

WHITE MOUNTAINS INSURANCE GROUP LTD  
Form 10-Q  
November 05, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda 94-2708455  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

80 South Main Street, 03755-2053  
Hanover, New Hampshire (Zip Code)  
(Address of principal executive offices)

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 2, 2018, 3,180,540 common shares with a par value of \$1.00 per share were outstanding (which includes 41,509 restricted common shares that were not vested at such date).

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

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## Part I. FINANCIAL INFORMATION.

## Item 1. Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.  
CONSOLIDATED BALANCE SHEETS

Millions, except share and per share amounts	September 30, 2018	December 31, 2017
Assets	Unaudited	
Financial Guarantee (HG Global/BAM)		
Fixed maturity investments, at fair value	\$ 677.7	\$ 623.6
Short-term investments, at fair value	35.9	69.8
Total investments	713.6	693.4
Cash	17.9	25.6
Insurance premiums receivable	6.3	4.5
Deferred acquisition costs	17.6	14.8
Accrued investment income	4.8	3.4
Accounts receivable on unsettled investment sales	.2	.1
Other assets	5.1	5.6
Total Financial Guarantee assets	765.5	747.4
Specialty Insurance Distribution (NSM)		
Short-term investments, at fair value	.9	—
Cash (restricted \$41.2)	60.6	—
Premium and commission receivable	29.1	—
Goodwill and other intangible assets	431.0	—
Other assets	18.8	—
Total Specialty Insurance Distribution assets	540.4	—
Marketing Technology (MediaAlpha)		
Cash	13.0	9.1
Goodwill and other intangible assets	45.9	53.7
Accounts receivable from publishers and advertisers	35.9	32.4
Other assets	2.2	1.3
Total Marketing Technology assets	97.0	96.5
Other		
Fixed maturity investments, at fair value	354.2	1,506.1
Short-term investments, at fair value	276.9	106.3
Common equity securities, at fair value	1,043.5	866.1
Other long-term investments	289.7	208.8
Total investments	1,964.3	2,687.3
Cash	20.7	62.4
Accrued investment income	5.7	13.9
Accounts receivable on unsettled investment sales	3.3	20.9
Goodwill and other intangible assets	8.3	8.4
Other assets	14.3	19.1
Assets held for sale	3.3	3.3
Total Other assets	2,019.9	2,815.3
Total assets	\$ 3,422.8	\$ 3,659.2

See Notes to Consolidated Financial Statements



## CONSOLIDATED BALANCE SHEETS (CONTINUED)

Millions, except share and per share amounts	September 30, 2018	December 31, 2017
Liabilities	Unaudited	
Financial Guarantee (HG Global/BAM)		
Unearned insurance premiums	\$156.2	\$136.8
Accounts payable on unsettled investment purchases	6.5	.6
Other liabilities	30.0	29.6
Total Financial Guarantee liabilities	192.7	167.0
Specialty Insurance Distribution (NSM)		
Debt	149.3	—
Premiums payable	56.6	—
Contingent consideration earnout liabilities	20.1	—
Other liabilities	27.7	—
Total Specialty Insurance Distribution liabilities	253.7	—
Marketing Technology (MediaAlpha)		
Debt	15.0	23.8
Amounts due to publishers and advertisers	37.7	31.6
Other liabilities	3.9	4.4
Total Marketing Technology liabilities	56.6	59.8
Other		
Accrued incentive compensation	40.3	60.6
Accounts payable on unsettled investment purchases	14.2	—
Other liabilities	25.7	11.0
Total Other liabilities	80.2	71.6
Total liabilities	583.2	298.4
Equity		
White Mountains's common shareholders' equity		
White Mountains's common shares at \$1 par value per share—authorized 50,000,000 shares; issued and outstanding 3,180,540 and 3,750,171 shares	3.2	3.8
Paid-in surplus	576.3	666.8
Retained earnings	2,407.3	2,823.2
Accumulated other comprehensive loss, after-tax:		
Net unrealized foreign currency translation losses and interest rate swap	(2.8 )	(1.3 )
Total White Mountains's common shareholders' equity	2,984.0	3,492.5
Non-controlling interests	(144.4 )	(131.7 )
Total equity	2,839.6	3,360.8
Total liabilities and equity	\$3,422.8	\$3,659.2
See Notes to Consolidated Financial Statements		

WHITE MOUNTAINS INSURANCE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Millions	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2018	2017	2018	2017
<b>Revenues:</b>				
<b>Financial Guarantee (HG Global/BAM)</b>				
Earned insurance premiums	\$3.3	\$2.4	\$9.7	\$6.6
Net investment income	4.8	3.3	12.5	8.9
Net realized and unrealized investment (losses) gains	(4.1)	.8	(14.4)	3.2
Other revenues	.2	.2	.8	.8
<b>Total Financial Guarantee revenues</b>	<b>4.2</b>	<b>6.7</b>	<b>8.6</b>	<b>19.5</b>
<b>Specialty Insurance Distribution (NSM)</b>				
Commission revenues	36.6	—	59.2	—
Other revenues	3.1	—	4.0	—
<b>Total Specialty Insurance Distribution revenues</b>	<b>39.7</b>	<b>—</b>	<b>63.2</b>	<b>—</b>
<b>Marketing Technology (MediaAlpha)</b>				
Advertising and commission revenues	74.5	37.9	216.4	101.2
Other revenues	—	—	1.6	—
<b>Total Marketing Technology revenues</b>	<b>74.5</b>	<b>37.9</b>	<b>218.0</b>	<b>101.2</b>
<b>Other</b>				
Net investment income	8.6	8.9	32.4	30.8
Net realized and unrealized investment gains	70.2	31.7	37.3	99.3
Advertising and commission revenues	1.1	.9	3.0	2.7
Other revenues	.4	1.4	.6	6.3
<b>Total Other revenues</b>	<b>80.3</b>	<b>42.9</b>	<b>73.3</b>	<b>139.1</b>
<b>Total revenues</b>	<b>198.7</b>	<b>87.5</b>	<b>363.1</b>	<b>259.8</b>
<b>Expenses:</b>				
<b>Financial Guarantee (HG Global/BAM)</b>				
Insurance acquisition expenses	1.2	.9	3.9	3.0
Other underwriting expenses	.1	.1	.3	.3
General and administrative expenses	11.3	10.6	36.5	31.5
<b>Total Financial Guarantee expenses</b>	<b>12.6</b>	<b>11.6</b>	<b>40.7</b>	<b>34.8</b>
<b>Specialty Insurance Distribution (NSM)</b>				
General and administrative expenses	25.8	—	37.9	—
Broker commission expense	10.9	—	17.5	—
Amortization of other intangible assets	5.0	—	5.0	—
Interest expense	3.2	—	4.8	—
<b>Total Specialty Insurance Distribution expenses</b>	<b>44.9</b>	<b>—</b>	<b>65.2</b>	<b>—</b>
<b>Marketing Technology (MediaAlpha)</b>				
Cost of sales	61.8	32.2	179.1	86.0
General and administrative expenses	5.4	3.8	21.2	10.7
Amortization of other intangible assets	2.4	2.3	7.8	7.2
Interest expense	.2	.1	.9	.6
<b>Total Marketing Technology expenses</b>	<b>69.8</b>	<b>38.4</b>	<b>209.0</b>	<b>104.5</b>
<b>Other</b>				
Cost of sales	1.1	.9	2.9	2.7

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General and administrative and other expenses	26.0	27.3	79.0	113.9
Amortization of other intangible assets	—	.1	.1	.1
Interest expense	—	.8	.3	1.2
Total Other expenses	27.1	29.1	82.3	117.9
Total expenses	154.4	79.1	397.2	257.2
Pre-tax income (loss) from continuing operations	44.3	8.4	(34.1)	2.6
Income tax benefit	3.6	4.0	.4	5.3
Net income (loss) from continuing operations	47.9	12.4	(33.7)	7.9
Net (loss) gain from sale of discontinued operations, net of tax	(17.3)	554.3	(17.2)	552.7
Net (loss) income from discontinued operations, net of tax	—	(15.2)	—	20.5
Net income (loss)	30.6	551.5	(50.9)	581.1
Net loss attributable to non-controlling interests	10.2	10.6	47.2	23.6
Net income (loss) attributable to White Mountains's common shareholders	\$40.8	\$562.1	\$(3.7)	\$604.7
See Notes to Consolidated Financial Statements				

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

Millions	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income (loss) attributable to White Mountains's common shareholders	\$40.8	\$562.1	\$(3.7)	\$604.7
Other comprehensive income, net of tax:				
Other comprehensive (loss) income, net of tax	(.8 )	—	(1.7 )	.2
Comprehensive income from discontinued operations, net of tax	—	3.0	—	3.2
Comprehensive income	40.0	565.1	(5.4 )	608.1
Comprehensive income (loss) attributable to non-controlling interests	.2	—	.2	(.1 )
Comprehensive income (loss) attributable to White Mountains's common shareholders	\$40.2	\$565.1	\$(5.2)	\$608.0

See Notes to Consolidated Financial Statements.

WHITE MOUNTAINS INSURANCE GROUP, LTD.  
EARNINGS PER SHARE (Unaudited)

	Three Months		Nine Months	
	Ended September		Ended	
	30,	September	September 30,	September 30,
	2018	2017	2018	2017
Basic earnings (loss) per share				
Continuing operations	\$18.27	\$5.36	\$3.90	\$7.03
Discontinued operations	(5.44 )	125.45	(4.98 )	128.03
Total consolidated operations	\$12.83	\$130.81	\$(1.08)	\$135.06
Diluted earnings (loss) per share				
Continuing operations	\$18.27	\$5.36	\$3.90	\$7.03
Discontinued operations	(5.44 )	125.45	(4.98 )	128.03
Total consolidated operations	\$12.83	\$130.81	\$(1.08)	\$135.06
Dividends declared and paid per White Mountains's common share	\$—	\$—	\$1.00	\$1.00

See Notes to Consolidated Financial Statements.

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

(Millions)	White Mountains's Common Shareholders' Equity					
	Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2018	\$ 670.6	\$ 2,823.2	\$ (1.3 )	\$ 3,492.5	\$ (131.7 )	\$ 3,360.8
Net loss	—	(3.7 )	—	(3.7 )	(47.2 )	(50.9 )
Net change in foreign currency translation and other	—	—	(1.5 )	(1.5 )	—	(1.5 )
Total comprehensive loss	—	(3.7 )	(1.5 )	(5.2 )	(47.2 )	(52.4 )
Dividends declared on common shares	—	(3.8 )	—	(3.8 )	—	(3.8 )
Dividends to non-controlling interests	—	—	—	—	(6.0 )	(6.0 )
Repurchases and retirements of common shares	(104.6 )	(408.4 )	—	(513.0 )	—	(513.0 )
Issuances of common shares	2.0	—	—	2.0	—	2.0
Recognition of equity-based units of subsidiary	4.5	—	—	4.5	2.3	6.8
Dilution from equity-based units of subsidiary	(1.1 )	—	—	(1.1 )	1.1	—
Capital contributions from BAM members, net of tax	—	—	—	—	22.9	22.9
Amortization of restricted share awards	9.7	—	—	9.7	—	9.7
Non-controlling interests from acquisition of NSM	—	—	—	—	14.2	14.2
Acquisition from non-controlling interests - other	(1.6 )	—	—	(1.6 )	—	(1.6 )
Balance at September 30, 2018	\$ 579.5	\$ 2,407.3	\$ (2.8 )	\$ 2,984.0	\$ (144.4 )	\$ 2,839.6

(Millions)	White Mountains's Common Shareholders' Equity					
	Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2017	\$ 810.7	\$ 2,776.6	\$ (4.6 )	\$ 3,582.7	\$ 133.3	\$ 3,716.0
Net income (loss)	—	604.7	—	604.7	(23.6 )	581.1
Net change in foreign currency translation and other	—	—	.4	.4	.1	.5
Recognition of foreign currency translation and other accumulated comprehensive items from the sale of Sirius Group	—	—	2.9	2.9	—	2.9
Total comprehensive income (loss)	—	604.7	3.3	608.0	(23.5 )	584.5
Dividends declared on common shares	—	(4.6 )	—	(4.6 )	—	(4.6 )
Dividends to non-controlling interests	—	—	—	—	(17.7 )	(17.7 )

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Repurchases and retirements of common shares	(147.9 )	(575.9 )	—	(723.8 )	(5.2 )	(729.0 )
Issuance of common shares	1.7	—	—	1.7	—	1.7
Dilution from restricted shares issued at OneBeacon	(4.1 )	—	—	(4.1 )	4.7	.6
Capital contributions from BAM members, net of tax	—	—	—	—	18.7	18.7
Amortization of restricted share awards	10.6	—	—	10.6	.8	11.4
Deconsolidation of non-controlling interests associated with the sale of Sirius Group	—	—	—	—	(238.3 )	(238.3 )
Deconsolidation of non-controlling interests associated with the sale of Star & Shield	—	—	—	—	(4.4 )	(4.4 )
Net contributions from non-controlling interests	(1.7 )	—	—	(1.7 )	—	(1.7 )
Balance at September 30, 2017	\$ 669.3	\$ 2,800.8	\$ (1.3 )	\$ 3,468.8	\$ (131.6 )	\$ 3,337.2
See Notes to Consolidated Financial Statements						

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

(Millions)	Nine Months Ended September 30,	
	2018	2017
Cash flows from operations:		
Net (loss) income	\$(50.9 )	\$581.1
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized and unrealized investment gains	(22.9 )	(102.5 )
Deferred income benefit	(4.7 )	(6.9 )
Net income from discontinued operations	—	(20.5 )
Net loss (gain) from sale of discontinued operations, net of tax	17.2	(552.7 )
Amortization of restricted share and option awards	9.7	10.1
Amortization and depreciation	18.4	15.8
Other operating items:		
Net change in unearned insurance premiums	19.4	36.2
Net change in deferred acquisition costs	(2.8 )	(3.5 )
Net change in restricted cash	(12.1 )	—
Net change in other assets and liabilities, net	(1.8 )	(21.5 )
Net cash used for operations - continuing operations	(30.5 )	(64.4 )
Net cash (used for) provided from operations - discontinued operations	—	157.0
Net cash (used for) provided from operations	(30.5 )	92.6
Cash flows from investing activities:		
Net change in short-term investments	(138.5 )	(612.2 )
Sales of fixed maturity and convertible investments	1,768.5	1,631.2
Maturities, calls and paydowns of fixed maturity and convertible investments	124.4	178.6
Sales of common equity securities	129.8	407.8
Distributions and redemptions of other long-term investments and settlements of forward contracts	(5.5 )	1.3
Sales of unconsolidated affiliates and consolidated subsidiaries, net of cash sold	—	1,131.0
Net settlement of investment cash flows and contributions with discontinued operations	—	167.7
Purchases of other long-term investments	(65.9 )	(67.7 )
Purchases of common equity securities	(253.0 )	(818.6 )
Purchases of fixed maturity and convertible investments	(833.1 )	(1,189.8 )
Purchases of consolidated subsidiaries, net of cash acquired of \$71.9	(252.1 )	—
Other investing activities, net	33.8	(134.6 )
Net cash provided from investing activities - continuing operations	508.4	694.7
Net cash provided from investing activities - discontinued operations	—	3.0
Net cash provided from investing activities	508.4	697.7
Cash flows from financing activities:		
Draw down of debt and revolving line of credit	50.9	361.0
Repayment of debt and revolving line of credit	(11.2 )	(364.6 )
Cash dividends paid to the Company's common shareholders	(3.8 )	(4.6 )
Common shares repurchased	(504.7 )	(714.6 )
Distribution to non-controlling interest shareholders	(4.6 )	(.9 )
Contributions from discontinued operations	—	45.2
Payments on contingent consideration earnout liability	(2.6 )	—
Capital contributions from BAM members	26.9	25.7
Acquisition of additional subsidiary shares from non-controlling interest	(1.7 )	(.7 )

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Fidus Re premium payment	(3.0 )	—
Restricted share statutory withholding tax payments	(8.4 )	(9.3 )
Net cash used for financing activities - continuing operations	(462.2 )	(662.8 )
Net cash used for financing activities - discontinued operations	—	(61.9 )
Net cash used for financing activities	(462.2 )	(724.7 )
Effect of exchange rate changes on cash	(.6 )	—
Net change in cash during the period - continuing operations	15.7	(32.5 )
Cash balances at beginning of period (excludes discontinued operations cash balances of \$0.0 and \$70.5)	97.1	80.2
Add: cash held for sale, excluding discontinued operations, at the beginning of period	—	.9
Less: cash held for sale, excluding discontinued operations, at the end of period	—	—
Cash balances at end of period (excludes discontinued operations cash balances of \$0.0 and \$0.0)	\$112.2	\$48.6
Supplemental cash flows information:		
Interest paid	\$(5.3 )	\$(.5 )
Net income tax refunds	\$(.5 )	\$—
See Notes to Consolidated Financial Statements		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### Note 1. Basis of Presentation and Significant Accounting Policies

#### Basis of Presentation

The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its insurance subsidiaries and other affiliates. The Company's headquarters is located at 26 Reid Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and include the accounts of White Mountains Insurance Group, Ltd. (the "Company" or the "Registrant"), its subsidiaries (collectively with the Company, "White Mountains") and other entities required to be consolidated under GAAP.

#### Consolidation Principles

Under GAAP, the Company is required to consolidate any entity in which it holds a controlling financial interest. A controlling financial interest is usually in the form of an investment representing the majority of the subsidiary's voting interests. However, a controlling financial interest may also arise from a financial interest in a variable interest entity ("VIE") through arrangements that do not involve ownership of voting interests. The Company consolidates a VIE if it determines that it is the primary beneficiary. The primary beneficiary is defined as the entity who holds a variable interest that gives it both the power to direct the VIE's activities that most significantly impact its economic performance and the obligation to absorb losses of, or the right to receive returns from, the VIE that could potentially be significant to the VIE.

Intercompany transactions have been eliminated in consolidation. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. These interim financial statements include all adjustments considered necessary by management to fairly state the financial position, results of operations and cash flows of White Mountains. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company's 2017 Annual Report on Form 10-K.

#### Business Combinations

White Mountains accounts for purchases of businesses using the acquisition method, which requires the measurement of assets acquired, including goodwill and other intangible assets and liabilities assumed, including contingent liabilities, at their estimated fair values as of the acquisition date. The acquisition date fair values represent management's best estimates and are based upon established valuation techniques, reasonable assumptions and, where appropriate, valuations performed by independent third parties. In circumstances where additional information is required in order to determine the acquisition date fair value of balance sheet amounts, provisional amounts may be recorded as of the acquisition date and may be subject to subsequent adjustment throughout the measurement period, which is one year from the acquisition date. Measurement period adjustments are recognized in the period in which they are determined. The results of operations and cash flows of businesses acquired are included in the consolidated financial statements from the date of acquisition.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reportable Segments

White Mountains has determined its reportable segments based on the nature of the underlying businesses, the manner in which the Company's subsidiaries and affiliates are organized and managed and the organization of the financial information provided to the chief operating decision maker to assess performance and make decisions regarding allocation of resources. White Mountains's reportable segments are HG Global/BAM, NSM, MediaAlpha and Other Operations. See Note 12 — "Segment Information".

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The HG Global/BAM segment consists of HG Global Ltd. and its wholly-owned subsidiaries (“HG Global”) and the consolidated results of Build America Mutual Assurance Company (“BAM”) (collectively, “HG Global/BAM”). BAM is the first and only mutual municipal bond insurance company in the United States. By insuring the timely payment of principal and interest, BAM provides market access to, and lowers interest expense for, issuers of municipal bonds used to finance essential public purposes such as schools, utilities and transportation facilities. BAM is owned by and operated for the benefit of its members, the municipalities that purchase BAM’s insurance for their debt issuances. HG Global was established to fund the startup of BAM and, through its wholly-owned subsidiary, HG Re Ltd. (“HG Re”), to provide up to 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of \$503.0 million of surplus notes issued by BAM (the “BAM Surplus Notes”). As of September 30, 2018, \$499.0 million of the surplus notes remain outstanding. As of September 30, 2018 and December 31, 2017, White Mountains owned 96.9% of HG Global’s preferred equity and 88.4% of its common equity. White Mountains does not have an ownership interest in BAM. However, White Mountains is required to consolidate BAM’s results in its financial statements because BAM is a VIE for which White Mountains is the primary beneficiary. BAM’s results are attributed to non-controlling interests. The NSM segment consists of NSM Insurance HoldCo, LLC and its wholly-owned subsidiaries (collectively, “NSM”). NSM is a full service managing general agency and program administrator for specialty property and casualty insurance. NSM manages all aspects of the placement process on behalf of its carrier partners, including product development, marketing, underwriting and policy issuance. NSM specializes in niche sectors including collector cars, social services and behavioral health, specialty real estate, sports and fitness centers, and pet insurance. White Mountains acquired a 95% ownership share in NSM on May 11, 2018. The NSM segment also includes White Mountains Catskill Holdings, Inc. See Note 2 - “Significant Transactions”.

The MediaAlpha segment consists of QL Holdings LLC and its wholly-owned subsidiary QuoteLab, LLC (collectively “MediaAlpha”). MediaAlpha is a leading marketing technology company that develops technology that enables the programmatic buying and selling of vertical-specific, performance-based media between advertisers (buyers of advertising inventory) and publishers (sellers of advertising inventory) through cost-per-click, cost-per-call and cost-per-lead pricing models. MediaAlpha’s media buying platform enables advertisers to create and automate data-driven bidding strategies designed to improve the efficiency and enhance overall performance of their marketing campaigns that target high-intent consumers at the time and place they are ready to purchase. MediaAlpha’s publisher platform is used by publishers to sell their vertical-specific, performance-based media to advertisers through transparent, programmatic, auction-based marketplaces. MediaAlpha works with 600 advertisers and 330 publishers across a number of insurance (auto, motorcycle, home, renter, health and life) and non-insurance (travel, education, personal finance and home services) verticals.

White Mountains’s Other Operations segment consists of the Company, its wholly-owned subsidiary, White Mountains Capital, Inc. (“WM Capital”), its wholly-owned investment management subsidiary, White Mountains Advisors LLC (“WM Advisors”), and its other intermediate holding companies, as well as certain consolidated and unconsolidated private capital and other investments. The consolidated private capital investments include Wobi Insurance Agency Ltd. (“Wobi”) and Removal Stars Ltd. (“Buzzmove”).

#### Discontinued Operations and Assets and Liabilities Held for Sale

On September 28, 2017, Intact Financial Corporation completed its acquisition of OneBeacon Insurance Group, Ltd. (“OneBeacon”) in an all-cash transaction for \$18.10 per share (the “OneBeacon Transaction”). On July 21, 2016, White Mountains completed its sale of Tranzact Holdings, LLC (“Tranzact”) to an affiliate of Clayton, Dubilier & Rice, LLC. On April 18, 2016, White Mountains completed its sale of Sirius International Insurance Group, Ltd. (“Sirius Group”) to CM International Pte. Ltd. and CM Bermuda Limited (collectively “CMI”), the Singapore-based investment arm of China Minsheng Investment Corp., Ltd. White Mountains has presented the results of OneBeacon, Tranzact and Sirius Group as discontinued operations in the statement of operations and comprehensive income and their assets and liabilities as held for sale in the balance sheet for all periods prior to the completion of each transaction.

White Mountains has classified its Guilford, Connecticut property, which consists of an office building and adjacent land, as held for sale as of September 30, 2018 and December 31, 2017. See Note 16 — “Held for Sale and Discontinued Operations”.





#### Derivatives

White Mountains holds from time to time derivative financial instruments for risk management purposes. White Mountains recognizes all derivatives as either assets or liabilities on the balance sheet measured at fair value. During the quarter ended June 30, 2018, White Mountains entered into an interest rate swap to hedge its exposure to the interest rate risk associated with the interest payments on NSM's variable rate debt. In order to qualify for hedge accounting, a derivative instrument must be both highly effective in offsetting the exposure to the hedged risk and designated as a hedge at inception. The swap meets both of these requirements and is being accounted for as a hedge. Changes in the fair value of the swap are recognized in other comprehensive income until changes in the interest rate on the debt cause an increase in the hedged cash flows. When the hedged cash flows increase, then the effective portion of the gains or losses arising from the change in the fair value of the swap are reclassified into earnings from other comprehensive income. The amounts reclassified are included in the same financial statement caption as the related interest expense, effectively fixing the debt interest at the fixed rate in the swap for the hedged portion of the interest cash flows. Any portion of the change in the fair value of a derivative instrument designated as a cash flow hedge that represents hedge ineffectiveness is recognized in current period pre-tax income. Hedge ineffectiveness is measured as the amount by which changes in the fair value of a derivative designated as a hedge exceed the change in the fair value of the related hedged cash flows. White Mountains formally evaluates and documents the relationship between derivatives used as hedges and the related hedged cash flows, including its risk-management objective and strategy for undertaking a hedging transaction. White Mountains formally assesses the effectiveness of the hedging transaction at both inception and on an ongoing basis. White Mountains also held certain foreign currency forward contracts which were held for risk management purposes, but not designated as hedges. These contracts were measured at fair value with the changes therein recognized through current period pre-tax income. See Note 7 — “Derivatives”.

#### Reinsurance Contracts Accounted for as Deposits

Reinsurance contracts that do not meet the risk transfer requirements necessary to be accounted for as reinsurance are accounted for using the deposit method under GAAP. BAM entered into a reinsurance contract agreement with Fidus Reinsurance Ltd. (“Fidus Re”) in 2018, which is accounted for using the deposit method. See Note 8 — “Municipal Bond Guarantee Insurance”. The nonrefundable consideration paid by BAM to Fidus Re is charged to financing expense within general and administrative expenses.

#### Restricted Cash

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Cash balances which are not immediately available for general corporate purposes, including fiduciary accounts, are classified as restricted. Restricted amounts included within cash are disclosed parenthetically on the balance sheet. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of White Mountains's consolidated subsidiaries. Changes in restricted cash balances are presented as a separate caption within the operations, investing and financing activities sections of the statement of cash flows.

#### Significant Accounting Policies

Refer to the Company's 2017 Annual Report on Form 10-K for a complete discussion regarding White Mountains's significant accounting policies.

#### Recently Adopted Changes in Accounting Principles

##### Revenue Recognition

On January 1, 2018, White Mountains adopted ASU 2014-09, Revenue from Contracts with Customers (ASC 606), which modifies the guidance for revenue recognition. Under ASU 2014-09, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled once it fulfills its performance obligations under the terms of its contract with the customer. The scope of the new guidance includes agent commissions and other

non-insurance revenues. Adoption of ASU 2014-09 did not have any impact on White Mountains's financial statements.

#### Share-Based Compensation

On January 1, 2018, White Mountains adopted ASU 2017-09, Stock Compensation: Scope of Modification Accounting (ASC 718), which narrows the scope of transactions subject to modification accounting to changes in terms of an award that result in a change in the award's fair value, vesting conditions or classification. Adoption of ASU 2017-09 did not have any impact on White Mountains's financial statements.

On January 1, 2017, White Mountains adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASC 718) which simplifies certain aspects of the accounting for share-based compensation. The new guidance provides an accounting policy election to account for forfeitures by either applying an assumption, as required under existing guidance, or by recognizing forfeitures when they actually occur. At adoption, White Mountains did not change its accounting policy for forfeitures, which is to apply an assumed forfeiture rate. The new guidance has also changed the threshold for partial cash settlement to settle statutory withholding requirements for equity classified awards, increasing the threshold up to the maximum statutory tax rate. As a result of adoption, White Mountains reported \$8.4 million and \$9.2 million of statutory withholding tax payments made in connection with the settlement of restricted shares as financing cash flows for the nine months ended September 30, 2018 and 2017. Such payments were classified as operating cash flows prior to adoption. In addition, the new guidance changed the treatment for excess tax benefits that arise from the difference between the deduction for tax purposes and the compensation costs recognized for financial reporting. Under the new guidance, a reporting entity recognizes excess tax benefits or expense in current period earnings, regardless of whether it is in a taxes payable position.

#### Business Combinations

On January 1, 2018, White Mountains adopted ASU 2017-01, Business Combinations: Clarifying the Definition of a Business (ASC 805), which clarifies the definition of a business and affects the determination of whether acquisitions or disposals are accounted for as assets or as a business. Under the new guidance, when substantially all of the fair value of the assets is concentrated in a single identifiable asset or group of similar assets, it is not a business. Adoption of ASU 2017-01 did not have any impact on White Mountains's financial statements.

#### Cash Flow Statement

On January 1, 2018, White Mountains adopted ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASC 230), which addresses the classification and presentation of certain items, including debt prepayment and extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees, for which there was diversity in practice prior to the issuance of ASU 2016-15. Also on January 1, 2018, White Mountains adopted ASU 2016-18, Statement of Cash Flows: Restricted Cash (ASC 230), which modifies the guidance for the treatment of restricted cash amounts in the cash flow statement. The new guidance requires restricted cash to be included in the reconciliation of beginning and end-of-period amounts presented on the statement of cash flows and requires a description of the nature of the changes in restricted cash during the periods presented. Adoption of ASU 2016-15 and ASU 2016-18 did not have any impact on White Mountains's statement of cash flows.

#### Financial Instruments - Recognition and Measurement

On January 1, 2018, White Mountains adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 825-10), which modifies the guidance for financial instruments, including investments in equity securities. Under the new guidance, all equity securities with readily determinable fair values are required to be measured at fair value with changes therein recognized through current period earnings. In addition, the new ASU requires a qualitative assessment for equity securities without readily determinable fair values to identify impairment, and for impaired equity securities to be measured at fair value. White Mountains measures its portfolio of investment securities at fair value with changes therein recognized through current period earnings and, accordingly, adoption of ASU 2016-01 did not have any impact on White Mountains's financial statements.

#### Recently Issued Accounting Pronouncements

##### Premium Amortization on Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities (ASC 310-20), which changes the amortization period for certain purchased callable debt securities. Under the new guidance, for investments in callable debt securities held at a premium, the premium will be amortized over the period to the earliest call date. The new guidance does not change the amortization period for callable debt securities held at a

discount. ASU 2017-08 is not expected to have any impact on White Mountains's financial statements at adoption but may affect the amortization recognized in future periods.

#### Credit Losses

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (ASC 326), which establishes new guidance for the recognition of credit losses for financial assets measured at amortized cost. The new ASU requires reporting entities to estimate the credit losses expected over the life of a credit exposure using historical information, current information and reasonable and supportable forecasts that affect the collectability of the financial asset. This differs from current GAAP, which delays recognition until it is probable a loss has been incurred. The new guidance is expected to accelerate recognition of credit losses. The types of assets within the scope of the new guidance include premium receivables, reinsurance recoverables and loans. ASU 2016-13 is effective for annual periods beginning after January 1, 2020, including interim periods. White Mountains measures its portfolio of investment securities at fair value with changes therein recognized through current period earnings and, accordingly, does not expect adoption to have any effect on its financial statements.

#### Leases

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842). The new guidance requires lessees to recognize lease assets and liabilities on the balance sheet for both operating and financing leases, with the exception of leases with an original term of 12 months or less. Under existing guidance recognition of lease assets and liabilities is not required for operating leases. The lease assets and liabilities to be recognized are both measured initially based on the present value of the lease payments. Under the new guidance, a sale-leaseback transaction must meet the recognition criteria under ASC 606, Revenues, in order to be accounted for as sale. The new guidance is effective for White Mountains for years beginning after December 15, 2018, including interim periods therein. White Mountains is evaluating the expected impact of this guidance and available adoption methods.

#### Note 2. Significant Transactions

##### Acquisitions

##### NSM

On May 11, 2018, White Mountains closed its acquisition of 95% of NSM for cash consideration of \$274.2 million. White Mountains recognized a purchase price adjustment of \$2.1 million during the three months ended September 30, 2018 that was paid in October 2018. White Mountains recognized total assets acquired related to NSM of \$495.2 million, including \$383.0 million of goodwill and other intangible assets, total liabilities assumed of \$204.6 million, including contingent consideration earnout liabilities related to NSM's previous acquisitions of its U.K.-based operations, of \$10.2 million, and non-controlling interest of \$14.4 million reflecting acquisition date fair values. In connection with the acquisition, White Mountains incurred transaction costs of \$6.3 million, which were expensed in the second quarter of 2018.

On May 18, 2018, NSM acquired 100% of Fresh Insurance Services Group Limited ("Fresh Insurance"), an insurance broker that specializes in non-standard personal lines products, motor trade, and van insurance in the United Kingdom, for cash consideration of \$49.6 million. NSM recognized a purchase price adjustment of \$0.7 million during the three months ended September 30, 2018. The purchase price is subject to additional adjustments based upon growth in EBITDA during two earnout periods, ending in February 2020 and February 2022. NSM recognized total assets acquired related to Fresh Insurance of \$72.6 million, including \$54.6 million of goodwill and other intangible assets, and total liabilities assumed of \$22.3 million, reflecting acquisition date fair values. In connection with the acquisition, NSM recorded a contingent consideration earnout liability of \$7.5 million.

The contingent consideration earnout liabilities related to these acquisitions are subject to adjustment based upon EBITDA, EBITDA projections, and present value factors for acquired entities. For both the three months ended September 30, 2018 and the period from May 11, 2018 through September 30, 2018, NSM recognized pre-tax expense of \$2.6 million for the change in the fair value of its contingent consideration earnout liabilities for both Fresh Insurance and its other U.K.-based operations. Any future adjustments to contingent consideration earnout liabilities under the agreements will also be recognized through pre-tax income. As of September 30, 2018, NSM recorded contingent consideration earnout liabilities of \$20.1 million.

#### DavidShield

On January 24, 2018, White Mountains acquired 50% of DavidShield Life Insurance Agency (2000) Ltd. (“DavidShield”), its joint venture partner in PassportCard Limited (“PassportCard”). DavidShield is a managing general agency that is the leading provider of expatriate medical insurance in Israel and uses the same card-based delivery system as PassportCard. As part of the transaction, White Mountains restructured its equity stake in PassportCard so that White Mountains and its partner in DavidShield would each own 50% of both businesses. To facilitate the transaction, White Mountains provided financing to its partner in the form of a non-interest bearing loan that is secured by the partner’s equity in PassportCard and DavidShield. The gross purchase price for the 50% of DavidShield was \$41.8 million, or \$28.3 million net of the financing provided for the restructuring.

#### Kudu

On February 5, 2018, White Mountains entered into an agreement to fund up to \$127.5 million in Kudu Investment Management, LLC (“Kudu”), a capital provider to asset management and wealth management firms, including \$125.0 million for new transactions. Kudu specializes in providing capital solutions to asset managers and registered investment advisers, including generational ownership transfers, management buyouts, acquisition and growth finance, as well as liquidity for legacy partners.

As of September 30, 2018, White Mountains has funded \$12.3 million in Kudu. Kudu closed their first transaction in the third quarter of 2018 and announced two more in October, deploying \$63.0 million of capital in total, \$31.5 million of which is from White Mountains. White Mountains has determined that Kudu is a VIE, however White Mountains is not the primary beneficiary. White Mountains has elected to take the fair value option for its investment in Kudu.

#### MediaAlpha

On October 5, 2017, MediaAlpha acquired certain assets associated with the Health, Life and Medicare insurance business of Healthplans.com for an aggregate purchase price of \$28.0 million. The majority of assets acquired, which are included in other intangible assets, consist of customer relationships, a non-compete agreement from the seller and domain names. See Note 4 — “Goodwill and Other Intangibles Assets”.

On October 5, 2017, White Mountains acquired 131,579 newly-issued Class A common units of MediaAlpha for \$12.5 million. As of September 30, 2018 and December 31, 2017 White Mountains’s ownership share in MediaAlpha was 62.2% and 64.4%.

#### Dispositions

##### OneBeacon

On September 28, 2017, White Mountains received \$1.3 billion in cash proceeds from the OneBeacon Transaction and recorded a gain of \$554.6 million, net of transaction costs. As a result of the OneBeacon Transaction, OneBeacon’s results have been reported as discontinued operations within White Mountains’s GAAP financial statements. See Note 16 — “Held for Sale and Discontinued Operations”.

##### Star & Shield

On March 7, 2017, White Mountains completed the sale of Star & Shield Services LLC, Star & Shield Risk Management LLC, and Star & Shield Claims Services LLC (collectively “Star & Shield”) and its investment in Star & Shield Insurance Exchange (“SSIE”) surplus notes to K2 Insurance Services, LLC. White Mountains did not recognize any gain or loss on the sale.



## Note 3. Investments Securities

White Mountains's portfolio of investment securities held for general investment purposes consists of fixed maturity investments, short-term investments, common equity securities and other long-term investments, which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Net realized and unrealized investment gains (losses) on trading securities are reported in pre-tax revenues.

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

Realized investment gains (losses) resulting from sales of investment securities are accounted for using the specific identification method. Premiums and discounts on all fixed maturity investments are amortized or accreted to income over the anticipated life of the investment. Short-term investments consist of interest-bearing money market funds and other securities, which at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized or accreted cost, which approximated fair value as of September 30, 2018 and December 31, 2017.

Other long-term investments consist primarily of hedge funds, private equity funds and unconsolidated private capital investments.

## Net Investment Income

White Mountains's net investment income is comprised primarily of interest income associated with White Mountains's fixed maturity investments and short-term investments and dividend income from its common equity securities and other long-term investments.

The following table presents pre-tax net investment income for the three and nine months ended September 30, 2018 and 2017.

Millions	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Investment income:				
Fixed maturity investments	\$7.5	\$9.8	\$27.3	\$32.9
Short-term investments	1.8	.3	6.5	.6
Common equity securities	3.4	2.7	11.2	7.7
Other long-term investments	1.2	.1	1.7	.5
Total investment income	13.9	12.9	46.7	41.7
Third-party investment expenses	(.5 )	(.7 )	(1.8 )	(2.0 )
Net investment income, pre-tax	\$13.4	\$12.2	\$44.9	\$39.7

## Net Realized and Unrealized Investment Gains (Losses)

The following table presents net realized and unrealized investment gains (losses) for the three and nine months ended September 30, 2018 and 2017:

Millions	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net realized investment (losses) gains, pre-tax	\$(10.2)	\$6.8	\$(13.9)	\$20.8
Net unrealized investment gains, pre-tax	76.3	25.7	36.8	81.7
Net realized and unrealized investment gains, pre-tax	66.1	32.5	22.9	102.5
Income tax expense attributable to net realized and unrealized investment gains	(9.7 )	(3.9 )	(5.9 )	(9.5 )
Net realized and unrealized investment gains, after-tax	\$56.4	\$28.6	\$17.0	\$93.0

## Net Realized Investment Gains (Losses)

The following tables present net realized investment gains (losses) for the three and nine months ended September 30, 2018 and 2017

Millions	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Net realized losses	Net foreign exchange gains (losses)	Total net realized gains reflected in earnings	Net realized gains (losses)	Net foreign exchange gains (losses)	Total net realized gains (losses) reflected in earnings
Fixed maturity investments	\$(5.1)	\$ —	\$(5.1 )	\$0.6	\$1.2	\$1.8
Short-term investments	—	—	—	(.1 )	—	(.1 )
Common equity securities	(1.5 )	—	(1.5 )	4.9	5.4	10.3
Other long-term investments	(3.6 )	—	(3.6 )	2.0	(7.2 )	(5.2 )
Net realized investment (losses) gains, pre-tax	(10.2)	—	(10.2 )	7.4	(.6 )	6.8
Income tax benefit (expense) attributable to net realized investment (losses) gains	2.3	—	2.3	(.6 )	—	(.6 )
Net realized investment (losses) gains, after-tax	\$(7.9)	\$ —	\$(7.9 )	\$6.8	\$(.6 )	\$6.2

Millions	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Net realized gains	Net foreign exchange gains (losses)	Total net realized gains reflected in earnings	Net realized gains	Net foreign exchange gains (losses)	Total net realized gains (losses) reflected in earnings
Fixed maturity investments	\$(27.6)	\$18.2	\$(9.4 )	\$(.4 )	\$2.7	\$2.3
Short-term investments	(.8 )	—	(.8 )	(.1 )	—	(.1 )
Common equity securities	10.5	—	10.5	18.5	6.0	24.5
Other long-term investments	(7.0 )	(7.2 )	(14.2 )	3.0	(8.9 )	(5.9 )
Net realized investment (losses) gains, pre-tax	(24.9 )	11.0	(13.9 )	21.0	(.2 )	20.8
	11.2	—	11.2	(3.6 )	—	(3.6 )

Income tax benefit (expense) attributable to net realized  
investment (losses) gains

Net realized investment (losses)						
gains, after-tax	\$(13.7)	\$ 11.0	\$ (2.7 )	\$17.4	\$ (.2 )	\$ 17.2

## Net Unrealized Investment Gains (Losses)

The following tables present net unrealized investment gains (losses) and changes in the carrying value of investments measured at fair value for the three and nine months ended September 30, 2018 and 2017:

Millions	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Net unrealized gains (losses)	Net foreign exchange losses	Total net unrealized gains (losses) reflected in earnings	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$ 1.5	\$ —	\$ 1.5	\$ 2.0	\$ 5.1	\$ 7.1
Short-term investments	(.1 )	—	(.1 )	—	—	—
Common equity securities	54.9	—	54.9	26.6	(3.1 )	23.5
Other long-term investments	20.1	(.1 )	20.0	(2.5 )	(2.4 )	(4.9 )
Net unrealized investment gains (losses), pre-tax	76.4	(.1 )	76.3	26.1	(.4 )	25.7
Income tax expense attributable to net unrealized investment gains (losses)	(12.0 )	—	(12.0 )	(3.3 )	—	(3.3 )
Net unrealized investment gains (losses), after-tax	\$ 64.4	\$ (.1 )	\$ 64.3	\$ 22.8	\$ (.4 )	\$ 22.4

Millions	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings	Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$(15.7)	\$(14.8 )	\$(30.5 )	\$ 19.4	\$ 12.6	\$ 32.0
Short-term investments	(.1 )	—	(.1 )	—	—	—
Common equity securities	43.7	—	43.7	53.5	—	53.5
Other long-term investments	20.5	3.2	23.7	9.2	(13.0 )	(3.8 )
Net unrealized investment gains (losses), pre-tax	48.4	(11.6 )	36.8	82.1	(.4 )	81.7
Income tax expense attributable to net unrealized investment gains (losses)	(17.1 )	—	(17.1 )	(5.9 )	—	(5.9 )
Net unrealized investment gains (losses), after-tax	\$ 31.3	\$ (11.6 )	\$ 19.7	\$ 76.2	\$ (.4 )	\$ 75.8

The following table presents total gains (losses) included in earnings attributable to net unrealized investment gains (losses) for Level 3 investments for the three and nine months ended September 30, 2018 and 2017:

Millions	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	Other long-term investments	\$ 4.0
Total net unrealized investment gains (losses) , pre-tax - Level 3 investments	\$ 4.0	\$(.7)



## Investment Holdings

The following tables present the cost or amortized cost, gross unrealized investment gains (losses), net foreign currency gains and carrying values of White Mountains's fixed maturity investments as of September 30, 2018 and December 31, 2017.

Millions	September 30, 2018				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government and agency obligations	\$ 127.0	\$ —	\$ (1.6 )	\$ —	\$ 125.4
Debt securities issued by corporations	509.4	.2	(9.6 )	—	500.0
Mortgage and asset-backed securities	132.4	—	(3.9 )	—	128.5
Municipal obligations	281.1	.4	(3.5 )	—	278.0
Total fixed maturity investments	\$ 1,049.9	\$ .6	\$ (18.6 )	\$ —	\$ 1,031.9

  

Millions	December 31, 2017				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government and agency obligations	\$ 297.8	\$ —	\$ (1.3 )	\$ —	\$ 296.5
Debt securities issued by corporations	867.6	2.9	(4.3 )	14.7	880.9
Mortgage and asset-backed securities	697.2	1.6	(4.1 )	—	694.7
Municipal obligations	252.0	3.7	(.8 )	—	254.9
Foreign government, agency and provincial obligations	2.6	—	—	.1	2.7
Total fixed maturity investments	\$ 2,117.2	\$ 8.2	\$ (10.5 )	\$ 14.8	\$ 2,129.7

The following tables present the cost or amortized cost, gross unrealized investment gains (losses), net foreign currency losses, and carrying values of White Mountains's common equity securities and other long-term investments as of September 30, 2018 and December 31, 2017:

Millions	September 30, 2018				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	\$ 873.4	\$ 171.1	\$ (1.0 )	\$ —	\$ 1,043.5
Other long-term investments	\$ 303.8	\$ 34.8	\$ (47.2 )	\$ (1.7 )	\$ 289.7

  

Millions	December 31, 2017				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	\$ 739.7	\$ 129.4	\$ (3.0 )	\$ —	\$ 866.1
Other long-term investments	\$ 246.6	\$ 6.8	\$ (39.7 )	\$ (4.9 )	\$ 208.8

## Other Long-Term Investments

The following table presents the carrying values of White Mountains's other long-term investments as of September 30, 2018 and December 31, 2017:

Millions	Carrying Value at	
	September 30, 2018	December 31, 2017
Hedge funds and private equity funds, at fair value	\$151.6	\$ 125.3
Private equity securities, at fair value <sup>(1)(2)</sup>	126.4	83.2
Foreign currency forward contracts	—	(3.7 )
Other	11.7	4.0
Total other long-term investments	\$289.7	\$ 208.8

<sup>(1)</sup> See Fair Value Measurements by Level table.

<sup>(2)</sup> Includes White Mountains's non-controlling interests in common equity securities, limited liability companies and private convertible preferred securities.

## Hedge Funds and Private Equity Funds

White Mountains invests in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments is generally estimated using the NAV of the funds. As of September 30, 2018, White Mountains held investments in one hedge fund and thirteen private equity funds. The largest investment in a single fund was \$59.6 million as of September 30, 2018 and \$54.9 million as of December 31, 2017.

The following table presents investments in hedge funds and private equity funds by investment objective and sector as of September 30, 2018 and December 31, 2017:

Millions	September 30, 2018		December 31, 2017	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short banks and financials	\$59.6	\$ —	\$54.9	\$ —
Total hedge funds	59.6	—	54.9	—
Private equity funds				
Manufacturing/Industrial	49.6	10.5	43.3	10.4
Aerospace/Defense/Government	25.5	34.9	15.8	12.9
Direct lending	10.6	19.9	7.1	23.1
Financial services	6.3	15.7	4.2	11.7
Real estate	—	50.0	—	—
Total private equity funds	92.0	131.0	70.4	58.1
Total hedge funds and private equity funds included in other long-term investments	\$151.6	\$ 131.0	\$125.3	\$ 58.1

Redemption of investments in most hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period. As of September 30, 2018, White Mountains held one active hedge fund with a fair value of \$59.6 million. The hedge fund is subject to a semi-annual restriction on redemptions and an advance notice period requirement of 45 days.

Investments in private equity funds are generally subject to a lock-up period during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund’s underlying investments. In addition, certain private equity funds have the option to extend the lock-up period.

The following table presents investments in private equity funds that were subject to lock-up periods as of September 30, 2018:

Millions	1 – 3 years	3 – 5 years	5 – 10 years	>10 years	Total
Private equity funds — expected lock-up period remaining	\$14.2	\$5.0	\$55.9	\$16.9	\$92.0

Investors in private equity funds are generally subject to indemnification obligations outside of the capital commitment period and prior to the winding up of the fund. As of September 30, 2018 and December 31, 2017, White Mountains is not aware of any indemnification claims relating to its investments in private equity funds. Any future indemnification obligations would be disclosed separately as opposed to being included in the Unfunded Commitments balance.

#### Fair Value Measurements as of September 30, 2018

Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). Quoted prices in active markets for identical assets or liabilities have the highest priority (“Level 1”), followed by observable inputs other than quoted prices, including prices for similar but not identical assets or liabilities (“Level 2”) and unobservable inputs, including the reporting entity’s estimates of the assumptions that market participants would use, having the lowest priority (“Level 3”). As of September 30, 2018 and December 31, 2017, White Mountains used quoted market prices or other observable inputs to determine fair value for approximately 89% and 94% of the investment portfolio.



## Fair Value Measurements by Level

The following tables present White Mountains's fair value measurements for investments as of September 30, 2018 and December 31, 2017 by level. The major security types were based on the legal form of the securities. White Mountains has disaggregated its fixed maturity investments based on the issuing entity type, which impacts credit quality, with debt securities issued by U.S. Government entities carrying minimal credit risk, while the credit and other risks associated with other issuers, such as corporations, foreign governments, municipalities or entities issuing mortgage and asset-backed securities vary depending on the nature of the issuing entity type. White Mountains further disaggregates debt securities issued by corporations and common equity securities by industry sector because investors often reference commonly used benchmarks and their subsectors to monitor risk and performance. Accordingly, White Mountains has further disaggregated these asset classes into subclasses based on the similar sectors and industry classifications it uses to evaluate investment risk and performance against commonly used benchmarks, such as the Bloomberg Barclays U.S. Intermediate Aggregate and S&P 500 indices.

Millions	September 30, 2018			
	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	\$ 125.4	\$ 125.4	\$—	\$—
Debt securities issued by corporations:				
Financials	145.9	—	145.9	—
Consumer	84.2	—	84.2	—
Technology	60.4	—	60.4	—
Energy	54.6	—	54.6	—
Healthcare	53.9	—	53.9	—
Industrial	39.5	—	39.5	—
Communications	22.4	—	22.4	—
Materials	22.2	—	22.2	—
Utilities	16.9	—	16.9	—
Total debt securities issued by corporations	500.0	—	500.0	—
Mortgage and asset-backed securities	128.5	—	128.5	—
Municipal obligations	278.0	—	278.0	—
Total fixed maturity investments	1,031.9	125.4	906.5	—
Short-term investments <sup>(1)</sup>	313.7	300.7	13.0	—
Common equity securities:				
Exchange traded funds <sup>(2)</sup>	742.9	675.3	67.6	—
Technology	16.8	16.8	—	—
Financials	16.7	16.7	—	—
Healthcare	16.4	16.4	—	—
Industrial	15.6	15.6	—	—
Communications	14.8	14.8	—	—
Consumer	9.8	9.8	—	—
Energy	6.6	6.6	—	—
Other <sup>(3)</sup>	203.9	—	203.9	—
Total common equity securities	1,043.5	772.0	271.5	—
Other long-term investments <sup>(4)</sup>	138.1	—	—	138.1
Total investments	\$2,527.2	\$1,198.1	\$1,191.0	\$138.1

- (1) Short-term investments are measured at amortized cost, which approximates fair value.
- (2) ETFs traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated a level 2 measurement.
- (3) Consists of two investments in unit trusts that primarily invest in international equities.
- (4) Excludes carrying value of \$151.6 associated with hedge funds and private equity funds for which fair value is measured at NAV using the practical expedient.

Millions	December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	\$296.5	\$296.5	\$—	\$—
Debt securities issued by corporations:				
Consumer	185.1	—	185.1	—
Communications	127.8	—	127.8	—
Financials	114.8	—	114.8	—
Utilities	108.9	—	108.9	—
Materials	95.5	—	95.5	—
Healthcare	94.3	—	94.3	—
Technology	80.5	—	80.5	—
Energy	48.1	—	48.1	—
Industrial	25.9	—	25.9	—
Total debt securities issued by corporations	880.9	—	880.9	—
Mortgage and asset-backed securities	694.7	—	694.7	—
Municipal obligations	254.9	—	254.9	—
Foreign government, agency and provincial obligations	2.7	—	2.7	—
Total fixed maturity investments	2,129.7	296.5	1,833.2	—
Short-term investments <sup>(1)</sup>	176.1	151.0	25.1	—
Common equity securities:				
Exchange traded funds <sup>(2)</sup>	569.7	508.1	61.6	—
Healthcare	17.1	17.1	—	—
Financials	16.3	16.3	—	—
Technology	15.1	15.1	—	—
Industrial	11.9	11.9	—	—
Communications	10.9	10.9	—	—
Consumer	10.7	10.7	—	—
Energy	3.8	3.8	—	—
Other <sup>(3)</sup>	210.6	—	210.6	—
Total common equity securities	866.1	593.9	272.2	—
Other long-term investments <sup>(4)</sup>	87.2	—	—	87.2
Total investments	\$3,259.1	\$1,041.4	\$2,130.5	\$ 87.2

<sup>(1)</sup> Short-term investments are measured at amortized cost, which approximates fair value.

<sup>(2)</sup> ETFs traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated a level 2 measurement.

<sup>(3)</sup> Consists of two investments in unit trusts that primarily invests in international equities.

<sup>(4)</sup> Excludes carrying value of \$(3.7) related to foreign currency forward contracts and \$125.3 associated with hedge funds and private equity funds for which fair value is measured at NAV using the practical expedient.



Debt Securities Issued by Corporations

The following table presents the ratings of debt securities issued by corporations held in White Mountains's investment portfolio as of September 30, 2018 and December 31, 2017:

Millions	Fair Value at	
	September 30, 2018	December 31, 2017
AAA	\$8.1	\$ 1.6
AA	83.6	42.6
A	273.3	192.5
BBB	135.0	465.2
BB	—	161.7
B	—	17.3
Debt securities issued by corporations <sup>(1)</sup>	\$500.0	\$ 880.9