formed OneBeacon Ltd. for the purpose of holding certain of its property and casualty insurance businesses. As a result of the Reorganization, certain of White Mountains' businesses that have been historically reported as part of its Other Operations segment are now owned by OneBeacon Ltd., and accordingly have been included in the OneBeacon segment for all periods presented in this report. In addition, certain other businesses of White Mountains that had been historically reported as part of its OneBeacon segment and which were not held by OneBeacon Ltd. following the OneBeacon Offering are included in the Other Operations segment for all periods presented in this report.

The White Mountains Re segment consists of White Mountains Re, Ltd., a Bermuda-based holding company, and its subsidiaries (collectively White Mountains Re). White Mountains Re offers reinsurance capacity for property, liability, accident & health, aviation and certain other exposures on a worldwide basis through its subsidiaries, Folksamerica Reinsurance Company (Folksamerica Re), together with its immediate parent, Folksamerica Holding Company (FHC), Folksamerica, and Sirius International Insurance Corporation (Sirius International). White Mountains Re also provides reinsurance advisory services, specializing primarily in property and other short-tailed lines of reinsurance, through White Mountains Re Underwriting Services Ltd. (WMRUS). On August 3, 2006, White Mountains Re sold one of its subsidiaries, Sirius America Insurance Company (Sirius America), to an investor group. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity, Lightyear Delos Acquisition Corp. (Delos), and accounts for Delos on the equity method within its Other Operations segment.

The Esurance segment consists of Esurance Holdings, Ltd., a Bermuda-based company, and certain of its subsidiaries (collectively, Esurance). Esurance sells personal auto insurance directly to customers online and through select online agents.

White Mountains' Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its weather risk management business (Galileo), its variable annuity reinsurance business (WM Life Re), as well as the International American Group, Inc. (the International American Group) and various other entities not included in other segments. The International American Group, which was acquired by White Mountains in 1999, includes American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (British Insurance Company), both of which are in run-off. The Other Operations segment also includes White Mountains' investments in warrants to purchase common shares of Symetra Financial Corporation (Symetra), common and preferred shares of Delos and warrants to purchase common shares of Montpelier Re Holdings, Ltd. (Montpelier Re), which White Mountains sold back to Montpelier Re on May 1, 2007.

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains and are of a normal recurring nature. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company's 2006 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company's 2006 Annual Report on Form 10-K for a complete discussion regarding White Mountains' significant accounting policies.

Minority Interest

Minority interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of income attributable to minority interests is presented net of related income taxes in the statement of income and comprehensive income. The change in unrealized investment gains, foreign currency translation and the change in the fair value of the interest rate swap to hedge OneBeacon's exposure to variability in the interest rate on its mortgage note are presented in accumulated other comprehensive income net of the minority interest portion. The percentage of the noncontrolling shareholders' ownership interest in OneBeacon Ltd. at June 30, 2007 and December 31, 2006 was 28.3% and 27.6%.

White Mountains began to present minority interest subsequent to the sale of OneBeacon Ltd. shares. The portion of income attributable to minority interest in certain limited partnership investments has been reclassified to conform with the presentation of the minority interest in OneBeacon Ltd. On May 24, 2007, White Mountains Re Group, Ltd. (WMRe Group), an intermediate holding company of White Mountains Re, issued \$250 million non-cumulative perpetual preference shares (the Preference Shares) (See Note 2). The Preference Shares and dividends thereon are included in minority interest on the balance sheet and as minority interest expense on the statement of income and comprehensive income, respectively.

Recently Adopted Changes in Accounting Principles

Federal, State and Foreign Income Taxes

While White Mountains is subject to taxation in several jurisdictions, the majority of White Mountains' subsidiaries file consolidated tax returns in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective tax rate lower than that imposed by the United States.

On January 1, 2007 White Mountains adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes when the impact of a given tax position should be recognized and how it should be measured. Under the new guidance, recognition is based upon whether or not a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more-likely-than-not recognition threshold, White Mountains must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement.

FIN 48 also addresses how interest and penalties should be accrued for uncertain tax positions, requiring that interest expense should be recognized in the first period interest would be accrued under the tax law. White Mountains classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. At January 1, 2007, White Mountains had accrued interest and penalties of \$3.8 million, net of federal benefit. In connection with the adoption of FIN 48, White Mountains recognized a \$.2 million decrease in the liability for unrecognized tax benefits, primarily as a result of reductions in its estimates of accrued interest. The effect of adoption has been recorded as an adjustment to opening retained earnings.

At January 1, 2007, White Mountains had \$70.6 million of unrecognized tax benefits. If recognized, \$60.3 million would increase net income and reduce the effective tax rate. The remaining \$10.3 million of unrecognized tax benefits would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. There have been no material changes to these balances since adoption.

With few exceptions, White Mountains is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2003. The Internal Revenue Service (IRS) commenced an examination of White Mountains' U.S. income tax returns for 2003 through 2004 in the second quarter of 2006 that is anticipated to be completed by the end of 2008. As of June 30, 2007, the IRS has not proposed any significant adjustments to taxable income. White Mountains does not expect to receive any adjustments that would result in a material change to its financial position.

White Mountains does not anticipate any significant changes to its total unrecognized tax benefits within the next twelve months.

Recent Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). The Statement provides a revised definition of fair value and guidance on the methods used to measure fair value. The Statement also expands financial statement disclosure requirements for fair value information. The Statement establishes a fair value hierarchy that distinguishes between assumptions based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs). The fair value hierarchy in FAS 157 prioritizes inputs within three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). The guidance in FAS 157 is applicable to derivatives as well as other financial instruments measured at fair value and nullifies the guidance that provided for the deferral of gains at the date of initial measurement. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. White Mountains has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

Fair Value Option

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). The Statement allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. Unrealized gains and losses on assets or liabilities for which the fair value option has been elected are to be reported in earnings. The Statement requires additional disclosures for instruments for which the election has been made, including a description of management's reasons for making the election. The Statement is effective as of fiscal years beginning after November 15, 2007 and is to be adopted prospectively and concurrent with the adoption of FAS 157. White Mountains has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

Note 2. Significant Transactions

Preference Shares

On May 24, 2007, WMRe Group issued 250,000 non-cumulative perpetual preference shares with a \$1,000 per share liquidation preference. Proceeds of \$245.7 million, net of \$4.3 million of issuance costs and commissions, were received from the issuance. Holders of the Preference Shares receive dividends on a non-cumulative basis when and if declared by WMRe Group. The holders of the 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 Preference Shares. In addition, WMRe Group may not declare or pay dividends on its common shares 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. After June 30, 2017, the dividend rate will be paid at a floating annual rate, equal to the greater of 3 month LIBOR plus 3.20% or 7.506%. The Preference Shares are redeemable solely at the discretion of WMRe Group on or after June 30, 2017 at their liquidation preference, plus any declared but unpaid dividends. Prior to June 30, 2017, WMRe Group may elect to redeem the 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 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.

Note 3. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense (LAE) reserve activities of White Mountains insurance subsidiaries for the three and six months ended June 30, 2007 and 2006:

Millions	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Gross beginning balance	\$ 8,636.0	\$ 9,987.0	\$ 8,777.2	\$ 10,231.2
Less beginning reinsurance recoverable on unpaid losses	(3,873.7)	(4,860.0)	(4,015.7)	(5,025.7)
Net loss and LAE reserves	4,762.3	5,127.0	4,761.5	5,205.5
Loss and LAE incurred relating to:				
Current year losses	627.8	569.1	1,257.9	1,122.9
Prior year losses	(35.7)	194.7	(52.5)	204.9
Total incurred losses and LAE	592.1	763.8	1,205.4	1,327.8
Accretion of fair value adjustment to loss and LAE reserves				
	5.4	6.4	10.5	11.6
Foreign currency translation adjustment to loss and LAE reserves				
	3.5	11.9	7.2	19.9
Loss and LAE paid relating to:				
Current year losses	(238.8)	(213.7)	(381.3)	(371.0)
Prior year losses	(453.0)	(581.0)		