GOARE DOUGLAS M
Form 4
February 10, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
GOARE DOUGLAS M

(Last) (First) (Middle)

MCDONALD'S EUROPE, BOULEVARD DU THEATRE, 3

(Street)

GENEVA, SWITZERLAND, V8 CH 1204

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MCDONALDS CORP [MCD]

3. Date of Earliest Transaction (Month/Day/Year)
02/08/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President, McDonald's Europe

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								1,168	D	
Common Stock								17,098.15	I	Profit Sharing Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount Underlying Securiti (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amou Numb Shares
Options (Right to Buy)	$ 100.05	02/08/2012		A		38,481		(1)	02/08/2022	Common Stock	38,4
Restricted Stock Units	(2)	02/08/2012		A		3,299		02/08/2015 (3)	02/08/2015	Common Stock	3,2
Phantom Stock	(4)							(5)	(5)	Common Stock	5,05

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GOARE DOUGLAS M MCDONALD'S EUROPE BOULEVARD DU THEATRE, 3 GENEVA, SWITZERLAND, V8 CH 1204			President, McDonald's Europe	

Signatures

/s/ Christopher Weber, Attorney-in-fact	02/10/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Options become exercisable in 25% increments on the first, second, third and fourth anniversary dates of the grant.

(2) Each restricted stock unit (RSU) represents a right to acquire one share of McDonald's Corporation common stock. Upon vesting, payout under the RSUs will be in the form of shares or, at the discretion of the Compensation Committee of the Board of Directors, the cash value thereof. No dividend, voting or other shareholder rights attach to the RSUs until they vest and only if the payout upon vesting is in shares of common stock.

(3) Contain performance vesting condition based on diluted earnings per share growth during the performance period.

(4) Each share of phantom stock represents a right to receive the cash value of one share of McDonald's Corporation common stock.

(5) Shares of phantom stock are payable in cash following the reporting person's separation from service with McDonald's.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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1,494

1,488

Esurance

Esurance establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

After reviewing the indications from a variety of commonly accepted actuarial methods, Esurance actuaries select an indicated reserve level for each accident period, which are the primary consideration in determining management s best estimate of required reserves. However, in making its best estimate, management also considers other qualitative factors that may lead to a difference between held reserves and actuarially recommended levels. Such factors may include, among others, improvements in the claims department, regulatory developments, level of inflation in loss costs, and legislative or legal changes. At December 31, 2008 and 2007, total carried reserves were 3% and 2% above the actuarial point estimate, respectively.

Loss and LAE Reserves by Class of Business

Esurance s net loss and LAE reserves by class of business at December 31, 2008 and 2007 were as follows:

Net loss and LAE reserves by class of business	**December 31, 2008**			**December 31, 2007**		
Millions	**Case**	**IBNR**	**Total**	**Case**	**IBNR**	**Total**
Personal auto liability	$ 181.4	$ 178.8	**$ 360.2**	$ 157.4	$ 114.2	$ 271.6
Personal auto physical damage	20.5	(11.5)	**9.0**	21.5	(10.0)	11.5
Total	$ 201.9	$ 167.3	**$ 369.2**	$ 178.9	$ 104.2	$ 283.1

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Esurance writes private passenger auto coverages whose risk factors expose its reserves to significant variability. This variability is magnified by the claim-tail, the time lag between when a claim actually occurs and when it is settled. The claim-tail is typically short for physical damage coverages (usually a few days up to a few months), but it is significantly longer for liability coverages as claims are often settled years after the loss occurs. This claim-tail differs by state due to varying statutes of limitation. For example, California has a 2 year statute of limitation, whereas New York allows claims to be reported up to 6 years following the date of loss for various coverages. These statewide differences in the claim-tail have led to increased uncertainty in establishing loss and LAE reserves as Esurance has experienced significant growth over the years, and the growth rate has not been uniform by state. Esurance s growth in written premiums, the relatively limited historical experience of Esurance s current book of business, rapid growth in personnel in the claims department, and case reserving changes by the claims department increase the variability of Esurance s reserves. The absence of other risk factors from those described above does not imply that additional factors will not be identified in the future as having significant influence on Esurance s reserves.

The following table illustrates Esurance s recorded net loss and LAE reserves and high and low estimates at December 31, 2008.

Net loss and LAE reserves by class of business			**December 31, 2008**			
Millions		**Low**		**Recorded**		**High**
Personal auto liability	$	307	**$**	**360.2**	$	395
Personal auto physical damage		7		**9.0**		11
Total	$	314	**$**	**369.2**	$	406

The recorded reserves represent management s best estimate of unpaid loss and LAE by line of business. Esurance uses the results of several different actuarial methods to develop its estimate of ultimate reserves. Esurance believes that it is reasonably likely that actual ultimate paid losses will fall within the ranges noted above because the ranges were developed by using several different generally accepted actuarial methods.

2. Fair Value Measurements

General

White Mountains carries certain financial instruments at fair value with changes therein recognized in earnings. Assets and liabilities carried at fair value include substantially all of the investment portfolio; derivative instruments, both exchange traded and over the counter instruments; and reinsurance assumed liabilities associated with variable annuity benefit guarantees. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation of assets and liabilities measured at fair value require management to make estimates and apply judgment to matters that may carry a significant degree of uncertainty. In determining its estimates of fair value, White Mountains uses a variety of valuation approaches and inputs. Inputs used in determining fair value estimates are classified within a hierarchy. Observable inputs in active markets for identical assets are at the top of the hierarchy (Level 1), followed by inputs based on observable prices for similar, but not identical assets or on prices in less active markets (Level 2) with unobservable inputs, including assumptions that involve a great deal of judgment, being at the bottom of the hierarchy (Level 3). Whenever possible, White Mountains estimates fair value using valuation methods that maximize the use of observable prices and other inputs.

Invested Assets

White Mountains invested assets measured at fair value include fixed maturity securities, common and preferred equity securities, convertible fixed maturity securities and interests in limited partnerships, hedge funds and private equity investments.

Where available, the estimated fair value of investments is based upon quoted prices in active markets. In circumstances where quoted prices are unavailable, White Mountains uses fair value estimates based upon other observable inputs including matrix pricing, benchmark interest rates, market comparables, and other relevant inputs. Where observable inputs are not available, the estimated fair value is based upon internal pricing models using assumptions that include inputs that may not be observable in the marketplace but which reflect management s best judgment given the circumstances and consistent with what other market participants would use when pricing such instruments.

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The majority of White Mountains investments in fixed maturity and equity securities are valued based upon quoted market prices. Investments valued using Level 1 inputs include fixed maturities, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturities including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains investments in limited partnerships, hedge funds and private equity interests, as well as investments in debt securities, including certain asset-backed securities, where quoted market prices are unavailable.

White Mountains investments in debt securities, including asset-backed securities, are generally valued using matrix and other pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. The fair value of White Mountains investments in limited partnerships, hedge funds and private equity interests are based upon White Mountains proportionate interest in the underlying partnership s or fund s net asset value, which is deemed to approximate fair value. In circumstances where the partnership net asst value is deemed to differ from fair value due to illiquidity or other factors, net asset value is adjusted accordingly. At December 31, 2008 White Mountains did not adjust the net asset values used to determine fair value because an active secondary market for such investments exists.

White Mountains uses brokers and outside pricing services to assist in determining fair values. To validate market prices obtained from outside pricing sources, White Mountains periodically evaluates model pricing methodologies, performs analytical reviews of certain prices and periodically performs back-testing of selected sales activity.

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

	December 31, 2008			
Millions	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed maturities	$ 5,480.5	$ 689.4	$ 4,634.7	$ 156.4
Common equity securities	552.7	399.2	40.2	113.3
Convertible fixed maturity investments	308.8		308.8	
Short-term investments	2,244.5	2,244.5		
Other investments(1)	402.4			402.4
Total investments	$ 8,988.9	$ 3,333.1	$ 4,983.7	$ 672.1

(1) The fair value of other investments excludes carrying value of $13.8 associated with other investment limited partnerships accounted for using the equity method.

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

Millions	**Fixed maturities**	**Common equity securities**	**Convertible fixed maturities**	**Other investments**	**Total**
Balance at January 1, 2008	$ 297.9	$ 308.6	$ 23.2	$ 596.4	$ 1,226.1

Total realized and unrealized losses	(60.2)	(30.2)		(185.2)	(275.6)
Purchases	82.9	14.7	2.8	60.7	161.1
Sales	(126.7)	(29.8)	(23.2)	(121.9)	(301.6)
Transfers in	152.2	47.7		52.4	252.3
Transfers out	(189.7)	(197.7)	(2.8)		(390.2)
Balance at December 31, 2008	**$ 156.4**	**$ 113.3**	**$**	**$ 402.4**	**$ 672.1**

Transfers into Level 3 measurements for fixed maturities relate primarily to securities recently acquired as of the quarter end and for which observable inputs were unavailable. Such securities were manually priced using a combination of market inputs such as benchmark interest rates, market comparables and/or broker quotes. Transfers into Level 3 measurements for common equity securities related to securities for which pricing information did not represent current market inputs at the quarter end. This was deemed to render the fair value measurements as based upon unobservable inputs and were accordingly classified within Level 3.

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Symetra Warrants

White Mountains holds warrants to acquire common shares of Symetra. The warrants are recorded at fair value. White Mountains uses a Black-Scholes valuation model to determine the fair value of the Symetra warrants. The major assumptions used in valuing the Symetra warrants at December 31, 2008 were a risk-free rate of 1.70%, volatility of 25%, an expected life of 5.6 years and a share price of $11.16 per share. Since Symetra s shares are not publicly traded, the share price is based upon adjusted book value per share, calculated using a book value/price multiple for comparable companies. Adjusted book value per share is a non-GAAP financial measure which is derived by adjusting GAAP book value per share to exclude net unrealized gains (losses) from Symetra s fixed maturity portfolio. At December 31, 2008, the book value multiple used was 0.80. White Mountains has classified its investment in Symetra warrants as a Level 3 measurement since significant unobservable inputs are used in its fair value estimate.

Valuation of Variable Annuity Reinsurance Liabilities

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. White Mountains carries the benefit guarantees at fair value. The fair value of the guarantees is estimated using actuarial and capital market assumptions related to the projected cash flows over the term of the reinsurance agreement. The valuation uses assumptions about surrenders/lapse rates, market volatilities and other factors, and includes a risk margin which represents the additional compensation a market participant would require to assume the risks related to the business. The selection of surrender/lapse rates, market volatility assumptions, risk margins and other factors, require the use of significant management judgment. Assumptions regarding policyholder behavior, including surrender and lapse rates, are generally unobservable inputs and significantly impact the fair value estimate. The cost of reinsuring these benefit guarantees may be greater than expected. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates as well as variations in actuarial assumptions regarding policyholder behavior may result in significant fluctuations in the fair value of the liabilities associated with these guarantees that could materially affect results of operations. All of White Mountains variable annuity reinsurance liabilities ($467.1 million) were classified as Level 3 measurements at December 31, 2008.

WM Life Re uses derivative instruments, including put options, interest rate swaps, and futures contracts on major equity indices, currencies 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 the variable annuity liabilities.

The following table summarizes the estimated financial impact on WM Life Re s derivatives and benefit guarantee liabilities of instantaneous changes in individual market variables as of February 12, 2009. The table below assumes that all other market variables are constant and does not reflect the inter-dependencies between individual variables.

	Equity Market Returns		Foreign Currency Exchange (1)		Interest Rates		Market Volatility(2)	
Millions	**+20%**	**-20%**	**+15%**	**-15%**	**+100bps**	**-100bps**	**Decrease**	**Increase**
Liabilities	$ (90)	$ 97	$ (182)	$ 222	$ (86)	$ 62	$ 21	$ 30
Hedge Assets	(92)	98	(202)	205	(84)	60	(21)	22

Net	**$ (2)**	**$ 1**	**$ 20**	**$ (17)**	**$ 2**	**$ (2)**	**$**	**$ (8)**

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(1) Foreign currency exchange rate for Japanese Yen against other currencies increases.

(2) White Mountains sensitivities for market implied volatilities vary by term. For equity implied volatilities, White Mountains changes implied volatilities by 15%, 13%, 11%, 9%, 7%, 7% and 7% for each of the terms to maturity for years one through seven, respectively. For foreign currency implied volatilities, White Mountains changes implied volatilities by 6%, 5.5%, 5%, 4.5%, 4%, 4% and 4% for each of the terms to maturity for years one through seven, respectively.

To test the impact of multiple variables moving simultaneously, White Mountains performs capital market shock testing. The table below summarizes as of February 12, 2009 the estimated financial impact of simultaneous and instantaneous market events. Unlike the individual sensitivity analyses illustrated above, the analysis in the table below reflects the inter-dependencies between individual variables.

Change in Millions	**Down Market**	**Up Market**
Liabilities	$ 441	$ (355)
Hedge Assets	397	(375)
Net	$ (43)	$ (20)

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The down market scenario assumes equity indices decrease 20%, foreign currencies depreciate by 15% against the Japanese Yen interest rates decrease by 100bps, and implied market volatility increases as described in footnote 1 to the table above. The up market scenario assumes opposite movements in the same variables. Since these market movements are instantaneous, no hedge rebalancing is assumed in these projections, although rebalancing would be required to remain more fully hedged against changes in liabilities resulting from these market movements. If the movements occurred over time, rebalancing of hedges would be expected to mitigate a portion of the losses.

WM Life Re projects future surrender rates by year for policies based on a combination of actual experience and expected policyholder behavior. Actual policyholder behavior, either individually or collectively, may differ from projected behavior as a result of a number of factors such as the level of the account value versus guarantee value and applicable surrender charge, views of the primary insurance company s financial strength and ability to pay the guarantee at maturity, annuitants need for money in a prolonged recession and time remaining to receive the guarantee at maturity. Policyholder behavior is especially difficult to predict given that WM Life Re s reinsurance contracts are relatively new and the recent financial turmoil is unprecedented for this type of product in the Japanese market. Actual policyholder behavior may differ materially from WM Life Re s projections.

At current account values, WM Life Re s surrender assumptions vary from 1% in near and final years to 5.5% in middle years when surrender charges are reduced; the average is approximately 2.2% per annum. The potential increase in the fair value of the liability due to actual surrenders being lower than current actuarial assumptions is as follows:

Millions	Increase in fair value of liability
Decrease 50%	$ 44
Decrease 100% (to zero surrenders)	$ 90

The following table summarizes the changes in White Mountains variable annuity reinsurance liabilities and derivative contracts for the year ended December 31, 2008:

Millions	(Liabilities) Level 3	Derivative Instruments Level 3(1)	Derivative Instruments Level 2(2)	Derivative Instruments Level 1(3)	Net Assets (Liabilities)
Balance at January 1, 2008	$ (12.7)	$ 38.9	$	$ 4.8	$ 31.0
Cumulative effect adjustment- FAS 157	(.3)				(.3)
Purchases		68.7			68.7
Realized and unrealized gains (losses)	(454.1)	96.5	5.0	138.2	(214.4)
Sales/settlements				(167.9)	(167.9)
Balance at December 31, 2008	$ (467.1)	$ 204.1	$ 5.0	$ (24.9)	$ 282.9

(1) Comprises OTC instruments.

(2) Comprises interest rate swaps. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded.

(3) Comprises exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

Weather Risk Management Contracts

All of White Mountains weather risk management contracts ($13.1 million) were classified as Level 3 measurements at December 31, 2008. The following table summarizes the changes in White Mountains weather risk management contract Level 3 measurements for the year ended December 31, 2008:

	December 31,			
Millions		**2008**		**2007**
Net liability for weather derivative contracts as of January 1 (1)	**$**	**17.9**	$	12.1
Net consideration received during the period for new contracts		**14.4**		12.5
Net payments made on contracts settled during the period		**(10.8)**		(8.7)
Net (decrease) increase in fair value on settled and unsettled contracts		**(8.4)**		2.0
Net liability for weather derivative contracts as of December 31 (2)	**$**	**13.1**	$	17.9

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

(2) Includes unamortized deferred gains of $5.1 and $2.9 as of December 31, 2008 and 2007.

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3. White Mountains Re Reinsurance Estimates

There is a time lag from the point when premium and related commission and expense activity is recorded by a ceding company to the point when such information is reported by the ceding company, through its reinsurance intermediary, to White Mountains Re. This time lag can vary from one to several contractual reporting periods (i.e. quarterly/monthly). This lag is common in the reinsurance business, but slightly longer when a reinsurance intermediary is involved.

As a result of this time lag in reporting, White Mountains Re estimates a portion of its written premium and related commissions and expenses. Given the nature of White Mountains Re s business, estimated premium balances, net of related commissions and expenses, comprise a large portion of total premium balances receivable. The estimation process begins by identifying which major accounts have not reported activity at the most recent period end. In general, premium estimates for excess of loss business are based on minimum deposit and premium information included in the contractual terms. For proportional business, White Mountains Re s estimates are derived from expected premium volume based on contractual terms or ceding company reports and other correspondence and communication with underwriters, intermediaries and ceding companies. Once premium estimates are determined, related commission and expense estimates are derived using contractual terms.

White Mountains Re closely monitors its estimation process on a quarterly basis and adjusts its estimates as more information and actual amounts become known. There is no assurance that the amounts estimated by White Mountains Re will not deviate from the amounts reported by the ceding company or reinsurance intermediary. Any such deviations are reflected in the results of operations when they become known.

The following table summarizes White Mountains Re s premium estimates and related commissions and expenses:

	December 31, 2008							
Millions	**Property Catastrophe Excess**	**Property Other**	**Casualty**	**Accident & Health**	**Agriculture**	**Aviation & Space**	**Other**	**Total**
Gross premium estimates	$ 35.1	$ 67.4	$ 33.5	$ 64.0	$ 22.4	$ 50.4	$ 36.4	$ 309.2
Net premium estimates	$ 32.2	$ .8	$ 28.6	$ 52.0	$ 22.4	$ 45.2	$ 33.3	$ 214.5
Net commission and expense estimates	4.0	20.4	10.0	21.9	2.6	10.1	10.2	79.2
Net amount included in reinsurance balances receivable	$ 28.2	$ (19.6)	$ 18.6	$ 30.1	$ 19.8	$ 35.1	$ 23.1	$ 135.3

	December 31, 2007							
Millions	**Property Catastrophe Excess**	**Property Other**	**Casualty**	**Accident & Health**	**Agriculture**	**Aviation & Space**	**Other**	**Total**
Gross premium estimates	$ 32.1	$ 78.3	$ 46.7	$ 68.9	$ 69.5	$ 44.8	$ 46.7	$ 387.0
Net premium estimates	$ 28.4	$ 13.1	$ 46.6	$ 56.2	$ 69.5	$ 42.2	$ 45.3	$ 301.3
	3.3	27.4	22.8	23.0	5.6	7.8	12.2	102.1

Net commission and expense estimates																
Net amount included in reinsurance balances receivable	$	25.1	$	(14.3)	$	23.8	$	33.2	$	63.9	$	34.4	$	33.1	$	199.2

The net amounts recorded in reinsurance balances receivable may not yet be due from the ceding company at the time of the estimate since actual reporting from the ceding company has not yet occurred. Therefore, based on the process described above, White Mountains Re believes all of its estimated balances are collectible, and as such no allowance has been recorded.

4. Reinsurance Transactions

White Mountains insurance and reinsurance subsidiaries purchase reinsurance from time to time to protect their businesses from losses due to exposure aggregation, to manage their operating leverage ratios and to limit ultimate losses arising from catastrophic events. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts related to reinsurance contracts are recorded in accordance with FAS No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts (FAS 113).

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In connection with White Mountains acquisition of OneBeacon in 2001, Aviva caused OneBeacon to purchase reinsurance contracts with two reinsurance companies rated AAA (Extremely Strong , the highest of twenty-one ratings) by Standard & Poor s and A++ (Superior , the highest fifteen ratings) by A.M. Best. One is a reinsurance cover with NICO which entitles OneBeacon to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to claims arising from business written by its predecessor prior to 1992 for asbestos claims and 1987 for environmental claims, respectively. As of December 31, 2008, OneBeacon has ceded estimated incurred losses of approximately $2.2 billion to NICO under the NICO Cover. The other contract is a reinsurance cover with GRC for up to $570 million of additional losses on all claims arising from accident years 2000 and prior. As of December 31, 2008, OneBeacon has ceded estimated incurred losses of $550 million to GRC under the GRC Cover. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the acquisition of OneBeacon, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for as a seller guarantee under GAAP in accordance with Emerging Issues Task Force Topic No. D 54. NICO and GRC are wholly-owned subsidiaries of Berkshire.

The collectibility of reinsurance recoverables is subject to the solvency and willingness to pay of the reinsurer. White Mountains is selective in choosing its reinsurers, placing reinsurance principally with those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis. See **Note 4 Third Party Reinsurance** in the accompanying Consolidated Financial Statements for additional information on White Mountains reinsurance programs.

FORWARD-LOOKING STATEMENTS

The information contained in this report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or referenced in this report which address activities, events or developments which White Mountains expects or anticipates will or may occur in the future are forward-looking statements. The words will , believe, intend, expect, anticipate, project, estimate, predict and similar expressions ar intended to identify forward-looking statements. These forward-looking statements include, among others, statements with respect to White Mountains:

- changes in adjusted book value per share or return on equity;
- business strategy;
- financial and operating targets or plans;
- incurred losses and the adequacy of its loss and LAE reserves and related reinsurance;
- projections of revenues, income (or loss), earnings (or loss) per share, dividends, market share or other financial forecasts;
- expansion and growth of its business and operations; and
- future capital expenditures.

These statements are based on certain assumptions and analyses made by White Mountains in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform with its expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from expectations, including:

- the risks associated with Item 1A of this Report on Form 10-K;
- claims arising from catastrophic events, such as hurricanes, earthquakes, floods or terrorist attacks;
- the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to it and pursued;
- competitive forces, including the conduct of other property and casualty insurers and reinsurers;
- changes in domestic or foreign laws or regulations, or their interpretation, applicable to White Mountains, its competitors or its clients;
- an economic downturn or other economic conditions adversely affecting its financial position;
- recorded loss reserves subsequently proving to have been inadequate; and
- other factors, most of which are beyond White Mountains control.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by White Mountains will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, White Mountains or its business or operations. White Mountains assumes no obligation to update publicly any such forward- looking statements, whether as a result of new information, future events or otherwise.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

White Mountains consolidated balance sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risk. The term market risk refers to the risk of loss arising from adverse changes in interest rates, credit spreads and other relevant market rates and prices. Due to White Mountains sizable balances of fixed maturity investments, market risk can have a significant effect on White Mountains consolidated financial position.

Interest Rate Risk

Fixed Maturity Portfolio. In connection with the Company s consolidated insurance and reinsurance subsidiaries, White Mountains invests in interest rate sensitive securities, primarily debt securities. White Mountains strategy is to purchase fixed maturity investments that are attractively priced in relation to perceived credit risks. For the years ended December 31, 2007 and 2006, White Mountains fixed maturity investments were held as available for sale in accordance with FAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115), whereby these investments were carried at fair value on the balance sheet with net unrealized gains or losses reported net of tax in a separate component of common shareholders equity. Effective January 1, 2008 White Mountains elected FAS 159 with unrealized gains or losses now reported pre-tax in revenues. White Mountains generally manages its interest rate risk associated with its portfolio of fixed maturity investments by monitoring the average duration of the portfolio, which allows White Mountains to achieve an adequate yield without subjecting the portfolio to an unreasonable level of interest rate risk. White Mountains fixed maturity portfolio is comprised primarily of investment grade corporate securities (e.g., those receiving an investment grade rating from Standard & Poor s or Moody s), U.S. government and agency securities, municipal obligations and mortgage-backed securities.

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

The table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on White Mountains fixed maturity portfolio and fixed maturity investments in the pension plan.

($ in millions)	Fair Value at December 31, 2008	Assumed Change in Relevant Interest Rate	Estimated Fair Value After Change in Interest Rate	After-Tax Increase (Decrease) in Carrying Value
Fixed maturity and convertible fixed maturity investments	**$ 5,789.3**	100 bp decrease	$ 5,898.5	$ 78.7
		50 bp decrease	5,845.7	41.9
		50 bp increase	5,772.0	(44.5)
		100 bp increase	5,656.7	(90.3)

Pension fixed maturity investments	$	**55.0**	100 bp decrease	$ 56.3	$	.8
			50 bp decrease	55.7		.5
			50 bp increase	54.3		(.5)
			100 bp increase	53.7		(.8)

Long-term obligations. As of December 31, 2008, White Mountains interest and dividend bearing long-term obligations consisted primarily of the OBH Senior Notes, WMRe Senior Notes and the WMRe Preference Shares, which have fixed interest and dividend rates. As a result, White Mountains exposure to interest rate risk resulting from variable interest rate obligations was limited to the $200 million that it had drawn under the WTM Bank Facility as of December 31, 2008.

The following table summarizes the fair value and carrying value of White Mountains financial instruments as of December 31, 2008:

	December 31, 2008	
Millions	**Fair Value**	**Carrying Value**
OBH Senior Notes	$ 483.3	**$ 675.1**
WMRe Senior Notes	254.0	**399.0**
WMRe Preference Shares(1)	117.5	**250.0**

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(1) WMRe Preference Shares are recorded as minority interest.

The fair values of these obligations were estimated by discounting future cash flows using current market rates for similar obligations or using quoted market prices.

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Mortgage Note on Real Estate Owned. In December 2005, OneBeacon entered into a $41 million, 18-year mortgage note, which has a variable interest rate based upon the lender s 30-day LIBOR rate, to purchase land and its U.S. headquarters building in Canton, Massachusetts. As of December 31, 2008, OneBeacon had drawn down the entire $41 million available under the mortgage note. Repayment commenced in January 2009.

Concurrently with entering into the mortgage note, OneBeacon also entered into an interest rate swap to hedge its exposure to variability in the interest rate on the mortgage note. The notional amount of the swap is equal to the debt outstanding on the mortgage note and will be adjusted to match the drawdowns and repayments on the mortgage note so that the principal amount of the mortgage note and the notional amount of the swap are equal at all times. Under the terms of the swap, OneBeacon pays a fixed interest rate of approximately 6% and receives a variable interest rate based on the same LIBOR index used for the mortgage note. As a result, OneBeacon s exposure to interest rate risk resulting from variable interest rate obligations was insignificant as of December 31, 2008.

Credit Spread Risk

Fixed Maturity Portfolio. White Mountains overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to credit risks. Widening and tightening of credit spreads generally translate into decreases and increases in fair values of fixed maturity investments, respectively. The table below summarizes the estimated effects of hypothetical widening and tightening of credit spreads on White Mountains fixed maturity and convertible fixed maturity portfolio and fixed maturity and convertible fixed maturity investments in the pension plan.

($ in millions)	**Fair Value at December 31, 2008**	**Assumed Change in Credit Spread**	**Estimated Fair Value After Change in Credit Spread**	**After-Tax Increase (Decrease) in Carrying Value**
Fixed maturity and convertible fixed maturity investments	**$ 5,789.3**	100 bp tighten	$ 5,916.3	$ 61.6
		50 bp tighten	5,874.1	32.4
		50 bp widen	5,778.0	(34.4)
		100 bp widen	5,728.8	(68.6)
Pension fixed maturity investments	**$ 55.0**	100 bp tighten	$ 56.0	$ .6
		50 bp tighten	55.5	.3
		50 bp widen	54.4	(.4)
		100 bp widen	53.8	(.8)

Equity Price Risk

The carrying values of White Mountains common equity securities and its other investments are based on quoted market prices or management s estimates of fair value (which is based, in part, on quoted market prices) as of the balance sheet date. Market prices of common equity securities, in general, are subject to fluctuations which could cause the amount to be realized upon sale or exercise of the instruments to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, general market conditions and supply and demand imbalances for a particular security.

Foreign Currency Exchange Risk

White Mountains foreign assets and liabilities are valued using period-end exchange rates and its foreign revenues and expenses are valued using average exchange rates. Foreign currency exchange rate risk is the risk that White Mountains will incur losses on a U.S. dollar basis due to adverse changes in foreign currency exchange rates.

At December 31, 2008, OneBeacon held approximately $84 million in bonds denominated in foreign currencies, mostly denominated in British Pounds and Australian dollars. Assuming a hypothetical 10% increase or decrease in the rate of exchange from the British Pound and Australian dollar to the U.S. dollar as of December 31, 2008, the carrying value of OneBeacon s foreign currency-denominated bond portfolio would have respectively decreased or increased by approximately $8 million.

The functional currency of WMRe Sirius is the Swedish Krona. Assuming a hypothetical 10% increase or decrease in the rate of exchange from the Swedish Krona to the U.S. dollar as of December 31, 2008, the carrying value of White Mountains net assets denominated in Swedish Krona would have respectively decreased or increased by approximately $100 million.

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Weather Derivative Risk

Weather derivatives, which can be structured as either swaps or options, are typically purchased by corporations and governments exposed to volatility in earnings due to variable weather. Weather derivatives are products with financial settlements linked to an underlying index that measures a quantifiable weather element such as temperature, precipitation, snowfall and windspeed, typically over the course of a six-month summer or winter season.

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

Galileo manages its exposure to weather and market risks based on guidelines established by senior management. Galileo manages its weather and weather contingent portfolio through the employment of a variety of strategies. These strategies include geographical diversification of risk exposures and economic hedging within the over-the-counter and exchange traded weather and commodity derivative markets. Additionally, Galileo may economically hedge portions of its risk exposure by buying and selling similar weather risk contracts with different counterparties. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then purchase an option from another counterparty that pays Galileo if it becomes too cold in that same location. Galileo may also diversify its risk exposure by entering into contracts that protect different clients with opposite exposures to the same quantifiable weather element. For example, Galileo may sell an option to protect a customer if it becomes too cold in a certain location and then sell another option that protects a different customer if it becomes too warm in that same location. Risk management is undertaken on a portfolio-wide basis, to maintain a portfolio that Galileo believes is well diversified and that remains within the aggregate risk tolerance established by senior management.

Galileo uses value-at-risk (VaR) analysis to monitor the risks associated with its weather and weather contingent derivative contracts. VaR is a tool that measures the potential loss that could occur over a defined period of time, calculated at a given statistical confidence level. Galileo s portfolio VaR analyses are calculated using a Monte Carlo simulation model that uses historical weather data, actual weather data since each contract s inception, forecasted weather conditions and prevailing market rates as inputs. Galileo performs a VaR analysis for each of its weather portfolios using both a seasonal and 20-day holding period. The average, low and high of amounts for Galileo s weather portfolio produced by its 20 day VaR analyses performed during the year ended December 31, 2008, calculated at a 99% confidence level, were approximately $3 million, $0, and $7 million, respectively. The average, low and high of amounts produced by Galileo s 20 day VaR analyses performed during the year ended December 31, 2007, calculated at a 99% confidence level, were approximately $4 million, $1 million, and $9 million, respectively. For weather contingent derivative products, Galileo performs its VaR analyses using a one year holding period. The average, low and high of amounts for Galileo s weather contingent portfolio produced by its VaR analyses performed during the year ended December 31, 2008, calculated at a 99% confidence level, were approximately $2 million, $0, and $8 million, respectively. The average, low and high of amounts produced by Galileo s VaR analyses performed during the year ended December 31, 2007, calculated at a 99% confidence level, were approximately $0, $0, and $2 million, respectively.

Variable Annuity Guarantee Risk

White Mountains entered into an agreement to reinsure death and living benefit guarantees associated with certain variable annuities issued in Japan. The reinsurance agreement assumes risk related to a shortfall between the account value and the guaranteed value that must be paid by the ceding company to an annuitant or to an annuitant s beneficiary in accordance with the underlying annuity contracts. 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. The liability is also affected by annuitant-related actuarial assumptions, including surrender and mortality rates. At December 31, 2008, the total liability for the reinsured variable annuity guarantees was $467 million.

White Mountains purchases derivative instruments, including futures and over-the counter option contracts on interest rates, major equity indices, and foreign currencies, to mitigate the risks associated with changes in the fair value of the reinsured variable annuity guarantees. At December 31, 2008, the fair value of these derivative instruments was $184 million.

White Mountains measures its net exposure to changes in relevant interest rates, foreign exchange rates and equity markets on a daily basis and adjusts its economic hedge positions within risk guidelines established by senior management. White Mountains also monitors the effects of annuitant-related experience against actuarial assumptions (including surrender and mortality rates) on a weekly basis and adjusts relevant assumptions and economic hedge positions if required. While White Mountains actively manages its economic hedge positions, several factors, including policyholder behavior and mismatches between underlying variable annuity funds and the hedge indices, may result in economic hedge ineffectiveness. See discussion of fair value measurement of reinsured variable annuity liabilities and derivative instruments and sensitivity analyses of significant inputs in Item 7 **CRITICAL ACCOUNTING ESTIMATES** .

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Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 107 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Principal Executive Officer (PEO) and the Principal Financial Officer (PFO) of White Mountains have evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of December 31, 2008. Based on that evaluation, the PEO and PFO have concluded that White Mountains disclosure controls and procedures are adequate and effective.

The PEO and the PFO of White Mountains have evaluated the effectiveness of its internal control over financial reporting as of December 31, 2008. Based on that evaluation, the PEO and PFO have concluded that White Mountains internal control over financial reporting is effective. Management s annual report on internal control over financial reporting is included on page F-68 of this report. The attestation report on the effectiveness of our internal control over financial reporting by PricewaterhouseCoopers LLP is included on page F-69 of this report.

There has been no change in White Mountains internal controls over financial reporting that occurred during the fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect White Mountains internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. **Directors, Executive Officers and Corporate Governance**

Reported under the captions The Board of Directors , Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance Committees of the Board Audit Committee in the Company s 2009 Proxy Statement, herein incorporated by reference, and under the caption Executive Officers of the Registrant in Part I of this Annual Report on Form 10-K.

The Company s Code of Business Conduct, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company, is available at *www.whitemountains.com* and is included as Exhibit 14 to the Company s 2004 Annual Report on Form 10-K. The Company s Code of Business Conduct is also available in print free of charge to any shareholder upon request.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company s Board of Directors. The procedures for shareholders to nominate directors are reported under the caption Corporate Governance Committees of the Board Nominating and Governance Committee in the Company s 2009 Proxy Statement, herein incorporated by reference.

Item 11. **Executive Compensation**

Reported under the captions Executive Compensation and Corporate Governance Compensation Committee Interlocks and Insider Participation in the Company s 2009 Proxy Statement, herein incorporated by reference.

Item 12. **Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Reported under the captions Voting Securities and Principal Holders Thereof and Equity Compensation Plan Information in the Company s 2009 Proxy Statement, herein incorporated by reference.

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Item 13. **Certain Relationships, Related Transactions and Director Independence**

Reported under the caption Transactions with Related Persons, Promoters and Certain Control Persons and Corporate Governance Director Independence in the Company s 2009 Proxy Statement, herein incorporated by reference.

Item 14. **Principal Accountant Fees and Services**

Reported under the caption Principal Accountant Fees and Services in the Company s 2009 Proxy Statement, herein incorporated by reference.

PART IV

Item 15. **Exhibits and Financial Statement Schedules**

a. **Documents Filed as Part of the Report**

The financial statements and financial statement schedules and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 107 of this report. A listing of exhibits filed as part of the report appear on pages 103 through 105 of this report.

b. **Exhibits**

Exhibit number	Name
2	Plan of Reorganization (incorporated by reference herein to the Company s Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)
3.1	Memorandum of Continuance of the Company (incorporated by reference herein to Exhibit (3)(i) of the Company s Current Report on Form 8-K dated November 1, 1999)
3.2	Amended and Restated Bye-Laws of the Company (incorporated by reference herein to Exhibit 3(ii) of the Company s Report on Form 10-Q dated August 1, 2008)
4.2	Form of Senior Indenture (incorporated by reference herein to the Company s Registration Statement on S-3 (No. 333-88352) dated July 17, 2003)
4.3	Fiscal Agency Agreement between White Mountains Re Group, Ltd. as Issuer and The Bank of New York as Fiscal Agent (incorporated by reference herein to Exhibit 4.1 of the Company s Report on Form 8-K dated March 14, 2007)

4.4	Certificate of Designation, setting forth the designations, powers, preferences and rights of the WMRe Preference Shares (incorporated by reference herein to Exhibit 3.1 of the Company s Report on Form 8-K dated May 29, 2007)
10.1	Exchange Agreement dated as of March 8, 2008, by and among Berkshire Hathaway Inc., General Reinsurance Corporation, the Company and Railsplitter Holdings Corporation (incorporated by reference herein to Exhibit 2.1 of the Company s Report on Form 8-K dated March 10, 2008)
10.2	$475,000,000 Credit Agreement, dated June 19, 2007 among the Company, as the Borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Lender, and the other lenders party hereto.(incorporated by reference herein to Exhibit 10.2 of the Company s Report on Form 10-Q dated August 2, 2007)
10.2.1	First Amendment to $475,000,000 Credit Agreement, dated June 19, 2007 among the Company, as the Borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Lender, and the other lenders party hereto. (incorporated by reference herein to Exhibit 10.1 of the Company s Report on Form 10-Q dated August 1, 2008)
10.2.2	Second Amendment to $475,000,000 Credit Agreement, dated June 19, 2007 among the Company, as the Borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Lender, and the other lenders party hereto. (*)
10.2.3	Third Amendment to $475,000,000 Credit Agreement, dated June 19, 2007 among the Company, as the Borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Lender, and the other lenders party hereto. (*)
10.3	Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance Company and GRC dated April 13, 2001 (incorporated by reference herein to Exhibit 99(m) of the Company s Report on Form 8-K dated June 1, 2001)

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Exhibit number	Name
10.4	Adverse Development Agreement of Reinsurance between NICO (and certain of its affiliates) and Potomac Insurance Company dated April 13, 2001 and related documents (incorporated by reference herein to Exhibits 99(n), 99(o), 99(p) and 99(q) of the Company s Report on Form 8-K dated June 1, 2001)
10.5	Master Agreement by and among the Company, OneBeacon and Liberty Mutual including the Liberty RRA and related documents (incorporated by reference herein to Exhibits 99(d), 99(e), 99(f), 99(g) and 99(h) of the Company s Report on Form 8-K dated November 1, 2001)
10.6	Investment Management Agreement between Prospector Partners, LLC and White Mountains Advisors LLC (incorporated by reference herein to Exhibit 99.1 of the Company s Report on Form 8-K dated June 20, 2005)
10.7	Amendment to the Investment Management Agreement between Prospector Partners, LLC and White Mountains Advisors, LLC dated February 23, 2006 (incorporated by reference herein to the Company s Report on Form 8-K dated February 28, 2006)
10.8	Investment Management Agreement between Prospector Partners, LLC and OneBeacon dated November 14, 2006 (incorporated by reference herein to Exhibit 10.11 of the Company s 2006 Annual Report on Form 10-K)
10.9	Consulting Letter Agreement between Prospector Partners, LLC and White Mountains Advisors LLC (incorporated by reference herein to Exhibit 99.2 of the Company s Report on Form 8-K dated June 20, 2005)
10.10	Folksamerica Holding Company, Inc. Voluntary Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.14 of the Company s 2004 Annual Report on Form 10-K)
10.11	Folksamerica Holding Company, Inc. Deferred Benefit Plan (incorporated by reference herein to Exhibit 10.15 of the Company s 2004 Annual Report on Form 10-K)
10.12	White Mountains Long-Term Incentive Plan (incorporated by reference herein to Exhibit 10.15 of the Company s 2006 Annual Report on Form 10-K)
10.13	White Mountains Bonus Plan (incorporated by reference herein to Exhibit 10.17 of the Company s 2004 Annual Report on Form 10-K)
10.14	The Company s Voluntary Deferred Compensation Plan (incorporated by reference herein to Exhibit 4(c) of the Company s Report on Form S-8 dated October 19, 1999)
10.15	White Mountains Insurance Group Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.14 of the Company s 2003 Annual Report on Form 10-K)
10.16	Fund American Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.15 of the Company s 2003 Annual Report on Form 10-K)
10.17	OneBeacon Performance Unit Plan (incorporated by reference herein to Exhibit 10.20 of the Company s 2006 Annual Report on Form 10-K)
10.18	OneBeacon Insurance 2006 Management Incentive Plan (incorporated by reference herein to Exhibit 10.21 of the Company s 2006 Annual Report on Form 10-K)
10.19	OneBeacon Insurance Deferred Compensation Plan (incorporated by reference herein to Exhibit 10.18 of the Company s 2003 Annual Report on Form 10-K)
10.20	OneBeacon Phantom WTM Share Plan (incorporated by reference herein to Exhibit 10.23 of the Company s 2006 Annual Report on Form 10-K)
10.21	OneBeacon Long-Term Incentive Plan (incorporated by reference herein to Exhibit 10.24 of the Company s 2006 Annual Report on Form 10-K)
10.22	OneBeacon Insurance Group, Ltd. Non-Qualified Stock Option Agreement for T. Michael Miller (incorporated by reference herein to Exhibit 10.25 of the Company s 2006 Annual Report on Form 10-K)
10.23	Amended and Restated Revenue Sharing Agreement among John D. Gillespie, Fund American Companies, Inc. and Folksamerica Reinsurance Company (incorporated by reference herein to Exhibit 10.26 of the Company s 2004 Annual Report on Form 10-K)
10.24	Nonqualified Stock Option Agreement made as of the 6th day of March 2007, by and between the Company and Raymond Barrette (incorporated by reference herein to Exhibit 99.1 of the Company s Report on Form 8-K/A dated March 7, 2007)
10.25	Restricted Share Award Agreement made as of the 6th day of March 2007, by and between the Company and Raymond Barrette (incorporated by reference herein to Exhibit 99.2 of the Company s Report on Form 8-K/A dated March 7, 2007)
11	Statement Re Computation of Per Share Earnings (**)
12	Statement Re Computation of Ratio of Earnings to Fixed Charges (*)
14	The Company s Code of Business Conduct, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company (incorporated by reference herein to Exhibit 14 of the Company s 2004 Annual Report on Form 10-K)
21	Subsidiaries of the Registrant (*)
23	Consent of PricewaterhouseCoopers LLP dated February 27, 2009 (*)

24	Powers of Attorney (*)

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Explanation of Responses:

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Exhibit number	Name
31.1	Principal Executive Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934 (*)
31.2	Principal Financial Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934 (*)
32.1	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
32.2	Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)

(*) Included herein.

(**) Not included herein as the information is contained elsewhere within report. See **Note 10 (Loss) Earnings per share** of the accompanying consolidated financial statements.

c. Financial Statement Schedules

The financial statement schedules and report of independent registered public accounting firm have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 107 of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Date: February 27, 2009	By:	/s/ J. BRIAN PALMER Vice President and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RAYMOND BARRETTE Raymond Barrette	Chairman, CEO (Principal Executive Officer) and Director	February 26, 2009
BRUCE R. BERKOWITZ* Bruce R. Berkowitz	Director	February 26, 2009
YVES BROUILLETTE* Yves Brouillette	Director	February 26, 2009
HOWARD L. CLARK, JR.* Howard L. Clark, Jr.	Director	February 26, 2009
ROBERT P. COCHRAN* Robert P. Cochran	Director	February 26, 2009
MORGAN W. DAVIS* Morgan W. Davis	Director	February 26, 2009
A. MICHAEL FRINQUELLI* A. Michael Frinquelli	Director	February 26, 2009
/s/ DAVID T. FOY David T. Foy	Executive Vice President and CFO (Principal Financial Officer)	February 26, 2009
GEORGE J. GILLESPIE, III* George J. Gillespie, III	Director	February 26, 2009
JOHN D. GILLESPIE*	Director	February 26, 2009

John D. Gillespie		
EDITH E. HOLIDAY* Edith E. Holiday	Director	February 26, 2009
/s/ J. BRIAN PALMER J. Brian Palmer	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 27, 2009
LOWNDES A. SMITH* Lowndes A. Smith	Director	February 26, 2009
ALLAN L. WATERS* Allan L. Waters	Director	February 26, 2009

By: /s/ RAYMOND BARRETTE
Raymond Barrette, *Attorney-in-Fact*

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

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		Form 10-K page(s)
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Consolidated statements of operations and comprehensive (loss) income for each of the years ended December 31, 2008, 2007 and 2006		F-2
Consolidated statements of common shareholders equity for each of the years ended December 31, 2008, 2007 and 2006		F-3
Consolidated statements of cash flows for each of the years ended December 31, 2008, 2007 and 2006		F-4
Notes to consolidated financial statements		F-5
Other financial information:		
Management s annual report on internal control over financial reporting		F-68
Report of independent registered public accounting firm		F-69
Selected quarterly financial data (unaudited)		F-70
Financial statement schedules:		
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II.	Condensed financial information of the Registrant	FS-2
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V.	Valuation and qualifying accounts	FS-6
VI.	Supplemental information for property and casualty insurance underwriters	FS-7

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CONSOLIDATED BALANCE SHEETS

Millions, except share and per share amounts	December 31, 2008	2007
Assets		
Fixed maturity investments, at fair value (amortized cost $5,631.6 and $7,312.4)	**$ 5,480.5**	$ 7,371.5
Common equity securities, at fair value (cost $558.4 and $1,319.3)	**552.7**	1,550.7
Short-term investments, at amortized cost (which approximates fair value)	**2,244.5**	1,327.3
Other investments (cost $431.2 and $542.9)	**416.2**	603.3
Convertible fixed maturity investments, at fair value (cost $327.3 and $482.2)	**308.8**	490.6
Trust account investments, at amortized cost (fair value $ and $307.0)		305.6
Total investments	**9,002.7**	11,649.0
Cash (restricted: $225.7 and $8.5)	**409.6**	171.3
Reinsurance recoverable on unpaid losses	**1,358.8**	1,702.9
Reinsurance recoverable on unpaid losses Berkshire Hathaway Inc.	**1,691.6**	1,765.0
Reinsurance recoverable on paid losses	**47.3**	59.5
Insurance and reinsurance premiums receivable	**835.7**	854.0
Securities lending collateral	**220.0**	661.6
Funds held by ceding companies	**163.3**	231.1
Investments in unconsolidated affiliates	**116.9**	406.3
Deferred acquisition costs	**323.0**	326.0
Deferred tax asset	**724.0**	236.6
Ceded unearned premiums	**111.3**	123.1
Accrued investment income	**67.4**	83.2
Accounts receivable on unsettled investment sales	**78.2**	201.1
Other assets	**746.0**	611.9
Total assets	**$ 15,895.8**	$ 19,082.6
Liabilities		
Loss and loss adjustment expense reserves	**$ 7,400.1**	$ 8,062.1
Unearned insurance and reinsurance premiums	**1,597.4**	1,605.2
Debt	**1,362.0**	1,192.9
Securities lending payable	**234.8**	661.6
Deferred tax liability	**306.0**	353.2
Incentive compensation payable	**154.3**	224.2
Funds held under reinsurance treaties	**79.1**	103.0
Ceded reinsurance payable	**101.3**	101.8
Accounts payable on unsettled investment purchases	**7.5**	46.4
Other liabilities	**1,157.9**	873.1
Preferred stock subject to mandatory redemption held by Berkshire Hathaway Inc. (redemption value $ and $300.0)		278.3
Total liabilities	**12,400.4**	13,501.8
Minority interest OneBeacon, Ltd.	**283.5**	517.2
Minority interest WMRe Preference Shares	**250.0**	250.0
Minority interest consolidated limited partnerships	**63.1**	100.2
Total minority interest	**596.6**	867.4
Common shareholders equity		
Common shares at $1 par value per share authorized 50,000,000 shares; issued and outstanding 8,808,843 and 10,553,572 shares	**8.8**	10.5
Paid-in surplus	**1,419.4**	1,680.7
Retained earnings	**1,751.9**	2,718.5
Accumulated other comprehensive (loss) income, after-tax:		
Net unrealized gains on investments		208.9
Equity in unrealized losses from investments in unconsolidated affiliates	**(198.4)**	(1.9)
Net unrealized foreign currency translation (losses) gains	**(61.5)**	99.3

Other		**(21.4)**		(2.6)
Total common shareholders equity		**2,898.8**		4,713.4
Total liabilities, minority interest and common shareholders equity	**$**	**15,895.8**	$	19,082.6

See Notes to Consolidated Financial Statements including **Note 21** for Commitments and Contingencies.

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	Year Ended December 31,		
Millions, except per share amounts	**2008**	**2007**	**2006**
Revenues			
Earned insurance and reinsurance premiums	**$ 3,710.0**	$ 3,783.7	$ 3,712.7
Net investment income	**410.3**	533.0	435.5
Net realized investment (losses) gains	**(568.7)**	263.2	272.7
Net unrealized investment losses	**(588.4)**		
Gain on sale of shares through initial public offering of OneBeacon, Ltd.			171.3
Other revenue	**(7.5)**	153.9	202.0
Total revenues	**2,955.7**	4,733.8	4,794.2
Expenses			
Loss and loss adjustment expenses	**2,506.4**	2,406.4	2,452.7
Insurance and reinsurance acquisition expenses	**752.5**	776.6	754.8
Other underwriting expenses	**466.6**	509.0	505.4
General and administrative expenses	**237.9**	200.5	218.3
Accretion of fair value adjustment to loss and loss adjustment expense reserves	**16.9**	21.4	24.5
Interest expense on debt	**82.1**	73.0	50.1
Interest expense dividends on preferred stock subject to mandatory redemption	**11.8**	29.3	30.3
Interest expense accretion on preferred stock subject to mandatory redemption	**21.6**	36.1	28.3
Total expenses	**4,095.8**	4,052.3	4,064.4
Pre-tax (loss) income	**(1,140.1)**	681.5	729.8
Income tax benefit (provision)	**498.7**	(210.5)	(98.9)
(Loss) income before minority interest, equity in earnings of unconsolidated affiliates and extraordinary item	**(641.4)**	471.0	630.9
Minority interest	**76.1**	(93.0)	(16.0)
Equity in earnings of unconsolidated affiliates	**5.8**	29.4	36.9
(Loss) income before extraordinary item	**(559.5)**	407.4	651.8
Excess of fair value of acquired net assets over cost	**4.2**		21.4
Net (loss) income	**(555.3)**	407.4	673.2
Change in net unrealized gains for investments held		142.3	155.1
Recognition of net unrealized gains and losses for investments sold		(127.1)	(156.0)
Change in equity in net unrealized losses from investments in unconsolidated affiliates	**(193.0)**	(2.2)	(29.8)
Change in foreign currency translation	**(173.7)**	62.1	59.0
Net change in minimum pension liability and other	**(18.8)**	(3.2)	4.6
Comprehensive net (loss) income	**$ (940.8)**	$ 479.3	$ 706.1
Basic (loss) earnings per share			
(Loss) income before extraordinary item	**$ (54.96)**	$ 37.96	$ 60.52
Net (loss) income	**(54.54)**	37.96	62.51
Diluted (loss) earnings per share			
(Loss) income before extraordinary item	**$ (54.96)**	$ 37.89	$ 60.33
Net (loss) income	**(54.54)**	37.89	62.32
Dividends declared and paid per common share	**$ 4.00**	$ 8.00	$ 8.00

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

Millions	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income (loss), after-tax	Unearned compensation
Balances at January 1, 2006	$ 3,833.2	$ 1,727.2	$ 1,899.8	$ 208.1	$ (1.9)
Cumulative effect adjustment hybrid instruments			9.2	(9.2)	
Cumulative effect adjustment share-based compensation		(1.9)			1.9
Net income	673.2		673.2		
Net change in unrealized investment losses	(30.7)			(30.7)	
Net change in foreign currency translation	59.0			59.0	
Net change in other	.5			.5	
Dividends declared on common shares	(86.2)		(86.2)		
Issuances of common shares	.6	.6			
Amortization of restricted common share awards	1.6	1.6			
Adjustment for initial adoption of FAS 158, net of tax	4.1			4.1	
Balances at December 31, 2006	4,455.3	1,727.5	2,496.0	231.8	
Cumulative effect adjustment taxes (FIN 48)	.2		.2		
Net income	407.4		407.4		
Net change in unrealized investment gains	13.0			13.0	
Net change in foreign currency translation	62.1			62.1	
Net change in other	(3.2)			(3.2)	
Dividends declared on common shares	(86.2)		(86.2)		
Issuances of common shares	2.2	2.2			
Repurchases and retirements of common shares	(148.0)	(49.1)	(98.9)		
Amortization of restricted common share awards	4.6	4.6			
Accrued Option expense	6.0	6.0			
Balances at December 31, 2007	4,713.4	1,691.2	2,718.5	303.7	
Cumulative effect adjustment FAS 157	(.3)		(.3)		
Cumulative effect adjustment FAS 159			199.6	(199.6)	
Net loss	(555.3)		(555.3)		
Net change in unrealized investment losses	(193.0)			(193.0)	
Net change in foreign currency translation	(173.7)			(173.7)	
Net change in other	(18.7)			(18.7)	
Dividends declared on common shares	(42.3)		(42.3)		
Issuances of common shares	8.9	8.9			
Repurchases and retirements of common shares	(852.2)	(283.9)	(568.3)		
Amortization of restricted common share awards	5.7	5.7			

Accrued option expense		6.3		6.3					
Balances at December 31, 2008	**$**	**2,898.8**	**$**	**1,428.2**	**$**	**1,751.9**	**$**	**(281.3)**	**$**

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
Millions	2008	2007	2006
Cash flows from operations:			
Net (loss) income	**$ (555.3)**	$ 407.4	$ 673.2
Charges (credits) to reconcile net income to net cash used for operations:			
Net realized investment losses (gains)	**568.7**	(263.2)	(272.7)
Net unrealized investment losses	**588.4**		
Gain on sale of shares through initial public offering of OneBeacon Ltd.			(171.3)
Excess of fair value of acquired net assets over cost	**(4.2)**		(21.4)
Minority interest	**(76.1)**	93.0	16.0
Deferred income tax (benefit) provision	**(466.9)**	65.1	33.2
Undistributed equity in (losses) earnings from unconsolidated affiliates, after-tax	**(5.8)**	1.8	48.7
Other operating items:			
Net change in loss and LAE reserves	**(225.3)**	(770.3)	(1,300.2)
Net change in reinsurance recoverable on paid and unpaid losses	**242.5**	659.0	738.2
Net change in funds held by ceding reinsurers	**21.6**	235.7	177.3
Net change in insurance and reinsurance premiums receivable	**(8.1)**	50.7	111.1
Net change in unearned insurance and reinsurance premiums	**59.9**	(5.4)	(4.5)
Net change in ceded unearned premiums	**(.6)**	(31.2)	118.3
Net change in reserves for structured contracts	**(.5)**	(146.0)	(77.5)
Net change in other assets and liabilities, net	**(49.2)**	49.2	27.1
Net cash provided from operations	**89.1**	345.8	95.5
Cash flows from investing activities:			
Net change in short-term investments	**(1,005.6)**	16.0	(526.2)
Sales of fixed maturity and convertible fixed maturity investments	**3,666.4**	6,932.1	4,576.2
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	**1,418.8**	672.5	833.9
Sales of common equity securities and other investments	**1,021.5**	797.4	819.2
Sales of trust account investments	**305.5**	33.8	7.1
Sales of consolidated and unconsolidated affiliates, net of cash sold	**11.6**	90.1	771.4
Sale of Agri renewal rights			32.0
Purchases of trust account assets			(344.0)
Purchases of common equity securities and other investments	**(636.5)**	(1,135.7)	(697.0)
Purchases of fixed maturity and convertible fixed maturity investments	**(3,590.0)**	(7,430.2)	(5,800.5)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	**(224.3)**	(51.6)	(33.0)
Net change in unsettled investment purchases and sales	**84.0**	(213.0)	36.6
Net acquisitions of property and equipment	**(9.6)**	(26.2)	(19.8)
Net cash provided from (used for) investing activities	**1,041.8**	(314.8)	(344.1)
Cash flows from financing activities:			
Issuance of WMRe Preference Shares, net of issuance costs		246.6	
Issuance of debt	**650.8**	394.4	482.4
Repayment of debt	**(452.8)**	(322.0)	(155.0)
Repurchase of debt	**(22.3)**		
Redemption of mandatorily redeemable preferred stock	**(300.0)**	(20.0)	
Interest rate swap agreements		(2.4)	
Cash dividends paid to the Company s common shareholders	**(42.3)**	(86.2)	(86.2)
Cash dividends paid to OneBeacon Ltd. s minority common shareholders	**(69.5)**	(23.4)	
Cash dividends paid to preferred shareholders	**(11.8)**	(29.3)	(30.3)
Cash dividends paid on WMRe Preference Shares	**(18.8)**	(11.3)	
Company s Common shares repurchased and retired	**(59.3)**	(148.0)	

Cash exchanged with Berkshire Hathaway Inc. for the Company s common shares		**(707.9)**				
OneBeacon Ltd. Common shares repurchased and retired		**(68.8)**		(33.0)		
Proceeds from issuances of common shares		**.6**		2.2		.6
Net cash (used for) provided from financing activities		**(1,102.1)**		(32.4)		211.5
Effect of exchange rate changes on cash		**(7.7)**		5.2		8.4
Net increase (decrease) in cash during year		**21.1**		3.8		(28.7)
Cash balance at beginning of year (excludes restricted cash balances of $8.5, $0 and $0)		**162.8**		159.0		187.7
Cash balance at end of year (excludes restricted cash balances of $225.7, $8.5 and $0)	**$**	**183.9**	$	162.8	$	159.0

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

Basis of presentation

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

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S.-based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, commercial and personal products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the OneBeacon Acquisition). During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd. s common shares in an initial public offering (the OneBeacon Offering). At December 31, 2008 and 2007, White Mountains owned 75.5% and 72.9% of OneBeacon Ltd. s outstanding common shares.

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

The Esurance segment consists of Esurance Holdings, Inc., its subsidiaries and Answer Financial Inc. (AFI and, collectively, Esurance). Esurance sells personal auto insurance directly to customers online and through select online agents. Answer Financial, which White Mountains acquired during 2008 (see **Note 2**), is a personal insurance agency selling online and in call centers.

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its weather risk management business (Galileo), its variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), as well as the International American Group, Inc. (the

International American Group) and various other entities not included in other segments. The International American Group includes American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (British Insurance Company), both of which are in run-off. On October 31, 2008, in a transaction with Berkshire Hathaway Inc. (Berkshire), White Mountains exchanged its ownership interests in Commercial Casualty Insurance Company (CCIC) and the International American Group, and $707.9 million in cash for 1,634,921 common shares of White Mountains held by Berkshire (See **Note 2**). The Other Operations segment also includes White Mountains investments in Lightyear Delos Acquisition Corporation (Delos), common shares and warrants to purchase common shares of Symetra Financial Corporation (Symetra) and the consolidated results of the Tuckerman Capital, LP fund (Tuckerman Fund I) and Tuckerman Fund II until its transfer to White Mountains Re, effective June 30, 2008.

All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

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Recently Adopted Changes in Accounting Principles

Fair Value Measurements

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

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 the outside pricing service to determine fair value. The outside pricing services used by White Mountains have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted prices are unavailable, White Mountains utilizes fair value estimates based upon other observable inputs including matrix pricing, benchmark interest rates, market comparables and other relevant inputs.

White Mountains process to validate the market prices obtained from outside pricing sources include, but are not limited to, periodic evaluation of model pricing methodologies and monthly analytical reviews of certain prices. White Mountains also periodically performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price.

Other investments, which comprise limited partnerships, hedge funds and private equity interests for which the fair value option under FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), has been elected are carried at fair value based upon White Mountains proportionate interest in the underlying partnership s or fund s net asset value, which is deemed to approximate fair value. In circumstances where the partnership net asset value is deemed to differ from fair value due to illiquidity or other factors, net asset value is adjusted accordingly.

Where appropriate, assets and liabilities measured at fair value have been adjusted for the effect of counterparty credit risk.

Fair Value Option

On January 1, 2008, White Mountains adopted FAS 159, which allows companies to make an election on an individual instrument basis to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. White Mountains has made the fair value election for its portfolio of available for sale (AFS) securities which were reclassified to trading upon adoption, its investments in convertible bonds, its investments in investment partnerships and for its assumed variable annuity Guaranteed Minimum Death Benefits (GMDB) liabilities. Changes in fair value of financial assets and liabilities for which the fair value election has been made are reported pre-tax in revenues.

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

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

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Federal, State and Foreign Income Taxes

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

In connection with the adoption of FIN 48, White Mountains recognized a $0.2 million decrease in the liability for unrecognized tax benefits, primarily as a result of reductions in its estimates of accrued interest. The effect of adoption has been recorded as an adjustment to opening retained earnings.

Significant Accounting Policies

Investment securities

At December 31, 2008 White Mountains invested assets comprise securities and other investments held for general investment purposes. Until May 31, 2008, White Mountains invested assets also included securities held in a segregated trust account established in connection with the OneBeacon Offering to economically defease the $300.0 million mandatorily redeemable preferred stock held by Berkshire (the Berkshire Preferred Stock). The Berkshire Preferred Stock was redeemed in May 2008 using the proceeds from the segregated trust account. The securities held in the segregated trust account were classified as held to maturity and were recorded at amortized cost.

White Mountains portfolio of fixed maturity investments and common equity securities held for general investment purposes were classified as AFS for the year ended December 31, 2007. Effective January 1, 2008, upon adoption of FAS 159, the portfolio of fixed maturity investments and common equity securities held for general investment purposes were reclassified as trading. See **Recently Adopted Changes in Accounting Principles** section of **Note 1** for further discussion. AFS and trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Net unrealized investment gains and losses on AFS securities were reported net, after-tax, as a separate component of shareholder s equity with changes therein, net of the effect of adjustments for minority interest and taxes, reported as a component of other comprehensive income. Changes in unrealized gains and losses on trading securities are reported, pre-tax, in revenues. Realized investment gains and losses on AFS and trading securities are calculated using the specific identification method and are reported pre-tax in revenues. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment.

White Mountains owns convertible bonds. The equity conversion option is considered an embedded derivative. For the year ended December 31, 2007, White Mountains accounted for its convertible bonds in accordance with FAS 155, *Accounting for Certain Hybrid Instruments, an amendment to Statements No. 133 and 140* (FAS 155). Convertible bonds were recorded at fair value with changes therein recorded as realized investment gains or losses. On January 1, 2008, upon adoption of FAS 159, changes in fair value on convertible bonds are recorded in revenues

through unrealized investment gains (losses).

White Mountains has invested in mortgage-backed and asset-backed securities which are carried at fair value within fixed maturity investments. White Mountains investments in debt securities, including asset-backed securities, are generally valued using matrix and other pricing models. Key inputs in a typical valuation are benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life. At December 31, 2008, the market for White Mountains investments in asset-backed securities remained active and accordingly, White Mountains did not adjust the fair value estimates for the effect of illiquidity.

Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, the financial health of and specific prospects for the issuer and the ability and intent to hold the investment to recovery. Investment losses that are other than temporary are recognized in earnings.

Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 2008 and December 31, 2007. Short-term investments held in the segregated trust account were included in the total of investments held in trust.

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Investments in limited partnerships

Other investments comprise White Mountains investments in limited partnerships, hedge fund and private equity interests. Prior to January 1, 2008, changes in White Mountains interest in limited partnerships accounted for using the equity method were included in net realized investment gains and changes in White Mountains interest in limited partnerships not accounted for under the equity method were reported, after-tax, as a component of shareholders equity, with changes therein reported as a component of other comprehensive income. Effective January 1, 2008, in connection with its adoption of FAS 159 (See **Recently Adopted Changes in Accounting Principles** section of **Note 1** for further discussion) White Mountains made the fair value election for most of its limited partnership investments in hedge funds and private equity interests. For the limited partnership investments for which White Mountains has made the fair value election, changes in fair value are reported in revenues on a pre-tax basis. For those investment limited partnerships for which White Mountains has not made the fair value election, White Mountains continues to account for its interests under the equity method.

Securities lending

White Mountains participates in a securities lending program as a mechanism for generating additional investment income. Under the security lending arrangements, certain securities that White Mountains owns are loaned to other institutions for short periods of time through a lending agent. White Mountains maintains control over the securities it lends, retains the earnings and cash flows associated with the loaned securities and receives a fee from the borrower for the temporary use of the asset. The security lending counterparty is required to provide collateral for the loaned securities, which is then invested by the lending agent. The collateral is required at a rate of 102% of the fair value of the loaned securities, is controlled by the lending agent and may not be sold or re-pledged. The fair value of the securities lending collateral is recorded as both an asset and liability on the balance sheet, however, other than in the event of default by the borrower, this collateral is not available to White Mountains and will be remitted to the borrower by the lending agent upon the return of the loaned securities. Because of these restrictions, White Mountains considers its securities lending activities to be non-cash transactions. An indemnification agreement with the lending agent protects White Mountains in the event a borrower becomes insolvent or fails to return any of the securities on loan. At December 31, 2008 White Mountains had recorded a liability of $14.8 million for the difference between the fair value of collateral assets held and the amount of the cash collateral it is obligated to return to its security lending counterparties. At December 31, 2007, the fair value of securities held as collateral exceeded the amounts required to be returned to the security lending counter party by the lending agent upon the return of the loaned securities.

Derivative financial instruments

White Mountains holds a variety of derivative financial instruments for both risk management and investment purposes. White Mountains recognizes all derivatives as either assets or liabilities, measured at fair value, in the consolidated balance sheets.

Warrants

White Mountains holds warrants to acquire common shares of Symetra. During 2007, White Mountains also held warrants to acquire common shares of Montpelier Re. On May 1, 2007 White Mountains sold all of its remaining interest in Montpelier Re. White Mountains also holds warrants that it has received in the restructuring (e.g., securities received from bankruptcy proceedings) of certain of its common equity and/or fixed maturity investments. White Mountains accounts for its investments in warrants in accordance with FAS 133, *Accounting for Derivative*

Instruments and Hedging Activities, as derivatives. The warrants are recorded in investments in unconsolidated affiliates at fair value with changes therein recorded in realized gains or losses in the period in which they occur.

White Mountains uses a Black Scholes valuation model to determine the fair value of the Symetra warrants. The major assumptions used in valuing the Symetra warrants at December 31, 2008 were a risk-free rate of 1.70%, volatility of 25%, an expected life of 5.6 years and a share price of $11.16 per share. Since Symetra s shares are not publicly traded, the share price is based upon the relationship of market value per share to book value per share for comparable companies, adjusted to exclude net unrealized gains (losses) from fixed maturities. At December 31, 2008, the book value multiple used was 0.80. White Mountains has classified its investment in Symetra warrants as a Level 3 measurement since significant unobservable inputs are used in its fair value estimate.

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Cash flow hedge

Contemporaneously with entering into a variable rate mortgage note, OneBeacon entered into an interest rate swap agreement under which it pays a fixed rate and receives a variable rate to hedge its exposure to interest rate fluctuations. The notional amount of the swap is equal to the outstanding principal of the mortgage note it hedges and is adjusted at the same time as the mortgage note principal changes for drawdowns and repayments. The underlying index used to determine the variable interest paid under the swap is the same as that used for OneBeacon s variable rate mortgage note. In accordance with FAS 133, OneBeacon has accounted for the swap as a cash flow hedge and has recorded the interest rate swap at fair value on the balance sheet in other assets. Changes in the fair value of the interest rate swap, after tax, are reported as a component of other comprehensive income. OneBeacon monitors continued effectiveness of the hedge by monitoring the changes in the terms of the instruments as described above as compared to the actual changes in principal and notional amount in the mortgage note and interest rate swap.

Interest rate lock

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

Weather contracts

White Mountains offers weather and weather contingent risk management products through its subsidiary, Galileo. All of Galileo s products are in the form of derivative financial instruments. Galileo enters into weather and weather contingent derivative contracts with the objective of generating profits in normal climatic conditions. Accordingly, Galileo s weather and weather contingent derivatives are not designed to meet the GAAP criteria for hedge accounting. The majority of Galileo s business consists of receiving a payment or premium at the contract inception in exchange for bearing the risk of variations in a quantifiable weather index. Galileo initially recognizes the premium paid or received as an asset or liability, respectively, and recognizes any subsequent changes in fair value, as they occur, in other revenues within the income statement. The fair value for Galileo s derivative financial contracts are based upon quoted market prices, where available. Where quoted market prices are not available, management uses available market data and internal pricing models based upon consistent statistical methodologies to estimate the fair value. The gain or loss at the inception date for contracts valued based upon internal pricing models are deferred and amortized into income over the period at risk for each underlying contract.

Derivatives Variable annuity reinsurance

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

Guaranteed minimum accumulation benefits (GMABs) are paid to an annuitant for any shortfall between accumulated account value at the end of the accumulation period and the annuitant s total deposit, less any withdrawal payments made to the annuitant during the accumulation period. GMABs meet the definition of a derivative for accounting purposes and are accounted for under FAS 133. Therefore, GMABs are carried at fair value, with changes thereon recognized in income in the period of the change. The liability for the reinsured GMAB contracts has been determined using internal valuation models that use assumptions for interest rates, equity markets, foreign exchange rates and market volatilities at the valuation date, as well as annuitant-related actuarial assumptions, including surrender and mortality rates.

If an annuitant dies during the accumulation period of an annuity contract, GMDBs are paid to the annuitant s beneficiary for shortfalls between accumulated account value at the time of an annuitant s death and the annuitant s total deposit, less any living benefit payments or withdrawal payments previously made to the annuitant. For the year ended December 31, 2007 GMDBs were accounted for as life insurance liabilities in accordance with Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* . The life insurance liability for the reinsured GMDB contracts is calculated based on investment returns, mortality, surrender rates and other assumptions and is recognized over the contract period. Effective January 1, 2008 upon adoption of FAS 159, White Mountains elected to measure its GMDB liabilities at fair value.

The valuation of these liabilities involves significant judgment and is subject to change based upon changes in capital market assumptions and emerging surrender and mortality experience of the underlying contracts in force.

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WM Life Re has entered into derivative contracts that are designed to economically hedge against changes in the fair value of living and death benefit liabilities associated with its variable annuity reinsurance arrangements. The derivatives include futures and over-the-counter option contracts on interest rates, major equity indices, and foreign currencies. All WM Life Re s derivative instruments are recorded as assets or liabilities at fair value on the balance sheet within other assets. These derivative financial instruments do not meet the hedging criteria under FAS 133, and accordingly, changes in fair value are recognized in the current period as gains or losses in the income statement within other revenues.

In accordance with FAS 157, WM Life Re has considered the effect of counterparty credit risk in determining the fair value of its derivative contracts and its GMAB and GMDB liabilities for the year ended December 31, 2008.

Cash

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company s consolidated subsidiaries and exclude changes in amounts of restricted cash. (See **Note 9**).

Insurance and reinsurance operations

White Mountains accounts for insurance and reinsurance policies that it writes in accordance with FAS No. 60, *Accounting and Reporting by Insurance Enterprises* (FAS 60). Premiums written are recognized as revenues and are earned ratably over the term of the related policy or reinsurance treaty. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force. AutoOne Insurance, which acts as a limited assigned distribution (LAD) servicing carrier, enters into contractual arrangements with insurance companies to assume private passenger automobile assigned risk exposures in the state of New York. AutoOne Insurance receives LAD servicing fees for assuming these risks. LAD servicing fees are typically a percentage of the total premiums that AutoOne Insurance must write to fulfill the obligation of the transferor company. LAD servicing carriers may choose to write certain policies voluntarily by taking risks out of the New York Automobile Insurance Plan (NYAIP). These policies generate takeout credits which can be sold for fees to the transferor company (takeout fees). These fees are also typically a percentage of the transferor company s NYAIP premium assignments. AutoOne Insurance s LAD servicing and takeout fees are recorded as written premium when billed and are earned ratably over the term of the related policy to which the fee relates.

White Mountains charges fees on certain of its insurance policies. Refundable fees are classified with premiums and recognized in earnings over the policy term. Fees that represent a reimbursement of expenses, such as installment fees, are recorded as a reduction of underwriting expenses.

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs which are directly attributable to and vary with the production of business. These costs are deferred and amortized over the applicable premium recognition period as insurance and reinsurance acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. This limitation is referred to as a premium deficiency. A premium deficiency is recognized if the sum of expected loss and loss adjustment expenses (LAE), expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums. A premium deficiency is recognized by charging any unamortized acquisition costs to expense to the extent

required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency.

Losses and LAE are charged against income as incurred. Unpaid insurance losses and LAE are based on estimates (generally determined by claims adjusters, legal counsel and actuarial staff) of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance losses and LAE are based primarily on reports received from ceding companies and actuarial projections. Unpaid loss and LAE reserves represent management s best estimate of ultimate losses and LAE, net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any adjustments resulting there from are reflected in current operations. The process of estimating loss and LAE involves a considerable degree of judgment by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

OneBeacon discounts certain of its long-term workers compensation loss and LAE reserves when such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual claim basis. OneBeacon discounts these reserves using an average discount rate which is determined based on the various assumptions including consideration of when the claims will be settled (5.5% at December 31, 2008 and 2007). As of December 31, 2008 and 2007, the discount on OneBeacon s workers compensation loss and LAE reserves amounted to $142.1 million and $156.9 million.

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In connection with purchase accounting for the OneBeacon Acquisition, White Mountains was required to adjust to fair value OneBeacon s loss and LAE reserves and the related reinsurance recoverables by $646.9 million and $346.9 million, respectively, on OneBeacon s acquired balance sheet as of June 1, 2001. This net reduction to loss and LAE reserves of $300.0 million is being accreted through an income statement charge ratably with and over the period the claims are settled. (See **Note 3**).

In connection with purchase accounting for WMRe Sirius, White Mountains was required to adjust to fair value the loss and LAE reserves on WMRe Sirius acquired balance sheet by $58.1 million. This fair value adjustment is being accreted through an income statement charge ratably with and over the period the claims are settled. (See **Note 3**).

White Mountains insurance and reinsurance subsidiaries enter into ceded reinsurance contracts from time to time to protect their businesses from losses due to concentration of risk, to manage their operating leverage ratios and to limit losses arising from catastrophic events. Such reinsurance contracts are executed through excess of loss treaties and catastrophe contracts under which the reinsurer indemnifies for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. White Mountains has also entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are covered on a pro-rata basis. The amount of each risk ceded by White Mountains is subject to maximum limits which vary by line of business and type of coverage. Amounts related to reinsurance contracts are recorded in accordance with FAS 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* and Emerging Issues Task Force Topic No. D-54, as applicable.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The collectability of reinsurance recoverables is subject to the solvency of the reinsurers. White Mountains is selective in regard to its reinsurers, principally placing reinsurance with those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis.

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly. Funds held by ceding companies represent amounts due to White Mountains in connection with certain assumed reinsurance agreements in which the ceding company retains a portion of the premium to provide security against future loss payments. The funds held by ceding companies are generally invested by the ceding company and a contractually agreed interest amount is credited to the Company and recognized as investment income. Funds held under reinsurance treaties represent contractual payments due to the reinsurer that White Mountains has retained to secure obligations of the reinsurer. Such amounts are recorded as liabilities in the consolidated financial statements.

Mandatory Shared Market Mechanisms

As a condition to its licenses to do business in certain states, White Mountains insurance operations must participate in various mandatory shared market mechanisms commonly referred to as residual or involuntary markets. These markets generally consist of risks considered to be undesirable from a standard or routine underwriting perspective. Each state dictates the levels of insurance coverage that are mandatorily assigned to participating insurers within these markets. The total amount of such business an insurer must accept in a particular state is generally based on that insurer s market share of voluntary business written within that state. In certain cases, White Mountains is obligated to write business from shared market mechanisms at a future date based on its historical market share of all voluntary policies written within that state. Involuntary business generated from mandatory shared market mechanisms is accounted for in accordance with FAS 60 or as assumed

reinsurance under FAS 113 depending upon the structure of the mechanism.

OneBeacon s market assignments are typically required to be written in the current period, however, in certain cases OneBeacon is required to accept policy assignments at a future date. OneBeacon s residual market assignments to be written in the future primarily relate to private passenger automobile assigned risk exposures within the State of New York where several of OneBeacon s insurance subsidiaries write voluntary automobile insurance. The share of involuntary written premium for policies assigned by the NYAIP to a particular insurer in a given year is based on the proportion of the total voluntary writings in New York two years prior. Anticipated losses associated with future market assignments are recognized in accordance with FAS No. 5, *Accounting for Contingencies*, when the amount of such anticipated losses is determined to be probable and can be reasonably estimated.

Insurance-Related Assessments

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. In accordance with Statement of Position 97-3, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*, White Mountains insurance subsidiaries record guaranty fund assessments when it is probable that an assessment will be made and the amount can be reasonably estimated.

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Reserves for Structured Contracts

The reserve for structured contracts represents deposit liabilities for reinsurance contracts that do not satisfy the conditions for reinsurance accounting established in FAS 113.

For insurance and reinsurance contracts that transfer only significant timing risk or that transfer neither significant timing risk nor significant underwriting risk, the amount of the deposit asset or liability is adjusted at the balance sheet date by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments. Changes in the carrying amounts are reported as a component of net investment income. Fees related to these contracts are recorded as investment income and are earned using the effective yield method or evenly over the life of the contract dependent upon contract terms.

Deferred Software Costs

White Mountains capitalizes costs related to computer software developed for internal use during the application development stage of software development projects in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These costs generally consist of certain external, payroll and payroll-related costs. White Mountains begins amortization of these costs once the project is completed and ready for its intended use. Amortization is on a straight-line basis and over a useful life of three to five years. At December 31, 2008 and 2007, White Mountains had unamortized deferred software costs of $35.7 million and $40.4 million.

Federal and foreign income taxes

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

Deferred tax assets and liabilities are recorded when a difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes exists, and for other temporary differences as defined by FAS No. 109, *Accounting for Income Taxes*. The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses. The deferred tax asset is recognized when it is more likely than not that it will be realized.

Foreign currency exchange

The U.S. dollar is the functional currency for all of the Company s businesses except for WMRe Sirius, the foreign reinsurance operations of WMRe America and certain other smaller international activities. The national currencies of the subsidiaries are their functional currencies since their business is primarily transacted in such local currency. White Mountains also invests in securities denominated in foreign currencies.

Assets and liabilities recorded in these foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are converted using the average exchange rates for the period. Net foreign exchange gains and losses arising from the translation are generally reported in shareholders equity, in accumulated other comprehensive income or loss, net of tax.

Assets and liabilities relating to foreign operations are translated into the functional currency using current exchange rates; revenues and expenses are translated into the functional currency using the exchange rate on the transaction day. The resulting exchange gains and losses are reported as a component of net income in the period in which they arise. As of December 31, 2008 and 2007, White Mountains had an after-tax unrealized foreign currency translation (loss) gain of $(61.5) million, net of minority interest of $0.1 million, and $99.3 million, net of minority interest of $(0.1) million, respectively, recorded on its consolidated balance sheet.

The following rates of exchange for the U.S. dollar have been used for the most significant operations:

Currency	Opening Rate 2008	Closing Rate 2008	Opening Rate 2007	Closing Rate 2007
Swedish Krona	**6.4304**	**7.7831**	6.8640	6.4304
British Pound	**.4999**	**.6829**	.5088	.4999
Canadian Dollar	**.9792**	**1.2202**	1.1603	.9792

Mandatorily Redeemable Preferred Stock

White Mountains has two classes of mandatorily redeemable preferred stock of subsidiaries which are considered non-controlling interests and have been recorded as liabilities at their historical carrying values. Dividends and accretion on White Mountains mandatorily redeemable preferred stock have been recorded as interest expense. (See **Note 13**).

Minority Interest

Minority interests consist of the ownership interests of non-controlling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of comprehensive income attributable to minority interests is presented net of related income taxes in the statement of operations and comprehensive income. The change in unrealized investment gains (losses) prior to the January 1, 2008 adoption of FAS 159, foreign currency translation and the change in the fair value of the interest rate swap to hedge OneBeacon s exposure to variability in the interest rate on its mortgage note are presented in accumulated other comprehensive income net of minority interest. The percentage of the non-controlling shareholders ownership interest in OneBeacon Ltd. at December 31, 2008 and December 31, 2007 was 24.5% and 27.1%.

White Mountains began to present minority interest subsequent to the OneBeacon Offering. The portion of income attributable to minority interest in certain limited partnership investments has been reclassified to conform with the presentation of the minority interest in OneBeacon Ltd.

On May 24, 2007, White Mountains Re Group, Ltd. (WMRe Group), an intermediate holding company of White Mountains Re, issued 250,000 non-cumulative perpetual preference shares with a $1,000 per share liquidation preference (the WMRe Preference Shares). Proceeds of $245.7 million, net of $4.3 million of issuance costs and commissions, were received from the issuance. These shares were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. Holders of the WMRe Preference Shares receive dividends on a non-cumulative basis when and if declared by WMRe Group. The holders of the WMRe Preference Shares have the right to elect two directors to WMRe Group s board in the event of non-payment of dividends for six quarterly dividend periods. The right ceases upon the payment of dividends for four quarterly periods or the redemption of the WMRe Preference Shares. In addition, WMRe Group may not declare or pay dividends on its common shares (other than stock dividends and dividends paid for purposes of any employee benefit plans of WMRe Group and its subsidiaries) unless it is current on its most recent dividend period. The dividend rate is fixed at an annual rate of 7.506% until June 30, 2017. After June 30, 2017, the dividend rate will be paid at a floating annual rate, equal to the greater of 3 month LIBOR plus 3.20% or 7.506%. The WMRe Preference Shares are redeemable solely at the discretion of WMRe Group on or after June 30, 2017 at their liquidation preference of $1,000 per share, plus any declared but unpaid dividends. Prior to June 30, 2017, WMRe Group may elect to redeem the WMRe Preference Shares at an amount equal to the greater of 1) the aggregate liquidation preference of the shares to be redeemed and 2) the sum of the present values of the aggregate liquidation preference of the shares to be redeemed and the remaining scheduled dividend payments on the shares to be redeemed (excluding June 30, 2017), discounted to the redemption date on a semi-annual basis at a rate equal to the rate on a comparable treasury issue, plus 45 basis points. In the event of liquidation of WMRe Group, the holders of the WMRe Preference Shares would have preference over the common shareholders and would receive a distribution equal to the liquidation preference per share, subject to availability of funds. The WMRe Preference Shares and dividends thereon are included in minority interest on the balance sheet and as minority interest expense on the statement of income and comprehensive income.

At June 30, 2008, White Mountains owned 68.9% of AFI, while the non-controlling shareholders of AFI held 31.1% of its common equity shares and a $29.6 million Secured Senior Note from AFI (see **Note 2).** On July 30, 2008, White Mountains acquired the remaining equity and debt interests in AFI from the minority owner (see **Note 2**).

Variable Interest Entities

Variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an entity has a variable interest, or a combination of variable interests, that will absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. The entity with a controlling financial interest is the primary beneficiary

and consolidates the VIE.

In accordance with FIN 46R, *Consolidation of Variable Interest Entities* (FIN 46R), White Mountains consolidates VIEs for which it is the primary beneficiary. White Mountains determines whether or not it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interest creates or absorbs variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, White Mountains performs a quantitative analysis to calculate whether White Mountains financial interest in the VIE is large enough to absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected returns, or both.

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Recent Accounting Pronouncements

Derivatives Disclosures

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FAS 133* (FAS 161). FAS 161 requires companies that use derivatives to provide expanded qualitative and quantitative information about their use of derivative instruments, including the objectives and strategies for using derivatives, details of credit-risk related contingent features, the amounts of derivatives used, where they have been reported in the financial statements and the effect of such instruments on a company s financial position, results of operations and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 with early adoption encouraged. White Mountains plans to adopt FAS 161 January 1, 2009.

Participating Securities Granted in Share-Based Payment Transactions

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Transactions are Participating Securities*. The FSP addresses whether instruments granted in share-based payment transactions should be considered participating securities prior to vesting. The FSP requires that such instruments that hold unforfeitable rights to dividends or dividend equivalents, regardless of whether paid or unpaid, should be considered participating securities and accordingly should be included in the calculation of earnings per share under the two-class method instead of the treasury stock method. Unvested restricted stock issued under employee incentive compensation plans containing such dividend participation features would be considered participating securities. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Upon adoption, all prior period earnings per share data must be adjusted retrospectively to conform to the provisions of the FSP. Early application is not permitted.

Business Combinations and Non-controlling interests

In December 2007, the FASB issued FAS 141 (Revised 2007), *Business Combinations* (FAS 141R) and FAS 160, *Noncontrolling Interests an amendment to ARB 51.* FAS 141R and FAS 160 are effective for fiscal years beginning after December 15, 2008. White Mountains is in the process of evaluating the potential effect of adoption. FAS 141R requires the acquiring company to recognize all assets acquired and liabilities assumed at their fair values at the acquisition date, with certain exceptions. This represents a basic change in approach from the old cost allocation method originally described in FAS 141. In addition, FAS 141R changes the accounting for step acquisitions since it requires recognition of all assets acquired and liabilities assumed, regardless of the acquirer s percentage of ownership in the acquired company. This means that the acquirer will measure and recognize all of the assets, liabilities and goodwill, not just the acquirer s share. Assets and liabilities arising from contractual contingencies are to be recognized at the acquisition date, at fair value. Non-contractual contingencies are to be recognized when it is more likely than not that they meet the FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements, criteria for an asset or liability. Acquisition related costs, such as legal fees and due diligence costs would be expensed and would not be recognized as part of goodwill. Changes in the amount of deferred taxes arising from a business combination are to be recognized in either income or through a change in contributed capital, depending on the circumstances. Previously under FAS No. 109, Accounting for Income Taxes, such changes were recognized through goodwill. The classification of insurance and reinsurance contracts are re-evaluated at the acquisition date only if their terms were changed in connection with the acquisition.

FAS 160 requires all companies to account for minority interests in subsidiaries as equity, clearly identified and presented separately from parent company equity. Once a controlling interest has been acquired, any subsequent acquisitions or dispositions of noncontrolling interest that do not result in a change of control are to be accounted for as equity transactions. Assets and liabilities acquired are measured at fair value only once; at the original acquisition date, i.e., the date at which the acquirer gained control.

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NOTE 2. Significant Transactions

Berkshire Exchange

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

On October 31, 2008 under the terms of the agreement, Berkshire exchanged substantially all of its 16.3% stake in White Mountains (1,634,921 of its 1,724,200 common shares) for 100% of a White Mountains subsidiary, which held Commercial Casualty Insurance Company (CCIC), International American Group, and $707.9 million in cash. White Mountains recognized a pre-tax gain of $25.8 million related to the disposition of CICC and International American Group in the exchange.

Answer Financial

During the first quarter of 2008, White Mountains acquired 42% of the outstanding debt and equity of AFI, an online personal insurance agency, for $30.2 million. White Mountains also contributed an additional $2.6 million to AFI during the first quarter of 2008 and accounted for its investment in AFI under the equity method.

On April 1, 2008, AFI emerged from a pre-packaged bankruptcy reorganization. In the reorganization, the debt held by White Mountains was exchanged for additional shares of common equity, thus increasing White Mountains ownership share to 68.9%. Effective April 1, 2008, White Mountains accounts for its investment in AFI as a consolidated subsidiary. In connection with the reorganization, which was accounted for as an acquisition under the purchase method of accounting, White Mountains recorded the identifiable assets and liabilities of AFI at their fair values as of April 1, 2008. Significant assets and liabilities acquired included cash of $9.4 million, debt of $29.6 million, accrued liabilities of $7.5 million and a deferred tax asset of $64.2 million, which was offset by a full valuation allowance prior to purchase accounting adjustments. After allocating the purchase price to identifiable tangible assets and liabilities, White Mountains also recorded adjustments to allocate the remaining acquisition cost, consisting of a $53.2 million intangible asset related to the value of business in force at the acquisition date, an adjustment to property and equipment of $4.0 million to reflect the fair value of AFI s information technology infrastructure, and a related deferred tax liability of $20.0 million. Upon recording the deferred tax liability, the valuation allowance was reduced by $20.0 million resulting in a valuation allowance of $44.2 million and a deferred tax asset of $20.0 million.

On July 30, 2008, White Mountains acquired the remaining equity and debt interests from the minority owner of AFI for $44.4 million. In connection with the acquisition, White Mountains repaid the AFI note of $29.6 million. White Mountains recorded the identifiable assets and liabilities of AFI at their fair values as of July 30, 2008. Significant assets and liabilities acquired included cash of $1.3 million, accrued liabilities of $1.9 million and a deferred tax asset of $5.1 million, which was offset by a full valuation allowance prior to purchase accounting adjustments. After allocating the purchase price to identifiable tangible assets and liabilities, White Mountains also recorded adjustments to allocate the remaining acquisition cost consisting of a $12.9 million intangible asset related to the value of business in force at acquisition date, an adjustment to property and equipment of $1.8 million to reflect the fair value of AFI s information technology infrastructure and a related deferred tax liability of $5.1 million.

The intangible asset associated with the acquired business in force is being amortized over an 8-year period, consistent with the expected term of the related business in force. For the year ended December 31, 2008, White Mountains recognized $14.7 million of amortization expense related to the intangible asset associated with the acquired business in force. The purchase adjustment related to the information technology infrastructure is being amortized over a 3-year period, consistent with White Mountains amortization period for similar assets. For the year ended December 31, 2008, White Mountains recognized $1.3 million of amortization expense related to AFI s information technology infrastructure.

Helicon

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

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Share Repurchase

White Mountains Board of Directors on November 17, 2006 authorized the Company to repurchase up to 1 million of its common shares, from time to time, subject to market conditions. Shares may be repurchased on the open market or through privately negotiated transactions. This program does not have a stated expiration date. Since the inception of the program, the Company has repurchased and retired 420,611 common shares for $201.3 million. During 2008, excluding the share exchange agreement with Berkshire, the Company repurchased 129,770 shares under the plan for $55.9 million. On October 26, 2007, White Mountains repurchased 282,341 of its common shares for $500 per share, or $141.2 million, in a transaction with an institutional investor. In November 2007, 8,500 shares were repurchased for $4.2 million from another institutional investor.

Other Acquisitions and Dispositions

On October 1, 2007, substantially all of the assets and liabilities of Stockbridge Insurance Company were transferred to WMRe America through a Transfer and Assumption Agreement (the Portfolio Transfer). As a result of the Portfolio Transfer, Stockbridge was left with minimum capital and surplus to maintain its licenses. During the fourth quarter of 2007, White Mountains Re sold its 100% ownership interest in Stockbridge for approximately $26.2 million and recognized a $10.0 million pre-tax gain on the sale through other revenues.

During the third quarter 2007, OneBeacon sold one of its inactive licensed subsidiaries, American Employers Insurance Company, to a third party for $47.7 million in cash and recorded a pre-tax gain of $11.3 million.

On May 1, 2007, White Mountains sold all of its remaining interest in Montpelier Re, which consisted of 939,039 common shares and warrants to purchase 7,172,376 common shares, for total proceeds of $65.0 million and recognized an after tax loss of $1.8 million.

NOTE 3. Reserves for Unpaid Losses and Loss Adjustment Expenses

Insurance

White Mountains insurance subsidiaries establish loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

Reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as incurred but not reported (IBNR) reserves, which include a provision for expected future development on case reserves. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each

claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and LAE. Actuaries estimate ultimate loss and LAE using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made.

Ultimate loss and LAE are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate loss and LAE with respect to any line of business, past experience with respect to that line of business is the primary resource, but cannot be relied upon in isolation. White Mountains own experience, particularly claims development experience, such as trends in case reserves, payments on and closings of claims, as well as changes in business mix and coverage limits, is the most important information for estimating its reserves. External data, available from organizations such as statistical bureaus, consulting firms and reinsurance companies, is sometimes used to supplement or corroborate White Mountains own experience, and can be especially useful for estimating costs of new business. For some lines of business, such as long-tail coverages discussed below, claims data reported in the most recent accident year is often too limited to provide a meaningful basis for analysis due to the typical delay in reporting of claims. For this type of business, White Mountains uses a selected loss ratio method for the initial accident year or years. This is a standard and accepted actuarial reserve estimation method in these circumstances in which the loss ratio is selected based upon information used in pricing policies for that line of business, as well as any publicly available industry data, such as industry pricing, experience and trends, for that line of business.

Uncertainties in estimating ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled. This time lag is sometimes referred to as the claim-tail . The claim-tail for most property coverages is typically short (usually a few days up to a few months). The claim-tail for liability/casualty coverages, such as automobile liability, general liability, products liability, multiple peril coverage, and workers compensation, can be especially long as claims are often reported and ultimately paid or settled years, even decades, after the related loss events occur. During the long claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about actual claims and trends may become known and, as a result, White Mountains may adjust its reserves. If management determines that an adjustment is appropriate, the adjustment is booked in the accounting period in which such determination is made in accordance with GAAP. Accordingly, in the future should reserves need to be increased or decreased from amounts currently established, future results of operations would be negatively or positively impacted, as applicable.

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In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause future experience and/or development patterns to vary from the past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment and is inherently uncertain.

OneBeacon:

OneBeacon s actuaries use several generally accepted actuarial methods to evaluate its loss reserves, each of which has its own strengths and weaknesses. OneBeacon places more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- *Historical paid loss development methods:* These methods use historical loss payments over discrete periods of time to estimate future losses. Historical paid loss development methods assume that the ratio of losses paid in one period to losses paid in an earlier period will remain constant. These methods necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use case reserves to estimate ultimate losses, they can be more reliable than the other methods discussed below that look to case reserves (such as actuarial methods that use incurred losses) in situations where there are significant changes in how case reserves are established by a company s claims adjusters. However, historical paid loss development methods are more leveraged, meaning that small changes in payments have a larger impact on estimates of ultimate losses, than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative incurred amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.

- *Historical incurred loss development methods:* These methods, like historical paid loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. However, instead of using paid losses, these methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods can be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses can be less reliable than other methods.

- *Expected loss ratio methods:* These methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums written to calculate ultimate losses. Expected loss ratio methods are useful for estimating ultimate losses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available.

- *Adjusted historical paid and incurred loss development methods:* These methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes.

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OneBeacon performs an actuarial review of its recorded reserves each quarter. OneBeacon s actuaries compare the previous quarter s estimates of paid loss and LAE, case reserves and IBNR to amounts indicated by actual experience. Differences between previous estimates and actual experience are evaluated to determine whether a given actuarial method for estimating loss and LAE should be relied upon to a greater or lesser extent than it had been in the past. While some variance is expected each quarter due to the inherent uncertainty in loss and LAE, persistent or large variances would indicate that prior assumptions and/or reliance on certain reserving methods may need to be revised going forward.

Reinsurance

White Mountains reinsurance subsidiaries establish loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for reinsured events that have already occurred. White Mountains reinsurance subsidiaries also obtain reinsurance whereby another reinsurer contractually agrees to indemnify White Mountains for all or a portion of the reinsurance risks underwritten by White Mountains. Such arrangements, where one reinsurer provides reinsurance to another reinsurer, are usually referred to as retrocessional reinsurance arrangements. White Mountains establishes estimates of amounts recoverable from retrocessional reinsurance in a manner consistent with the loss and LAE liability associated with reinsurance contracts offered to its customers (the ceding companies), net of an allowance for uncollectible amounts. Net reinsurance loss reserves represent loss and LAE reserves reduced by retrocessional reinsurance recoverable on unpaid losses.

Reinsurance loss and LAE reserve estimates reflect the judgment of both the ceding companies and White Mountains, based on the experience and knowledge of their respective claims personnel, regarding the nature and value of the claims. The ceding companies may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made. Upon notification of a loss from a ceding company, White Mountains establishes case reserves, including LAE reserves, based upon White Mountains share of the amount of reserves established by the ceding company and White Mountains independent evaluation of the loss. In cases where available information indicates that reserves established by the ceding company are inadequate, White Mountains establishes reserves in excess of its share of the reserves established by the ceding company.

The estimation of net reinsurance loss and LAE reserves is subject to the same factors as the estimation of insurance loss and LAE reserves. In addition to those factors which give rise to inherent uncertainties in establishing insurance loss and LAE reserves, the claim-tail for reinsurers is further extended because claims are first reported through one or more intermediary insurers or reinsurers.

White Mountains Re:

White Mountains Re establishes loss reserves based on an actuarial point estimate, which is management s primary consideration in determining its best estimate of loss and LAE reserves. This actuarial point estimate is derived from a combination of generally accepted actuarial methods. In making its best estimate, management also considers other qualitative factors that may lead to a difference between its best estimate of loss and LAE reserves and the actuarial point estimate. Typically, these factors exist when management and the company s actuaries conclude that there is insufficient historical incurred and paid loss information or that the trends included in the historical incurred and paid loss information are unlikely to repeat in the future. These factors may include, among others, changes in the techniques used to assess underwriting risk, more accurate and detailed levels of data submitted with reinsurance applications, the uncertainty of the current reinsurance pricing environment, the level of inflation in loss costs, changes in ceding company reserving practices, and legal and regulatory developments. For current accident year business, the estimate is based on an expected loss ratio method. The parameters underlying this method are developed during the underwriting and pricing process. Loss ratio expectations are derived for each contract and these are aggregated by class of business and type of contract. These loss ratios are then applied to the actual earned premiums by class and type of business to estimate ultimate losses. Paid losses are

deducted to determine loss and LAE reserves.

For prior accident years, White Mountains Re gradually replaces this expected loss ratio approach with estimates based on historical loss reporting patterns. For both current and prior accident years, estimates also change when new information becomes available, such as changing loss emergence patterns, or as a result of claim and underwriting audits.

Once an actuarial point estimate is established by White Mountains Re, its actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated using similar methods to the point estimate calculation, but with different expected loss ratio and loss reporting pattern assumptions. For the low estimate, more optimistic loss ratios and faster reporting patterns are assumed, while the high estimate uses more conservative loss ratios and slower reporting patterns. These variable assumptions are derived from historical variations in loss ratios and reporting patterns by class and type of business.

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Loss and loss adjustment expense reserve summary

The following table summarizes the loss and LAE reserve activities of White Mountains insurance and reinsurance subsidiaries for the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31,		
Millions	**2008**	**2007**	**2006**
Gross beginning balance	**$ 8,062.1**	$ 8,777.2	$ 10,231.2
Less beginning reinsurance recoverable on unpaid losses	**(3,467.9)**	(4,015.7)	(5,025.7)
Net loss and LAE reserves	**4,594.2**	4,761.5	5,205.5
Loss and LAE reserves sold CCIC	**(109.6)**		
Loss and LAE reserves sold IAG	**(14.4)**		
Loss and LAE reserves sold Sirius America			(124.1)
Loss and LAE reserves acquired Helicon	**13.7**		
Loss and LAE reserves acquired Stockbridge(1)			38.3
Losses and LAE incurred relating to:			
Current year losses	**2,485.2**	2,392.8	2,208.7
Prior year losses	**21.2**	13.6	244.0
Total incurred losses and LAE	**2,506.4**	2,406.4	2,452.7
Net change in loss reserves Sierra Insurance Group(2)		(9.1)	
Accretion of fair value adjustment to net loss and LAE reserves	**16.9**	21.4	24.5
Foreign currency translation adjustment to net loss and LAE reserves	**(21.1)**	39.7	35.2
Loss and LAE paid relating to:			
Current year losses	**(1,039.8)**	(1,080.6)	(845.5)
Prior year losses	**(1,596.6)**	(1,545.1)	(2,025.1)
Total loss and LAE payments	**(2,636.4)**	(2,625.7)	(2,870.6)
Net ending balance	**4,349.7**	4,594.2	4,761.5
Plus ending reinsurance recoverable on unpaid losses	**3,050.4**	3,467.9	4,015.7
Gross ending balance	**$ 7,400.1**	$ 8,062.1	$ 8,777.2

(1) Reinsurance recoverables on unpaid losses acquired in the Stockbridge acquisition totaled $52.9.

(2) During 2007, White Mountains Re recorded $9.1 of favorable development on its workers compensation reserves relating to its Sierra Insurance Group acquisition. This loss and LAE development was offset in incurred losses and LAE dollar-for-dollar by a change in the principal amount of the adjustable note that White Mountains Re issued as part of the financing of that acquisition (See **Note 6**).

Loss and LAE development 2008

During the year ended December 31, 2008, White Mountains experienced $21.2 million of net adverse loss reserve development, which consisted primarily of $79.9 million of net adverse loss reserve development at White Mountains Re, partially offset by $62.0 million of favorable loss reserve development at OneBeacon. Esurance had net adverse loss reserve development of $4.9 million and the Other Operations segment had net favorable loss reserve development of $1.6 million.

White Mountains Re s net adverse loss reserve development in 2008 primarily resulted from a comprehensive loss reserve review performed in the second quarter of 2008, as described below, and $40.5 million of construction defect losses from accident years 2001 and prior recorded in the first quarter of 2008, offset by net favorable loss reserve development from recent accident years.

White Mountains Re management commenced a comprehensive loss reserve review (the Reserve Review) in the second quarter of 2008, primarily as a result of the $40.5 million adverse loss reserve development recorded in the first quarter of 2008 referred to above. The Reserve Review was conducted by management, including internal underwriting, claims and actuarial personnel, with assistance from external consultants. The Reserve Review included all of WMRe America s non-asbestos and environmental (A&E) casualty loss reserves as well as certain lines of business at WMRe Sirius. The Reserve Review resulted in $140.0 million of additional adverse loss reserve development at WMRe America, partially offset by $85.0 million of favorable loss reserve development at WMRe Sirius during the second quarter of 2008. The adverse loss reserve development at WMRe America was predominantly attributable to its casualty reinsurance book written in the 1996-2002 underwriting years, whereas the favorable loss reserve development at WMRe Sirius was predominantly attributable to its property reinsurance book.

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OneBeacon s favorable loss reserve development in 2008 was primarily related to lower than expected severity on non-catastrophe losses in professional liability in specialty lines and package business in commercial lines partially offset by adverse loss reserve development at AutoOne and in run-off.

Specifically, at December 31, 2007, OneBeacon had revised its expectations downward with respect to future loss emergence in the professional liability business, which is included in the general liability line of business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during 2008, losses continued to be significantly lower than these revised expectations. As a result, OneBeacon lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years results. The impact of this revised estimate was a decrease to professional liability reserves of $50.5 million.

At December 31, 2007, OneBeacon had estimated that future payments from personal injury protection (PIP) litigation from OneBeacon s NYAIP business would be approximately $14.0 million. During 2008, the legal expenses related to this litigation were higher than expected as the 2002 accident year neared conclusion. As a result, OneBeacon increased estimates of all accident years for NYAIP and other similar business in New York. The total increase in estimate was $10.8 million.

At December 31, 2007, based on actuarial techniques described above, OneBeacon estimated that IBNR related to multiple peril liability was $137.0 million, or approximately 64% of case reserves of $212.8 million for 2002 and subsequent accident years. During 2008, case incurred loss and allocated LAE (ALAE) was $16.2 million, which was less than expected for this line of business. As a result of the lower than expected case incurred loss and ALAE during 2008, the actuarial methods based on case incurred losses produced lower estimated ultimate losses for these accident years. As a result, at December 31, 2008, the IBNR was determined to be $86.9 million, or approximately 64% of the remaining case reserves. The impact of this revised estimate was a decrease to multiple peril liability reserves of $33.8 million.

At December 31, 2007, based on actuarial techniques described above, OneBeacon estimated that IBNR related to workers compensation was $41.1 million, or approximately 96% of case reserves of $43.0 million for 2005 and subsequent accident years. During 2008, case incurred loss and ALAE was $20.2 million, which was greater than expected for this line of business. As a result of the higher than expected case incurred loss and ALAE during 2008, the actuarial methods based on case incurred losses produced higher estimated ultimate losses for these accident years. As a result, at December 31, 2008, the IBNR was determined to be $34.8 million, or approximately 81% of the remaining case reserves. The impact of this revised estimate was an increase to workers compensation reserves of $13.9 million.

In addition to the development described for the lines of business above, OneBeacon also recorded a $2.4 million net decrease in IBNR in other lines of business as a result of its review of loss reserves at December 31, 2008. The change in IBNR for each other line of business was not individually significant.

Loss and LAE development 2007

During the year ended December 31, 2007, White Mountains experienced $13.6 million of net adverse loss reserve development. Esurance had net adverse loss reserve development of $29.6 million that primarily related to bodily injury claims from prior accident years. White Mountains Re had net adverse loss reserve development of $39.1 million that primarily related to an increase in asbestos and environmental related exposures offset by favorable loss reserve development in property lines. The Other Operations segment had net favorable loss reserve

development of $6.8 million primarily due to the settlement of a large claim at British Insurance Company.

OneBeacon experienced $48.3 million of favorable development on prior accident year loss reserves that was primarily related to lower than expected frequency for professional liability in specialty lines and lower than expected severity for automobile liability in personal lines, offset by adverse development for multiple peril and workers compensation, primarily for accident years 2001 and prior.

Specifically, at December 31, 2006, OneBeacon continued to expect losses to emerge in the professional liability business, which is included in the general liability line of business, in line with initial expectations based on market analysis when this business was initiated in 2002 and 2003. During 2007, losses continued to be significantly lower than initial expectations. As a result, OneBeacon lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years results. The impact of this revised estimate was a decrease to professional liability reserves of $79.6 million.

At December 31, 2006, based on actuarial techniques described above, OneBeacon estimated that IBNR related to personal automobile liability was $137.6 million, or approximately 49% of case reserves of $278.7 million for 2002 and subsequent accident years. During 2007, case incurred loss and allocated LAE (ALAE) was $38.4 million, which was less than expected for this relatively short-tail line of business. At December 31, 2007, based on actuarial techniques described above, OneBeacon estimated that IBNR was $66.1 million, or approximately 49% of the remaining case reserves. The actuarial methods that OneBeacon relied upon to estimate IBNR at December 31, 2007 were similar to those used at December 31, 2006. The impact of this revised estimate was a decrease to personal automobile liability reserves of $33.0 million.

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At December 31, 2006, based on actuarial techniques described above, OneBeacon estimated that IBNR related to workers compensation and multiple peril liability was $95.6 million, or approximately 15% of case reserves of $621.5 million for 2001 and prior accident years. During 2007, case incurred loss and ALAE was $44.7 million, which was greater than expected for these long-tail lines of business. As a result of the higher than expected case incurred loss and ALAE during 2007, OneBeacon gave greater weight to actuarial techniques that are based on historical incurred loss development during its review of loss reserves at December 31, 2007. As a result, at December 31, 2007, the IBNR was determined to be $149.4 million, or approximately 28% of the remaining case reserves. The impact of this revised estimate was an increase to workers compensation and multiple peril liability reserves of $98.5 million.

In addition to the development described for the lines of business above, OneBeacon also recorded a $34.2 million net decrease in IBNR in other lines of business as a result of its review loss reserves at December 31, 2007. The change in IBNR for each other line of business was not individually significant.

Loss and LAE development 2006

During the year ended December 31, 2006, White Mountains experienced $244.0 million of adverse loss reserve development, of which $218.0 million was experienced by White Mountains Re and $22.9 million was experienced by OneBeacon. The adverse loss reserve development was primarily related to loss and LAE reserves previously established for Katrina, Rita and Wilma.

During 2006, following the receipt of new claims information reported from several ceding companies and subsequent reassessment of the ultimate loss exposures, White Mountains Re increased its gross loss estimates for hurricanes Katrina, Rita and Wilma by $201 million.

The vast majority of the newly reported claims were on off-shore energy and marine exposures, and as a result, WMRe America set its gross loss and LAE reserves in 2006 on off-shore energy and marine exposures for hurricanes Katrina and Rita at full contract limits and also increased reserves on other exposures affected by hurricanes Katrina, Rita and Wilma.

Under the terms of WMRe America s 2005 quota share reinsurance treaty with Olympus Reinsurance Company (Olympus), $139 million of these losses, net of reinstatement premiums, recorded in 2006 were ceded to Olympus. However, Folksamerica Holding Company (Folksamerica Holdings) entered into an indemnity agreement with Olympus, under which it agreed to reimburse Olympus for up to $137 million of these losses, which was recorded as loss and LAE expense during 2006.

Fair value adjustment

In connection with purchase accounting for the acquisitions of OneBeacon, WMRe Sirius, and Stockbridge Insurance Company, White Mountains was required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on OneBeacon s, WMRe Sirius and Stockbridge Insurance Company s acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled. Accordingly, White Mountains recognized $16.9 million, $21.4 million and $24.5 million of such charges, recorded as loss and LAE during 2008, 2007 and 2006. As of December 31, 2008, the

outstanding pre-tax unaccreted adjustment was $41.7 million.

The fair values of OneBeacon s loss and LAE reserves and related reinsurance recoverables acquired on June 1, 2001, WMRe Sirius loss and LAE reserves and related reinsurance recoverables acquired on April 16, 2004, and Stockbridge Insurance Company s loss and LAE reserves and related reinsurance recoverables acquired on December 22, 2006 were based on the present value of their expected cash flows with consideration for the uncertainty inherent in both the timing of, and the ultimate amount of, future payments for losses and receipts of amounts recoverable from reinsurers. In estimating fair value, management adjusted the nominal loss reserves of OneBeacon (net of the effects of reinsurance obtained from the NICO Cover, as defined below and the GRC Cover, as defined below), WMRe Sirius and Stockbridge Insurance Company and discounted them to their present value using an applicable risk-free discount rate. The series of future cash flows related to such loss payments and reinsurance recoveries were developed using OneBeacon s, WMRe Sirius and Stockbridge Insurance Company s historical loss data. The resulting discount was reduced by the price for bearing the uncertainty inherent in OneBeacon s, WMRe Sirius and Stockbridge Insurance Company s net loss reserves in order to estimate fair value. This was approximately 11%, 12% and 2% of the present value of the expected underlying cash flows of the loss reserves and reinsurance recoverables of OneBeacon, WMRe Sirius and Stockbridge Insurance Company, respectively, which is believed to be reflective of the cost OneBeacon, WMRe Sirius and Stockbridge Insurance Company would incur if they had attempted to reinsure the full amount of its net loss and LAE reserves with a third party reinsurer.

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Asbestos and environmental loss and loss adjustment expense reserve activity

White Mountains reserves include provisions made for claims that assert damages from asbestos and environmental related exposures. Asbestos claims relate primarily to injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up cost obligations, particularly as mandated by U.S. federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, White Mountains estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

During the fourth quarter of 2007, White Mountains Re completed a detailed ground-up asbestos exposure study and reviewed environmental reserves relative to industry benchmarks. This study was an update to the analysis first performed in 2005. The study analyzed potential exposure to loss of all insureds that had reported at least $250,000 in losses to WMRe America through reinsurance contracts as of June 30, 2007. This analysis entailed examining total expected asbestos losses and LAE from a variety of information sources, including asbestos studies, data reported to WMRe America as well as a review of historical public filings. The resulting exposure from this analysis was compared against WMRe America s reinsurance contract layers to derive an estimated expected loss. In addition, White Mountains Re analyzed a significant sample of all other insureds that had reported losses of less than $250,000 and extrapolated the sample findings to the entire population.

In addition, WMRe America has received notices of claims from a number of other insureds with reported loss amounts that have not exceeded the attachment points of reinsurance contracts written by WMRe America. Based on the claims activity related to those insureds since the 2005 study, White Mountains Re estimated the future impact of these insureds to its exposure as well as the impact of future claims from insureds that have not reported any claims to date.

In the study, White Mountains Re sought to include adequate provision for future reported claims, premises/operations coverage (in addition to products liability coverage), and future adverse court decisions. To estimate this provision, White Mountains Re measured the changes in individual insured estimates from the 2005 study to the 2007 study to estimate future reported losses. The combined effect of all these estimates resulted in an increase of $51.6 million in IBNR for asbestos losses and LAE. In the third quarter of 2008, White Mountains Re recorded $11 million of IBNR losses and LAE, reflecting an increase in paid losses and LAE observed in that quarter. This amount was developed by analyzing the claim payment activity WMRe America experienced during the third quarter and comparing this activity to what was expected to emerge since the last asbestos study in December 2007.

White Mountains Re reviewed WMRe America s exposure to environmental losses using industry benchmarks known as survival ratios . The survival ratio, computed as a company s reserves divided by the average of its last three years net loss payments, indicates approximately how many more years of payments the current reserves can support, assuming future yearly payments are consistent with the average three-year historical levels. This analysis led to an increase of $11 million in IBNR for environmental losses in the fourth quarter of 2007. White Mountains Re s A&E three year survival ratio was approximately 13 years at both December 31, 2008 and 2007.

Immediately prior to White Mountains acquisition of OneBeacon, Aviva caused OneBeacon to purchase a reinsurance contract with National Indemnity Company (NICO) under which OneBeacon is entitled to recover from NICO up to $2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising from business written by OneBeacon in 1987 and prior, and certain other exposures (the NICO Cover). Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance

recoverables from certain of OneBeacon s third party reinsurers in existence at the time the NICO Cover was executed (Third Party Recoverables). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Any amounts uncollectible from third party reinsurers due to dispute or the reinsurers financial inability to pay are covered by NICO under its agreement with OneBeacon. Third Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments in the past 11 years, approximately 48% of asbestos and environmental losses have been recovered under the historical third party reinsurance.

In September 2008, OneBeacon completed a study of its A&E exposures. This study considered, among other items, (1) facts, such as policy limits, deductibles and available third party reinsurance, related to reported claims; (2) current law; (3) past and projected claim activity and past settlement values for similar claims; (4) industry studies and events, such as recent settlements and asbestos-related bankruptcies; and (5) collectibility of third-party reinsurance. Based on the study, OneBeacon increased its best estimate of its incurred losses ceded to NICO under the NICO Cover, net of underlying reinsurance, by $83.4 million to $2.2 billion, which is within the $2.5 billion coverage provided by the NICO Cover. Due to the NICO Cover. The increase in the estimate of incurred losses was principally driven by raised projections for claims related to asbestos. Due to the NICO Cover, there was no impact to income or equity from the change in estimate. (See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations specifically A&E Exposures in the OneBeacon segment discussion for a detailed discussion of the results of this study).

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As noted above, OneBeacon estimates that on an incurred basis it has used approximately $2.2 billion of the coverage provided by NICO at December 31, 2008. Since entering into the NICO Cover, $44.7 million of the $2.2 billion of utilized coverage relates to uncollected amounts from third party reinsurers through December 31, 2008. Net losses paid by NICO totaled approximately $1.1 billion as of December 31, 2008, with $108.5 million paid in 2008. Asbestos payments during 2008 reflect payments resulting from intensified efforts by claimants to resolve asbestos claims prior to enactment of potential U.S. federal asbestos legislation. To the extent that OneBeacon s estimate of ultimate A&E losses as well as the estimate and collectibility of Third Party Recoverables differs from actual experience, the remaining protection under the NICO Cover may be more or less than the approximate $320.2 million that OneBeacon estimates remained at December 31, 2008.

White Mountains reserves for A&E losses at December 31, 2008 represent management s best estimate of its ultimate liability based on information currently available. However, as case law expands, and medical and clean-up costs increase and industry settlement practices change, White Mountains may be subject to asbestos and environmental losses beyond currently estimated amounts. White Mountains cannot reasonably estimate at the present time loss reserve additions arising from any such future adverse developments and cannot be sure that allocated loss reserves, plus the remaining capacity under the NICO Cover and other reinsurance contracts, will be sufficient to cover additional liability arising from any such adverse developments.

The following tables summarize reported asbestos and environmental loss and LAE reserve activities (gross and net of reinsurance) for OneBeacon, White Mountains Re and White Mountains other operations, consisting of American Centennial and British Insurance Company, for the years ended December 31, 2008, 2007 and 2006, respectively:

OneBeacon

Net A&E Loss

Reserve Activity

	Year Ended December 31,								
	2008			2007			2006		
Millions	Gross	Pre-NICO Net(1)	Net	Gross	Pre-NICO Net(1)	Net	Gross	Pre-NICO Net(1)	Net
Asbestos:									
Beginning balance	**$ 1,155.9**	**$ 699.7**	**$ 7.2**	$ 1,227.6	$ 766.6	$ 6.8	$ 1,323.4	$ 845.9	$ 7.4
Incurred losses and LAE	**37.8**	**114.5**		14.7			(4.0)	(1.6)	
Paid losses and LAE	**(95.3)**	**(72.7)**	**(.7)**	(86.4)	(66.9)	.4	(91.8)	(77.7)	(.6)
Ending balance	**1,098.4**	**741.5**	**6.5**	1,155.9	699.7	7.2	1,227.6	766.6	6.8
Environmental:									
Beginning balance	**577.1**	**342.5**	**6.0**	678.0	394.6	10.6	729.7	421.5	6.5
Incurred losses and LAE	**(74.3)**	**(56.2)**	**2.6**	(18.3)			(8.6)	(7.8)	
Paid losses and LAE	**(32.5)**	**(25.1)**	**(3.1)**	(82.6)	(52.1)	(4.6)	(43.1)	(19.1)	4.1
Ending balance	**470.3**	**261.2**	**5.5**	577.1	342.5	6.0	678.0	394.6	10.6
Total asbestos and environmental:									
Beginning balance	**1,733.0**	**1,042.2**	**13.2**	1,905.6	1,161.2	17.4	2,053.1	1,267.4	13.9
Incurred losses and LAE	**(36.5)**	**58.3**	**2.6**	(3.6)			(12.6)	(9.4)	
Paid losses and LAE	**(127.8)**	**(97.8)**	**(3.8)**	(169.0)	(119.0)	(4.2)	(134.9)	(96.8)	3.5
Ending balance	**$ 1,568.7**	**$ 1,002.7**	**$ 12.0**	$ 1,733.0	$ 1,042.2	$ 13.2	$ 1,905.6	$ 1,161.2	$ 17.4

(1) Represents A&E reserve activity, net of third party reinsurance, but prior to the NICO Cover.

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White Mountains Re

Net A&E Loss Reserve Activity

	Year Ended December 31,					
	2008		2007		2006	
Millions	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Beginning balance	**$ 181.9**	**$ 142.1**	$ 135.6	$ 101.2	$ 147.7	$ 109.1
Outgoing asbestos reserves due to Sirius America divestiture					(3.3)	(.9)
Incoming asbestos reserves due to Mutual Service Casualty acquisition					1.3	1.0
Incurred losses and LAE	**11.5**	**10.7**	58.6	51.6	(.3)	(.1)
Paid losses and LAE	**(19.7)**	**(14.3)**	(12.3)	(10.7)	(9.8)	(7.9)
Ending balance	**173.7**	**138.5**	181.9	142.1	135.6	101.2
Environmental:						
Beginning balance	**26.7**	**21.0**	15.8	11.1	13.5	8.3
Outgoing environmental reserves due to Sirius America divestiture					(1.5)	(.9)
Incoming environmental reserves due to Mutual Service Casualty acquisition					5.2	4.4
Incurred losses and LAE		**.7**	12.9	11.6	(.8)	(.2)
Paid losses and LAE	**(2.2)**	**(1.6)**	(2.0)	(1.7)	(.6)	(.5)
Ending balance	**24.5**	**20.1**	26.7	21.0	15.8	11.1
Total asbestos and environmental:						
Beginning balance	**208.6**	**163.1**	151.4	112.3	161.2	117.4
Outgoing A&E reserves due to Sirius America divestiture					(4.8)	(1.8)
Incoming A&E reserves due to Mutual Service Casualty acquisition					6.5	5.4
Incurred losses and LAE	**11.5**	**11.4**	71.5	63.2	(1.1)	(.3)
Paid losses and LAE	**(21.9)**	**(15.9)**	(14.3)	(12.4)	(10.4)	(8.4)
Ending balance	**$ 198.2**	**$ 158.6**	$ 208.6	$ 163.1	$ 151.4	$ 112.3

Other operations

Net A&E Loss Reserve Activity(1)

	Year Ended December 31,					
	2008		2007		2006	
Millions	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Beginning balance	**$ 20.4**	**$ 20.2**	$ 48.4	$ 47.1	$ 45.8	$ 44.7
Incurred losses and LAE	**(.6)**	**(.6)**	(21.7)	(20.6)	5.6	3.8
Paid losses and LAE	**(.5)**	**(.5)**	(6.3)	(6.3)	(3.0)	(1.4)
Outgoing asbestos reserves due to sale of IAG(2)	**(19.3)**	**(19.1)**				
Ending balance			20.4	20.2	48.4	47.1
Environmental:						
Beginning balance	**6.1**	**6.0**	9.1	9.1	10.1	9.7

Incurred losses and LAE	**4.5**	**4.5**	(1.9)	(2.0)	(0.6)	(0.4)
Paid losses and LAE			(1.1)	(1.1)	(0.4)	(0.2)
Outgoing environmental reserves due to sale of IAG(2)	**(10.6)**	**(10.5)**				
Ending balance			6.1	6.0	9.1	9.1
Total asbestos and environmental:						
Beginning balance	**26.5**	**26.2**	57.5	56.2	55.9	54.4
Incurred losses and LAE	**3.9**	**3.9**	(23.6)	(22.6)	5.0	3.4
Paid losses and LAE	**(.5)**	**(.5)**	(7.4)	(7.4)	(3.4)	(1.6)
Outgoing A&E reserves due to sale of IAG(2)	**(29.9)**	**(29.6)**				
Ending balance	**$**	**$**	$ 26.5	$ 26.2	$ 57.5	$ 56.2

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(1) The asbestos and environmental reserve activity for White Mountains other operations is comprised of American Centennial and British Insurance Company, two insurance subsidiaries that have been in run-off since 1985. The majority of the A&E reserves from other operations are recorded at American Centennial.

(2) American Centennial and British Insurance Company were sold in 2008 as part of the Berkshire Exchange (See **Note 2**).

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NOTE 4. Third Party Reinsurance

In the normal course of business, White Mountains insurance and reinsurance subsidiaries 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 even if the reinsurer does not honor its obligations under reinsurance contracts. The effects of reinsurance on White Mountains insurance and reinsurance subsidiaries written and earned premiums and on losses and LAE were as follows:

	Year ended December 31, 2008				
Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Insurance Operations**	**Total**
Gross written premiums:					
Direct	$ 2,154.0	$ 86.2	$ 802.1	$	**$ 3,042.3**
Assumed	60.0	989.9	24.3		**1,074.2**
Ceded	(250.9)	(145.0)	(3.0)		**(398.9)**
Net written premiums	$ 1,963.1	$ 931.1	$ 823.4	$	**$ 3,717.6**
Gross earned premiums:					
Direct	$ 2,078.0	$ 100.7	$ 807.9	$	**$ 2,986.6**
Assumed	53.6	1,045.8	25.6		**1,125.0**
Ceded	(252.6)	(145.7)	(3.3)		**(401.6)**
Net earned premiums	$ 1,879.0	$ 1,000.8	$ 830.2	$	**$ 3,710.0**
Losses and LAE:					
Direct	$ 1,262.1	$ 59.9	$ 619.5	$ 1.4	**$ 1,942.9**
Assumed	34.2	758.5	16.1	.2	**809.0**
Ceded	(170.1)	(73.4)	.2	(2.2)	**(245.5)**
Net losses and LAE	$ 1,126.2	$ 745.0	$ 635.8	$ (.6)	**$ 2,506.4**

	Year ended December 31, 2007				
Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Insurance Operations**	**Total**
Gross written premiums:					
Direct	$ 2,041.3	$ 107.4	$ 773.5	$	$ 2,922.2
Assumed	50.6	1,187.9	29.0		1,267.5
Ceded	(227.5)	(199.6)	(4.0)		(431.1)
Net written premiums	$ 1,864.4	$ 1,095.7	$ 798.5	$	$ 3,758.6
Gross earned premiums:					
Direct	$ 2,017.4	$ 108.2	$ 736.8	$	$ 2,862.4
Assumed	54.6	1,235.2	30.5		1,320.3
Ceded	(198.4)	(196.6)	(4.0)		(399.0)
Net earned premiums	$ 1,873.6	$ 1,146.8	$ 763.3	$	$ 3,783.7
Losses and LAE:					
Direct	$ 1,172.0	$ 87.8	$ 598.2	$ 2.0	$ 1,860.0
Assumed	(11.1)	787.5	26.0	(8.6)	793.8
Ceded	(71.1)	(174.3)	(1.8)	(.2)	(247.4)
Net losses and LAE	$ 1,089.8	$ 701.0	$ 622.4	$ (6.8)	$ 2,406.4

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Millions	OneBeacon	White Mountains Re	Esurance	Other Insurance Operations	Total
	Year ended December 31, 2006				
Gross written premiums:					
Direct	$ 2,028.0	$ 236.2	$ 563.5	$	$ 2,827.7
Assumed	60.4	1,388.4	36.0		1,484.8
Ceded	(130.8)	(334.6)	(3.6)		(469.0)
Net written premiums	$ 1,957.6	$ 1,290.0	$ 595.9	$	$ 3,843.5
Gross earned premiums:					
Direct	$ 2,007.6	$ 240.2	$ 495.3	$	$ 2,743.1
Assumed	65.4	1,448.8	35.7		1,549.9
Ceded	(129.0)	(447.8)	(3.5)		(580.3)
Net earned premiums	$ 1,944.0	$ 1,241.2	$ 527.5	$	$ 3,712.7
Losses and LAE:					
Direct	$ 1,245.1	$ 132.0	$ 359.5	$ 5.6	$ 1,742.2
Assumed	54.1	1,030.7	25.1	(.1)	1,109.8
Ceded	(118.9)	(278.1)	(.7)	(1.6)	(399.3)
Net losses and LAE	$ 1,180.3	$ 884.6	$ 383.9	$ 3.9	$ 2,452.7

OneBeacon

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

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon s operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in an area affected by the event as well as the severity of the event. OneBeacon continually assesses and implements programs to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas, such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures. OneBeacon s largest single event natural catastrophe exposures are Northeastern United States windstorms and California earthquakes. OneBeacon uses probable maximum loss (PML) forecasting to quantify its exposure to catastrophic losses. PML is a statistical modeling technique that measures a company s catastrophic exposure as the maximum probable loss in a given time period.

OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective July 1, 2008, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2009. The program provides coverage for all OneBeacon property business including automobile physical damage, as well as acts of terrorism unless committed on behalf of a foreign interest (or utilizing nuclear, biological, chemical or radiological devices). Under the program, the first $150 million of losses resulting from a single catastrophe are retained by OneBeacon and $650 million of the next $700 million of losses resulting from the catastrophe are reinsured. Any loss above $850 million would be retained by OneBeacon. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

Since the terrorist attacks of September 11, 2001 (the Attacks), OneBeacon has sought to mitigate the risk associated with any future terrorist attacks by limiting the aggregate insured value of policies in geographic areas with exposure to losses from terrorist attacks. This is

accomplished by either limiting the total insured values exposed, or, where applicable, through the use of terrorism exclusions.

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

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

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

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

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

In 2001, OneBeacon purchased reinsurance contracts with two reinsurance companies rated AAA (Extremely Strong , the highest of twenty-one ratings) by Standard & Poor s and A++ (Superior , the highest of fifteen ratings) by A.M. Best. One contract is a reinsurance cover with NICO which entitles OneBeacon to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to A&E claims arising from business written by OneBeacon s predecessor prior to 1992 for asbestos claims and 1987 for environmental claims. As of December 31, 2008, OneBeacon has ceded estimated incurred losses of approximately $2.2 billion to the NICO Cover. Through December 31, 2008 $1.1 billion of these incurred losses have been paid by NICO. Since entering into the NICO Cover, $44.7 million of the $2.2 billion of utilized coverage from NICO related to uncollectible Third Party Recoverables.

The other contract is a reinsurance cover with General Reinsurance Corporation, or GRC, for up to $570 million of additional losses on all claims arising from accident years 2000 and prior. As of December 31, 2008, OneBeacon has ceded estimated incurred losses of $550 million to the GRC Cover. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting the recoverables recorded pursuant to the GRC Cover. The economic cost of not

submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its investments. This cost, if any, is expected to be nominal.

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Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectability of balances due from reinsurers is critical to its financial strength. The following table provides a listing of OneBeacon s top reinsurers, excluding industry pools and associations and affiliates of White Mountains, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurer s A.M. Best rating.

Top Reinsurers ($ in millions)		Balance at December 31, 2008	% of Total	A.M. Best Rating(1)
Subsidiaries of Berkshire (NICO and GRC)(2)	$	**1,964.1**	72%	A++
Nichido (formerly Tokio Fire and Marine Insurance Company) (3)		**55.9**	2%	A++
QBE Insurance Corporation		**45.3**	2%	A
Munich Re America		**44.6**	2%	A+
Swiss Re		**25.6**	1%	A+

(1) A.M. Best ratings as detailed above are: A++ (Superior, which is the highest of fifteen ratings), A+ (Superior, which is the second highest of fifteen ratings) and A (Excellent, which is the third highest of fifteen ratings). Ratings are as of December 31, 2008.

(2) Includes $320.2 of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover if they are unable to collect from third party reinsurers. OneBeacon also has an additional $277.6 of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) Excludes of $45.7 of reinsurance recoverables from various reinsurers that are guaranteed by Tokio Marine and Nichido Fire under the terms of a 100% quota share reinsurance agreement between Houston General Insurance Company and Tokio Marine and Nichido Fire.

White Mountains Re

During the third quarter 2008, White Mountains Re purchased two Industry Loss Warranty Covers (ILW) for a total cost of $2.1 million. This reinsurance protection has a total limit of $40.0 million from two retrocessionaires. The ILW was purchased to protect White Mountains Re s balance sheet from the adverse impact of the occurrence of wind and flood catastrophic events in the Northeastern United States, defined as Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont (Loss Event), primarily through December 31, 2008. The ILW covers all the White Mountains Re operating subsidiaries, who can only recover losses incurred as a result of a Loss Event. In addition, in 2008 WMRe purchased group excess of loss retrocessional protection for its non-U.S. and non-Japan earthquake-related exposures.

For the years ended December 31, 2007 and 2006, the majority of White Mountains Re s reinsurance protection was provided through WMRe America s quota share retrocessional arrangements with Olympus and Helicon and through quota share and excess of loss protection purchased by WMRe Sirius to cover WMRe Sirius s property catastrophe and aviation exposures. These reinsurance protections are designed to increase White Mountains Re s underwriting capacity, where appropriate, and to reduce its potential loss exposure to any large, or series of smaller, catastrophe events.

WMRe America ceded 35% of its 2007 underwriting year short-tailed excess of loss business, mainly property to Olympus and Helicon with each sharing approximately 55% and 45%, respectively. WMRe America ceded 35% of its 2006 underwriting year short-tailed excess of loss business, mainly property to Olympus and Helicon, with each sharing approximately 56% and 44%, respectively. White Mountains Re received fee income based on premiums ceded to Olympus and Helicon. WMRe America did not renew the quota share arrangements with Olympus and Helicon for 2008. Helicon was acquired by White Mountains Re on January 7, 2008. Olympus will continue to be responsible to pay losses on

exposures that have been ceded to it and will continue to earn premiums related primarily to the run-off of underwriting year 2007.

White Mountains Re is also entitled to receive a profit commission with respect to the profitability of the business recommended to Olympus and Helicon. However, this profit commission arrangement is subject to a deficit carryforward whereby net underwriting losses from one year carryover to future years. As a result of the Gulf Coast hurricanes and several other significant loss events during 2005, Olympus recorded substantial net underwriting losses. Accordingly, White Mountains Re did not record a profit commission from Olympus or Helicon during 2008, 2007 or 2006 and does not expect to record profit commissions from Olympus or Helicon for the foreseeable future.

At December 31, 2008 and 2007, White Mountains Re had $118.4 million and $226.8 million of reinsurance recoverables from Olympus. White Mountains Re s reinsurance recoverables from Olympus recorded as of December 31, 2008, are fully collateralized in the form of assets in a trust, funds held and offsetting balances payable.

In 2000, WMRe America purchased a reinsurance contract from Imagine Re (the Imagine Cover) to reduce its statutory operating leverage and protect its surplus from adverse development relating to A&E exposures as well as the reserves assumed in certain recent acquisitions. In accordance with FAS 113, the amounts related to reserves transferred to Imagine Re for liabilities incurred as a result of past insurable events have been accounted for as retroactive reinsurance. At December 31, 2008 and 2007, WMRe America s reinsurance recoverables included $146.6 million and $163.6 million recorded under the Imagine Cover. All balances due from Imagine are fully collateralized, either with WMRe America as the beneficiary of invested assets in a trust. As of December 31, 2008 and 2007, the entire $115.0 million limit available under this contract had been fully utilized.

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At December 31, 2008 and 2007, WMRe America had recorded $20.9 million and $25.5 million in deferred gains related to retroactive reinsurance with Imagine Re. White Mountains Re is recognizing these deferred gains into income over the expected settlement period of the underlying claims, and accordingly recognized $4.6 million, $3.9 million and $7.5 million of such deferred gains during 2008, 2007 and 2006.

Reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies. Therefore, collectability of balances due from its retrocessional reinsurers is critical to White Mountains Re s financial strength.

The following table provides a listing of White Mountains Re s top reinsurers based upon recoverable amounts, the percentage of total recoverables and the reinsurer s A.M. Best Rating.

Top Reinsurers ($ in millions)	**Balance at December 31, 2008**	**% of Total**	**A.M. Best Rating(2)**	**% Collateralized**
Imagine Re(1)	$ **146.6**	26%	NR-5	100%
Olympus(1)(3)	**118.4**	21%	NR-5	100%
London Life(1)	**70.8**	12%	A	100%
Swiss Re Group	**48.8**	9%	A	7%
General Re	**46.4**	8%	A++	4%

(1) Represents non-U.S. insurance entities which balances are fully collateralized through Funds Held, Letters of Credit or Trust Agreements.
(2) A.M. Best ratings as detailed above are: NR-5 (Not formally followed), A++ (Superior, which is the highest of fifteen ratings), and A (Excellent, which is the third highest of fifteen ratings). Ratings are as of December 31, 2008.
(3) Gross of $64.0 due to Olympus under its indemnity agreement with WMRe America.

NOTE 5. Investment Securities

White Mountains net investment income is comprised primarily of interest income associated with White Mountains fixed maturity investments, dividend income from its equity investments and interest income from its short-term investments. Net investment income for 2008, 2007 and 2006 consisted of the following:

Millions	**Year Ended December 31, 2008**	**2007**	**2006**
Investment income:			
Fixed maturity investments	$ **346.5**	$ 398.4	$ 339.0
Short-term investments	**44.4**	72.6	63.3
Common equity securities	**28.1**	24.3	29.8
Other	**1.4**	46.1	14.7
Convertible fixed maturity investments	**6.8**	7.7	2.6
Total investment income	**427.2**	549.1	449.4
Less investment expenses	**(16.9)**	(16.1)	(13.9)
Net investment income, pre-tax	$ **410.3**	$ 533.0	$ 435.5

For the year ended December 31, 2006, White Mountains recorded an aggregate of $3.6 million in pre-tax investment income from Montpelier Re s regular quarterly dividend.

The composition of realized investment (losses) gains consisted of the following:

	Year Ended December 31,		
Millions	**2008**	**2007**	**2006**
Fixed maturity investments	**$ (92.3)**	$ 14.8	$ 10.3
Common equity securities	**(385.7)**	123.1	142.0
Other investments	**(73.0)**	111.9	90.0
Convertible fixed maturity investments	**(17.7)**	13.4	30.4
Net realized investment (losses) gains, pre-tax	**(568.7)**	263.2	272.7
Income taxes attributable to realized investment (losses) and gains	**166.5**	(85.8)	(74.1)
Net realized investment (losses) gains, after-tax	**$ (402.2)**	$ 177.4	$ 198.6

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Net realized gains from common equity securities include gains of $0.4 million and $5.5 million on Montpelier Re common shares for 2007 and 2006. Net realized (losses) gains from other investments includes investment gains of $2.5 million and $0.7 million on Montpelier Re warrants for 2007 and 2006 and investment (losses) gains of $(50.0) million, $23.3 million, and $6.2 million for 2008, 2007, and 2006 on the Symetra warrants. On May 1, 2007, White Mountains sold all of its remaining interest in Montpelier Re, which consisted of 939,039 common shares and warrants to purchase 7,172,376 common shares for total proceeds of $65 million and recognized an after tax loss of $1.8 million.

White Mountains recognized gross realized investment gains of $138.7 million, $350.9 million and $344.4 million and gross realized investment losses of $707.4 million, $87.7 million and $71.7 million on sales of investment securities during 2008, 2007 and 2006.

White Mountains recognizes declines in fair value deemed to be other-than-temporary impairments as realized losses. For the year ended December 31, 2008, White Mountains recognized realized losses of $369.8 million for declines in fair value deemed to be other than temporary. The realized losses from other-than-temporary impairments relating to fixed maturity investments during 2008 was $104.5 million and mainly related to investments in the financial sector. During 2008 White Mountains had $206.3 million worth of impairments on common equity investments related to securities in the energy, utilities, financial, materials and consumer discretionary sectors. White Mountains also recognized an additional $42.3 million and $16.8 million worth of impairments on other investments and convertible fixed maturities. For the year ended December 31, 2007, White Mountains recognized $18.6 million in other-than-temporary impairment charges, principally comprised of $5.6 million from an investment in the common stock of Centennial Bank Holdings, Inc. and $4.9 million from a fixed maturity investment in CIT Group Inc. For the year ended December 31, 2006, $6.7 million worth of impairments were taken. Effective January 1, 2008, upon adoption of FAS 159, for all investment securities for which the fair value election has been made, all changes in fair value are included in revenues.

As of December 31, 2008 and 2007, White Mountains reported $7.5 million and $46.4 million in accounts payable on unsettled investment purchases and $78.2 million and $201.1 million in accounts receivable on unsettled investment sales.

The components of White Mountains change in unrealized investment gains, after-tax, as recorded on the statements of operations and comprehensive (loss) income were as follows:

	Year Ended December 31,		
Millions	**2008**	**2007**	**2006**
Net change in pre-tax unrealized gains recognized through AOCI for investment securities held	**$**	$ 214.6	$ 219.5
Net change in pre-tax unrealized losses from investments in unconsolidated affiliates	**(193.4)**	(2.2)	(32.1)
Net change in pre-tax unrealized investment (losses) gains for investments held	**(193.4)**	212.4	187.4
Income taxes attributable to investments held	**.4**	(73.5)	(66.8)
Net change in unrealized (losses) gains for investments held, after tax	**(193.0)**	138.9	120.6
Recognition of pre-tax net unrealized gains, previously included in AOCI for investments sold		(204.8)	(217.8)
Income taxes attributable to investments sold		77.7	61.8
Recognition of net unrealized gains for investments sold, after tax (1)		(127.1)	(156.0)
	(193.0)	11.8	(35.4)

Net change in unrealized gains (losses) through AOCI before minority interest					
Minority interest				1.2	(4.5)
Net change in unrealized gains (losses) through AOCI		**(193.0)**		13.0	(39.9)
Change in net unrealized foreign currency gains (losses) on investments through AOCI, after-tax		**(318.9)**		31.9	77.6
Total investments (losses) gains through AOCI		**(511.9)**		44.9	37.7
Change in net unrealized investments through earnings, pre-tax		**(588.4)**			
Income taxes		**183.2**			
Change in net unrealized investment gains (losses), after-tax (1)		**(405.2)**			
Net realized investment gains, after-tax		**(402.2)**		177.4	198.6
Total investment gains (losses) recorded during the period, after-tax	**$**	**(1,319.3)**	$	222.3	$ 236.3

(1) Prior to 1/1/2008, White Mountains recognized changes in fair value of available for sale securities through accumulated other comprehensive income (AOCI). Upon adoption of FAS 159 on 1/1/2008, changes in fair value on investment securities are now classified as trading and are recognized through earnings.

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The components of White Mountains ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated affiliates within other comprehensive income in shareholders equity were as follows:

Millions	December 31, 2008		December 31, 2007	
Investment securities:				
Gross unrealized investment gains	**$**		$	396.8
Gross unrealized investment losses				(85.7)
Net unrealized gains from investment securities				311.1
Net unrealized losses from investments in unconsolidated affiliates		**(198.8)**		(1.9)
Total net unrealized investment (losses) gains, before tax		**(198.8)**		309.2
Income taxes attributable to such gains		**.4**		(99.0)
Minority interest				(3.2)
Total net unrealized investment (losses) gains, after-tax	**$**	**(198.4)**	$	207.0

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

Millions		Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Net foreign currency gains (losses)		Carrying value
	December 31, 2008									
U.S. Government obligations	**$**	**785.4**	**$**	**24.4**	**$**	**(14.4)**	**$**	**3.5**	**$**	**798.9**
Debt securities issued by industrial corporations		**1,746.9**		**25.0**		**(112.2)**		**(12.4)**		**1,647.3**
Municipal obligations		**7.4**		**.3**		**(.1)**				**7.6**
Mortgage-backed and asset-backed securities		**2,321.1**		**21.2**		**(138.4)**		**37.3**		**2,241.2**
Foreign government obligations		**696.6**		**28.3**		**(8.0)**		**14.2**		**731.1**
Preferred stocks		**74.2**		**.1**		**(19.9)**				**54.4**
Total fixed maturity investments	**$**	**5,631.6**	**$**	**99.3**	**$**	**(293.0)**	**$**	**42.6**	**$**	**5,480.5**

Millions		Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Net foreign currency gains (losses)		Carrying value
	December 31, 2007									
U.S. Government obligations	$	1,257.8	$	30.8	$	(1.7)	$	(7.2)	$	1,279.7
Debt securities issued by industrial corporations		2,133.0		36.4		(31.1)		(7.6)		2,130.7
Municipal obligations		11.9		.5						12.4
Mortgage-backed and asset-backed securities		2,894.4		21.3		(7.3)		(9.8)		2,898.6
Foreign government obligations		855.8		2.9		(5.2)		22.8		876.3
Preferred stocks		159.5		8.2		(2.3)		8.4		173.8
Total fixed maturity investments	$	7,312.4	$	100.1	$	(47.6)	$	6.6	$	7,371.5

Until May 31, 2008, OneBeacon held securities in a segregated trust account established in connection with the OneBeacon Offering to economically defease the $300.0 million Berkshire Preferred Stock. The Berkshire Preferred Stock was redeemed in May 2008 using the proceeds from the segregated trust account. The carrying value, gross unrealized investment gains and losses, and estimated fair values of these investments, classified as held-to-maturity, as of December 31, 2007, were as follows:

	December 31, 2007				
Millions	**Carrying value**	**Gross unrealized gains**	**Gross unrealized losses**	**Net foreign currency gains**	**Estimated fair value**
U.S. Government obligations fixed maturities	$ 305.5	$ 1.4	$	$	$ 306.9
U.S. Government obligations short-term	.1				.1
Total trust account investments	$ 305.6	$ 1.4	$	$	$ 307.0

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The cost or amortized cost and carrying value of White Mountains fixed maturity investments and convertible fixed maturity investments, at December 31, 2008 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31, 2008			
Millions		Cost or amortized cost		Carrying value
Due in one year or less	$	699.2	$	697.4
Due after one year through five years		2,213.8		2,187.8
Due after five years through ten years		330.1		318.0
Due after ten years		320.5		290.4
Mortgage-backed and asset-backed securities		2,321.1		2,241.2
Preferred stocks		74.2		54.5
Total	**$**	**5,958.9**	**$**	**5,789.3**

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

	December 31, 2008									
Millions		Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Net foreign currency gains (losses)		Carrying value
Common equity securities	**$**	**558.4**	$	18.0	$	(44.9)	$	21.2	**$**	**552.7**
Convertible fixed maturities	**$**	**327.3**	$	3.2	$	(21.7)	$		**$**	**308.8**
Other investments	**$**	**431.2**	$	44.2	$	(65.2)	$	6.0	**$**	**416.2**

	December 31, 2007(2)									
Millions		Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Net foreign currency gains (losses)		Carrying value
Common equity securities	$	1,319.3	$	263.7	$	(35.2)	$	2.9	$	1,550.7
Other investments(1)	$	542.9	$	69.5	$	(5.2)	$	(3.9)	$	603.3

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

(2) Prior to the adoption of FAS 159, changes in the fair value of convertible fixed maturities were included in realized gains and losses.

White Mountains consolidated insurance and reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits totaled $291.0 million and $321.7 million as of December 31, 2008

and 2007.

Sales and maturities of investments, excluding short-term investments, totaled $6,412.2 million, $8,435.8 million and $6,236.4 million for the years ended December 31, 2008, 2007 and 2006. There were no non-cash exchanges or involuntary sales of investment securities during 2008, 2007 or 2006.

Fair value measurements at December 31, 2008

White Mountains adopted FAS 157 on January 1, 2008. FAS 157 established a hierarchy of fair value measurements based upon the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments;

Level 3 Valuations based on unobservable inputs.

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White Mountains uses observable inputs for the vast majority of its investment portfolio. Fair value measurements for securities for which quoted prices are unavailable are estimated based upon reference to observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes and other relevant inputs. In circumstances where quoted prices or observable inputs are adjusted to reflect management s best estimate of fair value, such fair value measurements are considered a lower level measurement in the FAS 157 fair value hierarchy. Other investments, which comprises limited partnerships, hedge fund and private equity interests for which the FAS 159 fair value option has been elected are carried at fair value based upon White Mountains proportionate interest in the underlying partnership s or fund s net asset value, which is deemed to approximate fair value. In circumstances where the partnership net asset value is deemed to differ from fair value due to illiquidity or other factors, net asset value is adjusted accordingly. At December 31, 2008 and December 31, 2007, White Mountains did not adjust the net asset values used to determine fair value because an active secondary market for such investments exists.

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

	December 31, 2008			
Millions	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed maturities	$ 5,480.5	$ 689.4	$ 4,634.7	$ 156.4
Common equity securities	552.7	399.2	40.2	113.3
Convertible fixed maturity investments	308.8		308.8	
Short-term investments	2,244.5	2,244.5		
Other investments(1)	402.4			402.4
Total investments	$ 8,988.9	$ 3,333.1	$ 4,983.7	$ 672.1

(1) The fair value of other investments excludes carrying value of $13.8 associated with other investment limited partnerships accounted for using the equity method.

In addition to the investment portfolio described above, White Mountains has $41.8 million of liabilities recorded at fair value in accordance with FAS 157 and included in other liabilities. These liabilities relate to securities that have been sold short by limited partnerships that White Mountains invests in and is required to consolidate under GAAP. All of the liabilities included in the $41.8 million have been deemed to have a Level 1 designation.

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

Millions	**Fixed maturities**	**Common equity securities**	**Convertible fixed maturities**	**Other investments**	**Total**
Balance at January 1, 2008	$ 297.9	$ 308.6	$ 23.2	$ 596.4	$ 1,226.1
Total realized and unrealized losses	(60.2)	(30.2)		(185.2)	(275.6)
Purchases	82.9	14.7	2.8	60.7	161.1
Sales	(126.7)	(29.8)	(23.2)	(121.9)	(301.6)
Transfers in	152.2	47.7		52.4	252.3
Transfers out	(189.7)	(197.7)	(2.8)		(390.2)
Balance at December 31, 2008	**$ 156.4**	**$ 113.3**	**$**	**$ 402.4**	**$ 672.1**

Transfers into Level 3 measurements for fixed maturities relate primarily to securities recently acquired as of the quarter end for which observable inputs were unavailable. Such securities were manually priced using a combination of market inputs such as benchmark interest rates, market comparables and/or broker quotes. Transfers into Level 3 measurements for common equity securities related to securities for which pricing information did not represent current market inputs at the quarter end. This was deemed to render the fair value measurements as based upon unobservable inputs and were accordingly classified within Level 3. When observable pricing inputs subsequently became available, the fair value measurements for these fixed maturity and common equity securities were reclassified to Levels 1 and/or 2 and are reflected in transfers out of Level 3 measurements. Transfers into Level 3 for year ended December 31, 2008 for other investments relate to White Mountains investment in Pentelia Investment Limited (Pentelia) which was previously accounted for under the equity method (See **Note 17**). When White Mountains investment fell below the threshold for equity method accounting, White Mountains began accounting for Pentelia as an other investment, classified as trading.

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The following table summarizes the amount of total gains (losses) included in earnings attributable to the change in unrealized gains (losses) for Level 3 assets for the year ended December 31, 2008:

Millions		**December 31, 2008**
Fixed maturities	$	(60.8)
Common equity securities		(16.7)
Convertible fixed maturities		
Other investments		(161.4)
Total change in unrealized losses - Level 3 assets	$	(238.9)

Changes in fair value for the year ended December 31, 2008

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

	December 31, 2008					
Millions		**Net unrealized investment gains (losses)**		**Net foreign exchange gains**		**Total changes in fair value reflected in earnings**
Fixed maturities	$	(259.7)	$	73.8	$	(185.9)
Common equity securities		(255.4)		18.3		(237.1)
Short-term investments		.2		.3		.5
Convertible fixed maturities		(26.9)				(26.9)
Other investments		(148.9)		9.9		(139.0)
Net unrealized (losses) gains	$	(690.7)	$	102.3	$	(588.4)

White Mountains recognized after-tax net unrealized investment losses of $484.5 million and an after-tax net unrealized foreign exchange gain of $79.5 million at December 31, 2008.

White Mountains participates in a securities lending program whereby it loans investment securities to other institutions for short periods of time. White Mountains receives a fee from the borrower in return for the use of its assets and its policy is to require collateral equal to approximately 102% of the fair value of the loaned securities, which is held by a third party. All securities loaned can be redeemed on short notice. White Mountains has recorded an asset of $220.0 million for the value of the collateral held and a liability of $234.8 million for the amount that is contractually due to the security lending counterparties upon the return of the loaned securities. White Mountains has recorded losses of $14.8 million in net unrealized investment losses at December 31, 2008 for the amount the liability exceeds the assets held.

NOTE 6. Debt

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

	December 31,	
Millions	**2008**	**2007**
OBH Senior Notes, at face value	**$ 676.0**	$ 700.0
Unamortized original issue discount	**(.9)**	(1.1)
OBH Senior Notes, carrying value	**675.1**	698.9
WMRe Senior Notes, at face value	**400.0**	400.0
Unamortized original issue discount	**(1.0)**	(1.1)
WMRe Senior Notes, carrying value	**399.0**	398.9
WTM Bank Facility	**200.0**	
Mortgage Note	**40.8**	40.8
Sierra Note	**31.1**	36.3
Atlantic Specialty Note	**16.0**	18.0
Total debt	**$ 1,362.0**	$ 1,192.9

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A schedule of contractual repayments of White Mountains debt as of December 31, 2008 follows:

Millions		December 31, 2008
Due in one year or less	$	**33.9**
Due in two to three years		**5.6**
Due in four to five years		**887.8**
Due after five years		**436.6**
Total	$	**1,363.9**

OBH Senior Notes

In May 2003, OneBeacon U.S. Holdings, Inc. (OBH), formerly Fund American Companies, Inc., a wholly-owned subsidiary of OneBeacon Ltd., issued $700.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.7% (the OBH Senior Notes). The OBH Senior Notes bear an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, until maturity in May 2013. Pursuant to the offering of the OBH Senior Notes, White Mountains fully and unconditionally guaranteed the payment of principal and interest on the OBH Senior Notes. Following the OneBeacon Offering, White Mountains continues to guarantee the payment of principal and interest on the OBH Senior Notes. OneBeacon Ltd. pays White Mountains a guarantee fee equal to 25 basis points per annum on the outstanding principal amount of the OBH Senior Notes. If White Mountains voting interest in OneBeacon Ltd. s common shares ceases to represent more than 50% of all their voting securities, OneBeacon Ltd. will seek to redeem, exchange or otherwise modify the senior notes in order to fully and permanently eliminate White Mountains obligations under the guarantee. In the event that White Mountains guarantee is not eliminated, the guarantee fee will increase over time up to a maximum of 450 basis points.

OBH incurred $7.3 million in expenses related to the issuance of the OBH Senior Notes (including $4.5 million in underwriting fees), which have been deferred and are being recognized into interest expense over the life of the OBH Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the OBH Senior Notes have an effective yield to maturity of approximately 6.0% per annum. OBH recorded $41.4 million in interest expense, inclusive of amortization of issuance costs, on the OBH Senior Notes for the year ended December 31, 2008.

During the third quarter of 2008, OneBeacon repurchased $24.0 million face value of its outstanding OBH Senior Notes for $22.3 million, which resulted in a $1.6 million gain on extinguishment of debt.

At December 31, 2008, White Mountains and OneBeacon were in compliance with all of the covenants under the OBH Senior Notes.

WMRe Senior Notes

In March 2007, WMRe Group issued $400.0 million face value of senior unsecured notes at an issue price of 99.715% (the WMRe Senior Notes) for net proceeds of $392.0 million after taking into effect both deferrable and non-deferrable issuance costs, including the interest rate

lock agreement described below. The WMRe Senior Notes were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. The WMRe Senior Notes bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017.

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

In anticipation of the issuance of the WMRe Senior Notes, White Mountains Re entered into an interest rate lock agreement to hedge its interest rate exposure from the date of the agreement until the pricing of the WMRe Senior Notes. The agreement was terminated on March 15, 2007 with a loss of $2.4 million, which was recorded in other comprehensive income. The loss is being reclassified from accumulated other comprehensive income over the life of the WMRe Senior Notes using the interest method and is included in interest expense. At December 31, 2008, the unamortized balance of the loss remaining in accumulated other comprehensive income was $2.1 million.

Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, including the interest rate lock agreement, the WMRe Senior Notes yield an effective rate of 6.49% per annum. White Mountains recorded $26.0 million of interest expense, inclusive of amortization of issuance costs and the interest rate lock agreement, on the WMRe Senior Notes for the year ended December 31, 2008.

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

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Bank Facilities

White Mountains has a $441.7 million revolving credit facility that matures in June 2012 (the WTM Bank Facility). During the first quarter of 2008, White Mountains drew the full $475.0 million available under the WTM Bank Facility at that time. In April and August 2008, the Company repaid $175.0 million and $100.0 million, respectively, of the borrowings. The Company recorded $8.2 million in interest expense on the WTM Bank Facility for the year ended December 31, 2008.

During 2008, White Mountains amended the WTM Bank Facility. The primary results of the amendments were to reduce the minimum net worth financial covenant by $0.5 billion, reduce the total commitment amount from $475.0 million to $441.7 million by removing $33.3 million of unfunded commitments of Lehman and increase the interest rate and fees at current borrowing levels from LIBOR plus 0.85% to LIBOR plus 2.375%. The amendments permit White Mountains to further reduce Lehman s remaining $24.2 million of funded commitments as outstanding amounts on the WTM Bank Facility are repaid. In this case, the Company would likely reduce Lehman s remaining commitments as it is unlikely Lehman would subsequently re-lend these amounts. Accordingly, upon full repayment of the $200.0 million outstanding at December 31, 2008, the WTM Bank Facility would have $417.5 million in available total commitments.

In addition, as part of the WTM Bank Facility amendment process, OneBeacon s undrawn $75.0 million revolving credit facility was terminated.

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

AFI Note

At June 30, 2008, the noncontrolling shareholders of AFI held a $29.6 million Senior Secured Note (the AFI Note). On July 30, 2008, White Mountains repaid this note in connection with its acquisition of the remaining debt and equity interests of AFI from the minority owner (See **Note 2**).

Mortgage Note

In December 2005, OneBeacon entered into a $40.8 million, 18-year mortgage note, which has a variable interest rate based upon the lender s 30-day LIBOR rate, to purchase land and its U.S. headquarters building in Canton, Massachusetts. As of December 31, 2008, OneBeacon had drawn down the entire $40.8 million available under the mortgage note. Repayment commenced in January 2009.

Concurrent with entering into the mortgage note, OneBeacon also entered into an interest rate swap to hedge its exposure to variability in the interest rate on the mortgage note. The notional amount of the swap is equal to the debt outstanding on the mortgage note and will be adjusted to match the drawdowns and repayments on the mortgage note so that the principal amount of the mortgage note and the notional amount of the swap are equal at all times. Under the terms of the swap, OneBeacon pays a fixed interest rate of approximately 6% and receives a variable interest rate based on the same LIBOR index used for the mortgage note. Interest paid or received on the swap is reported in interest expense. As of December 31, 2008 and 2007, the swap was recorded at its fair value of $(10.4) million and $(1.7) million. Changes in the fair value of the interest rate swap, which was a $4.8 million loss, after tax and net of minority interest, for the year ended December 31, 2008, is reported as a component of other comprehensive income.

Sierra Note

In connection with its acquisition of the Sierra Group on March 31, 2004, WMRe America entered into a $62.0 million purchase note (the Sierra Note), $58.0 million of which may be adjusted over its six-year term to reflect favorable or adverse loss reserve development on the acquired reserve portfolio and run-off of remaining policies in force (mainly workers compensation business), as well as certain other balance sheet protections. Since inception the principal of the Sierra Note has been reduced by $30.9 million as a result of adverse development on the acquired reserves and run-off of unearned premium, which includes $22.8 million of adverse development which occurred during 2005 and $9.1 million of favorable development occurring in 2007, and $5.2 million of adverse development in 2008. Interest accrues on the unpaid balance of the Sierra Note at a rate of 4.0% per annum, compounded quarterly, and is payable at its maturity.

On October 31, 2008, White Mountains sold its remaining interest in the Sierra Group (CCIC) as part of the Berkshire Exchange transaction. White Mountains is still obligated to repay the Sierra Note, but Berkshire has provided White Mountains a full indemnity, whereby Berkshire will reimburse White Mountains all amounts due under the Sierra Note at its maturity, as adjusted for future reserve development. Accordingly, White Mountains recorded a $36.3 million receivable from Berkshire in connection with the closing of the Berkshire Exchange. As a result of the adverse development since the closing of the transaction, both the Sierra Note and the receivable from Berkshire were adjusted to a carrying value of $31.1 million at December 31, 2008.

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Atlantic Specialty Note

In connection with its acquisition of Atlantic Specialty Insurance Company on March 31, 2004, OneBeacon issued a $20.0 million ten-year note to the seller (the Atlantic Specialty Note). OneBeacon is required to repay $2.0 million of principal on the notes per year, with the first payment being made on January 1, 2007 and a final payment of $6.0 million due at maturity. The note accrues interest at a rate of 5.2%, except that the outstanding principal amount in excess of $15.0 million accrues interest at a rate of 3.6%.

Interest

Total interest expense incurred by White Mountains for its indebtedness was $82.1 million, $73.0 million and $50.1 million in 2008, 2007 and 2006. Total interest paid by White Mountains for its indebtedness was $81.7 million, $62.5 million and $47.5 million in 2008, 2007 and 2006.

NOTE 7. Income Taxes

The Company is domiciled in Bermuda and has subsidiaries domiciled in several countries. The majority of the Company s worldwide operations are taxed in the United States. Income earned or losses incurred by non-U.S. companies will generally be subject to an overall effective tax rate lower than that imposed by the United States.

The total income tax (benefit) provision for the years ended December 31, 2008, 2007 and 2006 consisted of the following:

	Year Ended December 31,		
Millions	**2008**	**2007**	**2006**
Current tax (benefit) provision:			
Federal	**$ (17.8)**	$ 105.0	$ 29.8
State	**2.7**	.6	(1.8)
Non-U.S.	**(16.7)**	39.8	18.3
Total current tax (benefit) provision	**(31.8)**	145.4	46.3
Deferred tax (benefit) provision:			
Federal	**(328.2)**	47.5	(2.2)
State			
Non-U.S.	**(138.7)**	17.6	54.8
Total deferred tax (benefit) provision	**(466.9)**	65.1	52.6
Total income tax (benefit) provision	**$ (498.7)**	$ 210.5	$ 98.9

Effective Rate Reconciliation

A reconciliation of taxes calculated using the 35% U.S. statutory rate (the tax rate at which the majority of the Company s worldwide operations are taxed) to the income tax provision on pre-tax earnings follows:

	Year Ended December 31,		
Millions	**2008**	**2007**	**2006**
Tax (benefit) provision at the U.S. statutory rate	**$ (399.0)**	$ 238.5	$ 255.4
Differences in taxes resulting from:			
Change in valuation allowance	**108.1**	352.7	15.3
Tax rate change enacted in Luxembourg	**22.0**		
Interest expense dividends and accretion on preferred stock	**11.7**	22.9	20.5
Sale of subsidiaries	**8.3**		
Withholding tax	**1.4**	18.7	6.4
Tax reserve adjustments	**.9**	(.4)	(15.6)
Tax exempt interest and dividends	**(4.1)**	(4.2)	(20.3)
Tax rate change enacted in Sweden	**(20.2)**		
Non-U.S. earnings, net of foreign taxes	**(224.9)**	(418.5)	(160.3)
Other, net	**(2.9)**	.8	(2.5)
Total income tax (benefit) provision on pre-tax earnings	**$ (498.7)**	$ 210.5	$ 98.9

The non-U.S. component of pre-tax earnings was $(69.2) million, $324.8 million and $629.7 million for the years ended December 31, 2008, 2007 and 2006.

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Tax Payments and Receipts

Net income tax payments to (receipts from) national governments (primarily the United States) totaled $87.7 million, $150.0 million and $(5.3) million for the years ended December 31, 2008, 2007 and 2006.

Deferred Tax Inventory

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. An outline of the significant components of White Mountains deferred tax assets and liabilities follows:

	December 31,			
Millions		**2008**		**2007**
Deferred income tax assets related to:				
Non-U.S. net operating losses and tax credit carryforwards	**$**	**607.6**	$	427.0
U.S. net operating loss and tax credit carryforwards		**252.0**		93.3
Investment basis differences		**119.6**		
Discounting of loss reserves		**97.2**		152.7
Net unrealized investment losses		**86.4**		
Net unearned insurance and reinsurance premiums		**84.2**		82.9
Deferred compensation		**32.2**		41.8
Incentive compensation		**31.0**		55.9
Olympus reimbursement		**22.3**		48.0
Pension and benefit accruals		**12.2**		3.4
Accrued interest		**7.7**		7.1
Deferred gain on reinsurance contract		**7.4**		19.6
Fixed assets		**7.4**		9.2
Other items		**29.2**		24.9
Total gross deferred income tax assets	**$**	**1,396.4**	$	965.8
Less valuation allowance		**(551.4)**		(447.0)
Total net deferred income tax assets	**$**	**845.0**	$	518.8
Deferred income tax liabilities related to:				
Safety reserve	**$**	**308.7**	$	397.8
Deferred acquisition costs		**90.2**		93.7
Intangible assets		**16.8**		
Purchase accounting		**4.1**		8.4
Net unrealized investment gains				99.0
Investment basis differences				11.4
Other items		**7.2**		25.1
Total deferred income tax liabilities	**$**	**427.0**	$	635.4
Net deferred tax asset (liability)	**$**	**418.0**	$	(116.6)

The Company s deferred tax assets are net of U.S. federal, state, and non-U.S. valuation allowances and, to the extent they relate to non-U.S. jurisdictions, they are shown at year-end exchange rates. Of the $551.4 million valuation allowance at December 31, 2008, $443.6 million relates to deferred tax assets on net operating losses in Luxembourg subsidiaries (discussed below under Net Operating Loss Carryforwards) that are not expected to have significant income in the future, $63.2 million relates to deferred tax assets on U.S. losses and other federal deferred tax

benefits (primarily related to the AFI acquisition), and $42.8 million relates to deferred tax assets on California losses and other state deferred tax benefits. At December 31, 2007, the valuation allowance was $447.0 million of which $415.5 million relates to deferred tax assets on net operating losses in Luxembourg and certain deferred tax assets in Sweden, $13.8 million relates to U.S. losses and other federal deferred tax benefits (primarily related to the insurance reciprocals) and $17.7 million relates to California losses and other state deferred tax benefits.

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 the income tax provision in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods and strategies that if executed would result in the realization of a deferred tax asset.

During the next twelve months, it is possible that certain planning strategies will no longer be sufficient to utilize the entire deferred tax asset, which could result in material changes to White Mountains deferred tax assets and tax provision.

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Release of Valuation Allowance in Luxembourg

During the fourth quarter of 2008, White Mountains Re recorded a $162.2 million tax benefit from the release of a valuation allowance against a deferred tax asset in a Luxembourg-domiciled, wholly owned subsidiary, White Mountains International S.a.r.l. (WMI). WMI had built up substantial net operating loss carryforwards (NOLs) that had a full valuation allowance in periods prior to the fourth quarter of 2008 because there was no expected future taxable income at WMI to utilize them.

White Mountains Re partially finances its operations, including Sirius International Holdings Sweden AB (SIHAB), with internal debt instruments. During the fourth quarter of 2008, Sweden enacted tax legislation that limits the deductibility of interest paid to a noteholder in a low tax jurisdiction. Due to uncertainty regarding the application of the new legislation, the deductibility of interest expense on a series of internal debt instruments issued by SIHAB (the SIHAB Notes) became at risk. The SIHAB Notes, which were previously held in a company with a low effective tax rate, were transferred to WMI, which has an effective tax rate of 28.59% absent the benefit of the deferred tax asset, in order to preserve the economic value of the internal capital structure by maintaining the deductibility of the interest on the SIHAB Notes in Sweden. Because the restructuring created a stream of expected future taxable income to WMI, White Mountains Re was required to release the valuation allowance. WMI is expected to fully utilize the NOLs at WMI by 2028.

Net Operating Loss Carryforwards

The Company has net operating loss carryforwards in Luxembourg of $2.1 billion at December 31, 2008, which do not expire. The Company expects to utilize $567.3 million of the carryforwards but does not expect to utilize the remainder as they belong to companies that are not expected to have significant income in the future. These losses primarily relate to tax deductible write-downs of investments in U.S. subsidiaries held by Luxembourg subsidiaries in 2007 and 2008. At December 31, 2008, there were U.S. net operating loss carryforwards of $500.2 million, a small portion of these carryforwards begin to expire in 2009, however, the majority of these NOLs do not expire until 2021 through 2029. Included in these tax losses are losses of $80.1 million subject to an annual limitation on utilization under Internal Revenue Code Section 382. Also included in these losses are net operating losses of $185.6 million for AFI and $17.8 million related to the three insurance reciprocals, each of which file separate tax returns. The total U.S. capital loss carryforwards were $4.1 million at December 31, 2008 and begin to expire in 2010. The Company has state income tax loss carryforwards of approximately $454.8 million, which begin to expire in 2010. Also at December 31, 2008, there were foreign tax credit carryforwards available of approximately $32.6 million, which will begin to expire in 2010.

Deferred Tax Assets Related to Capital Losses

The downturn in the debt and equity markets during 2008 resulted in deferred tax assets of $86.4 million and $116.9 million for unrealized and realized losses at December 31, 2008. Such losses generally represent capital losses, which can only be offset with capital gains for U.S. income tax purposes. Management believes that it will have sufficient income of the appropriate character to realize these deferred tax assets based upon its prior history of capital gains, expected future capital gains, capacity for carryback of capital losses and its ability and intent to implement tax planning strategies, including its ability to hold certain securities to maturity and thus, no valuation allowance is required.

FIN 48

On January 1, 2007 the Company adopted FIN 48. FIN 48 prescribes when the benefit of a given tax position should be recognized and how it should be measured. In connection with the adoption of FIN 48, the Company has recognized a $0.2 million decrease in the liability for unrecognized tax benefits, primarily as a result of reductions in its estimates of accrued interest.

The effect of adoption has been recorded as an adjustment to opening retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31,			
Millions		**2008**		**2007**
Balance at beginning of period	**$**	**84.8**	$	70.6
Additions for tax positions related to the current year		**.6**		1.1
Additions for tax positions related to prior years		**2.2**		13.1
Reductions for tax positions as a result of a lapse of the applicable statute of limitations		**(2.9)**		
Balance at end of period	**$**	**84.7**	$	84.8

If recognized, $67.7 million would be recorded as a reduction to income tax expense. Also included in the balance at December 31, 2008, are $17.0 million of tax positions for which ultimate deductibility is highly certain but the timing of deductibility is uncertain. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

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FIN 48 also addresses how interest and penalties should be accrued for uncertain tax positions, requiring that interest expense should be recognized in the first period interest would be accrued under the tax law. The Company classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. During the years ended December 31, 2008 and 2007, the Company recognized $2.8 million and $1.6 million in interest expense, net of U.S. federal benefit. The balance of accrued interest at December 31, 2008 and 2007 is $8.3 million and $5.5 million, net of U.S. federal benefit.

With few exceptions, the Company is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2003. In 2007, the Swedish Tax Agency concluded an income tax audit of the Company s Swedish subsidiaries income tax returns for 2004 and 2005 resulting in an insignificant adjustment. In the second quarter of 2006, the Internal Revenue Service (IRS) commenced an examination of income tax returns for 2003 through 2004 for certain U.S. subsidiaries of OneBeacon, White Mountains Re and Esurance. On January 22, 2009, the Company received Form 4549-A (Income Tax Examination Changes) from the IRS relating to the examination of tax years 2003 and 2004. The IRS is asserting that subsidiaries of the Company owe an additional $65.7 million of tax. The estimated total assessment, including interest, withholding tax and utilization of tax credits is $132.3 million. The Company disagrees with the adjustments proposed by the IRS and intends to vigorously defend its position. The timing of the resolution of these issues is uncertain; however it is reasonably possible that the resolution could occur within the next 12 months. An estimate of the range of potential outcomes cannot be made at this time. The Company does not expect the resolution of this examination to result in a material change to its financial position. In October 2008, the IRS commenced an examination of certain of White Mountains U.S. subsidiaries income tax returns for 2005 through 2006. As of December 31, 2008 the IRS has not proposed any significant adjustments to taxable income as a result of the 2005 through 2006 audit. Due to the uncertainty of the outcome of the on-going IRS examination, White Mountains cannot estimate the range of reasonably possible changes to its unrecognized tax benefits at this time. However, White Mountains does not expect to receive any adjustments that would result in a material change to its financial position.

NOTE 8. Weather Contracts

For the years ended December 31, 2008 and 2007, Galileo recognized $8.4 million of net gains and $2.0 million of net losses on its weather and weather contingent derivatives portfolio, excluding unamortized deferred gains of $5.1 million and $2.9 million, respectively. The fair values of Galileo s risk management products are subject to change in the near-term and reflect management s best estimate based on various factors including, but not limited to, realized and forecasted weather conditions, changes in interest or foreign currency exchange rates and other market factors. Estimating the fair value of derivative instruments that do not have quoted market prices requires management s judgment in determining amounts that could reasonably be expected to be received from or paid to a third party to settle the contracts. Such amounts could be materially different from the amounts that might be realized in an actual transaction to settle the contract with a third party. Because of the significance of the unobservable inputs used to estimate the fair value of Galileo s weather risk contracts, the fair value measurements of the contracts are deemed to be Level 3 measurements in the FAS 157 fair value hierarchy.

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

	Year Ended December 31,			
Millions		**2008**		**2007**
Net liability for weather derivative contracts beginning balance(1)	**$**	**17.9**	$	12.1
Net consideration received during the year for new contracts		**14.4**		12.5
Net payments made on contracts settled during the year		**(10.8)**		(8.7)
Net (decrease) increase in fair value on settled and unsettled contracts		**(8.4)**		2.0
Net liability for weather derivative contracts ending balance(2)	**$**	**13.1**	$	17.9

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

(2) Includes unamortized deferred gains of $5.1 and $2.9 as of December 31, 2008 and 2007.

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

Millions	**< 1 Year**	**1-3 Years**	**3-5 Years**	**> 5 Years**	**Total**
Net (asset) liability for contracts actively quoted	$ (.4)	$	$	$	$ (.4)
Net liability for contracts using internal pricing models	7.8	5.7			13.5
Total net liability for weather contracts outstanding	$ 7.4	$ 5.7	$	$	$ 13.1(1)

(1) Includes $5.1 in unamortized deferred gains.

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NOTE 9. Variable Annuity Reinsurance

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan through its wholly owned subsidiary, WM Life Re. At December 31, 2008 and 2007, the liability recorded for the variable annuity benefit guarantees which is included in other liabilities, was $467.1 million and $12.7 million, of which $26.6 million and $0.4 million, were life insurance liabilities. At December 31, 2008 and 2007, the fair value of WM Life Re s derivative contracts was $184.2 million and $43.7 million, which are included in other assets. For the years ended December 31, 2008, 2007 and 2006, WM Life Re had gains (losses) from derivatives of $239.8 million, $(0.7) million and $(15.7) million. The following table summarizes the pre-tax operating results of WM Life Re for the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31,		
Millions	**2008**	**2007**	**2006**
Fees, included in other revenues	**$ 26.6**	$ 22.7	$ 6.2
Change in fair value of variable annuity liability, included in other revenues	**(428.1)**	(26.2)	13.9
Change in fair value of derivatives, included in other revenues	**239.8**	(.7)	(15.7)
Non-performance risk, included in other revenues	**(5.8)**		
Other investment income and gains	**9.1**	.1	.6
Total revenues	**(158.4)**	(4.1)	5.0
Change in fair value of variable annuity death benefit liabilities, included in other expenses	**(26.0)**	(.3)	(.1)
General and administrative expenses	**(3.0)**	(7.2)	(2.6)
Pre-tax (loss) gain	**$ (187.4)**	$ (11.6)	$ 2.3

For the year ended December 31, 2008 the change in the fair value of the variable annuity liability included $93 million associated with changes in projected surrender assumptions.

WM Life Re enters into both over-the-counter (OTC) and exchange traded derivatives 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. The following summarizes collateral held by WM Life Re with respect to OTC derivative contracts recorded within other assets:

	Year Ended December 31,	
Millions	**2008**	**2007**
Fair value of OTC derivative instruments	**$ 209.1**	$ 38.9
Collateral held	**(64.3)**	
Net exposure on fair value of OTC instruments	**$ 144.8**	$ 38.9

The WM Life Re s internal risk management guidelines establish net counterparty exposure thresholds and also require that over-the-counter counterparties have a credit rating of at least AA- on the date of contract execution.

The following table summarizes uncollateralized amounts due under WM Life Re s OTC derivative contracts as of December 31, 2008:

Counterparty (Millions)		Uncollateralized balance as of December 31, 2008	S&P Rating(1)
Bank of America	$	49.5	A+
Barclays		49.1	A+
JP Morgan		12.7	A+
Royal Bank of Scotland		22.2	A
Other		11.3	(2)
Total	$	144.8	

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(1) AA+ is the second highest of twenty-one creditworthiness ratings, A+ is the fifth highest of twenty-one creditworthiness ratings, A is the sixth highest of twenty-one creditworthiness ratings.

(2) The ratings of the counterparties included in Other were A (27%) and AA+ (73%).

The OTC derivative contracts are subject to restrictions over liquidation of the instruments and distribution of proceeds under collateral agreements.

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The following summarizes collateral posted by WM Life Re to counterparties:

Millions	Year Ended December 31, 2008		2007	
Cash	**$**	**225.7**	$	8.5
Fixed maturity securities				5.0
Short-term investments		**30.3**		
Total	**$**	**256.0**	$	13.5

The following summarizes collateral provided to WM Life Re from counterparties:

Millions	Year Ended December 31, 2008		2007	
Short term investments	**$**	**10.6**	$	
Fixed maturity securities		**53.7**		
Total	**$**	**64.3**	$	

Collateral held by or provided by WM Life Re in the form of fixed maturity securities comprise US Treasury securities, which are recorded at fair value. Collateral in the form of short-term investments consists of money-market instruments, carried at amortized cost which is deemed to approximate fair value.

WM Life Re has an OTC derivative contract with a subsidiary of Lehman, Lehman Brothers Special Financing Inc. (LBSF), that is approximately $2 million in-the-money. At December 31, 2008 the carrying value of the derivative has been written down to $0.

All of White Mountains variable annuity reinsurance liabilities ($467.1 million) were classified as Level 3 measurements at December 31, 2008.

The following table summarizes the changes in White Mountains variable annuity reinsurance liabilities and derivative contracts for the year ended December 31, 2008:

Millions		(Liabilities) Level 3		Derivative Instruments Level 3 (1)		Derivative Instruments Level 2 (2)		Derivative Instruments Level 1 (3)		Net Assets (Liabilities)
Balance at January 1, 2008	$	(12.7)	$	38.9	$		$	4.8	$	31.0
Cumulative effect adjustment- FAS 157		(.3)								(.3)
Purchases				68.7						68.7
Realized and unrealized gains (losses)		(454.1)		96.5		5.0		138.2		(214.4)
Transfers in (out)										
Sales/settlements								(167.9)		(167.9)
Balance at December 31, 2008	$	(467.1)	$	204.1	$	5.0	$	(24.9)	$	(282.9)

(1) Comprises OTC instruments.
(2) Comprises interest rate swaps. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded.
(3) Comprises exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.

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NOTE 10. (Loss) Earnings per share

Basic (loss) earnings per share amounts are based on the weighted average number of common shares outstanding excluding unvested restricted common shares (Restricted Shares). Diluted (loss) earnings per share amounts are based on the weighted average number of common shares and the net effect of potentially dilutive common shares outstanding, based on the treasury stock method. The following table outlines the Company s computation of earnings per share for the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31,		
	2008	**2007**	**2006**
Basic (loss) earnings per share numerators (in millions):			
(Loss) income before extraordinary item	**$ (559.5)**	$ 407.4	$ 651.8
Extraordinary item excess of fair value of acquired net assets over cost	**4.2**		21.4
Net (loss) income	**$ (555.3)**	$ 407.4	$ 673.2
Diluted (loss) earnings per share numerators (in millions):			
(Loss) income before extraordinary item	**$ (559.5)**	$ 407.4	$ 651.8
Extraordinary item excess of fair value of acquired net assets over cost	**4.2**		21.4
Net (loss) income	**$ (555.3)**	$ 407.4	$ 673.2
Basic (loss) earnings per share denominators (in thousands):			
Average common shares outstanding during the period	**10,235**	10,784	10,780
Average unvested Restricted Shares(1)	**(52)**	(52)	(11)
Basic (loss) earnings per share denominator	**10,183**	10,732	10,769
Diluted (loss) earnings per share denominator (in thousands):			
Average common shares outstanding during the period	**10,235**	10,784	10,780
Average unvested Restricted Shares(1)	**(52)**	(46)	
Average outstanding dilutive options to acquire common shares(2)		13	23
Diluted (loss) earnings per share denominator	**10,183**	10,751	10,803
Basic (loss) earnings per share (in dollars):			
(Loss) income before extraordinary item	**$ (54.96)**	$ 37.96	$ 60.52
Extraordinary item excess of fair value of acquired net assets over cost	**.42**		1.99
Net (loss) income	**$ (54.54)**	$ 37.96	62.51
Diluted (loss) earnings per share (in dollars):			
(Loss) income before extraordinary item	**$ (54.96)**	$ 37.89	$ 60.33
Extraordinary item excess of fair value of acquired net assets over cost	**.42**		1.99
Net (loss) income	**$ (54.54)**	$ 37.89	$ 62.32

(1) Restricted Shares outstanding vest either upon a stated date or upon the occurrence of a specified event. (See **Note 12)** In accordance with FAS No. 123(R), the diluted earnings per share denominator is reduced by the number of Restricted Shares that represent the unamortized compensation cost at December 31, 2008. The diluted loss per share denominator for the year ended December 31, 2008 is not reduced by the number of Restricted Shares that represent the unamortized compensation cost as doing so would be anti-dilutive to the calculation. The diluted earnings per share denominator for the years ended December 31, 2007 and 2006 is reduced by the number of Restricted Shares that represent the unamortized compensation cost, which is computed using the treasury stock method.

(2) The diluted loss per share denominator for the year ended December 31, 2008 does not include common shares issuable upon exercise of incentive options as they are anti-dilutive to the calculation. The diluted earnings per share denominator for the year ended December 31, 2007 includes 18,720 common shares issuable upon exercise of incentive options at an average strike price of $162.90 per common share. The diluted earnings per share denominator for the year ended December 31, 2006 includes 32,596 common shares at an average strike price of $154.05 per common share. The non-qualified options were not included in the diluted earnings per share denominator as their inclusion would be anti-dilutive for the periods presented. (See **Note 12**).

Explanation of Responses:

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NOTE 11. Retirement and Postretirement Plans

OneBeacon sponsors qualified and non-qualified, non-contributory, defined benefit pension plans covering substantially all employees who were employed as of December 31, 2001 and remain actively employed with OneBeacon. Current plans include a OneBeacon qualified pension plan, the Qualified Plan and a OneBeacon non-qualified pension plan, the Non-qualified Plan (collectively the Plans). The Plans were frozen and curtailed in the fourth quarter of 2002. The Plans no longer add new participants or increase benefits for existing participants. Non-vested plan participants continue to vest during their employment with OneBeacon, which effectively causes the projected benefit obligation to equal the accumulated benefit obligation.

The benefits for the Plans are based primarily on years of service and employees compensation through December 31, 2002. Participants generally vest after five years of continuous service. OneBeacon s funding policy is consistent with the funding requirements of U.S. federal laws and regulations.

On July 11, 2007, OneBeacon settled approximately 80% of the Qualified Plan liabilities through the purchase of two group annuity contracts for $398.5 million from Transamerica Life Insurance Company (Transamerica) and Hartford Life Insurance Company (Hartford Life). In accordance with FAS No. 88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits , the Qualified Plan s obligations were re-measured in connection with this settlement. As a result of the partial settlement and re-measurement, the Company recognized a gain of $25.6 million through pre-tax income ($6.3 million as a reduction to loss and LAE, allocated to claims department employees, and $19.3 million as a reduction to other underwriting expenses) and a pre-tax loss of $2.5 million through other comprehensive income in the third quarter of 2007. At the time of settlement, the remaining Qualified Plan liabilities were primarily attributable to Qualified Plan participants who were actively employed by OneBeacon.

During the third quarter of 2008, the Qualified Plan received reimbursements from Transamerica and Hartford Life in the amounts of $0.8 million and $0.6 million, respectively, due to the final reconciliation of the partial pension settlement. These amounts represented changes in participants and benefits between the time of purchase and the settlement plus any related interest, and resulted in a pre-tax gain of $1.4 million recognized through other comprehensive income.

The following tables set forth the obligations and funded status, assumptions, plan assets and cash flows associated with the various pension plans at December 31, 2008 and 2007:

	Pension Benefits			
Millions		**2008**		**2007**
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	**$**	**121.6**	$	534.1
Service cost		**1.1**		2.1
Interest cost		**6.7**		16.7
Settlement gain				(398.5)
Special termination benefit cost		**2.4**		1.8
Assumption changes		**1.8**		(4.8)
Actuarial loss		**(2.8)**		1.6
Benefits and expenses paid with plan assets, net of participant contributions		**(11.4)**		(28.4)

Benefits paid directly by OneBeacon		**(2.9)**		(3.0)
Projected benefit obligation at end of year	**$**	**116.5**	$	121.6
Change in plan assets:				
Fair value of plan assets at beginning of year	**$**	**145.5**	$	532.7
Actual return on plan assets		**(23.1)**		39.7
Employer contributions				
Benefits and expenses paid, net of participant contributions		**(11.4)**		(28.4)
Settlement gain				(398.5)
Other adjustments				
Fair value of plan assets at end of year	**$**	**111.0**	$	145.5
Funded status at end of year	**$**	**(5.5)**	$	23.9

The funded status of the consolidated pension plans at December 31, 2008 was $(5.5) million, which represents an over-funding of $20.2 million related to the Qualified Plan and an under-funding of $(25.7) million related to the Non-qualified Plan. The Non-qualified Plan, which is unfunded, does not hold any assets. OneBeacon has set aside $15.2 million in irrevocable rabbi trusts for the benefit of Non-qualified Plan participants. In accordance with GAAP, the assets held in the rabbi trusts are not reflected in the funded status of the consolidated pension plans as presented.

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Amounts recognized in the financial statements as of December 31, 2008 and 2007 consist of:

	Pension Benefits	
Millions	**2008**	**2007**
Prepaid benefit cost recorded in other assets	**$ 20.2**	$ 51.8
Accrued benefit cost recorded in other liabilities	**(25.7)**	(27.9)
Net amount accrued in the financial statements	**$ (5.5)**	$ 23.9

The accumulated benefit obligation for all defined benefit pension plans was $116.5 million and $121.6 million at December 31, 2008 and 2007, respectively.

Information for the Non-qualified Plan, which had accumulated benefit obligations in excess of plan assets, was as follows:

Millions	**2008**	**2007**
Projected benefit obligation	**$ 25.7**	$ 27.9
Accumulated benefit obligation	**$ 25.7**	$ 27.9
Fair value of plan assets	**$**	$

Information for the Qualified Plan, which had accumulated benefit obligations less than plan assets, was as follows:

Millions	**2008**	**2007**
Projected benefit obligation	**$ 90.8**	$ 93.6
Accumulated benefit obligation	**$ 90.8**	$ 93.6
Fair value of plan assets	**$ 111.0**	$ 145.5

At December 31, 2006, White Mountains adopted FAS 158 and accordingly recognized the funded status of OneBeacon s defined benefit plans upon adoption. The following summarizes the incremental effect of adoption on individual line items in the statement of financial position:

Millions	**Before Adoption of FAS 158**	**Adjustments**	**After Adoption of FAS 158**
Prepaid benefit cost recorded in other assets	$ 18.6	$ 8.8	$ 27.4
Accrued benefit cost recorded in other liabilities	28.8		28.8
Deferred federal income taxes	314.6	(3.1)	311.5
Net effect of adoption before adjustment for minority interest	n/a	5.7	n/a
Minority interest	604.8	(1.6)	603.2
Accumulated other comprehensive income	227.7	4.1	231.8
Total shareholders equity	4,451.2	4.1	4,455.3

The amounts recognized in accumulated other comprehensive (loss) income on a pre tax basis and before minority interest for the years ended December 31, 2008 and 2007 were as follows:

Millions	December 31, 2008	2007
Accumulated other comprehensive income beginning balance	**$ 3.0**	$ 3.1
Increase (decrease) in accumulated other comprehensive (loss) income:		
Amortization of net actuarial losses recognized during the year	**.3**	.3
Net actuarial losses occurring during the year	**(30.4)**	(.4)
Accumulated other comprehensive (loss) income ending balance	**$ (27.1)**	$ 3.0

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The amount in accumulated other comprehensive loss, on a pre tax basis and before minority interest, that has not yet been recognized as a component of net periodic benefit cost for the year ended December 31, 2008 is attributable to net losses. During 2009, OneBeacon expects $1.3 million will be amortized from accumulated other comprehensive loss into net periodic benefit cost.

The components of net periodic benefit costs for the years ended December 31, 2008, 2007 and 2006 were as follows:

	Pension Benefits		
Millions	**2008**	**2007**	**2006**
Service cost	**$ 1.0**	$ 2.1	$ 2.6
Interest cost	**6.7**	16.7	27.7
Expected return on plan assets	**(8.2)**	(17.7)	(30.6)
Amortization of prior service benefit			
Amortization of unrecognized loss	**.3**	.3	.3
Net periodic pension cost (income) before settlements, curtailments and special termination benefits	**(.2)**	1.4	
Settlement gain		(25.6)	
Special termination benefits expense(1)	**2.4**	1.8	1.6
Total net periodic benefit cost (income)	**$ 2.2**	$ (22.4)	$ 1.6

(1) Special termination benefits were additional payments made from the pension plan when a vested participant s employment has been terminated due to a reduction in force.

Assumptions

The weighted average assumptions used to determine benefit obligations was 5.665% and 5.750% at December 31, 2008 and 2007. The weighted average assumptions used to determine net periodic benefit cost included a 5.750% discount rate and 5.750% expected long-term rate of return on plan assets for the year ended December 31, 2008. For the year ended December 31, 2007 a 5.096% discount rate and 5.400% expected long-term rate of return on plan assets were used for the weighted average assumptions to determine net periodic benefit cost.

OneBeacon s discount rate assumptions used to account for the Qualified and Non-qualified Plans reflect the rates at which the benefit obligations could be effectively settled. For 2008 and 2007, in addition to consideration of published yields for high quality long-term corporate bonds, U.S. Treasuries and quotes on insurance company annuity contracts, consideration was given to a cash flow matching analysis utilizing the Citigroup Pension Discount Curve and Liability Index.

OneBeacon performed an analysis of expected long-term rates of return based on the allocation of its pension plan assets at December 31, 2007 and 2006 to develop expected rates of return for 2008 and 2007 for each significant asset class or economic indicator. A range of returns was developed based both on forecasts and on broad market historical benchmarks for expected return, correlation, and volatility for each asset class.

Plan Assets

OneBeacon s pension plans asset allocations at December 31, 2008 and 2007, by asset category were as follows:

Asset Category	Plan Assets at December 31, 2008	2007
Fixed maturity investments	**7%**	19%
Common equity securities	**38%**	24%
Convertible securities	**43%**	50%
Cash and short-term investments	**12%**	7%
Total	**100%**	100%

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The majority of the Plans assets are managed by WM Advisors, a subsidiary of White Mountains, and Prospector Partners, both related parties, (See **Note 20**). The investment policy places an emphasis on preserving invested assets through a diversified portfolio of high-quality income producing investments and equity investments.

The investment management process integrates the risks and returns available in the investment arena with the risks and returns available to the Plans in establishing the proper allocation of invested assets. The asset classes include fixed income, equity, convertible securities, and cash and cash equivalents. The factors examined in establishing the appropriate investment mix include: the outlook for risk and return in the various investment markets and sectors, and the long term need for capital growth.

Cash Flows

OneBeacon does not expect to make a contribution to its Qualified Plan in 2009. OneBeacon expects to contribute $2.7 million to the Non-qualified Plan, for which OneBeacon has established assets held in rabbi trusts.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Millions	**Expected Benefit Payments**
2009	$ 5.3
2010	5.7
2011	6.1
2012	6.5
2013	6.9
2014 2018	39.6

Other Benefit Plans

OneBeacon sponsors an employee savings plan (defined contribution plan) covering the majority of employees. The contributory plan provides qualifying employees with matching contributions of 50% up to the first six percent of salary (subject to U.S. federal limits on allowable contributions in a given year). Total expense for the plan was $4.7 million, $3.7 million and $4.9 million in 2008, 2007 and 2006.

OneBeacon had a post-employment benefit liability of $8.0 million and $9.0 million related to its long-term disability plan at December 31, 2008 and 2007.

Explanation of Responses:

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NOTE 12. Employee Share-Based Incentive Compensation Plans

White Mountains share-based incentive compensation plans are designed with one goal in mind, maximization of shareholder value over long periods of time. White Mountains believes that this goal is best pursued by utilizing a pay-for-performance program for its key employees that closely aligns the financial interests of management with those of its shareholders. White Mountains accomplishes this by emphasizing highly variable long-term compensation that is contingent on performance over a number of years rather than entitlements (such as base salary, pensions and employee benefits). To that end, the Company s Compensation Committee has established base salaries and target annual bonuses for key employees that tend to be lower than those paid by other property and casualty (re)insurers, while granting the bulk of target compensation as long-term, share-based incentive compensation.

White Mountains expenses all its share-based compensation. As a result, White Mountains calculation of its owners returns includes the expense of all outstanding share-based compensation awards. (See **Note 1**).

Incentive Compensation Plans

White Mountains Long-Term Incentive Plan (the WTM Incentive Plan) provides for granting various types of share-based and non share-based incentive awards to key employees of the Company and certain of its subsidiaries. The WTM Incentive Plan was adopted by the Board, was approved by the Company s sole shareholder in 1985 and was subsequently amended by its shareholders in 1995, 2001, 2003 and 2005. Share-based incentive awards that may be granted under the plan include performance shares, Restricted Shares, Incentive Options and Non-qualified Stock Options (Non-Qualified Options). Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. In general, awards vest, subject to the attainment of pre-specified performance goals, at the end of a three-year period and are valued based on the market value of common shares at the time awards are paid. Performance shares earned under the WTM Incentive Plan are typically paid in cash or by deferral into certain non-qualified compensation plans of White Mountains. Compensation expense is recognized on a pro rata basis over the vesting period of the awards.

The OneBeacon Long-Term Incentive Plan (the OneBeacon Incentive Plan) provides for granting to key employees of OneBeacon Ltd., and certain of its subsidiaries, various types of share-based incentive awards, including performance shares, Restricted Shares, Incentive Options and Non-Qualified Options. In February 2007, all of the outstanding performance shares granted under the WTM Incentive Plan that were held by OneBeacon employees were replaced with an equivalent value of performance shares from the OneBeacon Incentive Plan whose value is based upon the market price of an underlying OneBeacon Ltd. common share (OneBeacon Performance Shares).

Certain of White Mountains subsidiary incentive plans, consisting of the OneBeacon Phantom White Mountains Share Plan, the White Mountains Re Performance Plan, the Folksamerica Performance Plan and the Esurance Performance Plan, provide for granting phantom White Mountains performance shares (the WTM Phantom Share Plans) to certain key employees of OneBeacon, White Mountains Re, WMRe America and Esurance. The performance goals for full payment of performance shares issued under these plans are identical to those of the WTM Incentive Plan. Performance shares earned under the WTM Phantom Share Plans are typically paid in cash or by deferral into certain non-qualified compensation plans of White Mountains.

Compensation expense is recognized on a pro rata basis over the vesting period of the awards. In addition, the Company offers certain types of share-based compensation under qualified retirement plans. The defined contribution plans of OneBeacon, WMRe America and Esurance (the 401(k) Plans) offer its participants the ability to invest their balances in several different investment options, including the Company s common shares. OneBeacon s employee stock ownership plan (ESOP) is a OneBeacon-funded benefit plan that provides all of its participants with an annual base contribution in common shares equal to 3% of their salary, up to the applicable Social Security wage base (or $102,000 with respect to 2008). Additionally, those participants not otherwise eligible to receive certain other OneBeacon benefits can earn a variable contribution up to an additional 6% of their salary, up to the applicable Social Security wage base, contingent upon OneBeacon s performance. In April 2007, the ESOP was merged into the 401(k) Plan to form the OneBeacon 401(k) Savings and ESOP Plan (KSOP).

Performance Shares

White Mountains share-based compensation expense consists primarily of performance share expense. Performance shares are designed to reward company-wide performance. The level of payout ranges from zero to two times the number of shares initially granted, depending on the Company s financial performance. Performance shares become payable at the conclusion of a performance cycle (typically three years) if pre-defined financial targets are met.

The principal performance measure used for determining performance share payouts is after-tax growth in the Company s intrinsic business value per share. The Compensation Committee historically has considered the growth in intrinsic business value per share to be based equally on the growth of economic value per share and growth in adjusted book value per share, both inclusive of dividends. Economic value is calculated by adjusting the GAAP book value per share for differences between the GAAP carrying values of certain assets and liabilities and the Company s estimate of their underlying economic values (for example, the time value discount in loss reserves).

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The following summarizes performance share activity for the years ended December 31, 2008, 2007 and 2006 for performance shares granted under the WTM Incentive Plan and WTM Phantom Share Plans:

	Year Ended December 31,					
	2008		2007		2006	
Millions, except share amounts	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**
Beginning of period	**146,742**	**$ 47.3**	185,363	$ 102.4	183,031	$ 100.5
Payments and deferrals (1)	**(43,608)**	**(15.5)**	(63,300)	(56.0)	(64,100)	(57.0)
New awards	**62,548**		55,173		71,185	
Forfeitures and cancellations	**(1,503)**	**.9**	(17,684)	(4.6)	(4,753)	(2.7)
Transfers out (2)			(12,810)	(4.4)		
Expense (income) recognized		**(28.3)**		9.9		61.6
Ending December 31,	**164,179**	**$ 4.4**	146,742	$ 47.3	185,363	$ 102.4

(1) WTM Performance share payments in 2008 for the 2005-2007 performance cycle range from 64% to 101% of target. WTM performance share payments in 2007 for the 2004-2006 performance cycle ranged from 145% to 186% of target. WTM Performance share payments in 2006 for the 2003-2005 performance cycle ranged from 142% to 181% of target. Amounts include deposits into White Mountains deferred compensation plan.

(2) In February 2007, the WTM performance shares of OneBeacon employees were replaced with an equivalent value of OneBeacon performance shares issued under the OneBeacon Long-Term Incentive Plan.

If 100% of the outstanding performance shares had been vested on December 31, 2008, the total additional compensation cost to be recognized would have been $3.3 million, based on current accrual factors (common share price and payout assumptions).

For the 2005-2007 performance cycle, the Company issued common shares for 1,700 performance shares earned and all other performance shares earned were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company or its subsidiaries. For the 2004-2006 and 2003-2005 performance cycles, all performance shares earned were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company or its subsidiaries.

Performance shares granted under the WTM Incentive Plan

The following summarizes performance shares outstanding and accrued expense for performance shares awarded under the WTM Incentive Plan at December 31, 2008 for each performance cycle:

Millions, except share amounts	**Target WTM Performance Shares Outstanding**	**Accrued Expense**
Performance cycle:		

2006-2008	49,918	$	2.8
2007-2009	46,811		
2008-2010	53,772		1.5
Sub-total	150,501		4.3
Assumed forfeitures	(3,763)		(.1)
Total at December 31, 2008	**146,738**	**$**	**4.2**

The targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan to non-investment personnel for the 2008-2010 performance cycles is an 11% growth in intrinsic business value per share. Growth of 4% or less would result in a payout of 0% and growth of 18% or more would result in a payout of 200%. The targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan to non-investment personnel for the 2006-2008 and 2007-2009 performance cycles is a 13% growth in intrinsic business value per share. Growth of 6% or less would result in a payout of 0% and growth of 20% or more would result in a payout of 200%.

For investment personnel, the targeted performance goal for full payment of outstanding performance shares granted under the WTM Incentive Plan is based in part on growth in intrinsic business value per share (as described above) and in part on achieving a total return on invested assets as measured against metrics based on United States treasury note and/or industry benchmark returns.

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Phantom Performance Shares granted under WTM Phantom Share Plans

The following summarizes performance shares outstanding and accrued expense for awards made under the WTM Phantom Share Plans at December 31, 2008 for each performance cycle:

Millions, except share amounts	Target WTM Phantom Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2006-2008	2,042	$ .1
2007-2009	7,081	
2008-2010	8,765	.1
Sub-total	17,888	.2
Assumed forfeitures	(447)	
Total at December 31, 2008	**17,441**	**$ .2**

The performance goals for full payment of performance shares issued under the WTM Phantom Share Plans are identical to those of the WTM Incentive Plan.

Restricted Shares

At December 31, 2008, 2007 and 2006, the Company had 53,200, 54,000 and 10,000 unvested Restricted Shares outstanding under the WTM Incentive Plan. The following outlines the unrecognized compensation cost associated with the outstanding Restricted Share awards under the WTM Incentive Plan for the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31,					
	2008		2007		2006	
Millions, except share amounts	Restricted Shares	Unamortized Grant Date Fair Value	Restricted Shares	Unamortized Grant Date Fair Value	Restricted Shares	Unamortized Grant Date Fair Value
Non-vested, beginning of year	**54,000**	**$ 26.7**	10,000	$ .3	13,000	$ 1.9
Granted	**6,200**	**3.1**	54,000	31.0		
Vested	**(7,000)**		(10,000)		(3,000)	
Forfeited						
Expense recognized		**(5.6)**		(4.6)		(1.6)
Non-vested at end of year	**53,200**	**$ 24.2**	54,000	$ 26.7	10,000	$ .3

During the first quarter of 2008, White Mountains awarded 4,200 Restricted Shares that vest in equal annual installments over three years and 2,000 Restricted Shares that cliff vest in February 2011 based on continuous service throughout the award period.

During the first quarter of 2007, White Mountains made the following grants of Restricted Shares to the Company s Chairman and CEO: (1) 35,000 Restricted Shares that vest in equal annual installments over five years, and (2) 15,000 Restricted Shares that vest in the event of a change in control of the Company before January 20, 2012. During the first quarter of 2007, White Mountains also awarded 4,000 Restricted Shares to other employees that cliff vest in February 2010 based on continuous service by the employee throughout the award period. Of the unrecognized compensation cost at December 31, 2008, $15.6 million is expected to be recognized ratably over the remaining vesting periods and $8.6 million is expected to be recognized in the event of a change in control before January 20, 2012. Upon vesting, all restrictions initially placed upon the common shares lapse.

On January 1, 2006, White Mountains recorded an adjustment of $1.9 million to reclassify unearned compensation in common shareholders equity relating to its outstanding Restricted Shares to opening paid-in surplus to reflect the cumulative effect of adoption of FAS 123R.

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Stock Options

Non-Qualified Options

In January 2007, the Company issued 200,000 seven-year Non-Qualified Options to the Company s Chairman and CEO that vest in equal annual installments over five years and that have an initial exercise price of $650 per common share that escalates each year by 5% less the annual regular dividend rate (the Escalator). The fair value of the Non-Qualified Options at the grant date was estimated using a closed-form option model using an expected volatility assumption of 29.7%, a risk-free interest rate assumption of 1.1% (or 4.7% less the Escalator), a forfeiture assumption of 0%, an expected dividend rate assumption of 1.4% and a term assumption of seven years. The fair value of the Non-Qualified Options was $27.2 million at the grant date and will be recognized ratably over the five year vesting period. The Company recognized $5.4 million and $5.1 million of expense for the years ended December 31, 2008 and 2007 associated with its Non-Qualified Options. At December 31, 2008, 40,000 Non-Qualified Options were exercisable at a strike price of $702.36.

Incentive Options

At December 31, 2008, 2007 and 2006, the Company had 6,000, 9,900 and 29,550 Incentive Options outstanding which were granted to certain key employees on February 28, 2000 (the grant date) under the WTM Incentive Plan. The 81,000 Incentive Options originally granted were issued at an exercise price equal to the market price of the Company s underlying common shares on February 27, 2000. The exercise price escalates by 6% per annum over the life of the Incentive Options. The Incentive Options vest ratably over a ten-year service period. Upon the adoption of FAS 123R, the grant date fair value of the awards as originally disclosed for FAS 123, adjusted for estimated future forfeitures, became the basis for recognition of compensation expense for the Incentive Options. The fair value of each Incentive Option award at the grant date was estimated using a closed-form option model using an expected volatility assumption of 18.5%, a risk-free interest rate assumption of 6.4% and an expected term of ten years.

The following summarizes the Company s Incentive Option activity for the years ended December 31, 2008, 2007 and 2006:

	Year ending December 31,		
Millions, except share and per share amounts	**2008**	**2007**	**2006**
Opening balance outstanding Options	**9,900**	29,550	34,280
Forfeited	**(600)**	(8,100)	(1,200)
Exercised	**(3,300)**	(11,550)	(3,530)
Ending balance outstanding Options	**6,000**	9,900	29,550
Opening balance exercisable Options	**3,300**	11,550	9,080
Vested	**3,000**	3,300	6,000
Exercised	**(3,300)**	(11,550)	(3,530)
Ending balance exercisable Options	**3,000**	3,300	11,550
Intrinsic value of Options exercised	**$ .6**	$ 4.7	$ 1.5
Exercise price beginning of year	**$ 167.70**	$ 158.21	$ 149.25
Exercise price end of year	**$ 177.76**	$ 167.70	$ 158.21
Compensation expense (income)	**$**	$	$

The total in-the-money value of all outstanding Incentive Options and those Incentive Options currently exercisable at December 31, 2008 was $0.5 million and $0.3 million. The Incentive Options expire in February 2010. White Mountains expects approximately 3,000 Incentive Options to become exercisable in 2009 and will issue common shares when the Incentive Options are exercised.

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Share-Based Compensation Based on OneBeacon Ltd. Common Shares

OneBeacon Performance Shares

The following summarizes activity for the years ended December 31, 2008 and 2007 for OneBeacon Performance Shares granted under the OneBeacon Incentive Plan:

	Year ended December 31,					
	2008			2007		
Millions, except share amounts	**Target OneBeacon Performance Shares Outstanding**		**Accrued Expense**	**Target OneBeacon Performance Shares Outstanding**		**Accrued Expense**
Beginning of period	**1,063,690**	**$**	**9.3**		$	
Payments and deferrals(1)	**(122,859)**		**(1.7)**			
New awards	**1,430,258**			934,131		
Forfeitures and cancellations	**(158,776)**		**(.6)**	(158,638)		(.2)
Transfers from the WTM Incentive Plan(2)				288,197		4.4
Expense recognized			**(2.4)**			5.1
End of period	**2,212,313**	**$**	**4.6**	1,063,690	$	9.3

(1) OneBeacon performance share payments in 2008 for the 2007 performance cycle were at 62.9% of target. All OneBeacon performance shares earned for the 2007 performance cycle were settled in cash or by deferral into certain non-qualified deferred compensation plans of OneBeacon s subsidiaries.

(2) In February 2007, the WTM performance shares of OneBeacon employees were replaced with an equivalent value of OneBeacon performance shares issued under the OneBeacon Incentive Plan.

The following summarizes OneBeacon Performance Shares outstanding awarded under the OneBeacon Incentive Plan at December 31, 2008 for each performance cycle:

Millions, except share amounts	**Target OneBeacon Performance Shares Outstanding**		**Accrued Expense**
Performance cycle:			
2007-2008	137,400	$	
2007-2009	763,748		
2008-2010	1,367,379		4.7
Sub-total	2,268,527		4.7
Assumed forfeitures	(56,214)		(.1)
Total at December 31, 2008	**2,212,313**	**$**	**4.6**

If 100% of the outstanding OneBeacon Performance Shares had been vested on December 31, 2008, the total additional compensation cost to be recognized would have been $9.3 million, based on December 31, 2008 accrual factors (common share price and payout assumptions).

The targeted performance goal for full payment of the outstanding OneBeacon performance shares granted during 2008 is growth in intrinsic business value per share of 11%. At a growth in intrinsic business value per share of 4% or less, no performance shares would be earned and at a growth in intrinsic business value per share of 18% or more, 200% of performance shares would be earned. The targeted performance goal for full payment of the outstanding OneBeacon performance shares granted during 2007 is the attainment of a growth in intrinsic business value per share of 13%. At a growth in intrinsic business value per share of 6% or less, no performance shares would be earned and at a growth in intrinsic business value per share of 20% or more, 200% of performance shares would be earned.

For awards granted in February 2008, the OneBeacon Compensation Committee defined growth in intrinsic business value per share to be a weighted measure comprised of growth in the adjusted book value per share and underwriting return on equity. For awards granted in February 2007, the OneBeacon Compensation Committee defined growth in intrinsic business value per share to be a weighted measure comprised of growth in the adjusted book value per share, underwriting return on equity and change in the market value per common share.

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Non-Qualified Options

In November 2006, in connection with its initial public offering, OneBeacon Ltd. issued to its key employees 1,420,000 fixed-price Non-Qualified Options to acquire OneBeacon Ltd. common shares.

The options vest in equal installments on each of the third, fourth and fifth anniversaries of their issuance and expire five and a half years from the date of issuance. The fair value of each option award at grant was estimated using a Black-Scholes option pricing model using an expected volatility assumption of 30%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. The options originally had a per share exercise price of $30.00. On May 27, 2008, the OneBeacon Compensation Committee adjusted the exercise price to $27.97 to give effect to the $2.03 per share special dividend paid in the first quarter of 2008. The compensation expense associated with the options and the incremental fair value of the award modification is being recognized ratably over the remaining period. As of December 31, 2008 and 2007, there are 1,237,872 and 1,324,306 options outstanding. The unrecognized compensation expense associated with the options as of December 31, 2008 is $3.4 million and is being recognized ratably over the remaining three years. OneBeacon recognized compensation expense of $1.1 million, $1.2 million and $0.2 million in connection with these options in the years ended December 31, 2008, 2007 and 2006, respectively.

The following summarizes option activity for the years ended December 31, 2008, 2007 and 2006:

	Year ended December 31,					
	2008		**2007**		**2006**	
Millions	**Target Outstanding Options**	**Accrued Expense**	**Target Outstanding Options**	**Accrued Expense**	**Target Outstanding Options**	**Accrued Expense**
Beginning of period	**1,324,306**	**$ 1.4**	1,420,000	$ .2		$
New awards					1,420,000	
Forfeitures	**(86,434)**		(95,694)			
Exercised						
Expense recognized		**1.1**		1.2		.2
End of period	**1,237,872**	**$ 2.5**	1,324,306	$ 1.4	1,420,000	$ .2

Restricted Stock Units

The Non-Qualified Options granted by OneBeacon Ltd., in connection with its initial public offering, did not include a mechanism in the options to reflect the contribution to total return from the regular quarterly dividend. As a result, during the first quarter of 2008, OneBeacon granted 116,270 Restricted Stock Units (RSUs) to actively employed option holders. The RSUs vest one-third on each of November 9, 2009, 2010 and 2011 subject to, for each vesting tranche of units, the attainment of 4% growth in OneBeacon s adjusted book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date. Upon vesting, the RSUs will be mandatorily deferred into one of OneBeacon s non-qualified deferred compensation plans and will be paid out in 2012 in cash or shares at the discretion of the OneBeacon Compensation Committee. The expense associated with the RSUs is being recognized over the vesting period. For the year ended December 31, 2008, OneBeacon recognized expense of $0.5 million. As of December 31, 2008, 113,990 RSUs were outstanding.

Share-Based Compensation Under Qualified Retirement Plans

The variable contribution amounts earned by eligible participants of the KSOP constituted approximately 4%, 6% and 6% of salary for the years ended 2008, 2007 and 2006. OneBeacon recorded $11.8 million, $15.7 million and $15.5 million in compensation expense to pay benefits and allocate common shares to participant s accounts for the years ended 2008, 2007 and 2006. The contributions made to the KSOP with respect to the years ended 2008, 2007 and 2006 were made with either the Company s or OneBeacon Ltd. s common shares, dependent on the employer. As of December 31, 2008 and 2007, the plans owned less than 1% of either of the Company s or OneBeacon Ltd. s total common shares outstanding.

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NOTE 13. Mandatorily Redeemable Preferred Stock of Subsidiaries

White Mountains had two classes of mandatorily redeemable preferred stock of subsidiaries that fell within the scope of FAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* and were considered non-controlling interests under FASB Staff Position No. 150-3. Accordingly, White Mountains classified these instruments as liabilities and had recorded them at their historical carrying values. All dividends and accretion on White Mountains mandatorily redeemable preferred stock have been recorded as interest expense. During the years ended December 31, 2008, 2007 and 2006, White Mountains recorded $33.4 million, $65.4 million and $58.6 million as interest expense on preferred stock.

Berkshire Preferred Stock

As part of the financing for the OneBeacon Acquisition, Berkshire invested a total of $300 million in cash, of which (1) $225 million was for the purchase of cumulative non-voting preferred stock of OBH, which had a $300 million redemption value; and (2) $75 million was for the purchase of warrants to acquire 1,724,200 common shares of the Company. The Berkshire Preferred Stock was redeemed on May 31, 2008 for $300 million, its redemption value. The Berkshire Preferred Stock was initially recorded at $145.2 million, as the aggregate proceeds received from Berkshire of $300 million were originally allocated between the Berkshire Preferred Stock and the warrants, based on their relative fair values, in accordance with Accounting Principles Board Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants . The difference between the redemption value and the amount initially recorded for the Berkshire Preferred Stock were accreted through the income statement as interest expense. During the years December 31, 2008, 2007 and 2006, White Mountains declared and paid dividends of $11.8 million, $28.3 million, and $28.3 million on the Berkshire Preferred Stock. During the years ended December 31, 2008, 2007 and 2006, White Mountains recorded $21.6 million, $36.1 million and $28.3 million of accretion charges related to the Berkshire Preferred Stock.

Zenith Preferred Stock

Also as part of the financing for the OneBeacon Acquisition, Zenith Insurance Company (Zenith) purchased $20.0 million in cumulative non-voting preferred stock of a subsidiary of the Company (the Zenith Preferred Stock). White Mountains exercised its option to redeem the Zenith Preferred Stock on June 30, 2007. During the years ended December 31, 2007 and 2006, White Mountains declared and paid dividends of $1.0 million and $2.0 million on the Zenith Preferred Stock.

Economic Defeasance

In connection with the OneBeacon Offering, White Mountains established two irrevocable grantor trusts to economically defease the Berkshire Preferred Stock and the Zenith Preferred Stock. The assets of each trust were solely dedicated to the satisfaction of the payment of dividends and redemption amounts on the $300 million liquidation preference of the Berkshire Preferred Stock and the $20 million liquidation preference of the Zenith Preferred Stock. Assets held in one of the trusts were used to redeem the Zenith Preferred Stock in June 2007, while assets held in the remaining trust were used to redeem the Berkshire Preferred Stock in May 2008.

NOTE 14. Common Shareholders Equity

Common shares repurchased and retired

On October 31, 2008, Berkshire exchanged substantially all of its 16.3% stake in White Mountains (1,634,921 of its 1,724,200 common shares) for 100% of a White Mountains subsidiary, which held CCIC, the International American Group, and $707.9 million in cash.

White Mountains Board of Directors on November 17, 2006 authorized the Company to repurchase up to 1 million of its common shares, from time to time, subject to market conditions. Shares may be repurchased on the open market or through privately negotiated transactions. This program does not have a stated expiration date. Since the inception of the program, the Company has repurchased and retired 420,611 common shares for $201.3 million. During 2008 the Company repurchased 129,770 shares under the plan for $55.9 million. On October 26, 2007, White Mountains repurchased 282,341 of its common shares for $500 per share, or $141.2 million, in a transaction with an institutional investor. In November 2007, 8,500 shares were repurchased for $4.2 million from another institutional investor. During 2006, the Company did not repurchase any common shares under the plan.

In addition, during 2008 the Company repurchased 6,838 shares from a former employee s retirement plan and in 2007 the Company repurchased 4,465 outstanding Restricted Shares held by certain key employees who were instead granted the market value of such shares in various non-qualified deferred compensation plans of the Company and its subsidiaries.

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Common shares issued

During 2008, the Company issued a total of 26,800 common shares, which consisted of 3,300 shares issued in satisfaction of Options exercised and 6,200 Restricted Shares issued to key management personnel, 600 shares issued to directors of the Company, 15,000 shares issued for deferred compensation payouts, and 1,700 shares for incentive compensation awards. During 2007, the Company issued a total of 66,125 common shares, which consisted of 11,550 shares issued in satisfaction of Options exercised and 54,000 Restricted Shares issued to key management personnel, and 575 shares issued to directors of the Company. During 2006, the Company issued a total of 3,530 common shares, which consisted of shares issued in satisfaction of Options exercised.

Dividends on common shares

During 2008, the Company declared and paid cash dividends totaling $42.3 million (or $4.00 per common share). During 2007 and 2006, the Company declared and paid cash dividends totaling $86.2 million (or $8.00 per common share).

NOTE 15. Statutory Capital and Surplus

White Mountains insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. Over the last several years most states have implemented laws that establish standards for current, as well as continued, state accreditation. In addition, the NAIC uses risk-based capital (RBC) standards for property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. At December 31, 2008, White Mountains active insurance and reinsurance operating subsidiaries met their respective RBC requirements.

OneBeacon s consolidated combined policyholders surplus of its insurance operating subsidiaries as reported to various regulatory authorities as of December 31, 2008 and 2007, was $1.4 billion and $1.9 billion. OneBeacon s consolidated combined statutory net (loss) income for the years ended December 31, 2008, 2007 and 2006 was $(156.5) million, $335.2 million and $372.0 million. The principal differences between OneBeacon s combined statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts, market value adjustments for debt securities and recognition of pension plans. OneBeacon s insurance operating subsidiaries statutory policyholders surplus at December 31, 2008 was in excess of the minimum requirements of relevant state insurance regulations. During 2008, One Beacon s regulated insurance operating subsidiaries declared and paid $197.0 million of dividends to One Beacon Insurance Group LLC (One Beacon LLC). In December 2008, One Beacon LLC contributed $25.0 million to One Beacon Insurance Company, one of its regulated insurance operating subsidiaries.

WMRe America s policyholders surplus, as reported to various regulatory authorities as of December 31, 2008 and 2007, was $708.8 million and $926.6 million. WMRe America s statutory net income (loss) for the years ended December 31, 2008, 2007 and 2006 was $(123.8) million, $62.9 million and $46.9 million. The principal differences between WMRe America s statutory amounts and the amounts reported in accordance

with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts and market value adjustments for debt securities. WMRe America s statutory policyholders surplus at December 31, 2008 was in excess of the minimum requirements of relevant state insurance regulations.

In accordance with Swedish regulations, WMRe Sirius holds restricted reserves of $865.1 million, which represents 73.7% of untaxed reserves, as a component of Swedish statutory shareholders equity. These restricted reserves cannot be paid as dividends. WMRe Sirius s regulatory capital at December 31, 2008 was $1,343.0 million.

WMRe Bermuda is subject to regulation and supervision by the Bermuda Monetary Authority (BMA). Generally, the BMA has broad supervisory and administrative powers over such matters as licenses, standards of solvency, investments, methods of accounting, form and content of financial statements, minimum capital and surplus requirements, and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. As of December 31, 2008, WMRe Bermuda had statutory capital and surplus of $589.6 million, which was in excess of the minimum requirements of the BMA.

Scandinavian Re is also subject to regulation and supervision by the BMA. As of December 31, 2008, Scandinavian Re had statutory capital and surplus of $62.0 million, which was in excess of the minimum requirements of the BMA.

Esurance s consolidated combined policyholders surplus of its insurance operating subsidiaries as reported to various regulatory authorities as of December 31, 2008, and 2007, was $124.7 million and $120.0 million. Esurance s insurance operating subsidiaries statutory policyholders surplus at December 31, 2008 was in excess of the minimum requirements of relevant state insurance regulations.

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Dividend Capacity

Under the insurance laws of the states and jurisdictions under which White Mountains insurance and reinsurance operating subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future. Following is a description of the ability of White Mountains insurance and reinsurance operating subsidiaries to pay dividends to the Company and certain of its intermediate holding companies:

OneBeacon:

Generally, OneBeacon s regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount equal to the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. Based upon December 31, 2008 statutory surplus of $1.4 billion, OneBeacon s top tier regulated insurance operating subsidiaries have the ability to pay approximately $136.0 million of dividends during 2009 without prior approval of regulatory authorities, subject to the availability of unassigned funds. As of December 31, 2008, OneBeacon s top tier regulated insurance operating subsidiaries had $0.9 billion of unassigned funds. During 2008, OneBeacon s regulated insurance operating subsidiaries declared and paid $197.0 million of dividends to their immediate parent.

During 2008, One Beacon s unregulated operating subsidiaries declared and paid $6.0 million of dividends to their immediate parent. At December 31, 2008, OneBeacon s unregulated operating subsidiaries had approximately $10.1 million of unrestricted cash.

During 2008, OneBeacon Ltd. paid $275.5 million of dividends to its common shareholders. White Mountains received a total of $205.9 million of these dividends.

As of December 31, 2008, OneBeacon Ltd. and its intermediate holding companies had approximately $159.6 million of net unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries.

White Mountains Re:

WMRe America has the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount equal to the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Based upon December 31, 2008 statutory surplus of $708.8 million, WMRe America would have the ability to pay approximately $70.9 million of dividends during 2009 without prior approval of regulatory authorities, subject to the availability of earned surplus. As of December 31, 2008, WMRe America had negative earned surplus. During 2008, WMRe America declared and paid $61.1 million of dividends to its immediate parent.

In accordance with the provisions of Swedish law, WMRe Sirius can voluntarily transfer its pre-tax income, or a portion thereof, subject to certain limitations, to its Swedish parent company to minimize taxes (referred to as a group contribution). In early 2008, WMRe Sirius transferred approximately $33 million of its 2007 pre-tax income to its Swedish parent company as a group contribution. In early 2009, WMRe Sirius intends to transfer approximately $60.0 million of its 2008 pre-tax income to its Swedish parent company as a group contribution.

WMRe Sirius has the ability to pay dividends subject to the availability of unrestricted statutory surplus. Historically, WMRe Sirius has allocated the majority of its pre-tax earnings, after group contributions to its Swedish parent company, to the Safety Reserve (see **Safety Reserve** below). As of December 31, 2008, WMRe Sirius had $55.0 million of unrestricted statutory surplus, which is available for distribution in 2009. During 2008, WMRe Sirius paid $52.0 million in dividends to its immediate parent.

During 2007, White Mountains Re increased the capital of WMRe Bermuda, as WMRe Sirius first contributed $136.0 million to WMRe Bermuda, and then White Mountains Re extracted WMRe Bermuda from WMRe Sirius and contributed the net proceeds of its May 2007 Preference Share issuance, or approximately $246 million, to WMRe Bermuda. Additionally, during the fourth quarter of 2007, WMRe America redeemed $285.0 million of its common shares, after receiving approval from the Insurance Department of the State of New York; $250.0 million of these proceeds were used to further capitalize WMRe Bermuda. As of December 31, 2007, WMRe Bermuda s capital was $776.5 million.

During 2009, WMRe Bermuda has the ability to make capital distributions without the prior approval of regulatory authorities, subject to meeting all appropriate liquidity and solvency requirements, of up to $101.0 million, which is equal to 15% of December 31, 2008 statutory capital excluding statutory surplus. During 2008, WMRe Bermuda declared and paid $42.5 million of dividends and made $17.5 million of capital distributions to its immediate parent.

During 2008, WMRUS paid $9.0 million of cash dividends to its immediate parent. At December 31, 2008, WMRUS had $1.8 million of unrestricted cash.

In addition, as of December 31, 2008, White Mountains Re and its intermediate holding companies had approximately $97.1 million of net unrestricted cash and fixed maturity investments outside of WMRe America, WMRe Sirius, WMRe Bermuda, and WMRUS. During 2008, White Mountains Re paid $100.0 million of cash dividends to its immediate parent.

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Esurance:

Generally, Esurance s regulated insurance operating subsidiaries have the ability to pay dividends during any 12 month period without the prior approval of regulatory authorities in an amount equal to the lesser of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. As a result, based on December 31, 2008 statutory net income, Esurance s top tier regulated insurance operating subsidiary does not have the ability to pay dividends during 2009 without prior approval of regulatory authorities and subject to the availability of unassigned funds. As of December 31, 2008, Esurance s top tier regulated insurance operating subsidiary had $32.9 million of unassigned funds.

In addition, as of December 31, 2008, Esurance had $0.3 million of net unrestricted cash and fixed maturity investments outside of its regulated insurance operating subsidiaries. During 2008, Esurance did not pay any cash dividends to its immediate parent.

Other operations:

WM Advisors did not pay any dividends to its immediate parent during 2008. As of December 31, 2008, WM Advisors had $31.3 million of unrestricted cash and fixed maturity investments.

As of December 31, 2008, White Mountains had $167.6 million of net unrestricted cash and fixed maturity investments at the Company and its intermediate holding companies included in its other operations segment.

Safety Reserve

In accordance with provisions of Swedish law, WMRe Sirius is permitted to transfer up to the full amount of its pre-tax income, subject to certain limitations, into an untaxed reserve referred to as a safety reserve, which amounted to $1.2 billion at December 31, 2008. Under GAAP, an amount equal to the safety reserve, net of the related deferred tax liability established at the Swedish tax rate of 26.3%, is classified as shareholders equity. Generally, this deferred tax liability is only required to be paid by WMRe Sirius if it fails to maintain predetermined levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on WMRe Sirius s safety reserve ($308.7 million at December 31, 2008) is included in solvency capital. Access to the safety reserve is restricted to coverage of aggregate losses and requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, major rating agencies include the $1.2 billion balance of the safety reserve, without any provision for deferred taxes, in WMRe Sirius capital when assessing WMRe Sirius financial strength.

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NOTE 16. Segment Information

White Mountains has determined that its reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations. White Mountains has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company s subsidiaries and affiliates; (ii) the manner in which the Company s subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board of Directors.

OneBeacon s business comprises three major lines of business: specialty, commercial and personal. OneBeacon s specialty lines are a collection of niche insurance business lines including specialty liability products, marine insurance, tuition reimbursement, professional liability, collector car and boat, and accident & health products. OneBeacon s commercial lines provide property and liability insurance products including multi-peril, auto, workers compensation, general liability, umbrella, property and inland marine products to small and middle market businesses. OneBeacon s personal lines underwrite homeowners, personal auto and combination insurance policies. White Mountains Re provides reinsurance coverage for property, casualty, accident & health, agriculture, aviation and space and certain other exposures on a worldwide basis. Esurance writes personal auto insurance through its website and select online agents. Other Operations consists of the Company, the Company s intermediate holding companies, WM Advisors, Galileo and WM Life Re as well as the International American Group (until its disposition on October 31, 2008) and various other entities not included in other segments. The Other Operations segment also includes White Mountains investments in Delos, Symetra, Tuckerman Fund I and Tuckerman Fund II until its transfer to White Mountains Re, effective June 30, 2008.

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

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Year ended December 31, 2008:					
Earned insurance and reinsurance premiums	$ 1,879.0	$ 1,000.8	$ 830.2	$	**$ 3,710.0**
Net investment income	164.4	178.1	33.8	34.0	**410.3**
Net realized investment losses	(318.9)	(180.5)	(10.0)	(59.3)	**(568.7)**
Net unrealized losses on investments	(444.7)	(104.0)	(36.1)	(3.6)	**(588.4)**
Other revenue - foreign currency translation loss		(58.6)			**(58.6)**
Other revenue	13.8	42.6	43.3	(48.6)	**51.1**
Total revenues	1,293.6	878.4	861.2	(77.5)	**2,955.7**
Losses and LAE	1,126.2	745.0	635.8	(.6)	**2,506.4**
Insurance and reinsurance acquisition expenses	368.3	214.1	170.1		**752.5**
Other underwriting expenses	290.8	100.4	73.2	2.2	**466.6**
General and administrative expenses	20.3	40.5	32.1	129.0	**221.9**
Amortization of AFI purchase accounting adjustments			16.0		**16.0**
Accretion of fair value adjustment to loss and LAE reserves	12.0	4.9			**16.9**
Interest expense on debt	44.9	26.6	.5	10.1	**82.1**
Interest expense dividends on preferred stock	11.8				**11.8**
Interest expense accretion on preferred stock	21.6				**21.6**
Total expenses	1,895.9	1,131.5	927.7	140.7	**4,095.8**
Pre-tax loss	$ (602.3)	$ (253.1)	$ (66.5)	$ (218.2)	**$ (1,140.1)**

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Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Year ended December 31, 2007:					
Earned insurance and reinsurance premiums	$ 1,873.6	$ 1,146.8	$ 763.3	$	$ 3,783.7
Net investment income	208.5	210.5	29.6	84.4	533.0
Net realized investment gains	173.7	63.7	4.5	21.3	263.2
Other revenue - foreign currency translation loss		(12.5)			(10.6)
Other revenue	17.2	17.5	13.6	118.1	164.5
Total revenues	2,273.0	1,426.0	811.0	223.8	4,733.8
Losses and LAE	1,089.8	701.0	622.4	(6.8)	2,406.4
Insurance and reinsurance acquisition expenses	318.9	255.0	202.7		776.6
Other underwriting expenses	329.4	118.5	58.4	2.7	509.0
General and administrative expenses	9.8	26.2	.2	164.3	200.5
Accretion of fair value adjustment to loss and LAE reserves	16.0	5.4			21.4
Interest expense on debt	45.2	23.2		4.6	73.0
Interest expense dividends on preferred stock	29.3				29.3
Interest expense accretion on preferred stock	36.1				36.1
Total expenses	1,874.5	1,129.3	883.7	164.8	4,052.3
Pre-tax income (loss)	$ 398.5	$ 296.7	$ (72.7)	$ 59.0	$ 681.5

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Year ended December 31, 2006:					
Earned insurance and reinsurance premiums	$ 1,944.0	$ 1,241.2	$ 527.5	$	$ 3,712.7
Net investment income	187.6	182.7	18.4	46.8	435.5
Net realized investment gains	156.4	59.0	6.9	50.4	272.7
Gain on sale of shares through initial public offering of OneBeacon Ltd.				171.3	171.3
Other revenue - foreign currency translation loss		20.7			20.7
Other revenue	38.8	27.1	7.4	108.0	181.3
Total revenues	2,326.8	1,530.7	560.2	376.5	4,794.2
Losses and LAE	1,180.3	884.6	383.9	3.9	2,452.7
Insurance and reinsurance acquisition expenses	332.3	287.2	135.3		754.8
Other underwriting expenses	360.1	94.7	48.8	1.8	505.4
General and administrative expenses	15.3	24.2	.2	178.6	218.3
Accretion of fair value adjustment to loss and LAE reserves	23.0	1.5			24.5
Interest expense on debt	45.6	1.5		3.0	50.1
Interest expense dividends on preferred stock	30.3				30.3
Interest expense accretion on preferred stock	28.3				28.3
Total expenses	2,015.2	1,293.7	568.2	187.3	4,064.4
Pre-tax income (loss)	$ 311.6	$ 237.0	$ (8.0)	$ 189.2	$ 729.8

Explanation of Responses:

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Selected Balance Sheet Data Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
December 31, 2008:					
Total investments	$ 3,811.5	$ 4,067.5	$ 796.4	$ 327.3	**$ 9,002.7**
Reinsurance recoverable on paid and unpaid losses	2,525.0	570.9	1.8		**3,097.7**
Total assets	7,867.5	6,051.3	1,095.6	881.4	**15,895.8**
Loss and LAE reserves	4,294.0	2,735.4	370.7		**7,400.1**
Total liabilities	6,712.4	4,275.1	658.1	754.8	**12,400.4**
Minority interest		310.5		286.1	**596.6**
Total common shareholders equity	1,155.1	1,465.7	437.5	(159.5)	**2,898.8**
December 31, 2007:					
Total investments	$ 5,169.5	$ 5,170.2	$ 754.9	$ 554.4	**$ 11,649.0**
Reinsurance recoverable on paid and unpaid losses	2,651.4	842.2	2.2	31.6	**3,527.4**
Total assets	9,510.9	7,361.6	1,013.0	1,197.1	**19,082.6**
Loss and LAE reserves	4,480.3	3,252.1	285.2	44.5	**8,062.1**
Total liabilities	7,604.4	5,132.2	568.0	197.2	**13,501.8**
Minority interest		324.4		543.0	**867.4**
Total common shareholders equity	1,906.5	1,905.0	445.0	456.9	**4,713.4**

The following tables provide net written premiums and earned insurance premiums for OneBeacon s ongoing businesses and in total for the years ended December 31, 2008, 2007 and 2006:

Millions	Specialty	Commercial	Personal	Total(1)
Twelve Months Ended December 31, 2008:				
Net written premiums	$ 621.9	$ 722.1	$ 618.7	**$ 1,963.1**
Earned insurance premiums	$ 512.7	$ 725.2	$ 640.8	**$ 1,879.0**
Twelve Months Ended December 31, 2007:				
Net written premiums	$ 440.3	$ 733.4	$ 690.4	$ 1,864.4
Earned insurance premiums	$ 433.3	$ 715.2	$ 725.0	$ 1,873.6
Twelve Months Ended December 31, 2006:				
Net written premiums	$ 433.9	$ 722.0	$ 800.6	$ 1,957.6
Earned insurance premiums	$ 431.7	$ 689.9	$ 822.3	$ 1,944.0

(1) Includes results from runoff operations and eliminations between underwriting units.

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NOTE 17. Investments in Unconsolidated Affiliates

White Mountains investments in unconsolidated affiliates represent operating investments in other companies in which White Mountains has a significant voting and economic interest but does not control the entity.

Symetra

As of December 31, 2008, White Mountains owns 24% of Symetra s common shares on a fully converted basis, consisting of 17.4 million common shares and warrants to acquire an additional 9.5 million common shares. White Mountains accounts for its investment in common shares of Symetra using the equity method of accounting and accounts for its Symetra warrants under FAS 133, recording the warrants at fair value with changes in fair value recognized through the income statement as a realized investment gain or loss. Symetra s warrants are not publicly traded. Accordingly, the fair value measurement of the warrants is based on unobservable inputs and is classified as a Level 3 measurement.

For the year ended December 31, 2008, the value of White Mountains investment in Symetra warrants decreased by $50.0 million. The decrease was due to a decline in the valuation of stocks in the life insurance sector during the year.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra:

Millions		**Common shares**		**Warrants**		**Total**
Carrying value of investment in Symetra as of January 1, 2006	$	263.9	$	47.8	$	311.7
Equity in earnings of Symetra(1)		26.6				26.6
Net unrealized gains from Symetra s equity portfolio		2.7				2.7
Dividends		(15.6)				(15.6)
Net unrealized losses from Symetra s fixed maturity portfolio		(28.3)				(28.3)
Increase in value of warrants				6.2		6.2
Carrying value of investment in Symetra as of December 31, 2006(2)	$	249.3	$	54.0	$	303.3
Equity in earnings of Symetra(1)		31.6				31.6
Net unrealized losses from Symetra s equity portfolio and other		(6.9)				(6.9)
Dividends		(31.2)				(31.2)
Net unrealized losses from Symetra s fixed maturity portfolio		(1.5)				(1.5)
Increase in value of warrants				23.3		23.3
Carrying value of investment in Symetra as of December 31, 2007(2)	$	241.3	$	77.3	$	318.6
Equity in earnings of Symetra(1)		4.4				4.4
Net unrealized losses from Symetra s fixed maturity portfolio		(191.7)				(191.7)
Decrease in value of warrants				(50.0)		(50.0)
Carrying value of investment in Symetra as of December 31, 2008(2)	**$**	**54.0**	**$**	**27.3**	**$**	**81.3**

(1) Equity in earnings is net of tax of $0.

(2) Includes equity in net unrealized losses from Symetra s fixed maturity portfolio at December 31, 2008, 2007 and 2006 of $197.3, $5.6 and $4.1.

During 2007, White Mountains received cash dividends from Symetra of $31.2 million on its common share investment which is accounted for as a reduction of White Mountains investment in Symetra in accordance with equity accounting. During 2007, White Mountains also received cash dividends from Symetra of $17.0 million on its investment in Symetra warrants that was recorded as net investment income.

The following table summarizes financial information for Symetra as of December 31, 2008 and 2007:

Millions	**2008**	**2007**
Symetra balance sheet data:		
Total cash and investments	$ 16,722.7	$ 17,158.9
Separate account assets	716.2	1,181.9
Total assets	19,231.1	19,560.2
Funds held under deposit contracts	16,810.4	15,562.0
Long-term debt	448.8	448.6
Separate account liabilities	716.2	1,181.9
Total liabilities	18,943.4	18,275.1
Common shareholders equity	287.7	1,285.1

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The following table summarizes financial information for Symetra for the years ended December 31, 2008, 2007 and 2006:

Millions	2008	2007	2006
Symetra income statement data:			
Net premiums earned	$ 584.8	$ 530.5	$ 525.7
Net investment income	958.9	973.6	984.9
Total revenues	1,453.5	1,589.6	1,568.4
Policy benefits	1,114.6	1,019.4	1,030.2
Total expenses	1,438.2	1,340.8	1,324.4
Net income	23.6	167.3	159.5
Comprehensive net (loss) income	(1,016.5)	155.3	22.4

Pentelia

In April 2007, White Mountains invested $50 million in common equity of Pentelia. White Mountains has determined that Pentelia is a variable interest entity but that White Mountains is not the primary beneficiary. At December 31, 2007, the investment was accounted for as an equity method investment. During the first quarter of 2008, Pentelia raised additional equity capital. Subsequent to the capital raise, White Mountains ownership interest in Pentelia was reduced from 17% to approximately 13%. Accordingly, White Mountains investment in Pentelia is now accounted for as a trading security in other investments. At December 31, 2008, White Mountains redeemed $10.0 million, or 21.9%, of its investment in Pentelia. Changes in the fair value of White Mountains investment in Pentelia are recognized in the net change in unrealized investment losses. White Mountains investment in Pentelia as of December 31, 2008 and 2007 was $35.4 million and $52.4 million.

White Mountains also obtained an equity interest of 33% in Pentelia Capital Management (PCM) for $1.6 million in April 2007. This investment is accounted for under the equity method. For the year ended December 31, 2008 White Mountains recorded less than $0.1 million of equity in earnings in PCM. As of December 31, 2008 and 2007, White Mountains investment in PCM was $1.6 million for both periods.

The following table summarizes financial information for Pentelia as of December 31, 2007:

Millions	2007
Pentelia Investment Limited balance sheet data:	
Financial assets, at fair value	$ 274.0
Cash and cash equivalents	118.8
Total assets	495.3
Subscriptions received in advance	92.7
Loan payable	75.0
Total liabilities	188.1
Common shareholders equity	307.2

MSA

On October 31, 2006, White Mountains investment in Man Street America Holdings, Inc. (MSA) was restructured. White Mountains received a $70 million cash dividend from MSA, following which White Mountains sold its 50% common stock investment in MSA to the MSA Group for (i) $70.0 million in 9.0% non-voting cumulative perpetual preferred stock of the MSA Group, and (ii) 4.9%, of the common stock of the MSA Group, which was recorded at an initial carrying value of $24.5 million. These transactions resulted in a net after-tax realized gain of $8.5 million.

Effective October 31, 2006 and prior to the adoption of FAS 159, White Mountains accounted for its remaining investment in the MSA Group in accordance with FAS 115. Prior to the sale, White Mountains owned 50% of the total common shares outstanding of MSA and accounted for this investment using the equity method of accounting. The following table provides summary financial amounts recorded by White Mountains under the equity method relating to its investment in MSA common stock:

Millions		**2006**
Amounts recorded by White Mountains under the equity method:		
Investment in MSA common stock	$	
Equity in earnings from MSA common stock(1)		10.3
Equity in net unrealized investment gains (losses) from MSA s investment portfolio(2)		.3

(1) Equity in earnings amounts are net of taxes of $5.6 for the ten months ended October 31, 2006.

(2) Recorded directly to shareholders equity (after-tax) as a component of other comprehensive income.

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Delos

On August 3, 2006, White Mountains Re sold its wholly-owned subsidiary, Sirius America, to an investor group led by Lightyear Capital for $138.8 million in cash. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity, Delos. White Mountains accounts for its investment in Delos under the equity method. For the years ended December 31, 2008 and 2007, White Mountains recorded $1.1 million and $1.3 million of pre-tax equity in earnings and $(0.9) million and $0.3 million of pre-tax unrealized (losses) gains from its investment in Delos. White Mountains investment in Delos at December 31, 2008 and 2007 totaled $34.0 million and $33.8 million.

AFI

In January 2008, White Mountains acquired 42% of the outstanding debt and equity of AFI. During the first quarter of 2008, White Mountains accounted for its investment in AFI under the equity method. For the three months ended March 31, 2008, White Mountains recorded $0.1 million of after-tax equity in earnings from its investment in AFI. As of April 1, 2008, White Mountains ownership in AFI increased to 68.9%. As a result, White Mountains now accounts for its investment in AFI as a consolidated subsidiary. On July 30, 2008, White Mountains acquired the remaining equity and debt interests in AFI from the minority own. (See **Note 2**).

NOTE 18. Variable Interest Entities

Reciprocals

Reciprocals are not-for-profit, policyholder owned insurance carriers organized as unincorporated associations. Each policyholder insured by the reciprocal shares risk with the other policyholders. Policyholders share profits and losses in the same proportion as the amount of insurance purchased but are not subject to additional assessments for losses of the reciprocal.

OneBeacon has capitalized three reciprocals by loaning money to them in exchange for surplus notes. Principal and interest on the surplus notes are repayable to OneBeacon only with regulatory approval. The obligation to repay principal on the notes is subordinated to all other liabilities including obligations to policyholders and claimants for benefits under insurance policies.

OneBeacon has no ownership interest in the three reciprocals. However, under the provisions of FIN 46R, OneBeacon has determined that each of the reciprocals qualify as a VIE. Further, OneBeacon has determined that it is the primary beneficiary and is required to consolidate all three reciprocals.

In 2002, OneBeacon formed New Jersey Skylands Management LLC to provide management services for a fee to New Jersey Skylands Insurance Association, a reciprocal, and its wholly owned subsidiary New Jersey Skylands Insurance Company (together, New Jersey Skylands Insurance). New Jersey Skylands Insurance was capitalized with a $31.3 million surplus note issued to OneBeacon in 2002. At December 31, 2008 and 2007, consolidated amounts related to New Jersey Skylands Insurance included total assets of $119.0 million and $106.0 million and total liabilities of $140.3 million and $124.4 million. At December 31, 2008, the net amount of capital at risk is equal to the surplus note of $31.3 million less the accumulated losses to date of $21.3 million, which includes accrued interest on the surplus note of $20.8 million that eliminates in consolidation.

In 2004, OneBeacon formed Houston General Management Company to provide management services for a fee to another reciprocal, Houston General Insurance Exchange. During 2004, OneBeacon contributed $2.0 million of capital to Houston General Insurance Exchange. In 2005, OneBeacon contributed one of its subsidiaries, Houston General Insurance Company, with assets of $149.4 million and liabilities of $127.6 million, to Houston General Insurance Exchange (together Houston General Insurance). Subsequent to the contribution of Houston General Insurance Company, Houston General Insurance Exchange issued a surplus note of $23.7 million to OneBeacon. At December 31, 2008 and 2007, consolidated amounts related to Houston General Insurance included total assets of $142.4 million and $163.3 million and total liabilities of $157.5 million and $174.0 million. At December 31, 2008 the net amount of capital at risk is equal to the surplus note of $23.7 million less the accumulated losses to date of $15.1 million, which includes accrued interest on the surplus note of $9.8 million that eliminates in consolidation.

In 2006, Adirondack AIF, LLC, a wholly owned subsidiary of OneBeacon, entered into an agreement to provide management services for a fee to Adirondack Insurance Exchange (Adirondack Insurance), a reciprocal. Adirondack Insurance was capitalized with a $70.7 million surplus note issued to OneBeacon in May 2006. At December 31, 2008 and 2007, consolidated amounts related to Adirondack Insurance included total assets of $250.3 million and $241.4 million and total liabilities of $264.3 million and $252.9 million. At December 31, 2008, the net amount of capital at risk is equal to the surplus note of $70.7 million less the accumulated losses to date of $14.0 million, which includes accrued interest on the surplus note of $23.3 million that eliminates in consolidation.

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Pentelia

In 2007, White Mountains has made an investment in Pentelia, a corporation that invests in insurance-related investment assets. White Mountains has determined that Pentelia is a variable interest entity. However, White Mountains is not the primary beneficiary. At December 31, 2007, the investment was accounted for as an equity method investment. During the first quarter of 2008, Pentelia raised additional equity capital. Subsequent to the capital raise, White Mountains ownership interest in Pentelia was reduced from 17% to approximately 13%. Accordingly, White Mountains investment in Pentelia is now accounted for as a trading security in other investments. Changes in the fair value of White Mountains investment in Pentelia are recognized in the net change in unrealized investment losses. White Mountains exposure to loss is limited to the carrying value of its investment in Pentelia which was $35.4 million and $52.4 million as of December 31, 2008 and 2007, respectively.

Prospector Offshore Fund

White Mountains has determined that the Prospector Offshore Fund, Ltd. (the Prospector Fund) is a VIE for which White Mountains is the primary beneficiary and is required to consolidate the Prospector Fund. At December 31, 2008 and 2007, White Mountains consolidated total assets of $128.1 million and $207.0 million and total liabilities of $40.6 million and $68.8 million of the Prospector Fund. In addition, at December 31, 2008 and 2007, White Mountains recorded a minority interest liability of $35.1 million and $74.4 million representing the non-controlling interests in the Prospector Fund. For the years ended December 31, 2008 and 2007, White Mountains recorded $8.1 million and $(7.1) million of minority interest income (expense) related to the Fund. At December 31, 2008, the net amount of capital at risk is equal to White Mountains investment in the Fund of $52.4 million, which represents White Mountains ownership interest of 59.9% in the Prospector Fund.

Tuckerman Fund I

White Mountains has determined that Tuckerman Fund I is a VIE for which White Mountains is the primary beneficiary and is required to consolidate Tuckerman Fund I. At December 31, 2008 and 2007, White Mountains consolidated total assets of $23.3 million and $30.7 million and total liabilities of $16.0 million and $19.1 million of Tuckerman Fund I. In addition, at December 31, 2008 and 2007, White Mountains recorded a minority interest liability of $2.6 million and $(0.4) million representing the non-controlling interests in Tuckerman Fund I. For the years ended December 31, 2008 and 2007, White Mountains recorded $1.0 million and $0.9 million of minority interest expense related to Tuckerman Fund I. At December 31, 2008, the net amount of capital at risk is equal to White Mountains investment in Tuckerman Fund I of $4.7 million, which represents White Mountains ownership interest of 90.5% in Tuckerman Fund I.

Tuckerman Fund II

White Mountains has determined that Tuckerman Fund II is a VIE for which White Mountains is the primary beneficiary and is required to consolidate Tuckerman Fund II. At December 31, 2008 and 2007, White Mountains consolidated total assets of $62.3 million and $60.6 million and total liabilities of $19.4 million and $18.9 million. In addition, at December 31, 2008 and 2007, White Mountains recorded a minority interest liability of $25.5 million and $26.2 million representing the non-controlling interest in Tuckerman Fund II. For the years ended December 31, 2008 and 2007, White Mountains recorded $6.0 million and $3.6 million of minority interest expense related to Tuckerman Fund

II. At December 31, 2008, the net amount of capital at risk is equal to White Mountains investment in Tuckerman Fund II of $17.4 million, which represents White Mountains ownership interest of 45.3% in Tuckerman Fund II.

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NOTE 19. Fair Value of Financial Instruments

FAS No. 107, *Disclosure about Fair Value of Financial Instruments* (FAS 107), requires disclosure of fair value information of financial instruments. For certain financial instruments where quoted market prices are not available, the fair values of these financial instruments were estimated by discounting future cash flows using current market rates for similar obligations or using quoted market prices. Because considerable judgment is used, these estimates are not necessarily indicative of amounts that could be realized in a current market exchange. FAS 107 excludes certain financial instruments from disclosure, including insurance contracts, other than financial guarantees and investment contracts. White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness and its mandatorily redeemable preferred stock.

The following table summarizes the fair value and carrying value of financial instruments as of December 31, 2008 and 2007:

Millions	December 31, 2008 Fair Value	December 31, 2008 Carrying Value	December 31, 2007 Fair Value	December 31, 2007 Carrying Value
OBH Senior Notes	$ 483.3	**$ 675.1**	$ 703.2	$ 698.9
WMRe Senior Notes	254.0	**399.0**	398.3	398.9
WMRe Preference Shares(1)	117.5	**250.0**	219.4	250.0
Berkshire Preferred Stock			307.0	278.3

(1) WMRe Preference Shares are recorded as minority interest.

NOTE 20. Transactions with Related Persons

Prospector

Mr. John Gillespie is the founder and Managing Member of Prospector. Prospector serves as a discretionary adviser with respect to specified assets, primarily equity securities, managed by WM Advisors on behalf of White Mountains and other clients of WM Advisors, including the defined benefit and defined contribution plans of OneBeacon. Pursuant to an investment management agreement with WM Advisors (the WMA Agreement), Prospector charged WM Advisors fees based on the following schedule: 100 basis points on the first $200 million of assets under management; 50 basis points on the next $200 million; and 25 basis points on amounts over $400 million. At December 31, 2008, Prospector managed a total of approximately $0.4 billion of assets for WM Advisors under this arrangement. Of this total, $181.1 million were assets of White Mountains and $202.1 million related to third party accounts managed by WM Advisors. The third party accounts are each separately subject to the above fee schedule.

Effective November 14, 2006, OneBeacon entered into a separate investment management agreement with Prospector pursuant to which Prospector supervises and directs specified assets, primarily equity securities. Pursuant to this investment management agreement (the OneBeacon Agreement), Prospector charged OneBeacon fees based on the following schedule: 100 basis points on the first $200 million; 50

basis points on the next $200 million; and 25 basis points on amounts over $400 million. At December 31, 2008, Prospector managed approximately $0.7 billion of assets for OneBeacon under this arrangement. This amount includes $195.9 million related to the OneBeacon ERISA accounts pursuant to the WM Advisors arrangement described above.

During 2008, Prospector earned $5.2 million in fees pursuant to the WMA Agreement and $5.3 million in fees pursuant to the OneBeacon Agreement, which includes $1.1 million in fees related to the ERISA accounts.

Prospector also advises White Mountains on matters including capital management, asset allocation, private equity investments and mergers and acquisitions. Pursuant to a Consulting Agreement for those services, Prospector was granted 10,800 performance shares for the 2009-2011 performance cycle, 9,600 performance shares for the 2008-2010 performance cycle and 8,000 performance shares for the 2007-2009 performance cycle. In accordance with the terms of the WTM Incentive Plan, performance against target governing the performance shares will be confirmed by the Compensation Committee of the Board following the end of each performance cycle and the number of performance shares actually awarded at that time will range from 0% to 200% of the target number granted. Unless and until the Consulting Agreement has been terminated, and subject to the approval of the Compensation Committee, at the beginning of each performance cycle Prospector is to be granted performance shares with a value of approximately $4.5 million. The Compensation Committee establishes the performance target for such performance shares.

Pursuant to a revenue sharing agreement, Prospector has agreed to pay White Mountains 6% of the revenues in excess of $500,000 of certain of Prospector s funds in return for White Mountains having made a founding investment in 1997. White Mountains earned $0.2 million during 2008 under this arrangement.

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At December 31, 2008, White Mountains had $127.1 million invested in limited partnership investment interests managed by Prospector. (This total includes $38.9 million of OneBeacon assets.) In addition, Messrs. Barrette, Davis, George Gillespie, John Gillespie, and Waters, each a director of the Company, and Mr. Campbell, an executive officer of the Company, owned limited partnership investment interests managed by Prospector as of such date.

Other relationships and transactions

Mr. Clark, a director of the Company, was Vice Chairman at Lehman and is currently Vice Chairman at Barclays Capital. Lehman has, from time to time, provided various services to White Mountains including investment banking services, brokerage services, underwriting of debt and equity securities and financial consulting services. Barclays acquired Lehman s brokerage business in 2008.

Mr. George Gillespie, a director of the Company, serves as Special Counsel to CS&M. CS&M has been retained by White Mountains from time to time to perform legal services.

Mr. John Gillespie, a director of the Company, indirectly through general and limited partnership interests holds a 33% interest in Dowling & Partners Connecticut Fund III, LP (Fund III). Two of the Company s indirect subsidiaries, OneBeacon Professional Partners (OBPP) and Folksamerica Specialty Underwriting, Inc. (FSUI), had previously borrowed approximately $8 million and $7 million, respectively, from Fund III in connection with an incentive program sponsored by the State of Connecticut known as the Connecticut Insurance Reinvestment Act (the CIR Act). The CIR Act provides for Connecticut income tax credits to be granted for qualifying investments made by approved fund managers. Both loans were repaid in full during 2006. The loans were qualifying investments which generated tax credits to be shared equally between Fund III on the one hand and OBPP and FSUI on the other. As a result of his interest in Fund III, during 2008, Mr. Gillespie generated approximately $0.2 million in such tax credits.

White Mountains currently sub-leases a building partially owned by Mr. John Gillespie and trusts for the benefit of members of his family (the Gillespie Trusts). For 2008, the rental payments attributable to Mr. Gillespie s ownership in the building totaled approximately $7,000 and the rental payments attributable to the Gillespie Trusts ownership in the building totaled approximately $59,000.

NOTE 21. Commitments and Contingencies

White Mountains leases certain office space under non-cancellable operating leases that expire on various dates through 2010. Rental expense for all of White Mountains locations was approximately $39.3 million, $54.8 million and $49.1 million for the years ended December 31, 2008, 2007 and 2006. White Mountains also has various other lease obligations that are immaterial in the aggregate.

White Mountains future annual minimum rental payments required under non-cancellable leases, which are primarily for office space, are $29.4 million, $23.4 million, $21.0 million and $41.3 million for 2009, 2010, 2011 and 2012 and thereafter, respectively.

Assigned Risks

As a condition of its license to do business in certain states, White Mountains insurance operations are required to participate in mandatory shared market mechanisms. Each state dictates the types of insurance and the level of coverage that must be provided. The total amount of business an insurer is required to accept is based on its market share of voluntary business in the state. In certain cases, White Mountains is obligated to write business from mandatory shared market mechanisms at some time in the future based on the market share of voluntary policies it is currently writing. Underwriting results related to assigned risk plans are typically adverse and are not subject to the predictability associated with White Mountains voluntarily written business.

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. White Mountains accrues any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated. The actual amount of such assessments will depend upon the final outcome of rehabilitation proceedings and will be paid over several years. At December 31, 2008, the reserve for such assessments totaled $17.4 million.

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Legal Contingencies

White Mountains, and the insurance and reinsurance industry in general, are subject to litigation and arbitration in the normal course of business. Other than those items listed below, White Mountains was not a party to any material litigation or arbitration other than as routinely encountered in claims activity, none of which is expected by management to have a material adverse effect on its financial condition and/or cash flows.

OneBeacon

On July 24, 2008, OneBeacon and Liberty Mutual Insurance Group (Liberty Mutual) entered into a Confidential Settlement Agreement and Release (the Settlement Agreement) that resolved nearly four years of arbitration and litigation. The disputes concerned amounts which Liberty Mutual asserted were due to it under agreements with OneBeacon (the Liberty Agreements) for unallocated loss adjustment expenses and amounts which OneBeacon asserted were due to it related to claims administration and reinsurance. The Settlement Agreement represents a full and final resolution of the disputes related to the Liberty Agreements.

In connection with the Settlement Agreement, OneBeacon took a pre-tax charge in the amount of $9.2 million in the second quarter of 2008, representing a part of the cost of the settlement. OneBeacon made a cash payment to Liberty Mutual in the amount of $16.0 million on July 30, 2008. No further charges or payments will be made with respect to the disputed matters.

Scandinavian Re

Scandinavian Re is engaged in arbitration with St. Paul Fire & Marine Insurance Company, et al., regarding a dispute related to a Retrocessional Casualty Aggregate Stop Loss Agreement concerning casualty business written during the 1999-2001 underwriting years. Discovery is nearly complete and the arbitration is set for May 2009.

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MANAGEMENT S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements included in this report. The financial statements have been prepared in conformity with GAAP in the United States. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Audit Committee of the Board, which is comprised entirely of independent, qualified directors, is responsible for the oversight of our accounting policies, financial reporting and internal control including the appointment and compensation of our independent registered public accounting firm. The Audit Committee meets periodically with management, our independent registered public accounting firm and our internal auditors to ensure they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing our financial reports. Our independent registered public accounting firm and internal auditors have full and unlimited access to the Audit Committee, with or without management present, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to their attention.

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. There are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, an effective internal control environment as of a point in time may become inadequate in the future because of changes in conditions, or deterioration in the degree of compliance with the policies and procedures.

We assessed the effectiveness of White Mountains internal control over financial reporting as of December 31, 2008. Our assessment did not include an assessment of the internal control over financial reporting for certain recent acquisitions. These acquisitions were Answer Financial Inc. and Entertainment Brokers International Insurance Services which represent 0.5% and 0.1% of White Mountains total assets as of December 31, 2008 and 1.2% and 0.3% of White Mountains total revenue for the year ended December 31, 2008. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, we have concluded that White Mountains maintained effective internal control over financial reporting as of December 31, 2008.

PricewaterhouseCoopers LLP, the Company s independent registered public accounting firm, has audited the effectiveness of White Mountains internal control over financial reporting as of December 31, 2008 as stated in their report which appears on pages F-69.

February 27, 2009

/s/ RAYMOND BARRETTE	/s/ DAVID T. FOY
Chairman and CEO	*Executive Vice President and CFO*

(Principal Executive Officer) *(Principal Financial Officer)*

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of White Mountains Insurance Group, Ltd.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of White Mountains Insurance Group, Ltd. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, White Mountains Insurance Group, Ltd. changed its method of accounting for certain invested assets and variable annuity liabilities in 2008.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management s Annual Report on Internal Control Over Financial Reporting, management has excluded Answer Financial Inc. and Entertainment Brokers International Insurance Services from its assessment of internal control over financial reporting as of December 31, 2008 because they were acquired by the Company during 2008. We have also excluded Answer Financial Inc. and Entertainment Brokers International Insurance Services from our audit of internal control over financial reporting. Answer Financial Inc. and Entertainment Brokers International Insurance Services are wholly-owned subsidiaries whose total assets and total revenues represent 1% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2008.

/s/ PricewaterhouseCoopers
New York, New York
February 27, 2009

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SELECTED QUARTERLY FINANCIAL DATA

(Unaudited)

Selected quarterly financial data for 2008 and 2007 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods.

	2008 Three Months Ended				**2007 Three Months Ended**			
Millions, except per share amounts	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Revenues	**$ 360.6**	**$ 618.0**	**$ 1,039.2**	**$ 937.9**	$ 1,201.7	$ 1,155.4	$ 1,210.6	$ 1,166.1
Expenses	**917.4**	**1,098.5**	**1,038.3**	**1,041.6**	1,019.8	963.9	1,034.4	1,034.2
Pre-tax (loss) earnings	**(556.8)**	**(480.5)**	**.9**	**(103.7)**	181.9	191.5	176.2	131.9
Tax benefit (provision)	**311.6**	**150.8**	**3.4**	**32.9**	(59.2)	(64.3)	(55.8)	(31.2)
Minority interest in consolidated subsidiaries	**34.0**	**52.2**	**(19.5)**	**9.4**	(23.6)	(24.0)	(26.4)	(19.0)
Equity in (loss) earnings of unconsolidated affiliates	**(1.4)**	**.8**	**6.0**	**.4**	2.1	8.2	8.6	10.5
(Loss) income before extraordinary items	**$ (212.6)**	**$ (276.7)**	**$ (9.2)**	**$ (61.0)**	$ 101.2	$ 111.4	$ 102.6	$ 92.2
(Loss) income before extraordinary items per share:								
Basic	**$ (22.89)**	**$ (26.55)**	**$ (.87)**	**$ (5.40)**	$ 9.56	$ 10.33	$ 9.51	$ 8.56
Diluted	**(22.92)**	**(26.55)**	**(.87)**	**(5.40)**	9.55	10.32	9.49	8.54
Adjusted book value per share	**$ 353.07**	**$ 404.62**	**$ 443.64**	**$ 446.28**	$ 447.36	$ 438.10	$ 424.45	$ 441.64

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SCHEDULE I

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUMMARY OF INVESTMENTS OTHER THAN

INVESTMENTS IN RELATED PARTIES

At December 31, 2008

Millions	**Cost**	**Carrying Value**	**Fair Value**
Fixed maturities			
Bonds:			
U.S. Government and government agencies and authorities	$ 785.4	**$ 798.9**	$ 798.9
Corporate bonds and asset-backed securities	4,068.0	**3,888.5**	3,888.5
States, municipalities and political subdivisions	7.4	**7.6**	7.6
Foreign governments	696.6	**731.1**	731.1
Redeemable preferred stocks	74.2	**54.4**	54.4
Total fixed maturities	5,631.6	**5,480.5**	5,480.5
Short-term investments	2,244.5	**2,244.5**	2,244.5
Common equity securities:			
Banks, trust and insurance companies	186.2	**177.4**	177.4
Public utilities	57.8	**57.4**	57.4
Industrial, miscellaneous and other	314.4	**317.9**	317.9
Total common equity securities	558.4	**552.7**	552.7
Other investments	431.2	**416.2**	416.2
Convertibles and bonds with warrants attached	327.3	**308.8**	308.8
Total investments	$ 9,193.0	**$ 9,002.7**	$ 9,002.7

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SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT

CONDENSED BALANCE SHEETS

Millions	December 31, 2008	2007
Assets:		
Fixed maturity investments, at fair value	**$ .2**	$ 19.0
Common equity securities, at fair value	**4.0**	17.1
Short-term investments, at amortized cost	**52.0**	5.2
Other assets	**.8**	.4
Investments in consolidated and unconsolidated affiliates	**2,852.3**	4,974.5
Total assets	**$ 2,909.3**	$ 5,016.2
Liabilities:		
Long-term debt	**$ 200.0**	$
Accounts payable and other liabilities	**(189.5)**	302.8
Total liabilities	**10.5**	302.8
Common shareholders equity	**2,898.8**	4,713.4
Total liabilities and common shareholders equity	**$ 2,909.3**	$ 5,016.2

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

Millions	Year Ended December 31, 2008	2007	2006
Revenues (including realized gains and losses)	**$ 2.3**	$ .2	$ 22.9
Expenses	**38.2**	41.7	41.1
Pre-tax loss	**(35.9)**	(41.5)	(18.2)
Income tax (provision) benefit	**(1.3)**	1.6	(2.6)
Net loss	**(37.2)**	(39.9)	(20.8)
(Loss) earnings from consolidated affiliates	**(518.1)**	447.3	694.0
Consolidated net (loss) income	**(555.3)**	407.4	673.2
Other comprehensive net (loss) income items, after-tax	**(385.5)**	71.9	32.9
Consolidated comprehensive net (loss) income	**$ (940.8)**	$ 479.3	$ 706.1
Computation of net (loss) income available to common shareholders:			
Net (loss) income available to common shareholders	**$ (555.3)**	$ 407.4	$ 673.2

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SCHEDULE II

(continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
Millions	**2008**	**2007**	**2006**
Net income	**$ (555.3)**	$ 407.4	$ 673.2
Charges (credits) to reconcile net income to net cash from operations:			
Net realized losses (gains) on sales of investments	**9.7**	(8.0)	(8.6)
Net unrealized investment losses	**.2**		
Undistributed current losses (earnings) from subsidiaries	**518.1**	(447.2)	(694.0)
Dividends received from subsidiaries	**747.9**	2.7	
Net income tax (payments) receipts	**(.5)**	6.8	
Net change in other assets and other liabilities	**(7.2)**	(5.0)	15.4
Net cash provided from (used for) operations	**712.9**	(43.3)	(14.0)
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	**(46.8)**	80.4	(85.2)
Purchases of investment securities		(54.9)	(243.2)
Sales and maturities of investment securities	**21.9**	312.9	158.8
Issuance of debt (to) from subsidiaries(1)	**(25.0)**	315.0	(448.7)
Repayment of debt (to) from subsidiaries(1)	**(440.0)**	(50.0)	477.3
Contributions to subsidiaries(1)			(87.5)
Distributions from subsidiaries(1)	**386.3**		
Net change in unsettled investment purchases and sales		(8.1)	8.1
Net cash (used for) provided from investing activities	**(103.6)**	595.3	(220.4)
Cash flows from financing activities:			
Issuance of debt	**650.8**		460.0
Repayment of debt	**(450.8)**	(320.0)	(140.0)
Proceeds from issuances of common shares	**.6**	2.2	.6
Repurchases and retirement of common shares	**(59.3)**	(148.0)	
Cash exchanged with Berkshire Hathaway Inc. for the Company s common shares	**(707.9)**		
Dividends paid on common shares	**(42.3)**	(86.2)	(86.2)
Net cash (used for) provided from financing activities	**(608.9)**	(552.0)	234.4
Net decrease in cash during the year	**.4**		
Cash balance at beginning of year			
Cash balance at end of year	**$ .4**	$	$

(1) Contributions, distributions and loans to/from subsidiaries, which were previously reported as a financing activity, have been classified as an investing activity beginning in 2007, with conforming changes to 2006.

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SCHEDULE III

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUPPLEMENTARY INSURANCE INFORMATION

(Millions)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Segment	**Deferred acquisition costs**	**Future policy benefits, losses, claims and loss expenses**	**Unearned premiums**	**Other policy claims and benefits payable**	**Premiums earned**	**Net investment income(1)**	**Benefits, claims, losses, and settlement expenses**	**Amortization of deferred policy acquisition costs**	**Other operating expenses**	**Premiums written**
Years ended:										
December 31, 2008:										
OneBeacon	**$ 225.5**	**$ 4,294.0**	**$ 1,088.2**	**$**	**$ 1,879.0**	**$ 152.8**	**$ 1,126.2**	**$ 368.3**	**$ 290.8**	**$ 1,963.1**
White Mountains Re	**68.8**	**2,735.4**	**313.0**		**1,000.8**	**173.5**	**745.0**	**214.1**	**100.4**	**931.1**
Esurance	**28.7**	**370.7**	**196.2**		**830.2**	**33.8**	**635.8**	**170.1**	**73.2**	**823.4**
Other insurance operations						**2.4**	**(.6)**		**2.2**	
December 31, 2007:										
OneBeacon	$ 200.0	$ 4,480.3	$ 1,005.9	$	$ 1,873.6	$ 184.5	$ 1,089.8	$ 318.9	$ 329.4	$ 1,864.4
White Mountains Re	86.5	3,252.1	396.0		1,146.8	198.1	701.0	255.0	118.5	1,095.7
Esurance	39.5	285.2	203.3		763.3	29.0	622.4	202.7	58.4	798.5
Other insurance operations		44.5				3.5	(6.8)		2.7	
December 31, 2006:										
OneBeacon	$ 183.8	$ 4,837.7	$ 985.2	$	$ 1,944.0	$ 182.3	$ 1,180.4	$ 332.2	$ 360.1	$ 1,957.6
White Mountains Re	99.8	3,708.8	431.6		1,241.2	182.7	884.6	287.3	94.7	1,290.0
Esurance	36.6	167.5	168.1		527.5	18.4	383.9	135.3	48.8	595.9
Other insurance operations		63.2				1.0	3.9		1.8	

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(1) The amounts shown exclude net investment income (expense) relating to non-insurance operations of $47.8, $117.9 and $51.1 for the twelve months ended December 31, 2008, 2007 and 2006, respectively.

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SCHEDULE IV

WHITE MOUNTAINS INSURANCE GROUP, LTD.

REINSURANCE

(Millions)

Column A	Column B	Column C	Column D	Column E	Column F
Premiums earned	**Gross amount**	**Ceded to other companies**	**Assumed from other companies**	**Net amount**	**Percentage of amount assumed to net**
Years ended:					
December 31, 2008:					
OneBeacon	**$ 2,078.0**	**$ (252.6)**	**$ 53.6**	**$ 1,879.0**	**2.9%**
White Mountains Re	**100.7**	**(145.7)**	**1,045.8**	**1,000.8**	**104.5%**
Esurance	**807.9**	**(3.3)**	**25.6**	**830.2**	**3.1%**
Other insurance operations					**%**
December 31, 2007:					
OneBeacon	$ 2,017.4	$ (198.4)	$ 54.6	$ 1,873.6	2.9%
White Mountains Re	108.2	(196.6)	1,235.2	1,146.8	107.7%
Esurance	736.8	(4.0)	30.5	763.3	4.0%
Other insurance operations					%
December 31, 2006:					
OneBeacon	$ 2,007.5	$ (129.0)	$ 65.4	$ 1,944.0	3.4%
White Mountains Re	240.2	(447.8)	1,448.8	1,241.2	116.7%
Esurance	495.3	(3.5)	35.7	527.5	6.8%
Other insurance operations					%

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SCHEDULE V

WHITE MOUNTAINS INSURANCE GROUP, LTD.

VALUATION AND QUALIFYING ACCOUNTS

Column A	**Column B**	**Column C**		**Column D**	**Column E**
	Balance at beginning of period	**Additions (subtractions)**			
Millions		**Charged to costs and expenses**	**Charged to other accounts**	**Deductions described(1)**	**Balance at end of period**
Years ended:					
December 31, 2008:					
Reinsurance recoverable on paid losses:					
Allowance for reinsurance balances	**$ 39.4**	**$ (11.8)**	**$ 5.2**	**$ (3.3)**	**$ 29.5**
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	**20.5**	**(.1)**	**(13.1)**	**(.2)**	**7.1**
December 31, 2007:					
Reinsurance recoverable on paid losses:					
Allowance for reinsurance balances	$ 41.0	$ (1.9)	$	$ .3	$ 39.4
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	18.9	(1.6)		3.2	20.5
December 31, 2006:					
Reinsurance recoverable on paid losses:					
Allowance for reinsurance balances	$ 45.6	$ (16.9)	$	$ 12.3	$ 41.0
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	16.7	(4.3)		6.5	18.9

(1) Represents net reinstatements (charge-offs) of balances receivables and foreign exchange.

Explanation of Responses:

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SCHEDULE VI

WHITE MOUNTAINS INSURANCE GROUP, LTD.

SUPPLEMENTAL INFORMATION FOR PROPERTY AND CASUALTY INSURANCE UNDERWRITERS

(Millions)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H		Column I	Column J	Column K
							Claims and Claims Adjustment Expenses Incurred Related to				
Affiliation with registrant	Deferred acquisition costs	Reserves for Unpaid Claims and Claims Adjustment Expenses	Discount, if any, deducted in Column C	Unearned Premiums	Earned Premiums	Net investment income	(1) Current Year	(2) Prior Year	Amortization of deferred policy acquisition costs	Paid Claims and Claims Adjustment Expenses	Premiums written
OneBeacon:											
2008	**$ 225.5**	**$ 4,294.0**	**$ 352.6(1)**	**$ 1,088.2**	**$ 1,879.0**	**$ 152.8**	**$ 1,188.2**	**$ (62.0)**	**$ 368.3**	**$ 1,198.3**	**$ 1,963.1**
2007	200.0	4,480.3	395.4(1)	1,005.9	1,873.6	184.5	1,138.1	(48.3)	318.9	1,250.1	1,864.4
2006	183.8	4,837.7	461.2(1)	985.2	1,944.0	182.3	1,157.4	22.9	332.3	1,483.2	1,957.6
White Mountains Re:											
2008	**$ 68.8**	**$ 2,735.4**	**$ 36.3(2)**	**$ 313.0**	**$ 1,000.8**	**$ 173.5**	**$ 665.1**	**$ 79.9**	**$ 214.1**	**$ 888.8**	**$ 931.1**
2007	86.5	3,252.1	39.3(2)	396.0	1,146.8	198.1	662.0	39.1	255.0	870.2	1,095.7
2006	99.8	3,708.8	39.1(2)	431.6	1,241.2	182.7	666.6	218.0	287.2	1,070.9	1,290.0
Esurance:											
2008	**$ 28.7**	**$ 370.7**	**$**	**$ 196.2**	**$ 830.2**	**$ 33.8**	**$ 630.9**	**$ 4.9**	**$ 170.1**	**$ 549.7**	**$ 823.4**
2007	39.5	285.2		203.3	763.3	29.0	592.9	29.6	202.7	506.1	798.5
2006	36.6	167.5		168.1	527.5	18.4	380.9	3.0	135.3	309.6	595.9
Other insurance operations:											
2008	**$**	**$**	**$**	**$**	**$**	**$ 2.4**	**$ 1.0**	**$ (1.6)**	**$**	**$ (.4)**	**$**
2007		44.5				3.5	(.2)	(6.8)		11.7	
2006		63.2				1.0	3.9			4.1	
50%-or-less owned property and casualty investees:(3)											
Delos(4):											
2008	**$ 4.9**	**$ 70.8**	**$**	**$ 24.2**	**$ 29.3**	**$ 2.0**	**$ 18.6**	**$**	**$**	**$ 10.1**	**$ 36.5**
2007	3.6	66.0		19.5	15.7	2.2	9.9		.7	5.8	25.8
2006	.2	68.2		8.8	2.1	.4	1.3			2.1	.7

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(1) The amounts shown represent OneBeacon s discount on its long-term workers compensation loss and LAE reserves, as such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual basis. OneBeacon discounts these reserves using a discount rate which is determined based on the facts and circumstances applicable at the time the claims are settled (5.5%, 5.5% and 5.3% at December 31, 2008, 2007 and 2006). Also the amounts shown include unamortized fair value adjustments to reserves for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains purchase of OneBeacon for the years ended December 31, 2008, 2007 and 2006.

(2) The amount shown represents unamortized fair value adjustments to reserves for unpaid claims and claims adjustment expenses made in purchase accounting as a result of White Mountains purchase of WMRe Sirius during 2004.

(3) The amounts shown represent White Mountains share of its 50% owned unconsolidated property and casualty insurance affiliates.

(4) On August 3, 2006 White Mountains acquired an equity interest of approximately 18% in Delos. See **Note 2**.

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