WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
July 29, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended June 30, 2014

OR

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

For the transition period from to

Commission file number 1-8993

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

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

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

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

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

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

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

As of July 29, 2014, 6,140,701 common shares with a par value of $1.00 per share were outstanding (which includes 81,325 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Millions, except share amounts)	June 30, 2014	December 31, 2013
Assets	Unaudited	
Fixed maturity investments, at fair value	$5,008.0	$5,030.5
Short-term investments, at amortized cost (which approximates fair value)	564.0	635.9
Common equity securities, at fair value	1,206.1	1,156.8
Convertible fixed maturity investments, at fair value	70.7	80.5
Other long-term investments	313.0	288.9
Total investments	7,161.8	7,192.6
Cash (restricted: $27.8 and $56.1)	331.0	382.8
Reinsurance recoverable on unpaid losses	433.2	428.1
Reinsurance recoverable on paid losses	18.9	25.4
Insurance and reinsurance premiums receivable	717.9	518.9
Funds held by ceding companies	89.0	106.3
Investments in unconsolidated affiliates	419.1	321.4
Deferred acquisition costs	191.2	174.7
Deferred tax asset	462.8	512.1
Ceded unearned insurance and reinsurance premiums	142.0	92.4
Accrued investment income	43.6	39.3
Accounts receivable on unsettled investment sales	76.6	12.1
Other assets	520.1	458.1
Assets held for sale	1,750.7	1,880.1
Total assets	$12,357.9	$12,144.3
Liabilities		
Loss and loss adjustment expense reserves	$3,053.3	$3,079.3
Unearned insurance and reinsurance premiums	1,093.4	901.4
Variable annuity benefit guarantee	31.8	52.8
Debt	677.5	676.4
Deferred tax liability	336.5	356.2
Accrued incentive compensation	157.9	218.3
Ceded reinsurance payable	159.2	71.9
Funds held under insurance and reinsurance contracts	124.0	127.1
Accounts payable on unsettled investment purchases	28.2	20.5
Other liabilities	336.8	362.9
Liabilities held for sale	1,750.7	1,880.1
Total liabilities	7,749.3	7,746.9
Equity		
White Mountains's common shareholders' equity		
White Mountains's common shares at $1 par value per share - authorized 50,000,000 shares;		
issued and outstanding 6,150,515 and 6,176,739 shares	6.2	6.2
Paid-in surplus	1,047.7	1,044.9
Retained earnings	2,965.8	2,802.3
Accumulated other comprehensive income (loss), after tax:		
Equity in net unrealized gains (losses) from investments in Symetra common shares	29.0	(40.4)
Net unrealized foreign currency translation gains	52.5	88.4

Pension liability and other	4.3	4.1
Total White Mountains's common shareholders' equity	4,105.5	3,905.5
Non-controlling interests		
Non-controlling interest - OneBeacon Ltd.	280.6	273.7
Non-controlling interest - SIG Preference Shares	250.0	250.0
Non-controlling interest - HG Global	18.2	16.6
Non-controlling interest - BAM	(107.2)	(97.6)
Non-controlling interest - other	61.5	49.2
Total non-controlling interests	503.1	491.9
Total equity	4,608.6	4,397.4
Total liabilities and equity	$12,357.9	$12,144.3

See Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per share amounts)	2014	2013	2014	2013
Revenues:				
Earned insurance and reinsurance premiums	$503.4	$497.5	$997.0	$992.9
Net investment income	29.1	28.7	53.4	57.2
Net realized and unrealized investment gains (losses)	113.9	(37.3)	177.7	37.9
Other revenue	6.4	.4	3.0	28.7
Total revenues	652.8	489.3	1,231.1	1,116.7
Expenses:				
Loss and loss adjustment expenses	282.7	274.6	512.0	518.9
Insurance and reinsurance acquisition expenses	98.9	76.1	194.0	174.3
Other underwriting expenses	81.9	84.5	163.3	163.6
General and administrative expenses	70.3	40.2	120.6	84.0
Interest expense	10.0	10.3	20.1	20.5
Total expenses	543.8	485.7	1,010.0	961.3
Pre-tax income from continuing operations	109.0	3.6	221.1	155.4
Income tax (expense) benefit	(23.9)	.6	(54.2)	(41.0)
Net income from continuing operations	85.1	4.2	166.9	114.4
Net income from discontinued operations, net of tax	2.6	3.9	2.1	4.4
Income before equity in earnings of unconsolidated affiliates	87.7	8.1	169.0	118.8
Equity in earnings of unconsolidated affiliates, net of tax	12.5	7.1	26.3	16.3
Net income	100.2	15.2	195.3	135.1
Net (income) loss attributable to non-controlling interests	(4.6)	11.1	(4.1)	11.6
Net income attributable to White Mountains's common shareholders	95.6	26.3	191.2	146.7
Other comprehensive income, net of tax:				
Change in equity in net unrealized gains (losses) from investments in Symetra common shares, net of tax	32.9	(66.0)	69.4	(74.0)
Change in foreign currency translation, pension liability and other	(27.9)	(34.6)	(35.7)	(38.3)
Comprehensive income (loss) attributable to White Mountains's common shareholders	$100.6	$(74.3)	$224.9	$34.4
Income per share attributable to White Mountains's common shareholders				
Basic income per share				
Continuing operations	$15.10	$3.62	$30.66	$22.84

Discontinued operations	.43	.64	.34	.71
Total consolidated operations	$15.53	$4.26	$31.00	$23.55
Diluted income per share				
Continuing operations	$15.10	$3.62	$30.66	$22.84
Discontinued operations	.43	.64	.34	.71
Total consolidated operations	$15.53	$4.26	$31.00	$23.55
Dividends declared per White Mountains’s common share	$—	$—	$1.00	$1.00

See Notes to Consolidated Financial Statements

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

(Millions)	White Mountains's Common Shareholders' Equity Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2014	$1,051.1	$2,802.3	$52.1	$3,905.5	$ 491.9	$4,397.4
Net income	—	191.2	—	191.2	4.1	195.3
Net change in unrealized gains from investments in unconsolidated affiliates	—	—	69.4	69.4	—	69.4
Net change in foreign currency translation	—	—	(35.9)	(35.9)	—	(35.9)
Net change in pension liability and other accumulated comprehensive items	—	—	.2	.2	—	.2
Total comprehensive income	—	191.2	33.7	224.9	4.1	229.0
Dividends declared on common shares	—	(6.2)	—	(6.2)	—	(6.2)
Dividends to non-controlling interests	—	—	—	—	(19.9)	(19.9)
Repurchases and retirements of common shares	(8.8)	(21.5)	—	(30.3)	—	(30.3)
Issuances of common shares	2.9	—	—	2.9	—	2.9
Net contributions from non-controlling interests	—	—	—	—	26.6	26.6
Amortization of restricted share awards	8.7	—	—	8.7	.4	9.1
Balance at June 30, 2014	$1,053.9	$2,965.8	$85.8	$4,105.5	$ 503.1	$4,608.6

(Millions)	White Mountains's Common Shareholders' Equity Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2013	$1,057.2	$2,542.7	$131.9	$3,731.8	$ 526.4	$4,258.2
Net income (loss)	—	146.7	—	146.7	(11.6)	135.1
Net change in unrealized losses from investments in unconsolidated affiliates	—	—	(74.0)	(74.0)	—	(74.0)
Net change in foreign currency translation	—	—	(38.5)	(38.5)	—	(38.5)
Net change in pension liability and other accumulated comprehensive items	—	—	.2	.2	—	.2
Total comprehensive income (loss)	—	146.7	(112.3)	34.4	(11.6)	22.8

Dividends declared on common shares	—	(6.2)	—	(6.2)	—	(6.2)
Dividends to non-controlling interests	—	—	—	—	(19.8)	(19.8)
Repurchases and retirements of common shares	(23.8)	(56.0)	—	(79.8)	—	(79.8)
Issuances of common shares	1.0	—	—	1.0	—	1.0
Net contributions from non-controlling interests	—	—	—	—	5.5	5.5
Amortization of restricted share awards	8.0	—	—	8.0	.7	8.7
Balance at June 30, 2013	$1,042.4	$2,627.2	$19.6	$3,689.2	$ 501.2	$4,190.4

See Notes to Consolidated Financial Statements

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

	Six Months Ended June 30,	
(Millions)	2014	2013
Cash flows from operations:		
Net income	$195.3	$135.1
Charges (credits) to reconcile net income to net cash (used for) provided from operations:		
Net realized and unrealized investment gains	(177.7)	(37.9)
Deferred income tax expense	22.6	8.2
Net income from discontinued operations	(2.1)	(4.4)
Gain on sale of subsidiary - Citation and Essentia	(.7)	(23.0)
Excess of fair value of acquired net assets over cost - Ashmere	—	(6.9)
Undistributed equity in earnings from unconsolidated affiliates, net of tax	(26.3)	(16.3)
Other operating items:		
Net change in loss and loss adjustment expense reserves	(39.7)	(99.4)
Net change in reinsurance recoverable on paid and unpaid losses	2.2	36.0
Net change in unearned insurance and reinsurance premiums	191.0	112.3
Net change in variable annuity benefit guarantee liabilities	(21.0)	(247.4)
Net change in variable annuity benefit guarantee derivative instruments	(5.6)	(43.0)
Net change in deferred acquisition costs	(16.5)	12.5
Net change in funds held by ceding companies	17.3	35.0
Net change in ceded unearned premiums	(49.6)	(54.5)
Net change in funds held under reinsurance treaties	(3.2)	33.1
Net change in insurance and reinsurance premiums receivable	(195.6)	(191.7)
Net change in ceded reinsurance payable	80.0	70.8
Net change in restricted cash	28.3	188.6
Net change in other assets and liabilities, net	(10.4)	(98.7)
Net cash used for operations - continuing operations	(11.7)	(191.6)
Net cash used for operations - discontinued operations	(30.7)	(72.8)
Net cash used for operations	(42.4)	(264.4)
Cash flows from investing activities:		
Net change in short-term investments	50.3	24.2
Sales of fixed maturity and convertible fixed maturity investments	2,340.9	2,639.4
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	277.6	310.3
Sales of common equity securities	127.6	348.2
Distributions and redemptions of other long-term investments	26.9	23.3
Sales of consolidated and unconsolidated affiliates, net of cash sold	12.8	31.3
Funding of operational cash flows for discontinued operations	(30.7)	(72.8)
Purchases of other long-term investments	(17.7)	(21.9)
Purchases of common equity securities	(124.0)	(251.9)
Purchases of fixed maturity and convertible fixed maturity investments	(2,531.6)	(2,605.2)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(32.2)	(9.2)
Net change in unsettled investment purchases and sales	(57.8)	34.3
Net acquisitions of property and equipment	(3.9)	(6.2)
Net cash provided from investing activities - continuing operations	38.2	443.8
Net cash provided from investing activities - discontinued operations	30.7	72.8

Net cash provided from investing activities	68.9	516.6
Cash flows from financing activities:		
Draw down of revolving line of credit	—	130.0
Repayment of revolving line of credit	(.2)	(205.0)
Payments on capital lease obligation	(2.6)	(2.7)
Cash dividends paid to the Company’s common shareholders	(6.2)	(6.2)
Cash dividends paid to OneBeacon Ltd.’s non-controlling common shareholders	(9.9)	(9.9)
Cash dividends paid on SIG Preference Shares	(9.4)	(9.4)
Common shares repurchased	(25.7)	(79.8)
Capital contributions from non-controlling interest of consolidated LPs	2.5	—
Redemptions paid to non-controlling interest of consolidated LPs	(4.9)	—
Collateral provided by interest rate cap counterparties	(4.5)	—
Capital contributions from BAM members	7.7	8.0
Net cash used for financing activities - continuing operations	(53.2)	(175.0)
Net cash (used for) provided from financing activities - discontinued operations	—	—
Net cash used for financing activities	(53.2)	(175.0)
Effect of exchange rate changes on cash	3.2	(2.7)
Net change in cash during the period	(23.5)	74.5
Cash balances at beginning of period (excludes restricted cash balances of $56.1 and $249.8)	326.7	212.6
Cash balances at end of period (excludes restricted cash balances of $27.8 and $61.2)	$303.2	$287.1
Supplemental cash flows information:		
Interest paid	$(19.1)	$(19.3)
Net income tax refund (payment) to national governments	$1.6	$(8.4)

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and include the accounts of White Mountains Insurance Group, Ltd. (the "Company" or the "Registrant"), its subsidiaries (collectively, with the Company, "White Mountains") and other entities required to be consolidated under GAAP. The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its insurance and reinsurance subsidiaries and affiliates. The Company's headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains's reportable segments are OneBeacon, Sirius Group, HG Global/BAM 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 property and casualty insurance companies (collectively, "OneBeacon"). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products in the United States through independent agencies, regional and national brokers, wholesalers and managing general agencies. During the third quarter of 2013, OneBeacon formed Split Rock Insurance, Ltd. ("Split Rock"), a Bermuda-based reinsurance company. As of June 30, 2014 and December 31, 2013, White Mountains owned 75.3% and 75.2% of OneBeacon Ltd.'s outstanding common shares.

As discussed further in Note 2, OneBeacon entered into a definitive agreement to sell its runoff business (the "Runoff Business") in October 2012 (the "Runoff Transaction"). Accordingly, the Runoff Business is presented as discontinued operations. The OneBeacon Runoff Business includes assets and liabilities that are principally related to non-specialty commercial lines and certain other runoff business that it no longer writes, including nearly all of its asbestos and environmental reserves. Assets and liabilities associated with the Runoff Business as of June 30, 2014 and December 31, 2013 have been presented as held for sale in the financial statements (See Note 15 for discontinued operations).

The Sirius Group segment consists of Sirius International Insurance Group, Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, "Sirius Group"). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis through its primary subsidiaries, Sirius International Insurance Corporation ("Sirius International"), Sirius America Insurance Company ("Sirius America") and Lloyds Syndicate 1945 ("Syndicate 1945"). Sirius Group also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division ("WM Solutions").

The HG Global/BAM segment consists of HG Global Ltd. ("HG Global") and the consolidated results of Build America Mutual Assurance Company ("BAM"). In 2012, White Mountains capitalized HG Global with $594.5 million to fund the start-up of BAM. BAM is a municipal bond insurer domiciled in New York that was established to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503.0 million of surplus notes issued by BAM (the "BAM Surplus Notes"). HG Global, through its wholly-owned subsidiary, HG Re Ltd. ("HG Re"), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of June 30, 2014 and December 31, 2013, White Mountains owned 96.9% and 97.3% of HG Global's preferred equity and 88.4% and 88.7% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, GAAP requires White Mountains to consolidate BAM's results in its financial statements. BAM's results are attributed to non-controlling interests.

White Mountains's Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC ("WM Advisors"), White Mountains's variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. ("Life Re

Bermuda"), which is in runoff, and its U.S.-based service provider, White Mountains Financial Services LLC (collectively, "WM Life Re"), and White Mountains's investments in Wobi Insurance Agency Ltd. ("Wobi"), QuoteLab Holdings LLC ("QuoteLab") and Star & Shield Risk Management LLC ("SSRM"). At June 30, 2014, White Mountains holds $17.0 million of Star & Shield Insurance Exchange's ("SSIE") surplus notes but does not have an ownership interest in SSIE, which is a reciprocal and is owned by its policyholders. However, as a result of SSRM's role as the attorney-in-fact to SSIE and the investment in SSIE's surplus notes, White Mountains is required to consolidate SSIE in its GAAP financial statements. SSIE's results do not affect White Mountains's common shareholders' equity as they are attributable to non-controlling interests.

All significant intercompany transactions have been eliminated in consolidation. 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. 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 2013 Annual Report on Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company’s 2013 Annual Report on Form 10-K for a complete discussion regarding White Mountains’s significant accounting policies.

Non-controlling Interests

Non-controlling interests consist of the ownership interests of non-controlling shareholders in consolidated subsidiaries and are presented separately on the balance sheet.

The percentage of the non-controlling shareholders’ ownership interest in OneBeacon Ltd. at June 30, 2014 and December 31, 2013 was 24.7% and 24.8%.

In 2012, HG Global was capitalized with $594.5 million from White Mountains and $14.5 million from certain management members of BAM, the latter of which is included in non-controlling interest. Upon closing, certain BAM management members also received additional common and preferred shares of HG Global that resulted in a $2.2 million allocation of the carrying value of White Mountains’s investment in HG Global to the non-controlling interest, which was recorded as an adjustment to paid-in surplus in White Mountains’s consolidated statement of changes in equity.

White Mountains is required to consolidate BAM in its GAAP financial statements. However, since BAM is a mutual insurance company that is owned by its members, BAM’s results do not affect White Mountains’s common shareholders’ equity as they are attributable to non-controlling interests. For the three and six months ended June 30, 2014, White Mountains reported $8.0 million and $16.6 million in pre-tax losses from BAM that have been allocated to non-controlling interest. For the three and six months ended June 30, 2013, White Mountains reported $26.7 million and $45.1 million in pre-tax losses from BAM that have been allocated to non-controlling interest.

In May 2007, Sirius International Group, Ltd. (“SIG”), an intermediate holding company of Sirius Group, issued $250.0 million non-cumulative perpetual preference shares, with a $1,000 per share liquidation preference (the “SIG Preference Shares”), and received $245.7 million of proceeds, net of $4.3 million of issuance costs and commissions. SIG Preference Shares and dividends thereon are included in non-controlling interest on the balance sheet and on the statement of income and comprehensive income. The SIG Preference Shares have an initial fixed annual dividend rate of 7.506%. In June 2017, the fixed rate will move to a floating rate equal to the greater of (i) 7.506% and (ii) 3-month LIBOR plus 320 bps. In July 2013, SIG executed a 5-year forward LIBOR cap (the “Interest Rate Cap”) for the period from June 2017 to June 2022 to protect against a significant increase in interest rates during that 5-year period. The Interest Rate Cap economically fixes the annual dividend rate on the SIG Preference Shares from June 2017 to June 2022 at 8.30%. The Interest Rate Cap is recorded in other assets at fair value. Changes in fair value are recorded in other revenue.

At June 30, 2014 and December 31, 2013, the non-controlling equity interest in White Mountains’s consolidated limited partnerships was $44.7 million and $46.1 million. At June 30, 2014, the non-controlling equity interest in Wobi was $4.5 million. At June 30, 2014, the non-controlling equity interest in QuoteLab was $18.8 million. At June 30, 2014, the non-controlling equity interest in SSIE was $(9.7) million. At June 30, 2014 and December 31, 2013, the non-controlling equity interest in A.W.G. Dewar Inc, a subsidiary of OneBeacon, was $3.2 million and $3.1 million.

Recently Adopted Changes in Accounting Principles

Unrecognized Tax Benefits

Effective January 1, 2014, White Mountains adopted ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASC 740). The new ASU requires balance sheet presentation of an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (“NOL”) carryforward or tax credit carryforward rather than as a liability. The exception is in circumstances where a carryforward is not available to settle the additional taxes that might arise upon disallowance of the tax position under the tax law of the applicable jurisdiction. Prior to the issuance of ASU 2013-11, the guidance for unrecognized tax benefits under ASC 740 did not provide explicit guidance on whether an entity should present an unrecognized tax benefit as a liability or as a reduction of NOL carryforwards or other tax credits. In circumstances where an NOL carryforward is not available to offset settlement of any additional taxes arising from a disallowed tax position, the unrecognized tax benefit should be presented as a liability. The new guidance became effective for White Mountains on January 1, 2014. Adoption did not have any impact on White Mountains's financial condition, results of operations or cash flows.

Recently Issued Accounting Pronouncements

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606) which modifies the guidance for revenue recognition. The scope of the new ASU excludes insurance contracts but is applicable to certain fee arrangements, such as investment management fees. White Mountains is in the process of evaluating the new guidance and has not yet determined the potential effect of adoption on its financial position, results of operations, or cash flows. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016.

Share-Based Compensation Awards

On June 19, 2014, the FASB issued ASU 2014-12, Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The new guidance is intended to eliminate diversity in practice for employee share-based awards containing performance targets that could be achieved after the requisite service period. Some reporting entities account for performance targets that can be achieved after the requisite service period as performance conditions that affect the vesting of the award while other reporting entities treat those performance targets as nonvesting conditions that affect the grant-date fair value of the award. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. White Mountains is in the process of evaluating the new guidance and has not yet determined the potential effect of adoption on its financial position, results of operations, or cash flows. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015.

Qualified Affordable Housing Projects

On January 15, 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects (“QAHP”) (ASC 323), which permits companies to make an accounting policy election to account for its investment in a QAHP using the proportional amortization method, if certain conditions are met. Under this method, the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received, with the net investment performance recognized in the income statement as a component of income tax expense. The new guidance also requires certain new disclosures for all QAHP investments. ASU 2014-01 is effective for annual and interim reporting periods beginning after December 15, 2014 and may be applied retrospectively to all periods presented upon adoption. White Mountains currently holds an investment in a QAHP that is accounted for under the equity method and does not expect the adoption to have a material impact on its financial position, results of operations or cash flows.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

On April 10, 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity’s operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance is effective for transactions entered into after December 15, 2014.

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Note 2. Significant Transactions

DavidShield
In June 2014, White Mountains committed $21.0 million to fund a 50/50 joint venture with DavidShield Group ("DavidShield") for the development, marketing and distribution of PassportCard travel insurance. The transaction is expected to close in the fourth quarter of 2014, subject to regulatory approvals.

QuoteLab
On March 14, 2014, White Mountains acquired 60% of the outstanding Class A common units of QuoteLab. As of June 30, 2014, White Mountains owned 58.9% of the equity of QuoteLab. QuoteLab is an advertising technology company that operates a transparent online advertising exchange that facilitates transactions between buyers and sellers of insurance media, including advertising inventory on QuoteLab's owned and operated websites. White Mountains paid an initial purchase price of $28.1 million and will pay additional consideration to the sellers equal to 62.5% of the 2015 gross profit in excess of the 2013 gross profit. At acquisition, QuoteLab had total assets of $56.9 million, including $43.7 million of intangible assets, and total liabilities of $10.0 million.

Wobi
On February 19, 2014, White Mountains acquired 54% of the outstanding common shares of Wobi for NIS 14.4 million (approximately $4.1 million based upon the foreign exchange spot rate at the date of acquisition). In addition to the common shares, White Mountains also purchased NIS 12.7 million (approximately $3.6 million based upon the foreign exchange spot rate at the date of acquisition) of newly-issued convertible preferred shares of Wobi. Wobi is the only price comparison/aggregation business in Israel, with an insurance carrier panel that represents 85% of the premiums written in the Israeli insurance market. Wobi sells four lines of business, primarily personal auto, and operates as an agency, charging upfront commissions on all policy sales. On a fully converted basis, White Mountains owns 60.7% of Wobi. At acquisition, Wobi had total assets of $13.4 million, including $8.4 million of intangible assets, and total liabilities of $0.7 million.

Star & Shield
On January 31, 2014, White Mountains acquired certain assets and liabilities of Star & Shield Holdings LLC, including SSRM, the attorney-in-fact for SSIE, for a purchase price of $1.8 million.
White Mountains also purchased $17.0 million of surplus notes issued by SSIE. Principal and interest on the surplus notes are payable to White Mountains only with approval from the Florida Office of Insurance Regulation.
SSIE is a Florida-domiciled reciprocal insurance exchange providing private passenger auto insurance to the public safety community and their families. SSIE is a variable interest entity ("VIE"). As a result of SSRM's role as the attorney-in-fact to SSIE and the investment in SSIE's surplus notes, White Mountains is required to consolidate SSIE. At June 30, 2014, consolidated amounts included total assets of $14.5 million and total liabilities of $24.2 million of SSIE. For the three and six months ended June 30, 2014, SSIE had pre-tax losses of $5.0 million and $9.7 million that were recorded in net loss attributable to non-controlling interests.

WM Solutions
In the first quarter of 2014, WM Solutions completed the shell sale of Citation Insurance Company, which resulted in a gain of $0.7 million recorded in other revenue.
In the first quarter of 2013, WM Solutions acquired Ashmere Insurance Company ("Ashmere", formerly known as American Fuji Fire and Marine Insurance Company), an American International Group, Inc. ("AIG") runoff subsidiary. The transaction resulted in a gain of $6.9 million recorded in other revenue.

Sale of Essentia Insurance Company
Effective January 1, 2013, OneBeacon completed the sale of Essentia Insurance Company ("Essentia"), an indirect wholly-owned subsidiary which wrote the collector car and boat business, to Markel Corporation. Concurrently, OneBeacon and Hagerty Insurance Agency ("Hagerty") terminated their underwriting arrangement with respect to the

collector car and boat business. OneBeacon recognized a pre-tax gain on sale of $23.0 million ($15.0 million after tax) in the first quarter of 2013.

Sale of OneBeacon Runoff Business

On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC, entered into a definitive agreement (as amended, the "Runoff SPA") with Trebuchet US Holdings, Inc. ("Trebuchet"), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, "Armour"), to sell the Runoff Business. Pursuant to the terms of the agreement, at closing OneBeacon will transfer to Trebuchet all of the issued and outstanding shares of common stock of certain legal entities that will contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the Runoff Business as well as certain elements of the Runoff Business infrastructure, including staff and office space. The transaction is subject to regulatory approval. A public hearing regarding the transaction was held by the Pennsylvania Insurance Department on July 23, 2014. OneBeacon expects the transaction to close in the second half of 2014. As a result of the agreement, the OneBeacon Runoff Business is reported as discontinued operations (see Note 15).

Common Shares Repurchased and Retired

During the past several years, White Mountains's board of directors has authorized the Company to repurchase its common shares, from time to time, subject to market conditions. The repurchase authorizations do not have a stated expiration date. As of June 30, 2014, White Mountains may repurchase an additional 504,382 shares under these board authorizations. In addition, from time to time White Mountains has also repurchased its common shares through tender offers that were separately approved by its board of directors.

During the three months ended June 30, 2014, the Company repurchased 25,266 common shares for $14.9 million at an average share price of $589, all of which were repurchased under the board authorization. During the six months ended June 30, 2014, the Company repurchased 51,589 common shares for $30.3 million at an average share price of $588, which was comprised of 41,114 common shares repurchased under the board authorization and 10,475 common shares repurchased pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not reduce the board authorizations referred to above.

During the three months ended June 30, 2013, the Company repurchased 1,311 common shares for $0.8 million at an average share price of $600 pursuant to employee benefit plans. During the six months ended June 30, 2013, the Company repurchased 141,535 common shares for $79.8 million at an average share price of $564, which was comprised of 140,000 common shares repurchased under the board authorization and 1,535 common shares repurchased pursuant to employee benefit plans.

Note 3. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense (“LAE”) reserve activities of White Mountains’s insurance and reinsurance subsidiaries for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2014	2013	2014	2013
Gross beginning balance	$3,048.4	$3,100.6	$3,079.3	$3,168.9
Less beginning reinsurance recoverable on unpaid losses	(425.2)	(410.8)	(428.1)	(429.1)
Net loss and LAE reserves	2,623.2	2,689.8	2,651.2	2,739.8
Loss and LAE reserves acquired [1]	—	—	—	21.3
Loss and LAE reserves consolidated — SSIE	—	—	13.6	—
Loss and LAE incurred relating to:				
Current year losses	278.4	290.0	518.9	532.9
Prior year losses	4.3	(15.4)	(6.9)	(14.0)
Total incurred losses and LAE	282.7	274.6	512.0	518.9
Accretion of fair value adjustment to loss and LAE reserves	.2	.1	.4	1.3
Foreign currency translation adjustment to loss and LAE reserves	(.5)	(4.6)	1.3	(14.2)
Loss and LAE paid relating to:				
Current year losses	(65.8)	(83.3)	(100.8)	(119.9)
Prior year losses	(219.7)	(207.3)	(457.6)	(477.9)
Total loss and LAE payments	(285.5)	(290.6)	(558.4)	(597.8)
Net ending balance	2,620.1	2,669.3	2,620.1	2,669.3
Plus ending reinsurance recoverable on unpaid losses	433.2	388.6	433.2	388.6
Gross ending balance	$3,053.3	$3,057.9	$3,053.3	$3,057.9

[1] Loss and LAE reserves acquired relate to WM Solutions purchase of Ashmere in the first quarter of 2013.

Loss and LAE incurred relating to prior year losses for the three and six months ended June 30, 2014

For the three and six months ended June 30, 2014, White Mountains experienced net unfavorable loss reserve development of $4.3 million and net favorable loss reserve development of $6.9 million.

For the three and six months ended June 30, 2014, OneBeacon had net unfavorable loss reserve development of $8.4 million and $7.0 million primarily related to a few large losses in OneBeacon Professional Insurance, as well as OneBeacon Entertainment, OneBeacon Government Risks and OneBeacon Accident Group, partially offset by favorable loss reserve development in OneBeacon Specialty Property. For the three and six months ended June 30, 2014, Sirius Group had net favorable loss reserve development of $6.3 million and $16.1 million primarily due to decreases in property loss reserves, including reductions for prior period catastrophe losses. For both the three and six months ended June 30, 2014, SSIE had net unfavorable loss reserve development of $2.2 million.

Loss and LAE incurred relating to prior year losses for the three and six months ended June 30, 2013

For the three and six months ended June 30, 2013, White Mountains experienced $15.4 million and $14.0 million of net favorable loss reserve development.

For the three and six months ended June 30, 2013, OneBeacon had net favorable loss reserve development of $1.0 million and $3.9 million primarily related to the healthcare business within Professional Insurance, the ocean marine business within International Marine Underwriters, and OneBeacon Government Risks, offset in part by unfavorable loss reserve development for Collector Cars and Boats in the three months ended June 30, 2013. For the three and six months ended June 30, 2013, Sirius Group had net favorable loss reserve development of $14.4 million and $10.1 million primarily due to decreases in property loss reserves, including reductions in loss reserves for the Japan earthquake and hurricane Sandy.

Fair value adjustment to loss and LAE reserves

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

White Mountains recognized $0.2 million and $0.4 million of such charges, recorded as loss and LAE for the three and six months ended June 30, 2014, and $0.1 million and $1.3 million for the three and six months ended June 30, 2013. As of June 30, 2014, the remaining pre-tax un-accreted adjustment was $4.3 million.

Note 4. Third Party Reinsurance

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

OneBeacon

At June 30, 2014, OneBeacon had $3.3 million and $92.0 million of reinsurance recoverables on paid and unpaid losses. At December 31, 2013, OneBeacon had $9.7 million and $80.2 million of reinsurance recoverables on paid and unpaid losses. The reinsurance balances associated with the Runoff Business are included in discontinued operations (see Note 15). Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength and ratings of its reinsurers on an ongoing basis. Uncollectible amounts related to the ongoing specialty business historically have not been significant.

Except as discussed below, there have been no material changes to OneBeacon's reinsurance coverage as discussed in Note 4 —"Reinsurance" in White Mountains's 2013 Annual Report on Form 10-K.

Effective May 1, 2014, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2015. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first $20.0 million of losses resulting from any single catastrophe are retained and 100% of the next $110.0 million of losses resulting from the catastrophe are reinsured. Any loss above $130.0 million would be retained in full. In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

Also effective May 1, 2014, OneBeacon lowered its retention on its property-per-risk reinsurance program from $10.0 million to $5.0 million.

Effective January 1, 2014, OneBeacon entered into reinsurance treaties to provide coverage for the 2014 crop year. OneBeacon purchased an aggregate stop loss on its multiple peril crop insurance portfolio, providing 48.5% of coverage in excess of a 101.5% loss ratio on premiums covered by the contract and a separate aggregate stop loss providing 80.0% of coverage in excess of a 100.0% loss ratio on its crop-hail portfolio.

Sirius Group

At June 30, 2014, Sirius Group had $15.6 million and $341.1 million of reinsurance recoverables on paid and unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. At December 31, 2013, Sirius Group had $15.7 million and $347.9 million of reinsurance recoverables on paid and unpaid losses. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group's reinsurers is important to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis. Uncollectible amounts historically have not been significant.

Note 5. Investment Securities

White Mountains's invested assets consist of securities and other long-term investments held for general investment purposes. The portfolio of investment securities includes short-term investments, fixed maturity investments, convertible fixed maturity investments and equity securities which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Realized and unrealized investment gains and losses on trading securities are reported in pre-tax revenues. White Mountains's investments in debt securities, including mortgage-backed and asset-backed securities, are generally valued using industry standard pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

Realized investment gains and losses resulting from sales of investment securities are accounted for using the specific identification method. Premiums and discounts on all fixed maturity investments are amortized or accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized or accreted cost, which approximated fair value as of June 30, 2014 and December 31, 2013.

Other long-term investments primarily comprise White Mountains's investments in hedge funds and private equity funds.

Net Investment Income

Pre-tax net investment income for the three and six months ended June 30, 2014 and 2013 consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2014	2013	2014	2013
Investment income:				
Fixed maturity investments	$25.6	$25.2	$48.0	$51.2
Short-term investments	.6	1.1	1.2	1.8
Common equity securities	5.5	4.9	10.9	9.6
Convertible fixed maturity investments	.8	.6	1.2	1.4
Other long-term investments	1.4	.8	1.7	1.5
Interest on funds held under reinsurance treaties	—	.1	—	.2
Total investment income	33.9	32.7	63.0	65.7
Less third-party investment expenses	(4.8)	(4.0)	(9.6)	(8.5)
Net investment income, pre-tax	$29.1	$28.7	$53.4	$57.2

Net Realized and Unrealized Investment Gains and Losses

Net realized and unrealized investment gains and losses for the three and six months ended June 30, 2014 and 2013 consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2014	2013	2014	2013
Net realized investment gains, pre-tax	$30.5	$22.8	$52.2	$59.4
Net unrealized investment gains (losses), pre-tax	83.4	(60.1)	125.5	(21.5)
Net realized and unrealized investment gains (losses), pre-tax	113.9	(37.3)	177.7	37.9

Income tax (expense) benefit attributable to net realized and unrealized investment gains (losses)	(23.0)	12.5	(38.7)	(1.2)
Net realized and unrealized investment gains (losses), after tax	$ 90.9	$ (24.8)	$ 139.0	$ 36.7

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Net realized investment gains (losses)

Net realized investment gains (losses) for the three and six months ended June 30, 2014 and 2013 consisted of the following:

Millions	Three Months Ended June 30, 2014 Net realized gains (losses)	Three Months Ended June 30, 2014 Net foreign exchange gains (losses)	Three Months Ended June 30, 2014 Total net realized gains (losses) reflected in earnings	Three Months Ended June 30, 2013 Net realized gains (losses)	Three Months Ended June 30, 2013 Net foreign currency gains (losses)	Three Months Ended June 30, 2013 Total net realized gains (losses) reflected in earnings
Fixed maturity investments	$5.7	$3.0	$8.7	$6.8	$(4.0)	$2.8
Short-term investments	—	—	—	.2	.5	.7
Common equity securities	19.4	—	19.4	22.7	.2	22.9
Convertible fixed maturity investments	1.5	—	1.5	(3.4)	—	(3.4)
Other long-term investments	.6	.3	.9	3.0	(3.0)	—
Forward contracts	—	—	—	(.2)	—	(.2)
Net realized investment gains (losses), pre-tax	27.2	3.3	30.5	29.1	(6.3)	22.8
Income tax (expense) benefit attributable to net realized investment gains (losses)	(5.3)	(1.0)	(6.3)	(5.5)	1.4	(4.1)
Net realized investment gains (losses), after tax	$21.9	$2.3	$24.2	$23.6	$(4.9)	$18.7

Millions	Six Months Ended June 30, 2014 Net realized gains (losses)	Six Months Ended June 30, 2014 Net foreign exchange gains (losses)	Six Months Ended June 30, 2014 Total net realized gains (losses) reflected in earnings	Six Months Ended June 30, 2013 Net realized gains (losses)	Six Months Ended June 30, 2013 Net foreign currency gains (losses)	Six Months Ended June 30, 2013 Total net realized gains (losses) reflected in earnings
Fixed maturity investments	$10.1	$(.5)	$9.6	$29.4	$(18.6)	$10.8
Short-term investments	—	—	—	.1	.7	.8
Common equity securities	38.3	(.1)	38.2	45.3	—	45.3
Convertible fixed maturity investments	3.9	—	3.9	(.6)	—	(.6)
Other long-term investments	.3	.3	.6	5.9	(3.0)	2.9
Forward contracts	(.1)	—	(.1)	.2	—	.2
Net realized investment gains (losses), pre-tax	52.5	(.3)	52.2	80.3	(20.9)	59.4
Income tax (expense) benefit attributable to net realized investment gains (losses)	(9.9)	(.1)	(10.0)	(17.3)	4.7	(12.6)
Net realized investment gains (losses), after tax	$42.6	$(.4)	$42.2	$63.0	$(16.2)	$46.8

Net unrealized investment gains (losses)

The following table summarizes net unrealized investment gains (losses) for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
Millions	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	$24.9	$28.2	$53.1	$(80.8)	$36.5	$(44.3)
Common equity securities	21.0	1.4	22.4	(20.4)	1.0	(19.4)
Convertible fixed maturity investments	(2.4)	0.3	(2.1)	(1.7)	0.3	(1.4)
Other long-term investments	8.7	1.3	10.0	0.9	4.1	5.0
Net unrealized investment gains (losses), pre-tax	52.2	31.2	83.4	(102.0)	41.9	(60.1)
Income tax (expense) benefit attributable to net unrealized investment gains (losses)	(9.8)	(6.9)	(16.7)	25.8	(9.2)	16.6
Net unrealized investment gains (losses), after tax	$42.4	$24.3	$66.7	$(76.2)	$32.7	$(43.5)

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
Millions	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings	Net unrealized gains (losses)	Net foreign currency gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	$44.3	$40.4	$84.7	$(111.4)	$41.1	$(70.3)
Common equity securities	25.0	1.9	26.9	41.6	.9	42.5
Convertible fixed maturity investments	(1.7)	.3	(1.4)	(2.9)	.1	(2.8)
Other long-term investments	13.6	1.7	15.3	4.5	4.6	9.1
Net unrealized investment gains (losses), pre-tax	81.2	44.3	125.5	(68.2)	46.7	(21.5)
Income tax (expense) benefit attributable to net unrealized investment gains (losses)	(18.9)	(9.8)	(28.7)	21.7	(10.3)	11.4
Net unrealized investment gains (losses), after tax	$62.3	$34.5	$96.8	$(46.5)	$36.4	$(10.1)

The following table summarizes the amount of total pre-tax gains included in earnings attributable to unrealized investment gains for Level 3 investments for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2014	2013	2014	2013

Fixed maturity investments	$ .2	$ (.4)	$ .4	$ (.2)
Common equity securities	2.0	.8	2.8	.7
Convertible fixed maturity investments	3.2	—	3.2	—
Other long-term investments	8.9	1.4	15.0	7.8
Total unrealized investment gains, pre-tax - Level 3 investments	$ 14.3	$ 1.8	$ 21.4	$ 8.3

Investment Holdings

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains's fixed maturity investments as of June 30, 2014 and December 31, 2013 were as follows:

Millions	June 30, 2014 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$438.4	$.7	$(.4)	$.5	$439.2
Debt securities issued by corporations	2,364.2	58.2	(3.2)	12.2	2,431.4
Municipal obligations	64.5	.8	(.2)	—	65.1
Mortgage-backed and asset-backed securities	1,818.2	8.3	(3.3)	2.9	1,826.1
Foreign government, agency and provincial obligations	362.1	3.7	(.2)	(2.1)	363.5
Preferred stocks	79.8	6.8	—	(.1)	86.5
Total fixed maturity investments including assets held for sale	$5,127.2	$78.5	$(7.3)	$13.4	$5,211.8
Fixed maturity investments reclassified to assets held for sale related to the Runoff Transaction					(203.8)
Total fixed maturity investments					$5,008.0

Millions	December 31, 2013 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
U.S. Government and agency obligations	$365.5	$.5	$(1.0)	$(2.5)	$362.5
Debt securities issued by corporations	2,330.7	44.0	(13.2)	(14.3)	2,347.2
Municipal obligations	18.3	—	(.4)	—	17.9
Mortgage-backed and asset-backed securities	2,027.3	2.4	(9.9)	(5.3)	2,014.5
Foreign government, agency and provincial obligations	444.2	3.7	(3.2)	(4.8)	439.9
Preferred stocks	79.9	5.1	—	(.2)	84.8
Total fixed maturity investments including assets held for sale	$5,265.9	$55.7	$(27.7)	$(27.1)	$5,266.8
Fixed maturity investments reclassified to assets held for sale related to the Runoff Transaction					(236.3)
Total fixed maturity investments					$5,030.5

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains's common equity securities, convertible fixed maturities and other long-term investments as of June 30, 2014 and December 31, 2013 were as follows:

Millions	June 30, 2014 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	$913.5	$296.2	$(4.7)	$1.1	$1,206.1
Convertible fixed maturity investments	$63.2	$7.7	$(.4)	$.2	$70.7
Other long-term investments	$242.4	$89.5	$(18.2)	$(.7)	$313.0

December 31, 2013

Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	$ 890.2	$ 271.0	$ (3.6)	$ (.8)	$ 1,156.8
Convertible fixed maturity investments	$ 71.7	$ 9.9	$ (.9)	$ (.2)	$ 80.5
Other long-term investments	$ 238.3	$ 79.6	$ (26.6)	$ (2.4)	$ 288.9

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Other Long-term Investments

Other long-term investments consist of the following at June 30, 2014 and December 31, 2013:

	Fair Value at	
Millions	June 30, 2014	December 31, 2013
Hedge funds and private equity funds, at fair value[1]	$260.8	$239.0
Partnership investments accounted for under the equity method	24.5	26.6
Limited liability companies, at fair value[1]	22.3	20.3
Other[1]	5.3	3.1
Forward contracts at fair value (see Note 8)	.1	(.1)
Total other-long term investments	$313.0	$288.9

[1] See Fair Value Measurements by Level table.

Hedge Funds and Private Equity Funds

White Mountains holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. At June 30, 2014, White Mountains held investments in 16 hedge funds and 36 private equity funds. The largest investment in a single fund was $19.3 million at June 30, 2014. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
Millions	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short equity	$68.4	$—	$62.6	$—
Long/short credit & distressed	24.2	—	22.8	—
Long/short equity REIT	19.3	—	18.3	—
Long/short equity activist	16.9	—	16.8	—
Long bank loan	.2	—	.2	—
Long diversified strategies	—	—	.1	—
Total hedge funds	129.0	—	120.8	—
Private equity funds				
Energy infrastructure & services	47.2	11.4	45.9	13.1
Multi-sector	24.8	6.2	23.8	6.5
Manufacturing/Industrial	18.3	15.2	11.2	15.5
Aerospace/Defense/Government	12.2	13.4	5.8	19.2
Private equity secondaries	9.4	3.1	9.5	3.1
Healthcare	7.8	2.8	5.6	2.8
Real estate	4.4	3.3	8.2	3.3
Insurance	2.3	41.3	2.3	41.3
Venture capital	1.6	.3	1.6	.3
International multi-sector, Asia	—	—	—	2.7
International multi-sector, Europe	3.8	2.7	3.9	2.8
Distressed residential real estate	—	—	.4	—
Total private equity funds	131.8	99.7	118.2	110.6
Total hedge and private equity funds included in other long-term investments	$260.8	$99.7	$239.0	$110.6

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

The following summarizes the June 30, 2014 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

	Notice Period				
Millions Redemption frequency	30-59 days notice	60-89 days notice	90-119 days notice	120+ days notice	Total
Monthly	$4.5	$—	$—	$5.8	$10.3
Quarterly	30.4	31.5	12.0	8.4	82.3
Semi-annual	—	26.4	—	—	26.4
Annual	—	—	9.8	.2	10.0
Total	$34.9	$57.9	$21.8	$14.4	$129.0

Certain of the hedge fund investments in which White Mountains is invested are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. At June 30, 2014, distributions of $2.1 million were outstanding from these investments. The actual amount of the final distribution remittances remain subject to market fluctuations. The date at which such remittances will be received is not determinable at June 30, 2014.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. At June 30, 2014, redemptions of $2.5 million are outstanding and are subject to market fluctuations. The date at which such redemptions will be received is not determinable at June 30, 2014. Redemptions are recorded as receivables when the investment is no longer subject to market fluctuations.

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

At June 30, 2014, investments in private equity funds were subject to lock-up periods as follows:

Millions	1-3 years	3 – 5 years	5 – 10 years	>10 years	Total
Private Equity Funds — expected lock-up period remaining	$6.4	$26.3	$79.1	$20.0	$131.8

Fair value measurements at June 30, 2014

White Mountains's invested assets that are measured at fair value include fixed maturity investments, common and preferred equity securities, convertible fixed maturity securities and other long-term investments, such as interests in hedge funds and private equity funds. Fair value measurements reflect management's best estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements fall into a hierarchy with three levels based on the nature of the inputs. Fair value measurements based on quoted prices in active markets for identical assets are at the top of the hierarchy ("Level 1"), followed by fair value measurements based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments ("Level 2"). Measurements based on unobservable inputs, including a reporting entity's estimates of the assumptions that market participants would use are at the bottom of the hierarchy ("Level 3").

White Mountains uses quoted market prices or other observable inputs to determine fair value for the vast majority of its investment portfolio. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs consist of fixed maturity investments including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains's investments in hedge funds and private equity funds, as well as investments in certain debt and equity securities where quoted market prices are unavailable. White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating, prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and $1.0 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains's review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.

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

White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing the audited annual financial statements of each hedge fund and private equity fund and periodically discussing each fund's pricing with the fund manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of White Mountains's investments in hedge funds and private equity funds have been classified as Level 3 measurements. The fair value of White Mountains's investments in hedge funds and private equity funds has been determined using net asset value.

In addition to the investments described above, White Mountains has $82.1 million and $86.3 million of investment-related liabilities recorded at fair value and included in other liabilities as of June 30, 2014 and December 31, 2013. These liabilities relate to securities that have been sold short by limited partnerships in which White Mountains has investments and is required to consolidate under GAAP. These liabilities have a Level 1 designation.

Fair Value Measurements by Level

The following tables summarize White Mountains's fair value measurements for investments at June 30, 2014 and December 31, 2013, by level:

	June 30, 2014			
Millions	Fair value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$439.2	$375.7	$63.5	$—
Debt securities issued by corporations:				
Consumer	751.2	—	751.2	—
Financials	483.1	—	483.1	—
Communications	289.8	—	289.8	—
Industrial	255.3	—	255.3	—
Energy	188.9	—	188.9	—
Utilities	149.6	—	149.6	—
Basic Materials	141.9	—	141.9	—
Technology	90.5	—	90.5	—
Other	81.1	—	81.1	—
Total debt securities issued by corporations:	2,431.4	—	2,431.4	—
Mortgage-backed and asset-backed securities	1,826.1	—	1,739.2	86.9
Foreign government, agency and provincial obligations	363.5	43.0	320.5	—
Preferred stocks	86.5	—	15.0	71.5
Municipal obligations	65.1	—	65.1	—
Total fixed maturity investments (1)	5,211.8	418.7	4,634.7	158.4
Short-term investments	564.0	537.7	26.3	—
Common equity securities:				
Financials	362.3	308.8	—	53.5
Consumer	327.0	327.0	—	—
Industrial	119.3	119.3	—	—
Energy	94.4	94.4	—	—
Communications	64.8	64.8	—	—
Basic materials	55.2	55.2	—	—
Technology	41.9	41.9	—	—
Utilities	37.2	37.2	—	—
Other	104.0	24.3	79.4	.3
Total common equity securities	1,206.1	1,072.9	79.4	53.8
Convertible fixed maturity investments	70.7	—	59.9	10.8
Other long-term investments (2)	288.4	—	—	288.4
Total investments	$7,341.0	$2,029.3	$4,800.3	$511.4

(1) Carrying value includes $203.8 that is classified as assets held for sale relating to discontinued operations.

(2) Excludes carrying value of $24.5 associated with other long-term investment limited partnerships accounted for using the equity method and $0.1 related to forward contracts.

	December 31, 2013			
Millions	Fair value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$362.5	$295.8	$66.7	$—
Debt securities issued by corporations:				
Consumer	754.4	—	754.4	—
Financials	434.4	—	434.4	—
Industrial	281.1	—	281.1	—
Communications	265.0	—	265.0	—
Utilities	173.6	—	173.6	—
Energy	159.7	—	159.7	—
Basic materials	149.1	—	149.1	—
Technology	91.2	—	91.2	—
Other	38.7	—	38.7	—
Total debt securities issued by corporations:	2,347.2	—	2,347.2	—
Mortgage-backed and asset-backed securities	2,014.5	—	1,992.5	22.0
Foreign government, agency and provincial obligations	439.9	44.5	395.4	—
Preferred stocks	84.8	—	13.8	71.0
Municipal obligations	17.9	—	17.9	—
Total fixed maturity investments (1)	5,266.8	340.3	4,833.5	93.0
Short-term investments	635.9	621.5	14.4	—
Common equity securities:				
Financials	360.4	314.3	—	46.1
Consumer	308.2	308.2	—	—
Industrial	105.4	105.4	—	—
Energy	78.6	78.6	—	—
Technology	60.6	60.6	—	—
Communications	57.1	57.1	—	—
Basic materials	53.4	53.4	—	—
Utilities	34.3	34.3	—	—
Other	98.8	24.5	74.3	—
Total common equity securities	1,156.8	1,036.4	74.3	46.1
Convertible fixed maturity investments	80.5	—	74.4	6.1
Other long-term investments (2)	262.4	—	—	262.4
Total investments	$7,402.4	$1,998.2	$4,996.6	$407.6

(1) Carrying value includes $236.3 that is classified as assets held for sale relating to discontinued operations.
(2) Excludes carrying value of $26.6 associated with other long-term investment limited partnerships accounted for using the equity method and $(0.1) related to currency forward contracts.

Debt securities issued by corporations

The following table summarizes the ratings of the corporate debt securities held in White Mountains’s investment portfolio as of June 30, 2014 and December 31, 2013:

	Fair Value at	
Millions	June 30, 2014	December 31, 2013
AAA	$—	$—
AA	220.6	228.8
A	1,037.6	1,039.5
BBB	1,167.1	1,075.5
BB	—	—
Other	6.1	3.4
Debt securities issued by corporations(1)	$2,431.4	$2,347.2

(1) Credit ratings are assigned based on the following hierarchy: 1) Standard and Poor's Financial Services LLC ("Standard & Poor’s") and 2) Moody’s Investor Service ("Moody's").

Mortgage-backed, Asset-backed Securities

White Mountains purchases commercial and residential mortgage-backed securities with the goal of maximizing risk adjusted returns in the context of a diversified portfolio. White Mountains’s non-agency commercial mortgage-backed portfolio (“CMBS”) is generally short-term and structurally senior, with more than 20 points of subordination on average for both fixed rate CMBS and floating rate CMBS as of June 30, 2014. In general, subordination represents the percentage principal loss on the underlying collateral that would be absorbed by other securities lower in the capital structure before the more senior security incurs a loss. White Mountains believes these levels of protection will mitigate the risk of loss tied to the refinancing challenges facing the commercial real estate market. As of June 30, 2014, on average less than 1% of the underlying loans were reported as non-performing for all non-agency CMBS held by White Mountains. White Mountains is not an originator of residential mortgage loans. White Mountains’s investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities at June 30, 2014. White Mountains considers sub-prime mortgage-backed securities as those that have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., White Mountains considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

White Mountains categorizes mortgage-backed securities as “non-prime” (also called “Alt A” or “A-”) if they are backed by collateral that has overall credit quality between prime and sub-prime based on White Mountains’s review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. White Mountains’s non-agency residential mortgage-backed portfolio is generally moderate-term and structurally senior. White Mountains does not own any collateralized loan obligations. White Mountains does not own any collateralized debt obligations, with the exception of $57.6 million of non-agency residential mortgage resecuritization tranches, each a senior tranche in its own right and each collateralized by a single earlier vintage Super Senior or Senior non-agency residential mortgage backed security.

The following table summarizes mortgage and asset-backed securities as of June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
Millions	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	$437.7	$437.7	$—	$512.3	$512.3	$—
FNMA	57.6	57.6	—	81.2	81.2	—
FHLMC	39.5	39.5	—	91.3	91.3	—
Total Agency[(1)]	534.8	534.8	—	684.8	684.8	—
Non-agency:						
Residential	191.6	146.4	45.2	125.7	125.7	—
Commercial	343.2	323.5	19.7	282.3	282.3	—
Total Non-agency	534.8	469.9	64.9	408.0	408.0	—
Total mortgage-backed securities	1,069.6	1,004.7	64.9	1,092.8	1,092.8	—
Other asset-backed securities:						
Credit card receivables	396.7	374.7	22.0	311.4	289.4	22.0
Vehicle receivables	159.2	159.2	—	365.0	365.0	—
Other	200.6	200.6	—	245.3	245.3	—
Total other asset-backed securities	756.5	734.5	22.0	921.7	899.7	22.0
Total mortgage and asset-backed securities	$1,826.1	$1,739.2	$86.9	$2,014.5	$1,992.5	$22.0

(1) Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

Non-agency Mortgage-backed Securities

The security issuance years of White Mountains's investments in non-agency RMBS and non-agency CMBS securities as of June 30, 2014 are as follows:

		Security Issuance Year										
Millions	Fair Value	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Non-agency RMBS	$ 191.6	$10.5	$17.6	$11.0	$—	$18.3	$—	$22.0	$25.0	$—	$31.0	$56.2
Non-agency CMBS	343.2	—	—	8.6	4.9	—	—	12.6	26.2	127.8	94.7	68.4
Total	$ 534.8	$10.5	$17.6	$19.6	$4.9	$18.3	$—	$34.6	$51.2	$127.8	$125.7	$124.6

Non-agency Residential Mortgage-backed Securities

The classification of the underlying collateral quality and the tranche levels of White Mountains's non-agency RMBS securities are as follows as of June 30, 2014:

Millions	Fair Value	Super Senior [1]	Senior [2]	Subordinate [3]
Prime	$ 169.6	$ 74.7	$ 94.9	$ —
Non-prime	16.3	—	16.3	—
Sub-prime	5.7	5.7	—	—
Total	$ 191.6	$ 80.4	$ 111.2	$ —

(1) At issuance, Super Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were senior to other "AAA" or "Aaa" bonds.

(2) At issuance, Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were senior to non-"AAA" or non-"Aaa" bonds.

(3) At issuance, Subordinate were not rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were junior to "AAA" or "Aaa" bonds.

Non-agency Commercial Mortgage-backed Securities

The amount of fixed and floating rate securities and their tranche levels of White Mountains's non-agency CMBS securities are as follows as of June 30, 2014:

Millions	Fair Value	Super Senior [1]	Senior [2]	Subordinate [3]
Fixed rate CMBS	$ 231.5	$ 119.1	$ 75.5	$ 36.9
Floating rate CMBS	111.7	4.9	—	106.8
Total	$ 343.2	$ 124.0	$ 75.5	$ 143.7

(1) At issuance, Super Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were senior to other "AAA" or "Aaa" bonds.

(2) At issuance, Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were senior to non-"AAA" or non-"Aaa" bonds.

(3) At issuance, Subordinate were not rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were junior to "AAA" or "Aaa" bonds.

Rollforward of Fair Value Measurements by Level

White Mountains uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturity investments, common equity securities, convertible fixed maturity investments and other long-term investments at June 30, 2014 and 2013 consist of securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

The following tables summarize the changes in White Mountains's fair value measurements by level for the six months ended June 30, 2014 and 2013:

			Level 3 Investments					
Millions	Level 1 Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	Total	
Balance at January 1, 2014	$ 1,376.7	$ 4,982.2	$ 93.0	$ 46.1	$ 6.1	$ 262.4	$ 6,766.5	(1)(2)(3)
Total realized and unrealized gains	67.3	89.8	.9	2.7	3.2	16.8	180.7	(4)
Foreign currency losses through OCI	(6.8)	(50.8)	(.4)	—	—	(1.4)	(59.4)	
Amortization/Accretion	(.3)	(22.0)	(.1)	—	—	—	(22.4)	
Purchases	953.5	1,632.0	76.1	5.0	1.5	17.4	2,685.5	
Sales	(896.1)	(1,875.6)	—	—	—	(6.8)	(2,778.5)	
Net change in investments related to (sales) purchases of consolidated affiliates	(2.7)	7.3	—	—	—	—	4.6	
Transfers in	—	19.6	8.5	—	—	—	28.1	
Transfers out	—	(8.5)	(19.6)	—	—	—	(28.1)	
Balance at June 30, 2014	$ 1,491.6	$ 4,774.0	$ 158.4	$ 53.8	$ 10.8	$ 288.4	$ 6,777.0	(1)(2)(3)(4)

(1) Excludes carrying value of $26.6 and $24.5 at January 1, 2014 and June 30, 2014 associated with other long-term investments accounted for using the equity method and $(0.1) and $0.1 at January 1, 2014 and June 30, 2014 related to forward contracts.

(2) Carrying value includes $236.3 and $203.8 at January 1, 2014 and June 30, 2014 that is classified as assets held for sale relating to discontinued operations.

(3) Excludes carrying value of $635.9 and $564.0 at January 1, 2014 and June 30, 2014 associated with short-term investments.

(4) Excludes $1.8 realized and unrealized losses associated with the Prospector Funds consolidation of investment-related liabilities.

			Level 3 Investments					
Millions	Level 1 Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	Total	
Balance at January 1, 2013	$ 1,355.1	$ 5,206.1	$ 92.9	$ 37.3	$ —	$ 259.3	$ 6,950.7	(1)(2)(3)
Total realized and unrealized gains (losses)	89.9	(55.3)	(.3)	.8	—	14.2	49.3	(4)
Foreign currency losses through OCI	(5.6)	(44.2)	—	—	—	(1.5)	(51.3)	

Amortization/Accretion	(.6)	(27.0)	—	—	—	—	(27.6)
Purchases	549.0	2,345.5	32.3	.5	—	35.9	2,963.2
Sales	(583.4)	(2,713.9)	—	—	—	(38.7)	(3,336.0)
Net change in investments related to purchases of consolidated affiliates	14.5	2.7	—	—	—	—	17.2
Transfers in	1.7	8.0	—	—	—	—	9.7
Transfers out	—	(.7)	(8.0)	(1.0)	—	—	(9.7)
Balance at June 30, 2013	$ 1,420.6	$4,721.2	$116.9	$37.6	$—	$ 269.2	$6,565.5 (1)(2)(3)

(1) Excludes carrying value of $35.0 and $34.2 at January 1, 2013 and June 30, 2013 associated with other long-term investment limited partnerships accounted
for using the equity method and $(0.1) and $(0.1) at January 1, 2013 and June 30, 2013 related to forward contracts.

(2) Carrying value includes $338.1 and 260.8 at January 1, 2013 and June 30, 2013 that is classified as assets held for sale relating to discontinued operations.

(3) Excludes carrying value of $630.6 and $606.8 at January 1, 2013 and June 30, 2013 and realized and unrealized loss for the period of $0.8 associated with short-term investments.

(4) Excludes $9.9 realized and unrealized gains associated with the Prospector Funds consolidation of investment-related liabilities.

Fair Value Measurements — transfers between levels - Six-month period ended June 30, 2014 and 2013

During the first six months of 2014, two fixed income securities classified as Level 3 measurements in the prior period were recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at June 30, 2014. During the first six months of 2013, one fixed income securities classified as Level 3 measurements in the prior period was recategorized as Level 2 measurements. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of $19.6 million and $8.0 million for the periods ended June 30, 2014 and June 30, 2013.

During the first six months of 2014, two fixed income securities which had been classified as a Level 2 measurements in the prior period were recategorized as Level 3 measurements. The securities were priced with unobservable inputs and represent "Transfers out" of Level 2 and “Transfers in” to Level 3 of $8.5 million for the period ended June 30, 2014. The fair value of these securities was estimated using industry standard pricing methodology, in which management selected inputs using its best judgment. At June 30, 2014, the estimated fair value for these securities determined using the industry standard pricing models was $1.0 million less than the estimated fair value based upon quoted prices provided by a third party pricing vendor. During the first six months of 2013, no fixed income securities which had been classified as a Level 2 measurements in the prior period were recategorized as Level 3 measurements.

Significant Unobservable Inputs

The following summarizes significant unobservable inputs used in estimating the fair value of investment securities classified within Level 3 other than hedge funds and private equity funds as of June 30, 2014 and December 31, 2013. The fair value of investments in hedge funds and private equity funds, which are classified within Level 3, are estimated using the net asset value of the funds.

($ in Millions)	June 30, 2014					
Description	Fair Value	Rating [2]	Valuation Technique(s)	Unobservable Input		
Non-agency commercial mortgage backed securities[1]	$11.1	NR	Discounted cash flow	Discount spread over swap	1.2%	
				Prepayment rate	0.0%	CPY
				Default rate	0.0%	CDR
Asset-backed securities[1]	$22.0	AA+	Broker pricing	Broker quote		
Non-agency residential mortgage backed securities[1]	$45.3	AAA	Broker pricing	Broker quote		
Non-agency residential mortgage backed securities[1]	$8.6	NR	Broker pricing	Broker quotes		
Preferred stock[1]	$71.5	NR	Discounted cash flow	Discount yield	6.6%	
Private equity security[1]	$37.4	NR	Multiple of GAAP book value	Book value multiple	1.0	
Private equity security[1]	$15.7	NR	Share price of recent transaction	Share price	$1.10	
Convertible preferred security[1]	$6.3	NR	Multiple of EBITDA	EBITDA multiple	6X	
Convertible preferred security[1]	$4.5	NR	Share price of recent transaction	Share price	$0.71	

[1] As of June 30, 2014, consists of one security.

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

($ in Millions)	December 31, 2013				
Description	Fair Value	Rating [2]	Valuation Technique(s)	Unobservable Input	
Asset-backed securities[1]	$22.0	AA+	Broker pricing	Broker quote	
Preferred stock[1]	$71.0	NR	Discounted cash flow	Discount yield	7.4%
Private equity security[1]	$35.6	NR	Multiple of GAAP book value	Book value multiple	1.0

Private equity security(1)	$10.5	NR	Share price of recent transaction	Share price	$1.10
Convertible preferred securities	$6.1	NR	Share price of recent transaction	Recent market transaction	$6.1

(1) As of December 31, 2013, consists of one security.

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

The assumed prepayment rate is a significant unobservable input used to estimate the fair value of investments in non-agency CMBS. Generally for bonds priced at a premium, increases in prepayment speeds will result in a lower fair value, while decreases in prepayment speed may result in a higher fair value, with the inverse for bonds priced at a discount.

Note 6. Debt

White Mountains's debt outstanding as of June 30, 2014 and December 31, 2013 consisted of the following:

Millions	June 30, 2014	December 31, 2013
2012 OBH Senior Notes, at face value	$ 275.0	$ 275.0
Unamortized original issue discount	(.3)	(.3)
2012 OBH Senior Notes, carrying value	274.7	274.7
SIG Senior Notes, at face value	400.0	400.0
Unamortized original issue discount	(.4)	(.4)
SIG Senior Notes, carrying value	399.6	399.6
WTM Bank Facility	—	—
Old Lyme Note	2.1	2.1
Other	1.1	—
Total debt	$ 677.5	$ 676.4

WTM Bank Facility

On August 14, 2013, White Mountains entered into a revolving credit facility with a syndicate of lenders administered by Wells Fargo Bank, N.A., which has a total commitment of $425.0 million and has a maturity date of August 14, 2018 (the "WTM Bank Facility"). As of June 30, 2014, the WTM Bank Facility was undrawn.

The WTM Bank Facility contains various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under these facilities and result in acceleration of principal repayment on any amounts outstanding.

Debt Covenants

At June 30, 2014, White Mountains was in compliance with all debt covenants.

Note 7. Income Taxes

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law such that taxes are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company's subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Germany, Gibraltar, Israel, Luxembourg, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

White Mountains's income tax expense related to pre-tax income from continuing operations for the three months ended June 30, 2014 and 2013 represented net effective tax rates of 21.9% and (16.7)%. The effective tax rates for the six months ended June 30, 2014 and 2013 were 24.5% and 26.4%. The effective rate for the three months ended June 30, 2013 was negative due to tax benefits on losses generated in the United States that exceeded tax expenses on income generated in other jurisdictions. The effective tax rates for the three months ended June 30, 2014 and the six months ended June 30, 2014 and 2013 were lower than the U.S. statutory rate of 35% due to income generated in jurisdictions with lower tax rates than the United States.

In arriving at the effective tax rate for the three and six months ended June 30, 2014 and 2013, White Mountains forecasted all income and expense items including the change in unrealized investment gains (losses) and realized investment gains (losses) for the years ending December 31, 2014 and 2013.

White Mountains records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods and strategies that if executed would result in the realization of a deferred tax asset. During the next twelve months, it is possible that certain planning strategies or projected earnings in certain subsidiaries may not be feasible to utilize the entire deferred tax asset, which could result in material changes to White Mountains's deferred tax assets and tax expense.

White Mountains is no longer subject to U.S. federal or state tax examinations by tax authorities for years before 2007. With few exceptions, White Mountains is no longer subject to non-U.S. income tax examinations by tax authorities for years before 2005.

On February 14, 2014, OneBeacon received Form 870-AD (Offer to Waive Restrictions on Assessment and Collection Tax Deficiency and to Accept Overassessment) from the IRS Appeals Office relating to the examination of tax years 2005 and 2006. All disputed items have now been agreed and resolved with the Joint Committee. OneBeacon recorded a tax benefit of $5.0 million in the first quarter of 2014 relating to the settlement of the IRS examination for tax years 2005 and 2006.

On July 28, 2011, the IRS commenced an examination of the income tax returns for 2007, 2008 and 2009 for certain U.S. subsidiaries of OneBeacon. On July 17, 2013, OneBeacon received a revised Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2007, 2008 and 2009. The estimated total assessment, including interest, utilization of alternative minimum and foreign tax credit carryovers and capital loss carrybacks, is $71.0 million. However, $60.2 million of the proposed adjustments relate to items for which the expense deduction has been disallowed in a year being examined, but ultimate deductibility is highly certain to occur in a later period. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of these deductions in the exam period would not affect the effective tax rate, but would accelerate the payment of cash to the taxing authority. White Mountains disagrees with the adjustments proposed by the IRS and is defending its position. Although the timing of the resolution of these issues is uncertain, it is reasonably possible that the resolution could occur within the next twelve months. An estimate of the range of potential outcomes cannot be made at this time. White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

On September 2, 2013, the IRS commenced an examination of the income tax returns for 2010, 2011 and 2012 for certain U.S. subsidiaries of OneBeacon. White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

Note 8. Derivatives

Variable Annuity Reinsurance

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. 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 (approximately $0.5 billion at the then current exchange rate) in March 2007. At June 30, 2014 and December 31, 2013, the total guarantee value was approximately ¥176.2 billion (approximately $1.7 billion at exchange rates on that date) and ¥203.6 billion (approximately $1.9 billion at exchange rates on that date), respectively. The collective account values of the underlying variable annuities were approximately 103% and 104% of the guarantee value at June 30, 2014 and December 31, 2013, respectively. WM Life Re is in runoff, and all of its contracts will mature by June 30, 2016.

The following table summarizes the pre-tax operating results of WM Life Re for the three and six months ended June 30, 2014 and 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	2014	2013	2014	2013
Fees, included in other revenue	$ 5.1	$ 6.2	$ 10.5	$ 13.0
Change in fair value of variable annuity liability, included in other revenue	22.0	55.9	20.7	240.2
Change in fair value of derivatives, included in other revenue	(26.2)	(63.5)	(32.7)	(245.3)
Foreign exchange, included in other revenue	.2	.1	.5	(14.5)
Other investment income and gains (losses)	.2	(1.5)	.5	(5.5)
Total revenue	1.3	(2.8)	(.5)	(12.1)
Change in fair value of variable annuity death benefit liabilities, included in other general and administrative expenses	.3	1.6	.3	7.2
Death benefit claims paid, included in general and administrative expenses	(.1)	(.3)	(.1)	(1.4)
General and administrative expenses	(1.0)	(1.1)	(2.4)	(2.8)

Pre-tax gain (loss)	$ .5	$ (2.6)	$ (2.7)	$ (9.1)

The following summarizes realized and unrealized derivative gains (losses) recognized in other revenue for the three and six months ended June 30, 2014 and 2013 and the carrying values, included in other assets, at June 30, 2014 and December 31, 2013 by type of instrument:

	Gains (losses)				Carrying Value	
	Three Months Ended June 30,		Six Months Ended June 30,		As of June 30,	December 31,
Millions	2014	2013	2014	2013	2014	2013
Fixed income/interest rate	$(5.6)	$(8.5)	$(12.0)	$(39.3)	$(3.3)	$(9.7)
Foreign exchange	(6.4)	(22.0)	(12.9)	(75.6)	58.2	58.0
Equity	(14.2)	(33.0)	(7.8)	(130.4)	19.9	20.9
Total	$(26.2)	$(63.5)	$(32.7)	$(245.3)	$74.8	$69.2

The following tables summarize the changes in White Mountains's variable annuity reinsurance liabilities and derivative instruments for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 (1)	Level 2 (1)(2)	Level 1 (3)	Total
Beginning of period	$(54.1)	$64.1	$25.1	$.4	$89.6
Purchases	—	—	—	—	—
Realized and unrealized (losses) gains	22.3 (4)	(10.6)	(15.5)	(.1)	(26.2)
Transfers in	—	—	—	—	—
Sales/settlements	—	(.2)	12.7	(1.1)	11.4
End of period	$(31.8)	$53.3	$22.3	$(.8)	$74.8

	Six Months Ended June 30, 2014				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 (1)	Level 2 (1)(2)	Level 1 (3)	Total
Beginning of period	$(52.8)	$63.4	$4.7	$1.1	$69.2
Purchases	—	—	—	—	—
Realized and unrealized (losses) gains	21.0 (4)	(9.9)	(22.5)	(.3)	(32.7)
Transfers in	—	—	—	—	—
Sales/settlements	—	(.2)	40.1	(1.6)	38.3
End of period	$(31.8)	$53.3	$22.3	$(.8)	$74.8

	Three Months Ended June 30, 2013				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total
Beginning of period	$ (251.6)	$ 127.4	$ (42.9)	$ (8.7)	$ 75.8
Purchases	—	23.3	—	—	23.3
Realized and unrealized gains (losses)	57.5 [4]	(24.2)	(30.6)	(8.7)	(63.5)
Transfers in	—	—	—	—	—
Sales/settlements	—	—	91.7	14.0	105.7
End of period	$ (194.1)	$ 126.5	$ 18.2	$ (3.4)	$ 141.3

	Six Months Ended June 30, 2013				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total
Beginning of period	$ (441.5)	$ 140.5	$ (20.5)	$ (21.7)	$ 98.3
Purchases	—	59.4	—	—	59.4
Realized and unrealized gains (losses)	247.4 [4]	(73.4)	(116.0)	(55.9)	(245.3)
Transfers in	—	—	—	—	—
Sales/settlements	—	—	154.7	74.2	228.9
End of period	$ (194.1)	$ 126.5	$ 18.2	$	