WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
November 02, 2015
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 September 30, 2015

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 November 2, 2015, 5,686,165 common shares with a par value of $1.00 per share were outstanding (which includes 70,674 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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CONSOLIDATED BALANCE SHEETS

(Millions, except share amounts)	September 30, 2015	December 31, 2014
Assets	Unaudited	
Fixed maturity investments, at fair value	$ 2,602.2	$ 2,422.0
Short-term investments, at amortized cost (which approximates fair value)	325.0	376.8
Common equity securities, at fair value	482.1	611.7
Convertible fixed maturity and preferred investments, at fair value	5.6	13.9
Other long-term investments	294.6	318.0
Total investments	3,709.5	3,742.4
Cash (restricted: $16.8 and $23.7)	200.0	261.7
Reinsurance recoverable on unpaid losses	214.6	161.7
Reinsurance recoverable on paid losses	22.6	12.2
Insurance premiums receivable	273.3	241.1
Funds held by ceding entities	4.6	37.1
Investments in unconsolidated affiliates	392.6	414.4
Deferred acquisition costs	110.8	107.2
Deferred tax asset	133.9	114.6
Ceded unearned insurance premiums	41.4	17.8
Accrued investment income	13.7	14.3
Accounts receivable on unsettled investment sales	11.5	37.8
Goodwill and intangible assets	381.7	351.2
Other assets	307.7	311.6
Assets held for sale	4,528.1	4,630.6
Total assets	$ 10,346.0	$ 10,455.7
Liabilities		
Loss and loss adjustment expense reserves	$ 1,433.3	$ 1,350.0
Unearned insurance premiums	671.3	616.7
Debt	383.3	343.1
Accrued incentive compensation	121.0	108.1
Ceded reinsurance payable	46.8	34.2
Funds held under insurance contracts	100.3	81.0
Accounts payable on unsettled investment purchases	46.0	.5
Other liabilities	304.9	278.4
Liabilities held for sale	3,032.8	3,105.3
Total liabilities	6,139.7	5,917.3
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 5,745,002 and 5,986,214 shares	5.7	6.0
Paid-in surplus	992.3	1,028.7
Retained earnings	2,888.3	3,010.5
Accumulated other comprehensive income (loss), after tax:		
Equity in net unrealized gains from investment in Symetra common shares	5.5	34.9
Net unrealized foreign currency translation losses	(142.4)	(79.8)
Pension liability and other	(3.9)	(4.6)

Total White Mountains’s common shareholders’ equity	3,745.5	3,995.7
Non-controlling interests		
Non-controlling interest - OneBeacon Ltd.	246.9	258.4
Non-controlling interest - SIG Preference Shares	250.0	250.0
Non-controlling interest - mutuals and reciprocals	(149.4)	(134.3)
Non-controlling interest - other	113.3	168.6
Total non-controlling interests	460.8	542.7
Total equity	4,206.3	4,538.4
Total liabilities and equity	$ 10,346.0	$ 10,455.7

See Notes to Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Millions, except per share amounts)	2015	2014	2015	2014
Revenues:				
Earned insurance premiums	$284.9	$307.2	$896.0	$879.1
Net investment income	16.8	13.8	42.6	44.7
Net realized and unrealized investment (losses) gains	(43.9)	(27.5)	(33.9)	64.4
Other revenue	76.9	29.7	225.4	60.3
Total revenues	334.7	323.2	1,130.1	1,048.5
Expenses:				
Loss and loss adjustment expenses	170.0	185.5	534.1	527.3
Insurance acquisition expenses	55.3	55.2	166.1	153.0
Other underwriting expenses	56.5	51.3	165.5	152.6
General and administrative expenses	142.6	63.0	354.1	168.3
Interest expense	4.9	3.7	13.5	10.6
Total expenses	429.3	358.7	1,233.3	1,011.8
Pre-tax (loss) income from continuing operations	(94.6)	(35.5)	(103.2)	36.7
Income tax benefit (expense)	1.6	4.7	(.8)	(11.4)
Net (loss) income from continuing operations	(93.0)	(30.8)	(104.0)	25.3
Gain from sale of discontinued operations, net of tax	10.3	7.0	18.2	9.7
Net income from discontinued operations, net of tax	3.9	56.9	73.3	166.8
(Loss) Income before equity in earnings of unconsolidated affiliates	(78.8)	33.1	(12.5)	201.8
Equity in earnings of unconsolidated affiliates, net of tax	3.9	7.0	18.0	33.3
Net (loss) income	(74.9)	40.1	5.5	235.1
Net loss attributable to non-controlling interests	16.0	11.2	24.2	7.2
Net (loss) income attributable to White Mountains's common shareholders	(58.9)	51.3	29.7	242.3
Other comprehensive (loss) income, net of tax:				
Change in equity in net unrealized gains (losses) from investments in Symetra common shares, net of tax	3.5	(9.9)	(29.4)	59.5
Change in foreign currency translation, pension liability and other	—	(.2)	.3	(.1)
Change in foreign currency translation and other from discontinued operations	(18.4)	(64.1)	(62.1)	(99.9)
Comprehensive (loss) income	(73.8)	(22.9)	(61.5)	201.8
	(.1)	.1	(.1)	.1

Other comprehensive (loss) income attributable to non-controlling interests				
Comprehensive (loss) income attributable to White Mountains's common shareholders	$(73.9)	$(22.8)	$(61.6)	$201.9
Income (loss) per share attributable to White Mountains's common shareholders				
Basic income per share				
Continuing operations	$(12.42)	$(2.07)	$(10.40)	$10.70
Discontinued operations	2.41	10.49	15.37	28.74
Total consolidated operations	$(10.01)	$8.42	$4.97	$39.44
Diluted income per share				
Continuing operations	$(12.42)	$(2.07)	$(10.40)	$10.70
Discontinued operations	2.41	10.49	15.37	28.74
Total consolidated operations	$(10.01)	$8.42	$4.97	$39.44
Dividends declared per White Mountains's common share	$1.00	$1.00	$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, 2015	$1,034.7	$3,010.5	$(49.5)	$3,995.7	$ 542.7	$4,538.4
Net income (loss)	—	29.7	—	29.7	(24.2)	5.5
Net change in unrealized gains (losses) from investments in unconsolidated affiliates	—	—	(29.4)	(29.4)	—	(29.4)
Net change in foreign currency translation	—	—	(62.6)	(62.6)	—	(62.6)
Net change in pension liability and other accumulated comprehensive items	—	—	.7	.7	.1	.8
Total comprehensive income (loss)	—	29.7	(91.3)	(61.6)	(24.1)	(85.7)
Dividends declared on common shares	—	(6.0)	—	(6.0)	—	(6.0)
Dividends to non-controlling interests	—	—	—	—	(35.4)	(35.4)
Repurchases and retirements of common shares	(46.0)	(145.9)	—	(191.9)	—	(191.9)
Issuances of common shares	.9	—	—	.9	—	.9
Redemption of Prospector Offshore Fund	—	—	—	—	(31.5)	(31.5)
Acquisition from non-controlling interests	(2.2)	—	—	(2.2)	(2.7)	(4.9)
Net contributions from non-controlling interests	—	—	—	—	12.1	12.1
Amortization of restricted share awards	10.6	—	—	10.6	(.3)	10.3
Balance at September 30, 2015	$998.0	$2,888.3	$(140.8)	$3,745.5	$ 460.8	$4,206.3

(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	$2,801.8	$52.1	$3,905.0	$ 491.8	$4,396.8
Net income (loss)	—	242.3	—	242.3	(7.2)	235.1
Net change in unrealized gains (losses) from investments in unconsolidated affiliates	—	—	59.5	59.5	—	59.5

Net change in foreign currency translation	—	—	(100.3)	(100.3)	(.1)	(100.4)
Net change in pension liability and other accumulated comprehensive items	—	—	.4	.4	—	.4
Total comprehensive income (loss)	—	242.3	(40.4)	201.9	(7.3)	194.6
Dividends declared on common shares	—	(6.2)	—	(6.2)	—	(6.2)
Dividends to non-controlling interests	—	—	—	—	(26.0)	(26.0)
Repurchases and retirements of common shares	(29.6)	(77.3)	—	(106.9)	—	(106.9)
Issuances of common shares	2.9	—	—	2.9	—	2.9
Net contributions from non-controlling interests	—	—	—	—	29.4	29.4
Amortization of restricted share awards	12.5	—	—	12.5	.6	13.1
Balance at September 30, 2014	$1,036.9	$2,960.6	$11.7	$4,009.2	$ 488.5	$4,497.7

See Notes to Consolidated Financial Statements

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

(Millions)	Nine Months Ended September 30, 2015	2014
Cash flows from operations:		
Net income	$5.5	$235.1
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized and unrealized investment losses (gains)	33.9	(64.4)
Deferred income tax (benefit) expense	(20.2)	5.8
Net income from discontinued operations	(73.3)	(166.8)
Net gain on sale of discontinued operations	(18.2)	(9.7)
Gain on sale of subsidiaries - Hamer and Essentia	(16.1)	—
Amortization and depreciation	46.8	27.6
Undistributed equity in earnings from unconsolidated affiliates, net of tax	(18.0)	(33.3)
Other operating items:		
Net change in loss and loss adjustment expense reserves	83.3	101.7
Net change in reinsurance recoverable on paid and unpaid losses	(63.3)	(23.4)
Net change in unearned insurance premiums	54.6	90.8
Net change in variable annuity benefit guarantee liabilities	(1.7)	(41.1)
Net change in variable annuity benefit guarantee derivative instruments	19.4	3.9
Net change in deferred acquisition costs	(3.6)	(19.7)
Net change in funds held by ceding entities	32.5	(33.3)
Net change in ceded unearned premiums	(23.4)	(.4)
Net change in funds held under insurance treaties	19.3	13.5
Net change in insurance premiums receivable	(32.0)	(50.4)
Net change in ceded reinsurance payable	12.6	3.3
Net change in restricted cash	6.9	32.3
Net change in other assets and liabilities, net	35.6	2.0
Net cash provided from operations - continuing operations	80.6	73.5
Net cash provided from operations - discontinued operations	6.7	49.8
Net cash provided from operations	87.3	123.3
Cash flows from investing activities:		
Net change in short-term investments	26.6	(104.2)
Sales of fixed maturity and convertible fixed maturity investments	865.0	1,734.7
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	249.5	241.6
Sales of common equity securities	370.6	312.8
Distributions and redemptions of other long-term investments	56.6	26.2
Sales of consolidated and unconsolidated affiliates, net of cash sold	24.0	—
Funding from (of) operational cash flows for discontinued operations	17.5	(27.6)
Purchases of other long-term investments	(30.5)	(26.8)
Purchases of common equity securities	(329.4)	(141.9)
Purchases of fixed maturity and convertible fixed maturity investments	(1,300.2)	(1,822.6)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(33.3)	(32.2)
Net change in unsettled investment purchases and sales	71.8	9.3
Net dispositions (acquisitions) of property and equipment	37.0	(3.3)
Net cash provided from investing activities - continuing operations	25.2	166.0
Net cash provided from investing activities - discontinued operations	35.7	47.5

Net cash provided from investing activities	60.9	213.5
Cash flows from financing activities:		
Draw down of debt and revolving line of credit	134.0	40.0
Repayment of debt and revolving line of credit	(92.9)	(40.2)
Payments on capital lease obligation	(3.5)	(4.0)
Cash dividends paid to the Company’s common shareholders	(6.0)	(6.2)
Cash dividends paid to OneBeacon Ltd.’s non-controlling common shareholders	(14.8)	(14.8)
Common shares repurchased	(168.6)	(100.6)
OneBeacon Ltd. common shares repurchased and retired	(1.8)	(1.8)
Capital contributions from non-controlling interest of consolidated LPs	—	2.5
Distribution to non-controlling interest shareholders	(9.1)	—
Redemptions paid to non-controlling interest of consolidated LPs	—	(4.9)
Distributions from (contributions to) discontinued operations	(9.1)	40.8
Acquisition of additional shares from non-controlling interest	(9.1)	—
Capital contributions from BAM members	20.3	11.6
Net cash used for financing activities - continuing operations	(160.6)	(77.6)
Net cash used for financing activities - discontinued operations	(2.4)	(55.6)
Net cash used for financing activities	(163.0)	(133.2)
Effect of exchange rate changes on cash (excludes ($4.1) and ($10.6) related to discontinued operations)	—	—
Net change in cash during the period - continuing operations	(54.8)	161.9
Cash balances at beginning of period (excludes restricted cash balances of $23.7 and $56.1 and discontinued operations cash balances of $111.5 and $93.2)	238.0	233.5
Cash balances at end of period (excludes restricted cash balances of $16.8 and $23.8 and discontinued operations cash balances of $147.4 and $124.3)	$183.2	$395.4
Supplemental cash flows information:		
Interest paid	$(8.9)	$(6.4)
Net income tax refund from national governments	$8.0	$.3

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements 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, HG Global/BAM and Other Operations. During the third quarter of 2015, White Mountains signed a definitive agreement to sell Sirius International Insurance Group, Ltd, an exempted Bermuda limited liability company, and its subsidiaries (collectively, "Sirius Group") to CM International Holding PTE Ltd., the Singapore-based investment arm of China Minsheng Investment Corp., Ltd. ("CMI"). (See Note 2 - "Significant Transactions"). Accordingly, effective for September 30, 2015, Sirius Group has been presented as discontinued operations and assets and liabilities held for sale in the financial statements. Prior year amounts have been reclassified to conform to the current year's presentation. (See Note 17 - "Discontinued Operations").

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. ("OneBeacon Ltd."), an exempted Bermuda limited liability company that owns a family of property and casualty insurance companies (collectively, "OneBeacon"). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products in the United States through independent agencies, regional and national brokers, wholesalers and managing general agencies. During the third quarter of 2013, OneBeacon formed Split Rock Insurance, Ltd. ("Split Rock"), a Bermuda-based reinsurance company. As of September 30, 2015 and December 31, 2014, White Mountains owned 75.3% of OneBeacon Ltd.'s outstanding common shares for both periods.

In December 2014, OneBeacon completed the sale of its runoff business (the "Runoff Transaction"). Accordingly, OneBeacon's runoff business is presented as discontinued operations. In the second quarter of 2015, OneBeacon completed the sale of its building in Canton, MA for $58.0 million. The building was presented as held for sale at December 31, 2014. (See Note 17 - "Discontinued Operations").

The HG Global/BAM segment consists of HG Global Ltd. ("HG Global") and the consolidated results of Build America Mutual Assurance Company ("BAM"). BAM is a municipal bond insurer domiciled in New York that was established in 2012 to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503.0 million of surplus notes issued by BAM (the "BAM Surplus Notes"). HG Global, through its wholly-owned subsidiary, HG Re Ltd. ("HG Re"), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of September 30, 2015 and December 31, 2014, White Mountains owned 96.9% of HG Global's preferred equity and 88.4% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, GAAP requires White Mountains to consolidate BAM's results in its financial statements. BAM's results are attributed to non-controlling interests.

White Mountains's Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC ("WM Advisors"), White Mountains's variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. ("Life Re Bermuda"), which is in runoff with all of its contracts maturing by June 30, 2016, and its U.S.-based service provider, White Mountains Financial Services LLC (collectively, "WM Life Re"), and White Mountains's ownership positions in Tranzact Holdings, LLC, Wobi Insurance Agency Ltd. ("Wobi") and QL Holdings, LLC (together with its subsidiaries "MediaAlpha"). The Other Operations segment also includes Star & Shield Services LLC, Star & Shield Risk Management LLC ("SSRM"), and Star & Shield Claims Services LLC (collectively "Star & Shield"). Star & Shield provides management services for a fee to Star & Shield Insurance Exchange (“SSIE”), a reciprocal that is owned by its members, who are policyholders. As of September 30, 2015, White Mountains holds $20.0 million of surplus notes issued by SSIE (the “SSIE Surplus Notes”) but does not have an ownership interest in SSIE. 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. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. These interim financial statements include all adjustments considered necessary by management to fairly 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 2014 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 2014 Annual Report on Form 10-K for a complete discussion regarding White Mountains's significant accounting policies.

Recently Adopted Changes in Accounting Principles

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 (ASC 205 and ASC 360) to reduce diversity in practice for reporting discontinued operations. ASU 2014-08 limits discontinued operations treatment to disposals 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.
As discussed further in Note 2, White Mountains has entered into an agreement to sell Sirius Group, which has been classified as discontinued operations in accordance with ASU 2014-08.

Qualified Affordable Housing Projects
Effective January 1, 2015, White Mountains adopted ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects ("QAHP") (ASC 323). ASU 2014-01 allows investors in QAHP to make a policy election to use the proportional amortization method. Under the proportional amortization method, the investor amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the investment results, net of the related tax benefits, as a component of income tax expense. Prior to adoption, White Mountains accounted for its QAHP investment under the equity method and recognized its share of its QAHP investment's losses in investment income. White Mountains made the policy election to account for its investment in its QAHP investment using the proportional amortization method, applied retrospectively. Under the proportional amortization method, the cumulative loss recognized through December 31, 2014 and December 31, 2013 was $0.9 million and $0.5 million. The retrospective adoption resulted in an increase of $0.4 million and $1.3 million to net investment income and a net increase of $0.6 million and $1.8 million to income tax expense for the three and nine months ended September 30, 2014. Footnote disclosures for prior year amounts have been amended to be consistent with the restated amounts described above.

Pushdown Accounting
ASU 2014-17, Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force (ASC 805) became effective upon its issuance on November 18, 2014. The new guidance, which is applicable prospectively, gives an acquired non-public company the option to apply pushdown accounting in its separate company financial statements in the period in which it is acquired in a change of control transaction. Once pushdown accounting has been applied, the election is irreversible. Acquired entities that chose not to apply pushdown accounting at the time of acquisition, may apply pushdown accounting in a subsequent period as a change in accounting principle under ASC 250, Accounting Changes and Error Corrections. White Mountains has not had any acquisitions for which it has elected to apply pushdown accounting since ASU 2014-17 became effective.

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 or financial statement presentation.

Recently Issued Accounting Pronouncements

Business Combinations - Measurement Period Adjustments

On September 25, 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. At the date of an acquisition, fair value of certain assets and liabilities may not be accurately determinable and are therefore recognized at the acquirer's best estimate. Such amounts may be updated as additional information becomes available in periods subsequent to the acquisition for up to one year. Prior to the issuance of this new ASU, subsequent adjustments had to be pushed back to the acquisition date, which required retroactive adjustments to prior period amounts. Under the new guidance, adjustments to provisional amounts that are identified during the measurement period are to be recorded in the reporting period in which the adjustment amounts are determined. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015 and is applied prospectively to adjustments to estimated purchase accounting amounts that occur after the effective date. Early application is permitted. White Mountains has not recognized any adjustments to estimated purchase accounting amounts for the year to date period ended September 30, 2015.

Short-Duration Contracts

On May 21, 2015, the FASB issued ASU 2015-09, Disclosures about Short Duration Contracts (ASC 944) which requires expanded footnote disclosures about loss and loss adjustment expense ("LAE") reserves. Under the new guidance, some disclosures currently presented outside of White Mountains's financial statements, such as loss development tables and a reconciliation of loss development data to the loss and LAE reserves reflected on the balance sheet, will become part of the financial statement footnotes. In addition, the loss development tables required to be presented under the new ASU must be presented on a disaggregated basis by accident year rather than by reporting year as currently presented. Some of the expanded disclosures are new requirements, such as the disclosure of reserves for losses incurred but not reported ("IBNR") plus expected development on reported claims, which must be presented by accident year on a disaggregated basis. The new guidance also requires new disclosures about claim frequency data together with descriptions of the approach used to measure that data. Qualitative descriptions of methodologies and assumptions used to develop IBNR estimates must be presented together with the disaggregated amounts of IBNR to which they relate, along with a discussion of any significant changes in methodology and assumptions and the related effect upon the loss reserves. The new guidance will be effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016 with retrospective restatement of prior periods required. White Mountains will modify its financial statement footnote disclosures to conform to the requirements of ASU 2015-09 upon adoption, including revisions to prior year's disclosures.

Fair Value Measurements

On May 1, 2015, the FASB issued ASU 2015-07, Fair Value Measurement - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (ASC 820) which eliminates the requirement to disclose the fair value hierarchy level for investments for which fair value is measured at net asset value using the practical expedient in ASC 820. White Mountains measures the fair value of its investments in hedge funds and private equity funds using this practical expedient and has classified those measurements within Level 3 of the fair value hierarchy. The new guidance is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years.

Debt Issuance Costs

On April 7, 2015, the FASB issued ASU 2015-03, Imputation of Interest (ASC 835) which requires debt issuance costs related to a recognized debt liability to be presented as a deduction from the carrying amount of the related debt, consistent with the treatment required for debt discounts. On August 18, 2015, the FASB issued ASU 2015-15, Imputation of Interest (ASC 835) which addresses the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. ASU 2015-03 and ASU 2-15-15 are effective for annual and interim reporting periods beginning after December 15, 2015. White Mountains does not expect ASU 2015-03 or ASU 2015-15 to impact its financial position, results of operations, cash flows, presentation and disclosures.

Amendments to Consolidation Analysis

On February 18, 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis (ASC 810) which amends the guidance for determining whether an entity is a variable interest entity (“VIE”). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. ASU 2015-02 is effective for annual and interim reporting periods beginning after December 15, 2015 and must be applied retrospectively. White Mountains does not expect ASU 2015-02 to affect the consolidation analysis for any of its existing investments.

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 (ASC 718). 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 non-vesting 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 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. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015. White Mountains does not expect adoption to have a significant effect on its financial position, results of operations, cash flows, presentation or disclosures.

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 third-party investment management fees charged by White Mountains Advisors, which were $2.0 million and $5.9 million for the three and nine months ended September 30, 2015 and $3.2 million and $9.2 million for the three and nine months ended September 30, 2014. 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. On August 12, 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 to annual and interim reporting periods beginning after December 15, 2017.

Note 2. Significant Transactions

Sale of Sirius Group

On July 27, 2015, White Mountains entered into an agreement to sell Sirius Group to CM International Holding PTE Ltd., the Singapore-based investment arm of CMI. The purchase price will be paid in cash in an amount equal to 127.3% of Sirius Group’s closing date tangible common shareholder’s equity, plus $10.0 million. White Mountains has the option to replenish Sirius’s tangible common shareholder’s equity to its December 31, 2014 level should it be below that level at closing. The transaction is expected to close in the first quarter of 2016 and is subject to regulatory approvals and other customary closing conditions.

As a result of the transaction, Sirius Group’s results are reported as discontinued operations and assets and liabilities held for sale within White Mountains’s GAAP financial statements. Assets held for sale does not include White Mountains's investment in Symetra and certain other investments that are in the Sirius Group legal entities as of September 30, 2015 but will be retained by White Mountains subsequent to the sale. As part of the transaction, White Mountains will transfer assets at closing equal to the value of the investments to be retained. The value of these investments, net of related tax effects, is approximately $510.8 million as of September 30, 2015.

In connection with the transaction, White Mountains caused Sirius Group to purchase several industry loss warranty contracts purchased to mitigate the potential impact of major events on Sirius Group's balance sheet pending the close of the sale to CMI (the “ILW Covers”). The cost and potential economic benefit provided by the coverage under the ILW Covers inure to White Mountains. The majority of the contracts expire in May or June 2016. The following summarizes the ILW Covers:

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

Symetra

During the third quarter of 2015, Symetra Financial Corporation (“Symetra”) announced that it entered into a definitive merger agreement with Sumitomo Life Insurance Company (“Sumitomo Life”) pursuant to which Sumitomo Life will acquire all of the outstanding shares of Symetra. White Mountains expects to receive $32.00 per share in cash at closing. White Mountains also received a special dividend of $.50 per share as part of the transaction that was paid in the third quarter of 2015. The transaction is expected to close in the first quarter of 2016 and is subject to regulatory approval and other customary closing conditions.

OneBeacon Crop Business

On July 31, 2015, OneBeacon exited its multiple peril crop insurance (“MPCI”) and its related crop-hail business (collectively, “Crop Business”) as its exclusive managing general agency, Climate Crop Insurance Agency (“CCIA”), exited the business through a sale of the agency to an affiliate of AmTrust. OneBeacon has withdrawn its 2016 Plan of Operations and AmTrust will reinsure OneBeacon’s remaining net Crop Business exposure for the 2015 reinsurance year. As a result of this transaction, OneBeacon has no material net exposure related to the Crop Business. For the three months ended September 30, 2015, OneBeacon recorded ceded written premiums of $35.9 million, ceded earned premiums of $16.8 million, ceded loss and loss adjustment expenses of $15.1 million, ceded insurance acquisition expenses of $2.8 million as a result of this transaction. OneBeacon also received a payment of $3.0 million in connection with the termination of its agreement with CCIA, which has been recorded in other revenue.

PassportCard

On April 2, 2015, White Mountains closed on its 50/50 joint venture with DavidShield Life Insurance Agency (2000) Ltd. (“DavidShield”) for the development, marketing and distribution of PassportCard travel insurance (“PassportCard”), with White Mountains and DavidShield each contributing $21.0 million of assets to the newly formed entity, PassportCard Limited (formerly PPCI Global Limited).

OneTitle

On April 22, 2015, White Mountains agreed to provide up to $13.0 million to OneTitle National Guaranty Company, Inc. ("OneTitle") and will take a minority stake in the company. OneTitle is a licensed New York title insurance underwriter that works directly with attorneys, lenders, developers and homeowners. The transaction will close subject to regulatory approval.

Tranzact

On October 10, 2014, White Mountains acquired majority ownership of Tranzact, a leading provider of end-to-end, performance-driven customer acquisition solutions to the insurance sector. White Mountains acquired 63.2% of Tranzact for a purchase price of $177.7 million, representing an enterprise value of $281.2 million. Immediately following the closing, Tranzact completed a recapitalization that allowed for the return of $44.2 million in capital to White Mountains.

As of the acquisition date, White Mountains recognized total assets acquired related to Tranzact of $332.8 million, including $41.4 million of tangible assets, $145.1 million of goodwill, and $146.3 million of other intangible assets; and total liabilities assumed of $108.7 million at their estimated fair values.

On September 1, 2015, Tranzact acquired 100.0% of the outstanding share capital of TruBridge, Inc. and TruBroker, LLC (collectively “TruBridge”) for a purchase price of $31.0 million, representing an enterprise value of $50.2 million. The purchase price is subject to an adjustment linked to the amount of marketing expense reimbursements expected to be received in 2016 and 2017. As of the acquisition date, Tranzact recognized total assets acquired of $53.8 million, which includes $20.1 million of goodwill and $28.1 million of other intangible assets, and total liabilities assumed of $3.6 million at their estimated fair values. At September 30, 2015, Tranzact recognized $9.7 million for the purchase price adjustment.

durchblicker.at

In July 2014, White Mountains acquired 45% of the outstanding common shares of durchblicker.at, Austria's first independent price comparison portal for insurance, gas/electricity and financial services, for EUR 8.5 million (approximately $11.7 million based upon the foreign exchange spot rate at the date of acquisition).

MediaAlpha

On March 14, 2014, White Mountains acquired 60% of the outstanding Class A common units of MediaAlpha. MediaAlpha is a California-based advertising technology company offering a transparent online exchange and sophisticated analytical tools that facilitate transactions between buyers (advertisers) and sellers (publishers) of insurance media (clicks, leads, and calls). Its exchange operates in four verticals: auto, home, health and life. White Mountains paid an initial purchase price of $28.1 million. The purchase price is subject to adjustment equal to 62.5% of the 2015 gross profit in excess of the 2013 gross profit. As of September 30, 2015 and December 31, 2014, White Mountains has recognized a $7.9 million liability for the contingent purchase price adjustment. After adjustment for the estimated contingent purchase price adjustment, White Mountains recognized total assets acquired related to MediaAlpha of $70.1 million, including $18.3 million of goodwill and $38.5 million of other intangible assets, and total liabilities assumed of $10.0 million, reflecting acquisition date fair values.

Wobi

On February 19, 2014, White Mountains acquired 54% of the outstanding common shares of Wobi for NIS 14.4 million (approximately $4.1 million based upon the foreign exchange spot rate at the date of acquisition). During 2014, in addition to the common shares, White Mountains also purchased NIS 31.5 million (approximately $8.5 million) 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 insurance lines of business, primarily personal auto, and operates as an agency, charging upfront commissions on all insurance policy sales. Wobi also offers a pension products comparison service for Israeli customers and is paid transaction fees when customers use the service to connect to companies that sell those pension products. As of the acquisition date, White Mountains recognized total assets acquired related to Wobi of $13.4 million, including $5.5 million of goodwill and $2.9 million of other intangible assets; and total liabilities assumed of $0.7 million at their estimated fair values. During the second quarter of 2015, White Mountains increased its ownership interest in Wobi through the purchase of shares from a non-controlling interest shareholder for NIS 35.0 million (approximately $9.1 million) and newly-issued convertible preferred shares for NIS 25.0 million (approximately $6.6 million). As of September 30, 2015, White Mountains’s ownership share was 95.3% on a fully converted basis.

On February 23, 2015, Wobi acquired 56.2% of the outstanding share capital of Tnuva Finansit Ltd. ("Cashboard") for NIS 9.5 million (approximately $2.4 million). The acquisition of Cashboard accelerated Wobi's development of its pension products comparison service. As of the acquisition date, Wobi recognized total assets acquired of $5.5 million, including $0.3 million of goodwill and $2.8 million of other intangible assets; and total liabilities assumed of $1.2 million at their estimated fair values. During the second quarter of 2015, Wobi purchased newly issued common shares of Cashboard for NIS 10.0 million (approximately $2.6 million), which increased its ownership interest in Cashboard to 68.3%.

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 owns $20.0 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 September 30, 2015 and December 31, 2014, consolidated amounts included total assets of $16.3 million and $13.5 million and total liabilities of $31.5 million and $25.9 million, respectively of SSIE. The surplus notes purchased by White Mountains and the corresponding liability included in SSIE's liabilities are eliminated in consolidation. For the three months ended September 30, 2015 and 2014, SSIE had pre-tax losses of $0.9 million and $1.4 million that were recorded in net loss attributable to non-controlling interests. For the nine months ended September 30, 2015 and 2014, SSIE had pre-tax losses of $2.8 million and $11.1 million that were recorded in net loss attributable to non-controlling interests.

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 subsidiaries for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	2015	2014	2015	2014
Gross beginning balance	$1,357.0	$1,137.8	$1,350.0	$1,054.3
Less beginning reinsurance recoverable on unpaid losses	(147.2)	(92.1)	(161.7)	(80.2)
Net loss and LAE reserves	1,209.8	1,045.7	1,188.3	974.1
Loss and LAE reserves consolidated — SSIE	—	—	—	13.6
Loss and LAE incurred relating to:				
Current year losses	170.4	178.4	536.7	511.0
Prior year losses	(0.4)	7.1	(2.6)	16.3
Total incurred losses and LAE	170.0	185.5	534.1	527.3
Loss and LAE paid relating to:				
Current year losses	(53.0)	(55.9)	(120.2)	(116.5)
Prior year losses	(108.1)	(107.3)	(383.5)	(330.5)
Total loss and LAE payments	(161.1)	(163.2)	(503.7)	(447.0)
Net ending balance	1,218.7	1,068.0	1,218.7	1,068.0
Plus ending reinsurance recoverable on unpaid losses	214.6	101.5	214.6	101.5
Gross ending balance	$1,433.3	$1,169.5	$1,433.3	$1,169.5

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

For the three and nine months ended September 30, 2015, White Mountains experienced net favorable loss reserve development of $0.4 million and $2.6 million.

During the three months ended September 30, 2015, OneBeacon experienced no net loss and LAE reserve development. For the nine months ended September 30, 2015, OneBeacon had net favorable loss reserve development of $1.8 million. For the three and nine months ended September 30, 2015, SSIE had net favorable loss reserve development of $0.4 million and $0.8 million.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2014
For the three and nine months ended September 30, 2014, White Mountains experienced net unfavorable loss reserve development of $7.1 million and $16.3 million.
For the three and nine months ended September 30, 2014, OneBeacon had net unfavorable loss reserve development of $7.3 million and $14.3 million primarily related to a few large losses in OneBeacon Other Professional Lines and Management Liability, as well as OneBeacon Entertainment, OneBeacon Government Risks and OneBeacon Accident Group, partially offset by favorable loss reserve development in OneBeacon Specialty Property. For both the three and nine months ended September 30, 2014, SSIE had net favorable loss reserve development of $0.2 million and net unfavorable loss reserve development of $2.0 million.

Note 4. Third Party Reinsurance

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

OneBeacon
At September 30, 2015, OneBeacon had $22.6 million and $214.2 million of reinsurance recoverables on paid and unpaid losses. At December 31, 2014, OneBeacon had $12.2 million and $161.6 million of reinsurance recoverables on paid and unpaid losses. Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength and ratings of its reinsurers on an ongoing basis. Uncollectible amounts related to the ongoing specialty business historically have not been significant.
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 2014 Annual Report on Form 10-K.
Effective January 1, 2015, OneBeacon purchased an aggregate stop loss on its multiple peril crop insurance ("MPCI") portfolio, providing 52.0% coverage in excess of a 98.0% loss ratio on premiums covered by the contract and a separate aggregate stop loss providing 80% coverage in excess of a 100% loss ratio on its crop-hail portfolio. OneBeacon also purchased a new quota share contract on 30% of its MPCI portfolio. On July 31, 2015, OneBeacon reinsured 100% of its net retained losses for both its MPCI and crop-hail business by entering into a quota share reinsurance agreement with an insurance operating affiliate of AmTrust for the remaining net exposure to the 2015 Crop reinsurance year, which coupled with other transfer and assignment agreements as well as communications with policyholders and agents, had the effect of assumption reinsurance. (See Note 2 -"Significant Transactions").
Effective May 1, 2015, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2016. 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 95.0% of the next $10.0 million of losses and 100.0% of the next $100.0 million of losses resulting from the catastrophe are reinsured. The part of the catastrophe loss in excess of $130.0 million would be retained in full. In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.
Also effective May 1, 2015, OneBeacon lowered its retention on its property-per-risk reinsurance program from $5.0 million to $3.0 million.
Effective June 1, 2015, OneBeacon lowered its retentions on certain casualty and healthcare treaties from $5.0 million to $3.0 million.

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 fixed maturity investments, short-term investments, common equity securities, and convertible fixed maturity and preferred investments which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Realized and unrealized investment gains and losses on trading securities are reported in pre-tax revenues.
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 September 30, 2015 and December 31, 2014.
Other long-term investments consist primarily of hedge funds, private equity funds, surplus note investments, private equity securities and limited liability companies and other investments in limited partnerships.

Net Investment Income
Pre-tax net investment income for the three and nine months ended September 30, 2015 and 2014 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	2015	2014	2015	2014
Investment income:				
Fixed maturity investments	$13.7	$12.7	$38.5	$38.4
Short-term investments	—	.1	.1	.2
Common equity securities	1.4	3.3	5.7	11.9
Convertible fixed maturity and preferred investments	.1	1.0	.4	1.5
Other long-term investments	1.9	.2	2.5	2.2
Total investment income	17.1	17.3	47.2	54.2
External investment expenses	(.3)	(3.5)	(4.6)	(9.5)
Net investment income, pre-tax	$16.8	$13.8	$42.6	$44.7

Net Realized and Unrealized Investment Gains and Losses
Net realized and unrealized investment gains and losses for the three and nine months ended September 30, 2015 and 2014 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	2015	2014	2015	2014
Net realized investment (losses) gains, pre-tax	$(7.4)	$57.9	$49.7	$97.0
Net unrealized investment (losses), pre-tax	(36.5)	(85.4)	(83.6)	(32.6)
Net realized and unrealized investment (losses) gains, pre-tax	(43.9)	(27.5)	(33.9)	64.4
Income tax benefit (expense) attributable to net realized and unrealized investment gains (losses)	9.4	5.6	6.9	(12.2)
Net realized and unrealized investment (losses) gains, after tax	$(34.5)	$(21.9)	$(27.0)	$52.2

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Net realized investment gains (losses)

Net realized investment gains (losses) for the three and nine months ended September 30, 2015 and 2014 consisted of the following:

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
Millions	Net realized (losses)	Net foreign currency gains	Total net realized (losses) reflected in earnings	Net realized gains	Net foreign currency (losses)	Total net realized gains reflected in earnings
Fixed maturity investments	$(.1)	$—	$(.1)	$2.3	$(.1)	$2.2
Short-term investments	—	—	—	—	—	—
Common equity securities	(5.9)	—	(5.9)	51.4	—	51.4
Convertible fixed maturity and preferred investments	—	—	—	1.6	—	1.6
Other long-term investments	(1.4)	—	(1.4)	2.7	—	2.7
Net realized investment (losses) gains, pre-tax	(7.4)	—	(7.4)	58.0	(.1)	57.9
Income tax benefit (expense) attributable to net realized investment gains	1.5	—	1.5	(7.0)	—	(7.0)
Net realized investment (losses) gains, after tax	$(5.9)	$—	$(5.9)	$51.0	$(.1)	$50.9

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
Millions	Net realized gains (losses)	Net foreign currency gains	Total net realized gains (losses) reflected in earnings	Net realized gains	Net foreign currency (losses)	Total net realized gains reflected in earnings
Fixed maturity investments	$2.0	$—	$2.0	$4.7	$(.1)	$4.6
Short-term investments	—	—	—	—	—	—
Common equity securities	41.6	.4	42.0	83.2	—	83.2
Convertible fixed maturity and preferred investments	(4.3)	—	(4.3)	6.5	—	6.5
Other long-term investments	10.0	—	10.0	2.7	—	2.7
Net realized investment gains (losses), pre-tax	49.3	.4	49.7	97.1	(.1)	97.0
Income tax (expense) attributable to net realized investment gains (losses)	(15.7)	—	(15.7)	(13.3)	—	(13.3)
Net realized investment gains (losses), after tax	$33.6	$.4	$34.0	$83.8	$(.1)	$83.7

Net unrealized investment gains (losses)

The following table summarizes net unrealized investment gains (losses) for the three and nine months ended September 30, 2015 and 2014:

Millions	Three Months Ended September 30, 2015 Net unrealized gains (losses)	Net foreign currency (losses)	Total net unrealized gains (losses) reflected in earnings	Three Months Ended September 30, 2014 Net unrealized (losses)	Net foreign currency (losses)	Total net unrealized (losses) reflected in earnings
Fixed maturity investments	$3.3	$—	$3.3	$(10.0)	$—	$(10.0)
Short-term investments	—	—	—	—	—	—
Common equity securities	(30.6)	(.2)	(30.8)	(63.9)	(5.3)	(69.2)
Convertible fixed maturity and preferred investments	1.1	—	1.1	(3.4)	—	(3.4)
Other long-term investments	(10.1)	—	(10.1)	(2.8)	—	(2.8)
Net unrealized investment (losses), pre-tax	(36.3)	(.2)	(36.5)	(80.1)	(5.3)	(85.4)
Income tax benefit attributable to net unrealized investment (losses)	7.9	—	7.9	12.6	—	12.6
Net unrealized investment (losses), after tax	$(28.4)	$(.2)	$(28.6)	$(67.5)	$(5.3)	$(72.8)

Millions	Nine Months Ended September 30, 2015 Net unrealized gains (losses)	Net foreign currency (losses)	Total net unrealized gains (losses) reflected in earnings	Nine Months Ended September 30, 2014 Net unrealized gains (losses)	Net foreign currency (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	$1.3	$—	$1.3	$12.3	$—	$12.3
Short-term investments	—	—	—	—	—	—
Common equity securities	(56.0)	(2.5)	(58.5)	(43.2)	(5.3)	(48.5)
Convertible fixed maturity and preferred investments	2.0	—	2.0	(5.1)	—	(5.1)
Other long-term investments	(27.6)	(.8)	(28.4)	8.7	—	8.7
Net unrealized investment (losses), pre-tax	(80.3)	(3.3)	(83.6)	(27.3)	(5.3)	(32.6)
Income tax benefit attributable to net unrealized investment losses	22.6	—	22.6	1.1	—	1.1
Net unrealized investment (losses), after tax	$(57.7)	$(3.3)	$(61.0)	$(26.2)	$(5.3)	$(31.5)

The following table summarizes the amount of total pre-tax unrealized investment (losses) gains included in earnings for Level 3 investments for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	2015	2014	2015	2014
Fixed maturity investments	$(1.0)	$2.1	$(.9)	$2.7
Common equity securities	1.1	1.0	4.0	3.8
Convertible fixed maturity and preferred investments	1.1	.1	1.8	3.3
Other long-term investments	(10.0)	(3.5)	(28.1)	(5.7)
Total unrealized investment (losses) gains, pre-tax - Level 3 investments	$(8.8)	$(.3)	$(23.2)	$4.1

Investment Holdings

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains's fixed maturity investments as of September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$99.6	$.2	$—	$—	$99.8
Debt securities issued by corporations	998.6	8.7	(1.5)	—	1,005.8
Municipal obligations	145.8	1.8	(.8)	—	146.8
Mortgage-backed and asset-backed securities	1,261.2	6.4	(2.2)	—	1,265.4
Foreign government, agency and provincial obligations	1.0	.3	—	—	1.3
Preferred stocks	78.3	4.8	—	—	83.1
Total fixed maturity investments	$2,584.5	$22.2	$(4.5)	$—	$2,602.2

	December 31, 2014				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$105.4	$.1	$(.3)	$—	$105.2
Debt securities issued by corporations	1,162.0	13.1	(3.4)	—	1,171.7
Municipal obligations	81.0	1.4	(.2)	—	82.2
Mortgage-backed and asset-backed securities	967.5	2.8	(2.4)	—	967.9
Foreign government, agency and provincial obligations	11.5	.3	(1.0)	—	10.8
Preferred stocks	78.3	5.9	—	—	84.2
Total fixed maturity investments	$2,405.7	$23.6	$(7.3)	$—	$2,422.0

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 maturity and preferred investments and other long-term investments as of September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency (losses)	Carrying value
Common equity securities	$453.0	$52.0	$(22.9)	$—	$482.1
Convertible fixed maturity and preferred investments	$3.1	$2.5	$—	$—	$5.6
Other long-term investments	$271.9	$37.7	$(12.9)	$(2.1)	$294.6

	December 31, 2014				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency (losses)	Carrying value
Common equity securities	$495.3	$127.4	$(3.6)	$(7.4)	$611.7
Convertible fixed maturity and preferred investments	$13.4	$.8	$(.3)	$—	$13.9
Other long-term investments	$273.3	$52.5	$(6.5)	$(1.3)	$318.0

Other Long-term Investments

Other long-term investments consist of the following as of September 30, 2015 and December 31, 2014:

	Carrying Value at	
Millions	September 30, 2015	December 31, 2014
Hedge funds and private equity funds, at fair value[(1)]	$148.6	$178.5
Surplus notes investments, at fair value[(1)(4)]	58.0	65.1
Private equity securities and limited liability companies, at fair value[(1)(2)]	65.3	45.3
Tax advantaged federal affordable housing development fund[(3)]	15.2	16.8
Partnership investments accounted for under the equity method	3.9	5.1
Other[(1)]	3.6	7.2
Total other-long term investments	$294.6	$318.0

(1) See Fair Value Measurements by Level table.

(2) On April 2, 2015, White Mountains invested $21.0 in PassportCard. White Mountains has chosen to take the fair value election for its investment.

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

(4) The decrease in the fair value of the surplus notes during the nine months ended September 30, 2015 was primarily due to widening of non-
investment grade credit spreads.

Hedge Funds and Private Equity Funds

White Mountains holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. As of September 30, 2015, White Mountains held investments in 10 hedge funds and 22 private equity funds. The largest investment in a single fund was $22.3 million as of September 30, 2015. The following table summarizes investments in hedge funds and private equity funds by investment objective and sector as of September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
Millions	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short equity REIT	$ 20.0	$ —	$ 20.4	$ —
Long/short credit & distressed	8.1	—	8.4	—
Long/short equity banks and financial	15.4	—	29.9	—
Other	12.1	—	15.7	—
Total hedge funds	55.6	—	74.4	—
Private equity funds				
Energy infrastructure & services	26.3	4.0	33.1	4.8
Manufacturing/Industrial	23.5	2.5	23.2	7.3
Multi-sector	14.9	2.1	14.5	2.2
Aerospace/Defense/Government	17.1	33.6	20.7	5.1
Healthcare	3.9	.4	3.1	1.4
Private equity secondaries	4.5	2.1	5.7	2.1
Insurance	2.0	41.3	2.1	41.3
Real estate	.8	.1	1.7	.1
Total private equity funds	93.0	86.1	104.1	64.3
Total hedge funds and private equity funds included in other long-term investments	$ 148.6	$ 86.1	$ 178.5	$ 64.3

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 September 30, 2015 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	$—	$—	$—	$—	$—
Quarterly	16.4	8.1	—	8.4	32.9
Semi-annual	—	20.0	—	—	20.0
Annual	—	—	2.7	—	2.7
Total	$16.4	$28.1	$2.7	$8.4	$55.6

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. As of September 30, 2015, distributions of $1.0 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 as of September 30, 2015.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. As of September 30, 2015, redemptions of $22.1 million are outstanding and are subject to market fluctuations. The date at which such redemptions will be received is not determinable as of September 30, 2015. Redemptions are recorded as receivables when the investment is no longer subject to market fluctuations.

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

As of September 30, 2015, 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	$25.8	$11.1	$56.1	$—	$93.0

Fair value measurements as of September 30, 2015

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

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

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

White Mountains's process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of its fixed maturity investments and includes, but is not limited to, evaluation of model pricing methodologies, 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 purchases and sales activity to determine whether there are any significant differences between the market price used to value the security prior to purchase or sale and the actual purchase or sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and $1.0 million from the expected price based on these procedures are considered outliers. Also considered outliers are prices that haven't changed from period to period and prices that have trended unusually compared to market conditions. In circumstances where the results of White Mountains's review process does not appear to support the market price provided by the pricing services, White Mountains challenges the price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question.

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

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

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

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

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

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

Level 3 valuations are generated from techniques that use assumptions not observable in the market. These unobservable assumptions reflect White Mountains’s assumptions that market participants would use in valuing the investment. Generally, certain securities may start out as Level 3 when they are originally issued but as observable inputs become available in the market, they may be reclassified to Level 2.
White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing the audited annual financial statements of hedge funds and private equity funds 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.
Prior to the liquidation of the Prospector Offshore Fund, in addition to the investments described above, White Mountains had $31.6 million of investment-related liabilities recorded at fair value and included in other liabilities as of December 31, 2014. These liabilities relate to securities that have been sold short by limited partnerships in which White Mountains has investments and was 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 as of September 30, 2015 and December 31, 2014, by major security type and class by level. The major security types were based on the legal form of the securities, with a separate break-out for convertible fixed maturity investments as they may react similar to either debt securities or equity securities, depending on prevailing market conditions. White Mountains has disaggregated its fixed maturity investments based on the issuing entity type, which impacts credit quality, with debt securities issued by U.S. government entities carrying minimal credit risk, while the credit and other risks associated with other issuers, such as corporations, foreign governments, municipalities or entities issuing asset-backed securities vary depending on the nature of the issuing entity type. White Mountains further disaggregates debt securities issued by corporations and equity securities by industry sector because investors often reference commonly used benchmarks and their subsectors to monitor risk and performance. Accordingly, White Mountains has further disaggregated these asset classes into subclasses based on the similar sectors and industry classifications it uses to evaluate investment risk and performance against commonly used benchmarks, such as the Barclays Intermediate Aggregate and S&P 500 indices:

	September 30, 2015			
Millions	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$99.8	$61.8	$38.0	$—
Debt securities issued by corporations:				
Consumer	223.1	—	223.1	—
Financials	201.3	—	201.3	—
Health Care	177.2	—	177.2	—
Industrial	132.8	—	132.8	—
Communications	52.7	—	52.7	—
Energy	57.8	—	57.8	—
Utilities	62.5	—	62.5	—
Technology	64.7	—	64.7	—
Materials	31.4	—	31.4	—
Other	2.3	—	2.3	—
Total debt securities issued by corporations	1,005.8	—	1,005.8	—
Municipal obligations	146.8	—	146.8	—
Mortgage-backed and asset-backed securities	1,265.4	—	1,265.4	—
Foreign government, agency and provincial obligations	1.3	.6	.7	—
Preferred stocks	83.1	—	12.8	70.3
Total fixed maturity investments	2,602.2	62.4	2,469.5	70.3
Short-term investments	325.0	325.0	—	—
Common equity securities:				
Exchange traded funds(1)	172.6	152.6	20.0	—
Financials	63.2	29.0	—	34.2
Consumer	56.5	56.5	—	—
Health Care	34.5	34.5	—	—
Industrial	25.2	25.2	—	—
Technology	22.0	22.0	—	—
Communications	36.0	36.0	—	—
Energy	—	—	—	—
Materials	—	—	—	—

Utilities	—	—	—	—
Other	72.1	—	72.1	—
Total common equity securities	482.1	355.8	92.1	34.2
Convertible fixed maturity and preferred investments	5.6	—	—	5.6
Other long-term investments [2]	275.5	—	—	275.5
Total investments	$ 3,690.4	$ 743.2	$ 2,561.6	$ 385.6

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

[2] Excludes carrying value of $3.9 associated with other long-term investment limited partnerships accounted for using the equity method. Excludes carrying value of $15.2 associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

	December 31, 2014			
Millions	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$ 105.2	$ 51.2	$ 54.0	$ —
Debt securities issued by corporations:				
Consumer	259.2	—	259.2	—
Financials	254.7	—	254.7	—
Health Care	181.8	—	181.8	—
Industrial	107.3	—	102.0	5.3
Communications	71.5	—	71.5	—
Energy	65.6	—	65.6	—
Utilities	84.1	—	84.1	—
Technology	88.3	—	88.3	—
Materials	51.7	—	51.7	—
Other	7.5	—	7.5	—
Total debt securities issued by corporations	1,171.7	—	1,166.4	5.3
Mortgage-backed and asset-backed securities	967.9	—	967.9	—
Foreign government, agency and provincial obligations	10.8	.6	10.2	—
Preferred stocks	84.2	—	13.1	71.1
Municipal obligations	82.2	—	82.2	—
Total fixed maturity investments	2,422.0	51.8	2,293.8	76.4
Short-term investments	376.8	376.3	.5	—
Common equity securities:				
Financials	180.7	141.2	—	39.5
Consumer	116.0	115.9	.1	—
Health Care	74.4	74.4	—	—
Industrial	57.1	57.1	—	—
Technology	44.8	44.8	—	—
Communications	28.5	28.5	—	—
Energy	18.1	18.1	—	—
Materials	12.0	12.0	—	—
Utilities	4.9	4.9	—	—
Other	75.2	1.9	73.3	—
Total common equity securities	611.7	498.8	73.4	39.5
Convertible fixed maturity and preferred investments	13.9	—	5.7	8.2
Other long-term investments [(1)]	296.0	—	—	296.0
Total investments	$ 3,720.4	$ 926.9	$ 2,373.4	$ 420.1

[(1)] Excludes carrying value of $5.2 associated with other long-term investment limited partnerships accounted for using the equity method. Excludes carrying value of $16.8 associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

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 September 30, 2015 and December 31, 2014:

Millions	Fair Value at September 30, 2015	December 31, 2014
AAA	$—	$—
AA	112.3	144.9
A	439.7	594.9
BBB	453.8	426.5
BB	—	—
Other	—	5.4
Debt securities issued by corporations[1]	$1,005.8	$1,171.7

[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 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 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).

The following table summarizes mortgage and asset-backed securities as of September 30, 2015 and December 31, 2014:

	September 30, 2015			December 31, 2014		
Millions	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	$293.9	$293.9	$—	$308.7	$308.7	$—
FNMA	41.6	41.6	—	33.4	33.4	—
FHLMC	24.8	24.8	—	28.9	28.9	—
Total Agency[1]	360.3	360.3	—	371.0	371.0	—
Non-agency:						
Residential	123.7	123.7	—	71.0	71.0	—
Commercial	133.7	133.7	—	109.3	109.3	—
Total Non-agency	257.4	257.4	—	180.3	180.3	—
Total mortgage-backed securities	617.7	617.7	—	551.3	551.3	—
Other asset-backed securities:						
Credit card receivables	293.3	293.3	—	218.1	218.1	—
Vehicle receivables	276.4	276.4	—	152.8	152.8	—
Other	78.0	78.0	—	45.7	45.7	—
Total other asset-backed securities	647.7	647.7	—	416.6	416.6	—
Total mortgage and asset-backed securities	$1,265.4	$1,265.4	$—	$967.9	$967.9	$—

[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).

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Non-agency Mortgage-backed Securities

The security issuance years of White Mountains's investments in non-agency residential mortgage-backed securities ("RMBS") and non-agency commercial mortgage-backed securities ("CMBS") as of September 30, 2015 are as follows:

		Security Issuance Year											
Millions	Fair Value	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Non-agency RMBS	$123.7	$18.3	$2.9	$4.0	$—	$4.2	$—	$17.1	$14.6	$13.4	$14.7	$34.5	$—
Non-agency CMBS	133.7	—	—	—	—	—	—	5.7	—	8.6	18.4	55.6	45.4
Total	$257.4	$18.3	$2.9	$4.0	$—	$4.2	$—	$22.8	$14.6	$22.0	$33.1	$90.1	$45.4

Non-agency Residential Mortgage-backed Securities

White Mountains's non-agency RMBS portfolio is generally of 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 $44.0 million of non-agency RMBS 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 classification of the underlying collateral quality and the tranche levels of White Mountains's non-agency RMBS securities are as follows as of September 30, 2015:

Millions	Fair Value	Super Senior [(1)]	Senior [(2)]	Subordinate [(3)]
Prime	$123.7	$ 35.1	$88.6	$—
Non-prime	—	—	—	—
Sub-prime	—	—	—	—
Total	$123.7	$ 35.1	$88.6	$—

(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 Ratings ("Fitch") and were senior to other "AAA" or "Aaa" securiti

(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" securities.

(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" securities.

Non-agency Commercial Mortgage-backed Securities

White Mountains's non-agency CMBS portfolio is generally short-term and structurally subordinate, with more than 25 points of subordination on average for both fixed rate CMBS and floating rate CMBS as of September 30, 2015. 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. As of September 30, 2015, on average less than 1% of the underlying loans were reported as non-performing for all non-agency CMBS held by White Mountains.

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 September 30, 2015:

Millions	Fair Value	Super Senior [(1)]	Senior [(2)]	Subordinate [(3)]
Fixed rate CMBS	$93.2	$ 9.6	$41.4	$42.2
Floating rate CMBS	40.5	—	—	40.5
Total	$133.7	$ 9.6	$41.4	$82.7

(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 Ratings ("Fitch") and were senior to other "AAA" or "Aaa" securiti

(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" securities.

(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" securities.

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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 and preferred investments and other long-term investments as of September 30, 2015 and 2014 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 three months ended September 30, 2015 and 2014:

			Level 3 Investments				
Millions	Level 1 investments	Level 2 investments	Fixed maturity investments	Common equity securities	Convertible fixed maturity and preferred investments	Other long-term investments	Total
Balance at January 1, 2015	$ 550.6	$ 2,372.9	$ 76.4	$ 39.5	$ 8.2	$ 296.0	$ 3,343.6 [1][2]
Total realized and unrealized (losses) gains	(19.5)	.6	(.9)	7.7	(2.6)	(18.0)	(32.7) [3]
Amortization/Accretion	—	(15.2)	—	—	—	—	(15.2)
Purchases	550.0	1,056.0	35.3	—	—	30.7	1,672.0
Sales	(618.2)	(894.4)	—	(9.4)	—	(18.9)	(1,540.9)
Effect of redemption of Prospector hedge funds	(43.5)	—	—	(3.6)	—	(14.3)	(61.4)
Transfers in	—	41.7	—	—	—	—	41.7
Transfers out	(1.2)	—	(40.5)	—	—	—	(41.7)
Balance at September 30, 2015	$ 418.2	$ 2,561.6	$ 70.3	$ 34.2	$ 5.6	$ 275.5	$ 3,365.4 [1][2]

(1) Excludes carrying value of $5.2 and $3.9 at January 1, 2015 and September 30, 2015 associated with other long-term investments accounted for using the equity method. Excludes carrying value of $16.8 and $15.2 at January 1, 2015 and September 30, 2015 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

(2) Excludes carrying value of $376.8 and $325.0 at January 1, 2015 and September 30, 2015 associated with short-term investments.

(3) Excludes $0.8 realized and unrealized losses associated with the Prospector Offshore Fund consolidation of investment-related liabilities.

			Level 3 Investments					
Millions	Level 1 investments	Level 2 investments	Fixed maturity investments	Common equity securities	Convertible fixed maturity and preferred investments	Other long-term investments	Total	
Balance at January 1, 2014	$ 997.2	$ 2,575.4	$ 81.8	$ 45.4	$ 6.1	$ 183.1	$ 3,889.0	(1)(2)(3)
Total realized and unrealized gains (losses)	30.7	12.5	2.7	3.7	3.3	(3.2)	49.7	(4)
Amortization/Accretion	.1	(14.3)	(.1)	—	—	—	(14.3)	
Purchases	661.2	1,265.3	45.5	—	1.5	42.7	2,016.2	
Sales	(926.2)	(1,392.5)	—	(10.9)	—	(11.1)	(2,340.7)	
Net change in investments related to purchases of consolidated affiliates	3.4	7.4	—	—	—	—	10.8	
Transfers in	—	42.1	—	—	—	—	42.1	
Transfers out	(.2)	—	(41.9)	—	—	—	(42.1)	
Balance at September 30, 2014	$ 766.2	$ 2,495.9	$ 88.0	$ 38.2	$ 10.9	$ 211.5	$ 3,610.7	(1)(2)(3)

(1) Excludes carrying value of $6.8 and $5.1 at January 1, 2014 and September 30, 2014 associated with other long-term investment limited partnerships accounted for using the equity method. Excludes carrying value of $19.1 and $17.3 at January 1, 2014 and September 30, 2014 associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.
(2) Carrying value includes $236.3 and 203.9 at January 1, 2014 and September 30, 2014 that is classified as assets held for sale relating to discontinued operations.
(3) Excludes carrying value of $310.4 and $402.7 at January 1, 2014 and September 30, 2014 associated with short-term investments.
(4) Excludes $0.5 realized and unrealized gains associated with the Prospector Offshore Fund and Prospector Turtle Fund consolidation of investment-related liabilities.

Fair Value Measurements — transfers between levels - Nine-month period ended September 30, 2015 and 2014

During the first nine months of 2015, six fixed maturity investments classified as a Level 3 measurement in the prior period were recategorized as a Level 2 measurement because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available as of September 30, 2015. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of $40.5 million for the period September 30, 2015.

During the first nine months of 2014, four fixed maturity investments 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 September 30, 2014. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of $41.9 million for the period ended September 30, 2014.

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 September 30, 2015 and December 31, 2014. 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)			September 30, 2015			December 31, 2014		
Description	Rating[(2)]	Valuation Technique(s)	Fair Value[(7)]	Unobservable Input		Fair Value[(7)]	Unobservable Input	
Preferred Stock[(1)]	NR	Discounted cash flow	$70.3	Discount yield	- 8.4%	$71.1	Discount yield	- 7.1%
Private equity security[(1)(9)]	NR	Share price of pending transaction[(9)]	$34.2	Share price	- $17.16	$39.5	Multiple of GAAP book value[(9)]	- 1.10
Private equity security[(1)]	NR	Share price of most recent transaction	$21.0	Share price	- $1.00	N/A	N/A	- N/A
Private equity security[(1)]	NR	Share price of most recent transaction	$20.1	Share price	- $1.06	$20.1	Share price	- $1.06
Private equity security[(1)]	NR	Share price of most recent transaction	$9.6	Share price	- $290.96	$10.4	Share price	- $290.96
Convertible preferred security[(1)]	NR	Multiple of EBITDA	$5.6	EBITDA multiple	- 6.00	$3.8	EBITDA multiple	- 6.00
Convertible preferred security[(1)]	NR	Share price of most recent transaction	N/A	N/A	N/A	$4.5	Share price	- $0.71
Debt security issued by corporation[(1)]	NR	Discounted cash flow	N/A	N/A	N/A	$5.3	Illiquidity discount[(3)]	- 10%
Surplus notes[(8)]:	NR							
- Seller priority		Discounted cash flow	$41.0	Discount rate [(4)]	- 11.6%	$44.0	Discount rate [(4)]	- 9.3%
			Timing of interest payments[(5)]		- 5 years	Timing of interest payments[(5)]		- 5 years
			Timing of principal payments[(5)]		- 10 years	Timing of principal payments[(5)]		- 10 years
- Pari passu		Discounted cash flow	$17.0	Discount rate[(5)]	- 18.3%	$21.1	Discount rate[(5)]	- 13.5%
			Timing of interest payments[(6)]		- 5 years	Timing of interest payments[(6)]		- 5 years
			Timing of principal payments[(6)]		- 15 years	Timing of principal payments[(6)]		- 10 years

(1) As of September 30, 2015, consists of 1 security.

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

(3) Judgmentally determined based on the Company’s limited trading ability of the issuer.

(4) Stochastic modeling supporting the fair value estimation indicates that the average percentage of discounted payments missed on the seller priority note is roughly equivalent to that of a conventional debt security with a credit rating of ‘B’. The corresponding credit spread increased by an additional 250 bps to reflect both a liquidity discount for

a private debt instrument and regulatory payment approval uncertainty, was added to the treasury rate to determine the discount rate for the pari passu note.

(5) Stochastic modeling supporting the fair value estimation indicates that the average percentage of discounted payments missed on the pari passu note is roughly equivalent to that of a conventional debt security with a credit rating of ‘CCC’. The corresponding credit spread increased by an additional 250 bps to reflect both a liquidity discount for a private debt instrument and regulatory payment approval uncertainty, was added to the treasury rate to determine the discount rate for the seller priority note.

(6) For estimated value purposes, the assumption has been made that interest payouts begin in year five and principal repayments begin on a graduated basis in year ten for the seller priority note and year fifteen for the pari passu note.

(7) Includes the unrealized gains and losses associated with foreign currency; foreign currency effects based on observable inputs.

(8) The decrease in the fair value of the surplus notes during the nine months ended September 30, 2015 was primarily due to widening of non-investment grade credit spreads.

(9) As of December 31, 2014, the valuation technique for the private equity security was a multiple of GAAP book value. As of September 30, 2015, the valuation technique was the estimated share price from a pending transaction that is expected to close in the fourth quarter of 2015.

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Note 6. Goodwill and Other Intangible Assets

White Mountains has recognized goodwill and other identifiable intangible assets at the acquisition date fair values in connection with its purchases of subsidiaries.
On February 23, 2015, Wobi acquired 56.2% of the outstanding share capital of Tnuva Finansit Ltd. (“Cashboard”) for NIS 9.5 million (approximately $2.4 million based upon the foreign exchange spot rate at the date of acquisition), representing a controlling financial interest. As of the acquisition date, Wobi recognized total assets acquired of $5.5 million, including $0.3 million of goodwill and $2.8 million of other intangible assets; and total liabilities assumed of $1.2 million at their estimated fair values.
On September 1, 2015, Tranzact acquired 100.0% of the outstanding share capital of TruBridge for a purchase price of $31.0 million, representing an enterprise value of $50.2 million. As of the acquisition date, Tranzact recognized total assets acquired of $53.8 million, which includes $20.1 million of goodwill and $28.1 million of other intangible assets, and total liabilities assumed of $3.6 million at their estimated fair values.
The following table shows the change in goodwill and other intangible assets:

	Three Months Ended September 30,			
Millions	2015		2014	
	Goodwill	Other intangible assets	Goodwill	Other intangible assets
Beginning balance	$ 169.2	$ 171.2	$ 23.8	$ 44.6
Acquisitions of businesses	20.1	28.1	—	—
Dispositions of businesses	—	—	—	—
Amortization, including foreign currency translation	—	(6.9)	—	(2.6)
Ending balance	$ 189.3	$ 192.4	$ 23.8	$ 42.0

	Nine Months Ended September 30,			
Millions	2015		2014	
	Goodwill	Other intangible assets	Goodwill	Other intangible assets
Beginning balance	$ 168.9	$ 182.3	$ —	$ 5.1
Acquisitions of businesses	20.4	30.9	23.8	42.4
Dispositions of businesses	—	—	—	—
Amortization, including foreign currency translation	—	(20.8)	—	(5.5)
Ending balance	$ 189.3	$ 192.4	$ 23.8	$ 42.0

Note 7. Debt

White Mountains’s debt outstanding as of September 30, 2015 and December 31, 2014 consisted of the following:

Millions	September 30, 2015	December 31, 2014
2012 OBH Senior Notes, at face value	$ 275.0	$ 275.0
Unamortized original issue discount	(.2)	(.3)
2012 OBH Senior Notes, carrying value	274.8	274.7
WTM Bank Facility	—	—
OneBeacon Bank Facility	—	—
Tranzact Bank Facility	95.8	68.7
Unamortized issuance cost	(2.0)	(1.3)
Tranzact Bank Facility, carrying value	93.8	67.4

MediaAlpha Bank Facility	15.0	—
Unamortized issuance cost	(.3)	—
MediaAlpha Bank Facility, carrying value	14.7	—
Other debt	—	1.0
Total debt	$ 383.3	$ 343.1

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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”). During the three months ended September 30, 2015, White Mountains borrowed and repaid a total of $60.0 million under the WTM Bank Facility at a blended interest rate of 3.65%. As of September 30, 2015, 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.

OneBeacon Bank Facility
On September 29, 2015, OneBeacon Ltd. and OneBeacon U.S. Holdings, Inc. (“OBH“), as co-borrowers and co-guarantors, entered into a revolving credit facility administered by U.S. Bank N.A. and also including BMO Harris Bank N.A., which has a total commitment of $65.0 million and has a maturity date of September 29, 2019 (the “OneBeacon Bank Facility”). As of September 30, 2015, the OneBeacon Bank Facility was undrawn.
The OneBeacon 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.

Tranzact Bank Facility
On October 10, 2014, Tranzact entered into a secured credit facility with a syndicate of lenders administered by the PrivateBank and Trust Company that has a maturity date of October 10, 2019 (the “Tranzact Bank Facility”). During the third quarter of 2015, Tranzact amended the Tranzact Bank Facility, which now has a total commitment of $116.0 million, consisting of a $101.0 million term loan facility and a $15.0 million revolving facility. The amendment increased the term loan facility by $31.0 million, the proceeds of which were used by Tranzact to finance the acquisition of TruBridge. During the nine months ended September 30, 2015, Tranzact also borrowed and repaid $13.0 million under the revolving facility. During the three and nine months ended September 30, 2015, Tranzact repaid a total of $1.3 million and $3.9 million under the term loan portion. As of September 30, 2015, the total amount outstanding under the Tranzact Bank Facility was $95.8 million. Tranzact has entered into an interest rate swap agreement to effectively fix the rate it pays on $70.0 million of the $101.0 million term loan. (See Note 9 - “Derivatives“)
The Tranzact Bank Facility, which is secured by intellectual property and the common stock of Tranzact and its subsidiaries, contains various affirmative, negative and financial covenants which White Mountains considers to be customary for such borrowings, including a minimum fixed charge coverage ratio and a maximum leverage ratio.

MediaAlpha Bank Facility
On July 23, 2015, MediaAlpha entered into a credit facility with Opus Bank, which has a total commitment of $20.0 million and has a maturity date of July 23, 2019 (the “MediaAlpha Bank Facility”). The MediaAlpha Bank Facility consists of a $15.0 million term loan facility, which was fully drawn as of September 30, 2015, and a revolving credit facility for an additional $5 million, which was undrawn as of September 30, 2015.
The MediaAlpha Bank Facility is secured by intellectual property and the common stock of MediaAlpha's subsidiaries, and contains various affirmative, negative and financial covenants that White Mountains considers to be customary for such borrowings, including a maximum leverage ratio. The MediaAlpha Bank Facility carries a variable interest rate that is based on the U.S. dollar LIBOR rate.

Debt
At September 30, 2015, White Mountains was in compliance with all of the covenants under all of its debt facilities.

Note 8. 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 consolidated subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Denmark, Germany, Gibraltar, Israel, Luxembourg, Malaysia, the Netherlands, Peru, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

White Mountains's income tax benefit from continuing operations for the third quarter of 2015 was near zero and White Mountains's income tax benefit from continuing operations for the third quarter of 2014 represented an effective tax rate of 13.0%. White Mountains's income tax expense from continuing operations for the first nine months of 2015 was near zero and White Mountains's income tax expense from continuing operations for the first nine months of 2014 represented an effective tax rate 31.0%. The effective tax rates for the nine months ended September 30, 2015 and the three and nine months ended 2014 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 nine months ended September 30, 2015 and 2014, 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, 2015 and 2014.

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. 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 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 September 1, 2015, OneBeacon received a revised Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS Appeals Office relating to the examination of tax years 2007, 2008 and 2009. The estimated total overpayment, including interest, utilization of alternative minimum and foreign tax credit carryovers and capital loss carrybacks, is $4.0 million. However, $2.7 million of the proposed overpayment relates to items for which the expense deduction was disallowed in an earlier year and is being allowed in a year being examined. White Mountains agrees with the adjustments proposed by the IRS and is awaiting final review by the Joint Committee on Taxation. 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. When ultimately settled, White Mountains does not expect the resolution of this examination to result in a material adverse change to its financial position results of operations and cash flows.

On September 5, 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, results of operations and cash flows.

On December 18, 2014, the IRS commenced an examination of the 2012 income tax return for Guilford Holdings, Inc. and subsidiaries. White Mountains does not expect the resolution of this examination to result in a material change to its financial position, results of operations and cash flows.

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Note 9. Derivatives

Variable Annuity Reinsurance
White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. At September 30, 2015 and December 31, 2014, the total guarantee value was approximately ¥76.3 billion (approximately $637.2 million at exchange rates on that date) and ¥134.2 billion (approximately $1.1 billion at exchange rates on that date), respectively. The collective account values of the underlying variable annuities were approximately 107% and 113% of the guarantee value at September 30, 2015 and December 31, 2014. During the second quarter of 2015, the variable annuity contracts reinsured by WM Life Re began to mature. WMLife 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 nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	2015	2014	2015	2014
Fees, included in other revenue	$2.1	$4.5	$7.7	$15.0
Change in fair value of variable annuity liability, included in other revenue	(2.8)	19.9	(1.7)	40.5
Change in fair value of derivatives, included in other revenue	1.5	(23.8)	(6.3)	(56.5)
Foreign exchange, included in other revenue	.4	(1.7)	(.8)	(1.2)
Other investment income and (losses) gains	(.2)	(.9)	(.3)	(.4)
Total revenue	1.0	(2.0)	(1.4)	(2.6)
Change in fair value of variable annuity death benefit liabilities, included in other general and administrative expenses	—	.2	—	.6
Death benefit claims paid, included in general and administrative expenses	—	—	—	(.1)
General and administrative expenses	(.8)	(.9)	(3.1)	(3.3)
Pre-tax income (loss)	$.2	$(2.7)	$(4.5)	$(5.4)

The following summarizes realized and unrealized derivative gains (losses) recognized in other revenue for the three and nine months ended September 30, 2015 and 2014 and the carrying values, included in other assets, at September 30, 2015 and December 31, 2014 by type of instrument:

	Gains (losses)				Carrying Value	
	Three Months Ended September 30,		Nine Months Ended September 30,		As of	
Millions	2015	2014	2015	2014	September 30, 2015	December 31, 2014
Fixed income/interest rate	$2.6	$(8.4)	$6.0	$(20.4)	$—	$(1.7)
Foreign exchange	(3.1)	(.4)	(6.0)	(13.3)	27.9	44.1
Equity	2.0	(15.0)	(6.3)	(22.8)	9.1	14.0
Total	$1.5	$(23.8)	$(6.3)	$(56.5)	$37.0	$56.4

The following tables summarize the changes in White Mountains's variable annuity reinsurance liabilities and derivative instruments for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015				
	Variable Annuity Assets	Derivative Instruments			
Millions	Level 3	Level 3 (1)	Level 2 (1)(2)	Level 1 (3)	Total
Beginning of period	$1.8	$8.3	$32.5	$(5.1)	$35.7
Purchases	—	—	—	—	—
Realized and unrealized gains (losses)	(2.8)	3.4	3.2	(5.1)	1.5

Transfers in	—	—	—	—	—
Sales/settlements	—	(.5)	(7.8)	8.1	(.2)
End of period	$(1.0)	$11.2	$27.9	$(2.1)	$37.0

	Nine Months Ended September 30, 2015				
	Variable Annuity Assets	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total
Beginning of period	$.7	$18.9	$33.8	$3.7	$56.4
Purchases	—	—	—	—	—
Realized and unrealized gains (losses)	(1.7)	(5.5)	(2.7)	1.9	(6.3)
Transfers in	—	—	—	—	—
Sales/settlements	—	(2.2)	(3.2)	(7.7)	(13.1)
End of period	$(1.0)	$11.2	$27.9	$(2.1)	$37.0

	Three Months Ended September 30, 2014				
	Variable Annuity Assets	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total
Beginning of period	$(31.8)	$53.3	$22.3	$(.8)	$74.8
Purchases	—	—	—	—	—
Realized and unrealized gains (losses)	20.1	(17.4)	(19.8)	13.4	(23.8)
Transfers in	—	—	—	—	—
Sales/settlements	—	—	22.5	(8.2)	14.3
End of period	$(11.7)	$35.9	$25.0	$4.4	$65.3

	Nine Months Ended September 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 gains (losses)	41.1	(27.5)	(42.1)	13.1	(56.5)
Transfers in	—	—	—	—	—
Sales/settlements	—	—	62.4	(9.8)	52.6
End of period	$(11.7)	$35.9	$25.0	$4.4	$65.3

[1] Consists of over-the-counter instruments.

[2] Consists of interest rate swaps, total return swaps, foreign currency forward contracts, and bond forwards. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded, where available. Swaps for which an active market does not exist have been priced using observable inputs including the swap curve and the underlying bond index.

[3] Consists of exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

In addition to derivative instruments, WM Life Re held cash and fixed maturity investments posted as collateral to its variable annuity reinsurance counterparties. The total collateral includes the following:

Millions	September 30, 2015	December 31, 2014	September 30, 2014
Cash	$16.8	$23.7	$23.8
Fixed maturity investments	—	9.5	10.4
Total	$16.8	$33.2	$34.2

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Collateral in the form of fixed maturity securities consists of Government of Japan Bonds, which are recorded at fair value. Collateral in the form of short-term investments consists of money-market instruments, carried at amortized cost, which approximates fair value.

All of White Mountains's variable annuity reinsurance liabilities were classified as Level 3 measurements at September 30, 2015 and 2014. The fair value of White Mountains's variable annuity reinsurance liabilities are estimated using actuarial and capital market assumptions related to the projected discounted cash flows over the term of the reinsurance agreement. Actuarial assumptions regarding future policyholder behavior, including surrender and lapse rates, are generally unobservable inputs and significantly impact the fair value estimates. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates as well as the variations in actuarial assumptions regarding policyholder behavior may result in significant fluctuations in the fair value estimates. Generally, the liabilities associated with these guarantees increase with declines in the equity markets, interest rates and currencies against the Japanese yen, as well as with increases in market volatilities. White Mountains uses derivative instruments, including put options, interest rate swaps, total return swaps on bond and equity indices and forwards and futures contracts on major equity indices, currency pairs and government bonds, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. The types of inputs used to estimate the fair value of these derivative instruments, with the exception of actuarial assumptions regarding policyholder behavior and risk margins, are generally the same as those used to estimate the fair value of variable annuity liabilities.

The following summarizes quantitative information about significant unobservable inputs associated with the fair value estimates for variable annuity reinsurance liabilities and derivative instruments that have been classified as Level 3 measurements:

($ in Millions)	September 30, 2015				
Description	Fair Value	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
Variable annuity benefit guarantee liabilities	$ 1.0	Discounted cash flows	Surrenders		
			0-1 year	0.1 % - 40.0%	40.0 %
			Mortality	0.0 % - 6.4%	1.0 %
			Foreign exchange volatilities		
			0-1 year	11.6 % - 18.6%	12.5 %
			Index volatilities		
			0-1 year	26.2 % - 29.9%	28.2 %
Foreign exchange options	$ 2.6	Counterparty valuations, adjusted for unwind quote discount	Adjustment to counterparty valuations	0.5 % - 11.6%	3.7 %
Equity index options	$ 8.6	Counterparty valuations, adjusted for unwind quote discount	Adjustment to counterparty valuations	(0.7)% - 6.5%	2.0 %

WM Life Re enters into both over-the-counter ("OTC") and exchange traded derivative instruments to economically hedge the liability from the variable annuity benefit guarantee. In the case of OTC derivatives, WM Life Re has exposure to credit risk for amounts that are uncollateralized by counterparties. WM Life Re's internal risk management guidelines establish net counterparty exposure thresholds that take into account OTC counterparties' credit ratings. The OTC derivative contracts are subject to restrictions on liquidation of the instruments and distribution of proceeds under collateral agreements.

In the case of exchange traded instruments, WM Life Re has exposure to credit risk for amounts uncollateralized by margin balances. WM Life Re has entered into master netting agreements with certain of its counterparties whereby the collateral provided (held) is calculated on a net basis. The following summarizes amounts offset under master netting agreements:

Millions	September 30, 2015 Gross asset amounts before offsets [1]	Gross liability amounts offset under master netting arrangements	Net amounts recognized in Other Assets	December 31, 2014 Gross asset amounts before offsets [1]	Gross liability amounts offset under master netting arrangements	Net amounts recognized in Other Assets
Interest rate contracts						
OTC	$.5	$(.8)	$(0.3)	$1.0	$(5.4)	$(4.4)
Exchange traded	.3	(.1)	.2	2.8	(.1)	2.7
Foreign exchange contracts						
OTC	27.9	—	27.9	45.5	—	45.5
Exchange traded	.1	(.1)	—	—	(1.4)	(1.4)
Equity contracts						
OTC	11.5	—	11.5	11.7	(.2)	11.5
Exchange traded	—	(2.3)	(2.3)	3.4	(.9)	2.5
Total[2]	$40.3	$(3.3)	$37.0	$64.4	$(8.0)	$56.4

[1] Amount equal to fair value of instrument as recognized in other assets
[2] All derivative instruments held by WM Life Re are subject to master netting arrangements.

The following summarizes the value, collateral held or provided by WM Life Re and net exposure to credit losses on OTC and exchange traded derivative instruments by counterparty recorded within other assets:

Millions	September 30, 2015 Net amount of assets reflected in Balance Sheet	Collateral provided to counterparty - Cash	Collateral provided to counter-party - Financial Instruments	Net amount of exposure after effect of collateral provided	Excess collateral provided to counter-party-Cash	Excess collateral provided - Financial Instruments	Counter-party collateral held by WMLife Re - Cash	Net amount of exposure to counter-party	Standard & Poor's Rating[1]
Bank of America	$3.2	$—	$ —	$3.2	$ —	$—	$ —	$ 3.2	A
Barclays	—	—	—	—	—	—	—	—	A -
JP Morgan	15.9	—	—	15.9	—	—	5.9	10.0	A +
Royal Bank of Scotland	1.5	—	—	1.5	—	—	—	1.5	BBB +
Nomura	(.1)	.1	—	—	1.4	—	—	1.4	BBB +
Citigroup - OTC	18.6	—	—	18.6	—	—	5.3	13.3	A
Citigroup - Exchange Traded	(2.1)	2.1	—	—	12.8	—	—	12.8	A
Total	$37.0	$2.2	$ —	$39.2	$ 14.2	$—	$ 11.2	$ 42.2	

	December 31, 2014								
Millions	Net amount of assets reflected in Balance Sheet	Collateral provided to counter-party - Cash	Collateral provided to counter-party - Financial Instruments	Net amount of exposure after effect of collateral provided	Excess collateral provided to counter-party-Cash	Excess collateral provided - Financial Instruments	Counter-party collateral held by WMLife Re- Cash	Net amount of exposure to counter-party	Standard & Poor's Rating[1]
Bank of America	$5.6	$ —	$ —	$5.6	$ —	$ —	$ —	$ 5.6	A
Barclays	.1	—	—	.1	—	—	—	.1	A
JP Morgan	24.3	—	—	24.3	—	—	8.8	15.5	A +
Royal Bank of Scotland	4.0	—	—	4.0	—	—	—	4.0	A -
Nomura	(3.5)	3.5	—	—	1.7	9.5	—	11.2	BBB +
Citigroup - OTC	22.2	—	—	22.2	—	—	1.1	21.1	A
Citigroup - Exchange Traded	3.7	—	—	3.7	16.0	—	—	19.7	A
Total	$56.4	$ 3.5	$ —	$59.9	$ 17.7	$ 9.5	$ 9.9	$ 77.2	

(1) Standard & Poor’s ratings as detailed above are: “A+” (Strong, which is the fifth highest of twenty-three creditworthiness ratings), “A” (Strong, which is the sixth highest of twenty-three creditworthiness ratings), “A-” (Strong, which is the seventh highest of twenty-three creditworthiness ratings) and “BBB+” (Adequate, which is the eighth highest of twenty-three creditworthiness ratings).

Tranzact Interest Rate Swap

Tranzact has a $101.0 million term loan facility that carries a variable rate equal to the U.S. dollar LIBOR rate, plus an applicable margin. At September 30, 2015, the variable interest rate on the term loan was 4.70%, including a margin over LIBOR of 4.50%. Effective October 10, 2014, to effectively fix the rate it pays on this term loan, Tranzact entered into an interest rate swap agreement with an initial notional amount of $70.0 million. The notional amount decreases over the term of the swap by amounts equivalent to scheduled principal repayments made on Tranzact’s term loan. Under the terms of the swap agreement, Tranzact pays a fixed rate of 1.34% and receives a variable rate, which is reset monthly, based on the then-current U.S. dollar LIBOR rate. The variable rate received by Tranzact under the swap agreement was 0.15% at inception and 0.20% at September 30, 2015. The total current effective rate on Tranzact's debt was 6.04% at September 30, 2015.

The swap is measured at fair value with changes therein recognized within other revenues and is accounted for as a non-hedge derivative instrument. As of September 30, 2015, the estimated fair value of the swap was $(0.8) million. There are no collateral arrangements associated with the swap.

Note 10. Municipal Bond Guarantee Insurance

In 2012, HG Global was capitalized with $594.5 million from White Mountains and $14.5 million from non-controlling interests to fund BAM, a newly formed mutual municipal bond insurer. As of September 30, 2015, White Mountains owned 96.9% of HG Global's preferred equity and 88.4% of its common equity. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503.0 million of BAM Surplus Notes. Through HG Re, which had statutory capital of $458.3 million at September 30, 2015, HG Global provides first loss reinsurance protection for policies underwritten by BAM of up to 15% of par outstanding, on a per policy basis. HG Re's obligations to BAM are collateralized in trusts, and there is an aggregate loss limit that is equal to the total assets in the collateral trusts at any point in time.

For the three and nine months ended September 30, 2015, HG Global had pre-tax income of $5.2 million and $13.8 million, which included $4.0 million and $11.9 million of interest income on the BAM Surplus Notes. For the three and nine months ended September 30, 2014, HG Global had pre-tax income of $3.8 million and $13.4 million, which included $3.9 million and $11.8 million of interest income on the BAM Surplus Notes.

For the three and nine months ended September 30, 2015, White Mountains reported pre-tax losses of $10.6 million and $33.5 million on BAM that were recorded in net loss attributable to non-controlling interests, which included $4.0 million and $11.9 million of interest expense on the BAM Surplus Notes. For the three and nine months ended September 30, 2014, White Mountains reported pre-tax losses of $13.1 million and $29.7 million on BAM that were recorded in net loss attributable to non-controlling interests, which included $3.9 million and $11.8 million of interest expense on the BAM Surplus Notes.

Effective January 1, 2014, HG Global and BAM agreed to change the interest rate on the BAM Surplus Notes for the five years ending December 31, 2018 from a fixed rate of 8% to a variable rate equal to the one-year U.S. treasury rate plus 300 basis points, set annually, which is 3.15% and 3.13% for 2015 and 2014. Prior to the end of 2018, BAM has the option to extend the variable rate period for an additional three years. At the end of the variable rate period, the interest rate will be fixed at the higher of the then current variable rate or 8%. BAM is required to seek regulatory approval to pay interest and principal on its surplus notes only when adequate capital resources have accumulated beyond BAM's initial capitalization and a level that continues to support its outstanding obligations, business plan and ratings.

All of the contracts issued by BAM are accounted for as insurance contracts under ASC 944-605, Financial Guarantee Insurance Contracts. Premiums are received upfront and an unearned premium revenue liability, equal to the amount of the cash received, is established at contract inception. Premium revenues are recognized in revenue over the period of the contracts in proportion to the amount of insurance protection provided using a constant rate. The constant rate is calculated based on the relationship between the par outstanding in a given reporting period compared with the sum of each of the par amounts outstanding for all periods.

The following table provides a schedule of BAM's insured obligations:

	September 30, 2015	December 31, 2014
Contracts outstanding	2,733	1,750
Remaining weighted average contract period outstanding (in years)	12.7	12.8
Contractual debt service outstanding (in millions):		
Par	$ 19,841.0	$ 12,362.5
Interest	10,574.3	7,086.9
Total debt service outstanding	$ 30,415.3	$ 19,449.4
Gross unearned insurance premiums	$ 43.2	$ 27.6

Note 11. Earnings Per Share

White Mountains calculates earnings per share on the two-class method and accordingly, the net income allocable to common shareholders, undistributed net earnings and weighted average number of common shares outstanding exclude amounts associated with restricted shares that are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares, net of the effect of unvested restricted shares and potentially dilutive common shares outstanding. For periods where White Mountains has recognized a net loss, unvested restricted shares are excluded from the calculation of basic and diluted earnings per share because they would be anti-dilutive. The following table outlines the Company's computation of earnings per share from continuing operations for the three and nine months ended September 30, 2015 and 2014. (See Note 17 - "Discontinued Operations").

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic and diluted earnings per share numerators (in millions):				
Net income from continuing operations attributable to White Mountains's common shareholders	$(73.1)	$(12.6)	$(61.8)	$65.8
Allocation of income for unvested restricted common shares	—	—	—	(.8)
Dividends declared on participating restricted common shares[1]	—	—	(.1)	(.1)
Total allocation to restricted common shares	—	—	(.1)	(.9)
Net income attributable to White Mountains's common shareholders, net of restricted common share amounts	$(73.1)	$(12.6)	$(61.9)	$64.9
Undistributed net earnings (in millions):				
Net income attributable to White Mountains's common shareholders, net of restricted common share amounts	$(73.1)	$(12.6)	$(61.9)	$64.9
Dividends declared net of restricted common share amounts[1]	—	—	(5.9)	(6.1)
Total undistributed net earnings, net of restricted common share amounts	$(73.1)	$(12.6)	$(67.8)	$58.8
Basic earnings per share denominators (in thousands):				
Total average common shares outstanding during the period	5,890.1	6,091.4	5,951.1	6,140.9
Average unvested restricted shares[2]	—	—	—	(77.7)
Basic earnings per share denominator	5,890.1	6,091.4	5,951.1	6,063.2
Diluted earnings per share denominator (in thousands):				
Total average common shares outstanding during the period	5,890.1	6,091.4	5,951.1	6,140.9
Average unvested restricted common shares[2]	—	—	—	(77.7)
Average outstanding dilutive options to acquire common shares[3]	—	—	—	—
Diluted earnings per share denominator	5,890.1	6,091.4	5,951.1	6,063.2
Basic earnings per share (in dollars):				
Net income attributable to White Mountains's common shareholders	$(12.42)	$(2.07)	$(10.40)	$10.70
Dividends declared and paid	—	—	(1.00)	(1.00)
Undistributed earnings	$(12.42)	$(2.07)	$(11.40)	$9.70
Diluted earnings per share (in dollars):				
Net income attributable to White Mountains's common shareholders	$(12.42)	$(2.07)	$(10.40)	$10.70
Dividends declared and paid	—	—	(1.00)	(1.00)
Undistributed earnings	$(12.42)	$(2.07)	$(11.40)	$9.70

[1] Restricted shares issued by White Mountains receive dividends, and therefore, are considered participating securities.

[2] Restricted shares outstanding vest either in equal annual installments or upon a stated date. (See Note 15 - "Employee Share-Based Compensation Plans").

(3) The diluted earnings per share denominator for the three and nine months ended September 30, 2015 and 2014 does not include the impact of 125,000 common shares issuable upon exercise of the non-qualified options outstanding as they are anti-dilutive to the calculation.

Note 12. Non-controlling Interests

The following table details the balance of non-controlling interests included in White Mountains's total equity and the related percentage of each consolidated entity's total equity owned by non-controlling shareholders as of September 30, 2015 and December 31, 2014:

$ in millions	September 30, 2015 Non-controlling Percentage	September 30, 2015 Non-controlling Equity	December 31, 2014 Non-controlling Percentage	December 31, 2014 Non-controlling Equity
OneBeacon Ltd.	24.7 %	$ 246.9	24.7 %	$ 258.4
SIG Preference Shares	100.0	250.0	100.0	250.0
Other, excluding mutuals and reciprocals				
HG Global	3.1	17.3	3.1	17.9
MediaAlpha	40.0	15.1	40.0	22.6
Tranzact	36.8	75.6	36.8	88.2
Wobi	4.7	1.8	36.7	5.4
Dewar	32.2	3.5	18.0	3.4
Prospector Offshore Fund	—	—	23.4	31.1
Total other, excluding mutuals and reciprocals		113.3		168.6
Mutuals and reciprocals				
BAM	100.0	(134.2)	100.0	(121.9)
SSIE	100.0	(15.2)	100.0	(12.4)
Total non-controlling interests		$ 460.8		$ 542.7

Note 13. Segment Information

White Mountains has determined that its reportable segments are OneBeacon, HG Global/BAM and Other Operations. As a result of the Sirius sale, the results of operations for Sirius Group have been classified as discontinued operations and are now presented, net of related income taxes, as such in the statement of operations and comprehensive income. Prior year amounts have been reclassified to conform to the current period's presentation (See Note 17).

White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the chief operating decision makers and the Board of Directors.

Significant intercompany transactions among White Mountains's segments have been eliminated herein. Financial information for White Mountains's segments follows:

Millions	OneBeacon	HG Global/BAM HG	HG Global/BAM BAM	Other Operations	Total
Three Months Ended September 30, 2015					
Earned insurance premiums	$281.4	$.6	$.3	$2.6	$284.9
Net investment income	12.4	.5	1.1	2.8	16.8
Net investment income (loss) - surplus note interest	—	4.0	(4.0)	—	—
Net realized and unrealized investment (losses) gains	(29.9)	.6	1.7	(16.3)	(43.9)
Other revenue	3.9	—	.2	72.8	76.9
Total revenues	267.8	5.7	(.7)	61.9	334.7
Losses and LAE	167.5	—	—	2.5	170.0

Insurance acquisition expenses	53.8	.1	.4	1.0	55.3
Other underwriting expenses	56.4	—	.1	—	56.5
General and administrative expenses	3.7	.4	9.4	129.1	142.6