WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
November 02, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2006

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of registrant as specified in its charter)

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

Harborside Financial Center, Plaza 5, Jersey City, New Jersey 07311-1114

(Address of principal executive offices including zip code)

(201) 631-3300

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o

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

As of October 31, 2006, 10,780,053 common shares with a par value of $1.00 per share were outstanding (which includes 10,000 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

($ in millions, except share and per share amounts)	**September 30, 2006 Unaudited**	**December 31, 2005**
Assets		
Fixed maturity investments, at fair value (amortized cost: $7,026.7 and $7,548.4)	**$ 7,089.2**	$ 7,582.7
Common equity securities, at fair value (cost: $844.0 and $796.5)	**1,042.0**	967.8
Short-term investments, at amortized cost (which approximates fair value)	**1,222.8**	727.8
Other investments (cost: $462.6 and $510.8)	**498.0**	588.1
Total investments	**9,852.0**	9,866.4
Cash	**210.3**	187.7
Reinsurance recoverable on unpaid losses	**2,348.0**	3,003.6
Reinsurance recoverable on unpaid losses - Berkshire Hathaway Inc.	**1,902.3**	2,022.1
Reinsurance recoverable on paid losses	**89.3**	77.0
Insurance and reinsurance premiums receivable	**1,002.3**	1,014.3
Securities lending collateral	**583.8**	674.9
Funds held by ceding companies	**467.5**	620.4
Investments in unconsolidated insurance affiliates	**529.1**	479.7
Deferred tax asset	**288.9**	341.2
Deferred acquisition costs	**333.5**	288.4
Ceded unearned premiums	**113.7**	200.7
Investment income accrued	**81.8**	93.5
Accounts receivable on unsettled investment sales	**354.1**	21.7
Other assets	**555.5**	526.5
Total assets	**$ 18,712.1**	$ 19,418.1
Liabilities		
Loss and loss adjustment expense reserves	**$ 9,114.2**	$ 10,231.2
Reserves for structured contracts	**153.5**	224.6
Unearned insurance and reinsurance premiums	**1,714.9**	1,582.0
Debt	**794.2**	779.1
Securities lending payable	**583.8**	674.9
Deferred tax liability	**241.1**	274.3
Ceded reinsurance payable	**135.6**	204.5
Funds held under reinsurance treaties	**119.6**	171.4
Accounts payable on unsettled investment purchases	**303.5**	43.4
Other liabilities	**1,178.5**	1,165.5
Preferred stock subject to mandatory redemption:		
Held by Berkshire Hathaway Inc. (redemption value $300.0)	**234.5**	214.0
Held by others (redemption value $20.0)	**20.0**	20.0
Total liabilities	**14,593.4**	15,584.9
Common shareholders equity		
Common shares at $1 par value per share authorized 50,000,000 shares;issued and outstanding 10,780,053 and 10,779,223 shares	**10.8**	10.8
Paid-in surplus	**1,715.9**	1,716.4
Retained earnings	**2,218.2**	1,899.8
Accumulated other comprehensive income, after-tax:		
Net unrealized gains on investments	**165.7**	233.9
Net unrealized foreign currency translation gains (losses)	**11.5**	(21.8)
Minimum pension liability and other	**(3.4)**	(4.0)

Unearned compensation - restricted common share awards		(1.9)
Total common shareholders equity	**4,118.7**	3,833.2
Total liabilities and common shareholders equity	**$ 18,712.1**	$ 19,418.1

See Notes to Consolidated Financial Statements

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WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Unaudited

(Millions, except per share amounts)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Revenues:				
Earned insurance and reinsurance premiums	**$ 918.9**	$ 982.4	**$ 2,773.4**	$ 2,880.8
Net investment income	**108.7**	110.8	**311.6**	389.3
Net realized investment gains	**67.8**	18.9	**202.8**	119.3
Other revenue	**90.8**	65.5	**157.1**	184.4
Total revenues	**1,186.2**	1,177.6	**3,444.9**	3,573.8
Expenses:				
Loss and loss adjustment expenses	**558.1**	929.6	**1,885.9**	2,119.1
Insurance and reinsurance acquisition expenses	**189.3**	199.7	**562.6**	572.9
Other underwriting expenses	**122.8**	104.4	**361.5**	352.9
General and administrative expenses	**55.8**	40.8	**125.5**	142.0
Accretion of fair value adjustment to loss and loss adjustment expense reserves	**6.6**	9.1	**18.2**	28.1
Interest expense on debt	**12.9**	11.5	**36.5**	34.8
Interest expense - dividends on preferred stock subject to mandatory redemption	**7.6**	7.6	**22.7**	22.7
Interest expense - accretion on preferred stock subject to mandatory redemption	**7.3**	5.7	**20.6**	16.1
Total expenses	**960.4**	1,308.4	**3,033.5**	3,288.6
Pre-tax income (loss)	**225.8**	(130.8)	**411.4**	285.2
Income tax benefit (provision)	**(69.3)**	55.6	**(66.9)**	(56.1)
Income (loss) before equity in earnings of unconsolidated affiliates	**156.5**	(75.2)	**344.5**	229.1
Equity in earnings of unconsolidated insurance affiliates	**5.6**	8.9	**29.4**	27.7
Net income (loss)	**162.1**	(66.3)	**373.9**	256.8
Change in net unrealized gains and losses for investments held	**151.8**	(66.9)	**55.6**	.3
Change in foreign currency translation and other	**1.0**	1.6	**33.9**	(67.0)
Recognition of net unrealized gains and losses for investments sold	**(39.2)**	(55.5)	**(114.6)**	(127.6)
Comprehensive net income (loss)	**$ 275.7**	$ (187.1)	**$ 348.8**	$ 62.5
Basic earnings (loss) per share	**$ 15.05**	$ (6.16)	**$ 34.72**	$ 23.87
Diluted earnings (loss) per share	**15.01**	(6.16)	**34.61**	23.73
Dividends declared and paid per common share	**$ 2.00**	$ 2.00	**$ 6.00**	$ 6.00

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY
Unaudited

(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income, after-tax	Unearned compensation
Balances at January 1, 2006	$ 3,833.2	$ 1,727.2	$ 1,899.8	$ 208.1	$ (1.9)
Net income	373.9		373.9		
Other comprehensive loss, after-tax	(25.1)			(25.1)	
Cumulative effect adjustment - hybrid instruments			9.2	(9.2)	
Cumulative effect adjustment - share-based compensation		(1.9)			1.9
Dividends declared on common shares	(64.7)		(64.7)		
Issuances of common shares	.1	.1			
Amortization of restricted common share awards	1.3	1.3			
Balances at September 30, 2006	**$ 4,118.7**	**$ 1,726.7**	**$ 2,218.2**	**$ 173.8**	**$**

(Millions)	Common shareholders equity	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income, after-tax	Unearned compensation
Balances at January 1, 2005	$ 3,883.9	$ 1,730.0	$ 1,695.9	$ 462.2	$ (4.2)
Net income	256.8		256.8		
Other comprehensive income, after-tax	(194.3)			(194.3)	
Dividends declared on common shares	(64.6)		(64.6)		
Changes to accrued option expense	(.6)	(.6)			
Issuances of common shares	.3	.3			
Repurchases and retirements of common shares	(.5)	(.4)	(.1)		
Amortization of restricted common share awards	1.8				1.8
Balances at September 30, 2005	$ 3,882.8	$ 1,729.3	$ 1,888.0	$ 267.9	$ (2.4)

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(Millions)	Nine Months Ended September 30, 2006	2005
Cash flows from operations:		
Net income	**$ 373.9**	$ 256.8
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized investment gains	**(202.8)**	(119.3)
Other operating items:		
Net change in loss and loss adjustment expense reserves	**(833.7)**	1,018.8
Net change in reinsurance recoverable on paid and unpaid losses	**519.5**	(1,132.3)
Net change in unearned insurance and reinsurance premiums	**168.2**	93.1
Net change in reserves for structured contracts	**(71.1)**	(107.0)
Net change in funds held by ceding companies	**157.5**	206.0
Net change in deferred acquisition costs	**(50.0)**	(17.7)
Net change in funds held under reinsurance treaties	**(49.9)**	38.7
Net change in insurance and reinsurance premiums receivable	**16.0**	(164.6)
Net change in other assets and liabilities, net	**33.5**	(104.4)
Net cash provided from (used for) operations	**61.1**	(31.9)
Cash flows from investing activities:		
Net change in short-term investments	**(472.4)**	(21.4)
Sales of fixed maturity investments	**3,398.4**	4,345.9
Maturities, calls and paydowns of fixed maturity investments	**613.4**	722.9
Sales of common equity securities	**557.7**	409.1
Sales of other investments	**49.9**	114.8
Sales of consolidated affiliate, net of cash sold	**121.1**	180.6
Sale of renewal rights	**32.0**	
Purchases of other investments	**(80.6)**	(126.9)
Purchases of common equity securities	**(435.8)**	(335.9)
Purchases of fixed maturity investments	**(3,671.6)**	(5,286.6)
Net change in unsettled investment purchases and sales	**(72.2)**	124.9
Net acquisitions of property and equipment	**(11.9)**	(36.4)
Net cash provided from investing activities	**28.0**	91.0
Cash flows from financing activities:		
Issuance of debt	**65.0**	
Repayment of debt	**(50.0)**	
Cash dividends paid to common shareholders	**(64.7)**	(64.6)
Cash dividends paid to preferred shareholders	**(22.7)**	(22.7)
Proceeds from issuances of common shares	**.1**	.3
Net cash used for financing activities	**(72.3)**	(87.0)
Effect of exchange rate changes on cash	**5.8**	(9.8)
Net increase (decrease) in cash during the period	**22.6**	(37.7)
Cash balances at beginning of period	**187.7**	243.1
Cash balances at end of period	**$ 210.3**	$ 205.4
Supplemental cash flows information:		
Interest paid	**$ 23.9**	$ 21.7

Net Federal income taxes received	**17.5**	8.6

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the Company or the Registrant) and its subsidiaries (collectively, White Mountains) and have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The Company is an exempted Bermuda limited liability company with its headquarters located at the Bank of Butterfield Building, 42 Reid Street, 6th Floor, Hamilton HM 12, Bermuda. The Company s principal executive office is located at Harborside Financial Center, Plaza 5, Jersey City, New Jersey 07311-1114 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. White Mountains reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations, as defined below.

The OneBeacon segment consists of the OneBeacon Insurance Group, Ltd. family of companies (collectively OneBeacon), which are U.S.-based property and casualty insurance writers, substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents and brokers. OneBeacon was acquired by White Mountains in 2001 (the OneBeacon Acquisition). During the third quarter of 2006, OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.) filed a registration statement on Form S-1 (the OneBeacon S-1) with the Securities and Exchange Commission (SEC) for a proposed initial public offering of up to 20 million of its common shares (the Offering), which represents 20% of the total common shares of OneBeacon Ltd. before an option for the underwriters to purchase an additional 3 million shares. In connection with the Offering, White Mountains undertook an internal reorganization (the Reorganization) and formed OneBeacon Ltd. for the purpose of holding certain of its property and casualty insurance businesses. As a result of the Reorganization, certain of White Mountains businesses that have been historically reported as part of its Other Operations segment, including the legal entities that issued the Senior Notes and mandatorily redeemable preferred stock, are now owned by OneBeacon Ltd., and accordingly have been included in the OneBeacon segment. In addition, certain other businesses of White Mountains that will not be held by OneBeacon Ltd. following the Offering that have been historically reported as part of its OneBeacon segment are included in the Other Operations segment.

The White Mountains Re segment consists of White Mountains Re Group, Ltd. and its subsidiaries (collectively White Mountains Re). White Mountains Re offers reinsurance capacity for property, liability, accident & health, aviation and certain marine exposures on a worldwide basis through its reinsurance subsidiaries, Folksamerica Reinsurance Company (Folksamerica Re , a wholly-owned subsidiary of Folksamerica Holding Company, Folksamerica Holdings), which has been a wholly-owned subsidiary of White Mountains since 1998, and Sirius International Insurance Corporation (Sirius International), which has been a wholly-owned subsidiary of White Mountains since 2004. White Mountains reinsurance operations also include its wholly-owned subsidiaries Scandinavian Reinsurance Company Ltd. (Scandinavian Re), a reinsurance company that has been in run-off since 2002, as well as White Mountains Underwriting Limited and White Mountains Re Underwriting Services Ltd. (collectively, WMU). WMU is an underwriting advisory company specializing in international property and marine excess reinsurance.

The Esurance segment consists of Esurance Holdings, Inc. and its subsidiaries (collectively, Esurance). Esurance, which has been a unit of White Mountains since 2000, and wholly-owned since 2006, sells personal auto insurance directly to consumers online and through select online agents.

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its newly formed weather risk management business through its new subsidiary, Galileo Weather Risk Management, Ltd. (Galileo), its newly formed variable annuity reinsurance business through its new subsidiary, White Mountains Life Re Limited, as well as the International American Group, Inc. (the International American Group). The International American Group, which was acquired by White Mountains in 1999, consists of American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (British Insurance Company), both of which are in run-off. The Other Operations segment also includes White Mountains investments in warrants to purchase common shares of both Montpelier Re Holdings, Ltd. (Montpelier Re) and Symetra Financial Corporation (Symetra).

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains and are of a normal recurring nature. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company s 2005 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company s 2005 Annual Report on Form 10-K for a complete discussion regarding White Mountains significant accounting policies.

Weather Derivative Contracts

During 2006, White Mountains entered into the weather risk management business through its newly formed subsidiary, Galileo. Galileo offers weather risk management products, which, at September 30, 2006, were all in the form of derivative financial instruments. All weather derivatives are recognized as either assets or liabilities in the balance sheet at fair value. Fair values for exchange traded 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 fair values. Fair values 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.

Galileo s weather derivatives are not designed to, and do not meet the GAAP criteria for hedge accounting. Accordingly, changes in fair value of exchange traded contracts are recognized as gains or losses within the income statement. The gain or loss at the inception date for contracts valued based upon internal pricing models are deferred, with changes in fair value subsequent to inception recognized currently as gains or losses within the income statement.

At September 30, 2006, White Mountains recognized a net asset of $3.0 million for the fair value of exchange traded weather derivative contracts and a net liability of $8.8 million for weather derivative contracts valued based on internal pricing models. The net liability balance includes $5.2 million of deferred gains. Galileo has also received consideration of $5.2 million on its derivative contracts outstanding. For the three and nine months ended September 30, 2006, Galileo recognized $1.5 million of net losses on its weather derivatives portfolio.

As of September 30, 2006, all of Galileo s weather derivative contracts mature in less than one year.

Variable Annuity Reinsurance

In August 2006, White Mountains entered into an agreement to reinsure death and living benefit guarantees associated with certain variable annuities issued in Japan.

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, guaranteed minimum death benefits (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. GMDBs are accounted for 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 SOP). The liability for the reinsured GMDB contracts has been calculated using the methodology prescribed within the SOP for variable annuity contracts and based on investment returns, mortality, surrender rates and other assumptions.

The valuation of these liabilities involve 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.

White Mountains has entered into derivative contracts that are designed to economically hedge against changes in the fair value of living and death benefit liabilities. The derivatives include futures and over-the-counter option contracts on interest rates, major equity indices, and foreign currencies. All derivative instruments are recorded as assets or liabilities at fair value on the balance sheet. 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.

Recently Adopted Accounting Pronouncements

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (FAS) No. 123 (Revised), Share-Based Payment (FAS 123R), which is a revision to FAS 123 and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, including FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans (FIN 28). Effective January 1, 2006, White Mountains adopted FAS 123R to account for its share-based compensation under the modified prospective method of adoption. Under this method of adoption, FAS 123R applies to new grants of share-based awards, awards modified after the effective date and the remaining portion of the fair value of the unvested awards at the adoption date. The unvested portion of White Mountains incentive stock options (Options), restricted common share awards (Restricted Shares) and performance share awards, as well as new awards will be subject to the fair value measurement and recognition requirements of FAS 123R.

White Mountains share-based compensation plans consist primarily of performance shares with limited use of Restricted Shares and a one-time grant of Options in 2000. Prior to adoption of FAS 123R, White Mountains accounted for these plans under the recognition and measurement principles of APB 25 and FIN 28, and adopted the disclosure provisions of FAS 123.

Under APB 25 and FIN 28, the liability for the compensation cost for performance share awards was measured each period based upon the current market price of the underlying common shares. The compensation cost recognized for White Mountains Restricted Shares under APB 25 was based upon fair value of the award at the date of issuance and was charged to compensation expense ratably over the service period. Forfeitures were recognized as they occurred. Upon adoption of FAS 123R, an estimate of future forfeitures was incorporated into the determination of the compensation cost for performance shares and Restricted Shares. The effect of this change was immaterial.

White Mountains Options have an escalating exercise price and vest on a pro rata basis over the service period. As a result, the Company s outstanding Options were accounted for as variable awards under FIN 28, with compensation expense charged to earnings over the service period based on the intrinsic value of the underlying common shares and with forfeitures recognized as they occurred. Upon 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 Options.

The following table illustrates the pro forma effect on net income and earnings per share for the three and nine months ended September 30, 2005 as if the Company had applied the fair value recognition provisions of FAS 123 to its Options at those times. The fair value of each option award at the grant date (February 28, 2000) 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.

Millions, except per share amounts	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income (loss), as reported	$ (66.3)	$ 256.8
Add: Option income included in reported net income under APB 25 and FIN 28	(.7)	(.6)
Less: Option expense determined under FAS 123		(.1)
Net income, pro forma	$ (67.0)	$ 256.1
Earnings per share:		
Basic - as reported	$ (6.16)	$ 23.87
Basic - pro forma	(6.23)	23.80
Diluted - as reported	$ (6.16)	$ 23.73
Diluted - pro forma	(6.23)	23.72

Performance Shares

For purposes of this presentation, performance shares include both performance shares granted under White Mountains Long-Term Incentive Plan and performance shares and phantom performance shares granted under subsidiary performance plans.

The following summarizes performance share activity for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2006		**2005**		**2006**		**2005**	
Millions, except share amounts	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**	**Target Performance Shares Outstanding**	**Accrued Expense**
Beginning of period	**185,363**	**$ 57.6**	222,690	$ 138.3	**183,031**	**$ 100.5**	368,646	$ 340.0
Payments and deferrals (1) (2)					**(64,100)**	**(57.0)**	(212,611)	(234.5)
Forfeitures and cancellations			(24,350)	(7.7)	**(4,753)**	**(1.8)**	(25,785)	(9.2)
New awards			15,527		**71,185**		83,617	
Expense recognized		**10.0**		(0.4)		**25.9**		33.9
Ending September 30,	**185,363**	**$ 67.6**	213,867	$ 130.2	**185,363**	**$ 67.6**	213,867	$ 130.2

(1) Performance share payments in 2006 for the 2003-2005 performance cycle ranged from 142% to 181% of target.

(2) Performance share payments in 2005 for the 2002-2004 performance cycle ranged from 160% to 180% of target.

The following summarizes performance shares outstanding and accrued performance share expense at September 30, 2006 for each performance cycle:

Millions, except share amounts	**Target Performance Shares Outstanding**	**Accrued Expense**
Performance cycle:		
2004 - 2006	63,300	$ 39.5
2005 - 2007	55,631	18.1
2006 - 2008	71,185	11.8
Sub-total	190,116	$ 69.4
Assumed forfeitures	(4,753)	(1.8)
Total at September 30, 2006	**185,363**	**$ 67.6**

If 100% of the outstanding performance shares had been vested on September 30, 2006, the total additional compensation cost to be recognized would have been $50.7 million, based on current accrual factors (common share price and payout assumptions).

All performance shares earned for the 2003-2005 and the 2002-2004 performance cycles were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company or its subsidiaries.

Restricted Shares

The following outlines the unrecognized compensation cost associated with the outstanding Restricted Share awards for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2006		**2005**		**2006**		**2005**	
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**	**Restricted Shares**	**Unamortized Grant Date Fair Value**
Non-vested, beginning of period,	**10,000**	**$ 1.0**	14,000	$ 3.1	**13,000**	**$ 1.9**	15,000	$ 4.2
Granted								
Vested					**(3,000)**		(1,000)	
Forfeited			(1,000)	(.3)			(1,000)	(.3)
Expense recognized		**(.4)**		(.4)		**(1.3)**		(1.5)
Non-vested at September 30,	**10,000**	**$ .6**	13,000	$ 2.4	**10,000**	**$ .6**	13,000	$ 2.4

The 10,000 Restricted Shares outstanding at September 30, 2006 are scheduled to cliff vest on February 23, 2007. The unrecognized compensation cost of $.6 million at September 30, 2006 is expected to be recognized over the remaining vesting period. Vesting is dependent on continuous service by the employee throughout the award period. Upon vesting, all restrictions initially placed upon the common shares lapse.

Upon adopting FAS 123R, 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.

Options

The Company issued 81,000 Options to certain key employees on February 28, 2000 (the grant date). There have been no further Option issuances. The Options were issued at an exercise price equal to the market price of the underlying common shares on February 27, 2000. The exercise price escalates by 6% per annum, compounded daily over the life of the Options. The Options vest ratably over a ten-year service period.

The following summarizes the Company s Option activity for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
Millions, except share and per share amounts	**2006**	**2005**	**2006**	**2005**
Opening balance - outstanding Options	**33,450**	44,730	**34,280**	46,530
Vested during period				
Forfeited	**(1,200)**		**(1,200)**	
Exercised		(450)	**(830)**	(2,250)
Ending balance - outstanding Options	**32,250**	44,280	**32,250**	44,280
Outstanding Options - exercisable	**8,250**	8,280	**8,250**	8,280
Exercise price - outstanding Options at beginning of period	**$ 153.65**	$ 144.95	**$ 149.25**	$ 140.80
Intrinsic value of Options exercised	**$**	$ .2	**$ .3**	$ 1.1
Exercise price - outstanding Options at end of period	**$ 155.93**	$ 147.10	**$ 155.93**	$ 147.10
Compensation expense (income)	**$**	$ (.7)	**$**	$ (.6)

The total in-the-money value of all outstanding Options and those Options currently exercisable at September 30, 2006 was $11.0 million and $2.8 million, respectively. The remaining term of all outstanding Options is 41 months. White Mountains expects approximately 6,000 Options to become exercisable in 2006 and will issue common shares when the Options are exercised.

On October 18, 2006, in connection with the Offering, OneBeacon Ltd. issued 1,420,000 options to acquire its common shares to certain members of OneBeacon Ltd. management. The options have a 5 ½ year term and a $30.00 per share strike price. The options will not be exercisable if OneBeacon Ltd.   s Offering is not consummated within 60 days of the grant date.

Hybrid Financial Instruments

On February 16, 2006, the FASB issued FAS No. 155,   Accounting for Certain Hybrid Instruments, an amendment to Statement Nos. 133 and 140   (FAS 155   ). The Statement eliminates the requirement to bifurcate financial instruments with embedded derivatives if the holder of the instrument elects to account for the entire instrument on a fair value basis. Changes in fair value are recorded as realized gains. The fair value election may be applied upon adoption of the statement for hybrid instruments that had been bifurcated under FAS 133 prior to adoption. The Statement is effective for fiscal years commencing after September 15, 2006 with early adoption permitted as of the beginning of an entity   s fiscal year.

White Mountains has adopted FAS 155 effective January 1, 2006. Prior to adopting this statement, White Mountains had bifurcated the equity conversion option in its investment in convertible bonds. Changes in the fair value of the host instrument, the convertible bonds, were recorded as unrealized gains (losses) on investments while changes in the fair value of the equity conversion option were recorded as realized investment gains (losses). At December 31, 2005, White Mountains had recorded $283.5 million related to the host instrument in fixed maturity investments and $99.8 million for the equity conversion option in other investments. Upon adopting FAS 155, White Mountains recorded an adjustment of $9.2 million to reclassify net unrealized gains on investments (gross gains of $9.8 million and gross losses of $.6 million) to opening retained earnings to reflect the cumulative effect of adoption. At September 30, 2006, White Mountains had $389.1 million of convertible bonds recorded in fixed maturity investments.

Recent Accounting Pronouncements

Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers   Accounting for Defined Benefit Pension and Other Postretirement Plans* which amends FASB Statement Nos. 87, 88, 106 and 132(R). The Statement requires an employer that sponsors a defined benefit plan to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation (for defined benefit pension plans) or the accumulated benefit obligation (for other postretirement benefit plans) in its statement of financial position. The Statement also requires recognition of amounts previously deferred and amortized under FAS 87 and FAS 106 in other comprehensive income in the period in which they occur. Under the new Statement, plan assets and obligations must be measured as of the fiscal year end. The Statement is effective for fiscal years beginning after December 15, 2006. White Mountains does not expect adoption to have a significant effect on its financial condition, results of operations or cash flows.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157   ). The Statement provides a revised definition of fair value and guidance on the methods used to measure fair value. The Statement also expands financial statement disclosure requirements for fair value information. The Statement establishes a fair value hierarchy that distinguishes between assumptions based on market data from independent sources (observable inputs   ) and a reporting entity   s internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs   ). The fair value hierarchy in FAS 157 prioritizes inputs within three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). The guidance in FAS 157 is applicable to derivatives as well as other financial instruments measured at fair value and nullifies the guidance in EITF 02-3, FAS 133 and FAS 155 that provided for the deferral of gains at the date of initial measurement. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application allowed for entities that have not issued financial statements in the fiscal year of adoption. White Mountains has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FAS Statement No. 109, Accounting for Income Taxes. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and requires additional disclosures. 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, a company should presume the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. White Mountains does not expect the adoption to have a material effect on its financial condition, results of operations or cash flows.

Note 2. Significant Transactions

On August 3, 2006, White Mountains Re sold its wholly-owned subsidiary, Sirius America Insurance Company (Sirius America), to an investor group led by Lightyear Capital for $138.8 million in cash, which was $16.9 million above the book value of Sirius America at the time of the sale. As part of the transaction, White Mountains acquired an equity interest of approximately 17% in the acquiring entity and accounts for its remaining interest in Sirius America on the equity method. White Mountains recognized a gain of $14 million ($9.1 million after tax) on the sale through other revenues in the third quarter of 2006 and has deferred $2.9 million ($1.9 million after tax) of the gain related to its remaining equity interest in Sirius America.

On August 16, 2006, OneBeacon signed a binding agreement to transfer to QBE Insurance Group, Ltd. (QBE) certain assets and the right to renew existing policies of Agri, a division of OneBeacon that provides commercial farm and ranch and commercial agricultural products. The gross written premiums for Agri totaled $85.7 million in 2005. The sale closed on September 29, 2006 for $32.0 million in cash and resulted in the recognition of a pre-tax gain of $30.4 million in the third quarter. In connection with this sale, OneBeacon has entered into agreements under which, at the option of QBE, OneBeacon will write the policies of Agri on a direct basis and cede 100% of this business to QBE.

Note 3. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense (LAE) reserve activities of White Mountains insurance subsidiaries for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2006**	**2005**	**2006**	**2005**
Gross beginning balance	**$ 9,775.3**	$ 9,535.8	**$ 10,231.2**	$ 9,398.5
Less beginning reinsurance recoverable on unpaid losses	**(4,664.2)**	(4,403.5)	**(5,025.7)**	(3,797.4)
Net loss and LAE reserves	**5,111.1**	5,132.3	**5,205.5**	5,601.1
Loss and LAE reserves sold - Sirius America	**(124.1)**		**(124.1)**	
Loss and LAE reserves sold - NFU		(95.9)		(95.9)
Loss and LAE reserves sold - TPIC		(11.8)		(11.8)
Loss and LAE incurred relating to:				
Current year losses	**529.2**	884.4	**1,652.1**	2,075.2
Prior year losses	**28.9**	45.2	**233.8**	43.9
Total incurred loss and LAE	**558.1**	929.6	**1,885.9**	2,119.1
Accretion of fair value adjustment to loss and LAE reserves	**6.6**	9.1	**18.2**	28.1
Foreign currency translation adjustment to loss and LAE reserves	**3.1**	(3.2)	**23.0**	(31.4)
Loss and LAE paid relating to:				
Current year losses	**(229.2)**	(217.2)	**(600.2)**	(509.3)
Prior year losses	**(461.7)**	(464.3)	**(1,544.4)**	(1,821.3)
Total loss and LAE payments	**(690.9)**	(681.5)	**(2,144.6)**	(2,330.6)
Net ending balance	**4,863.9**	5,278.6	**4,863.9**	5,278.6
Plus ending reinsurance recoverable on unpaid losses	**4,250.3**	4,824.0	**4,250.3**	4,824.0
Gross ending balance	**$ 9,114.2**	$ 10,102.6	**$ 9,114.2**	$ 10,102.6

White Mountains experienced $28.7 million of net unfavorable development on prior accident year loss reserves during the three months ended September 30, 2006, which was primarily due to $9.4 million of adverse development at OneBeacon, which mostly related to prior year catastrophe losses and $12.0 million of adverse development at Folksamerica Re on business assumed through a prior acquisition. White Mountains experienced $233.6 million of net unfavorable development on prior accident year loss reserves during the nine months ended September 30, 2006, which in addition to the items listed above, primarily related to adverse development on loss and LAE reserves previously established for hurricanes Katrina, Rita and Wilma.

In June 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.

Under the terms of Folksamerica Re s 2005 quota share reinsurance treaty with Olympus Reinsurance Company (Olympus), $139 million of these losses, net of reinstatement premiums, from hurricanes Katrina, Rita and Wilma recorded in the second quarter of 2006 were ceded to Olympus. However, Folksamerica Holdings entered into an indemnity agreement on June 16, 2006 with Olympus (the Indemnity Agreement) under which it agreed to reimburse Olympus for up to $137 million of these losses, which has been recorded as loss and LAE expense during the second quarter of 2006.

During the three and nine months ended September 30, 2005, White Mountains experienced $45.2 million and $43.9 million, respectively, of unfavorable development on prior accident year loss reserves. The majority of the adverse development resulted from a ground-up study of Folksamerica Re s exposure to asbestos claims that was completed in the 2005 third quarter. The study examined losses incurred by all insureds that had reported over $250,000 of asbestos claims to Folksamerica Re and a significant sample of all other insureds with reported asbestos claims of less than $250,000. Comparing estimates generated by the study to Folksamerica Re s exposed limits by underwriting year led to an increase of approximately $50 million in IBNR during the third quarter of 2005.

Substantially all of this increase was offset by favorable activity recorded in the third quarter of 2005 related to the 2005 and 2004 underwriting years.

In connection with purchase accounting for the acquisitions of OneBeacon and Sirius International, White Mountains was required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on OneBeacon s and Sirius International 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 $6.6 million and $18.2 million of such charges for the three and nine months ended September 30, 2006, respectively, and $9.1 million and $28.1 million of such charges for the three and nine months ended September 30, 2005, respectively.

As a result of a re-evaluation during the first quarter of 2006 of the remaining run-off contracts at Scandinavian Re, White Mountains Re reduced its unallocated loss adjustment expense reserve by approximately $6.5 million and has modified the accretion of its net fair value adjustment established in purchase accounting. The change in accretion, which will be made prospectively over the remaining amortization period, resulted in approximately $.9 million of expense for the first nine months of 2006 compared to an expense of $8.6 million for the comparable period in the prior year.

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 in the event that the reinsurer does not honor its obligations under reinsurance contracts.

Reinsurance Protection

Effective July 1, 2006, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2007. Under that program, which provides substantially the same coverage as the prior year, the first $200 million of losses resulting from any single catastrophe are retained by OneBeacon and losses from a single event in excess of $200 million and up to $850 million are reinsured for 100% of the loss. 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.

During the first quarter of 2006, Folksamerica Re purchased a series of Second Event Industry Loss Warranty Covers (ILW) for a total annual cost of $19 million. This reinsurance protection has a total limit of $150 million from multiple retrocessionaires. The ILW was purchased to protect Folksamerica Re s balance sheet from the adverse impact of the occurrence of two significant natural peril catastrophic events in the United States during 2006 (Loss Events). Coverage is not dependent on the order in which the Loss Events occur, and Folksamerica Re can only recover losses that it actually incurs as a result of the Loss Events.

OneBeacon

At September 30, 2006, OneBeacon had $6.3 million of reinsurance recoverables on paid losses and $3,169.9 million (gross of $243.1 million in purchase accounting adjustments) that will become recoverable if claims are paid in accordance with current reserve estimates. The collectibility of balances due from OneBeacon s reinsurers is critical to OneBeacon s financial strength because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. As a result, uncollectible amounts have historically not been significant. The following table provides a listing of OneBeacon s top reinsurers based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurers A.M. Best ratings.

Top Reinsurers ($ in millions)	Balance at September 30, 2006	% of Total	A.M. Best Rating (1)
Subsidiaries of Berkshire (NICO and GRC) (2)	$ 2,237.5	76 %	A++
Munich Reinsurance America (formerly America Reinsurance Company)	60.9	2	A
Liberty Mutual Insurance Group and subsidiaries (3)	55.2	2	A
Nichido (formerly Tokio Fire and Marine Insurance Company)	51.9	2	A++
Swiss Re	24.2	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).

(2) Includes $404.0 million of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover (as defined below) if they are unable to collect from third party reinsurers. OneBeacon also has an additional $398.1 million of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) At September 30, 2006, OneBeacon had assumed balances receivable and expenses receivable of approximately $17.5 million under its renewal rights agreement with Liberty Mutual Insurance Group (Liberty Mutual), which expired on October 31, 2003. In the event of a Liberty Mutual insolvency, OneBeacon has the right to offset these balances against its reinsurance recoverable due from Liberty Mutual.

In connection with the OneBeacon Acquisition, the seller caused OneBeacon to purchase two reinsurance contracts: a full risk-transfer cover from National Indemnity Company (NICO) for up to $2.5 billion in old asbestos and environmental (A&E) claims and certain other exposures (the NICO Cover) and an adverse development cover (the GRC Cover) from General Reinsurance Corporation (GRC) for up to $570.0 million, comprised of $400.0 million of adverse development on losses occurring in years 2000 and prior in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, 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 Technical Matter Document No. D-54 (EITF Topic D-54). NICO and GRC are wholly-owned subsidiaries of Berkshire Hathaway Inc. (Berkshire).

Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables (Third Party Recoverables) from certain of OneBeacon s third party reinsurers in existence at the time the NICO Cover was executed. As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. White Mountains estimates that on an incurred basis, net of Third Party Recoverables, as of September 30, 2006 it has used approximately $2.1 billion of the coverage provided by NICO. Approximately $807.0 million of these incurred losses have been paid by NICO through September 30, 2006. At September 30, 2006, $27.4 million of the $2.1 billion of utilized coverage from NICO related to uncollectible Third Party Recoverables. To the extent that actual experience differs from White Mountains estimate of ultimate A&E losses and Third Party Recoverables, future losses could utilize some or all of the protection remaining under the NICO 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 its 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 own investments. This cost, if any, is expected to be small.

White Mountains Re

At September 30, 2006, White Mountains Re had $82.6 million of reinsurance recoverables on paid losses and $1,294.1 million that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve White Mountains Re of its obligation to its ceding companies, the collectibility of balances due from its reinsurers is critical to White Mountains Re s financial strength. White Mountains Re monitors the financial strength of certain reinsurers on an ongoing basis. Amounts due from certain of its reinsurers, including Olympus, London Life & General Reinsurance Company Ltd. and London Life & Casualty Reinsurance Corp. (collectively London Life) and Imagine Insurance Company, Limited (Imagine Re), are fully collateralized through funds held, letters of credit or trust agreements.

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

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Top Reinsurers ($ in millions)	Balance at September 30, 2006	% of Total	A.M. Best Rating (1)	% Collateralized
Olympus(2)	$ 794.4	58 %	N/A	100 %
Imagine Re	186.2	14	A-	100 %
London Life	118.9	9	A	100 %
Subsidiaries of Berkshire	70.2	5	A++	0 %
St. Paul Travelers	60.2	4	A+	0 %

(1) A.M. Best ratings as detailed above are: A++ (Superior, which is the highest of fifteen ratings), A (Excellent, which is the third highest of fifteen ratings) and A- (Excellent, which is the fourth highest of fifteen ratings).

(2) Gross of amounts due to Olympus under the Indemnity Agreement.

At September 30, 2006, White Mountains Re had $794.4 million of reinsurance recoverables from Olympus. White Mountains Re s reinsurance recoverables from Olympus are fully collateralized in the form of assets in a trust, funds held and offsetting balances payable.

Effective January 1, 2006, Sirius International no longer cedes any of its business to Olympus and Folksamerica Re renewed its quota-share reinsurance arrangements with Olympus on modified terms. Under its revised arrangements, for an override commission on premiums ceded, Folksamerica Re will cede up to 35% of its 2006 underwriting year short-tailed excess of loss business, mainly property and marine, to Olympus and a newly-formed reinsurer, Helicon Reinsurance Company, Ltd. (Helicon). Olympus and Helicon share approximately 56% and 44%, respectively, in the 2006 underwriting year cession. White Mountains Re cannot guarantee that Olympus and/or Helicon will have sufficient capital to pay amounts owed resulting from one or more future catastrophes.

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 the three and nine months ended September 30, 2006 and 2005 consisted of the following:

Millions	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Investment income:				
Fixed maturity investments	**$ 88.6**	$ 81.8	**$ 256.9**	$ 248.1
Short-term investments	**14.6**	16.7	**36.4**	37.8
Common equity securities	**7.5**	4.0	**25.1**	52.4
Other	**1.2**	11.4	**3.2**	60.8
Total investment income	**111.9**	113.9	**321.6**	399.1
Less investment expenses	**(3.2)**	(3.1)	**(10.0)**	(9.8)
Net investment income, pre-tax	**$ 108.7**	$ 110.8	**$ 311.6**	$ 389.3

During the first quarter of 2005, Montpelier Re declared a special dividend of $5.50 per share, payable to holders of both its common shares and warrants to acquire its common shares. White Mountains recorded pre-tax investment income of $74.1 million in the first quarter for this special dividend, of which $34.7 million (relating to its common share investment) was included in net investment income from common equity securities and $39.4 million (relating to its warrant investment) was included in net investment income from other investments. White Mountains also recorded in pre-tax investment income Montpelier Re s regular quarterly dividend of $1.0 million and $3.0 million for the three and nine months ended September 30, 2006, respectively, and $4.9 million and $14.7 million for the three and nine months ended September 30, 2005, respectively.

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

Millions	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Fixed maturity investments	**$ 3.9**	$ 10.9	**$ 25.6**	$ 43.1
Common equity securities	**36.2**	55.7	**86.4**	120.9
Other investments	**27.7**	(47.7)	**90.8**	(44.7)
Net realized investment gains, pre-tax	**$ 67.8**	$ 18.9	**$ 202.8**	$ 119.3

White Mountains owns 7,172,358 Montpelier Re warrants. The Montpelier Re warrants have an exercise price of $16.67 per share (as adjusted for stock splits) and are exercisable until December 2011. In accordance with FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), White Mountains accounts for its Montpelier Re warrants at fair value as a component of other investments, and records changes in fair value through the income statement as realized investment gains or losses. White Mountains recorded investment gains of $10.2 million and $3.3 million for the three and nine months ended September 30, 2006, and investment losses of $60.9 million and $75.9 million for the three and nine months ended September 30, 2005 related to its Montpelier Re warrants.

During the third quarter of 2006, White Mountains sold 5.4 million shares of its common stock investment in Montpelier Re, for proceeds of $104.2 million resulting in a realized gain of $5.5 million.

The following table summarizes the carrying value of White Mountains investment in Montpelier Re as of September 30, 2006 and December 31, 2005:

Millions	September 30, 2006 Shares	Fair Value	December 31, 2005 Shares	Fair Value
Montpelier Re				
Common shares	0.9	**$ 17.7**	6.3	$ 115.9
Warrants to acquire common shares	7.2	**53.9**	7.2	50.6
Total investment in Montpelier Re	8.1	**$ 71.6**	13.5	$ 166.5

The components of White Mountains ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated affiliates at September 30, 2006 and December 31, 2005 were as follows:

Millions	September 30, 2006	December 31, 2005
Investment securities:		
Gross unrealized investment gains	**$ 311.8**	$ 368.4
Gross unrealized investment losses	**(65.4)**	(68.8)
Net unrealized gains from investment securities	**246.4**	299.6
Net unrealized gains (losses) from investments in unconsolidated affiliates	**6.5**	32.5
Total net unrealized investment gains, before tax	**252.9**	332.1
Income taxes attributable to such gains	**(87.2)**	(98.2)
Total net unrealized investment gains, after-tax	**$ 165.7**	$ 233.9

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains fixed maturity investments as of September 30, 2006 and December 31, 2005, were as follows:

Millions	September 30, 2006 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government obligations	$ 1,642.1	$ 9.8	$ (13.1)	$	$ 1,638.8
Debt securities issued by industrial corporations	2,546.8	34.2	(27.7)	3.7	2,557.0
Municipal obligations	44.4	.6	(.3)		44.7
Asset-backed securities	2,139.5	3.8	(8.2)	.2	2,135.3
Foreign government obligations	611.6	3.6	(4.3)	36.7	647.6
Preferred stocks	42.3	17.3	(.3)	6.5	65.8
Total fixed maturity investments	**$ 7,026.7**	$ 69.3	$ (53.9)	$ 47.1	**$ 7,089.2**

Millions	December 31, 2005 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government obligations	$ 1,785.9	$ 6.6	$ (16.5)	$	$ 1,776.0
Debt securities issued by industrial corporations	2,843.4	78.2	(28.5)	(25.1)	2,868.0
Municipal obligations	66.6	.9	(.6)		66.9
Asset-backed securities	2,124.5	3.4	(16.1)	5.1	2,116.9
Foreign government obligations	683.0	8.0	(3.1)	.2	688.1
Preferred stocks	45.0	17.8	(.2)	4.2	66.8
Total fixed maturity investments	$ 7,548.4	$ 114.9	$ (65.0)	$ (15.6)	$ 7,582.7

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of White Mountains common equity securities and other investments as of September 30, 2006 and December 31, 2005, were as follows:

Millions	September 30, 2006 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	**$ 844.0**	$ 202.3	$ (7.5)	$ 3.2	**$ 1,042.0**
Other investments	**$ 462.6**	$ 40.2	$ (4.0)	$ (.8)	**$ 498.0**

Millions	December 31, 2005 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	$ 796.5	$ 175.3	$ (2.9)	$ (1.1)	$ 967.8
Other investments	$ 510.8	$ 78.2	$ (.9)	$	$ 588.1

Impairment

Temporary losses on investment securities are recorded as unrealized losses. Temporary losses do not impact net income and earnings per share but serve to reduce comprehensive net income, shareholders equity and tangible book value. Unrealized losses subsequently identified as other-than-temporary impairments are recorded as realized losses. Other-than-temporary impairments previously recorded as unrealized losses do not impact comprehensive net income, shareholders equity and tangible book value but serve to reduce net income and earnings per share.

White Mountains methodology of assessing other-than-temporary impairments is based on security-specific facts and circumstances as of the balance sheet date. As a result, subsequent adverse changes in an issuers credit quality

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or subsequent weakening of market conditions that differ from expectations could result in additional other-than-temporary impairments. In addition, the sale of a fixed maturity security with a previously recorded unrealized loss would result in a realized loss. Either of these situations would adversely impact net income and earnings per share but would not impact comprehensive net income, shareholders equity or tangible book value.

The following table presents an analysis of the continuous periods during which White Mountains has held investment positions which were carried at an unrealized loss as of September 30, 2006 (excluding short-term investments):

($ in millions)	September 30, 2006 0-6 Months	6-12 Months	> 12 Months	Total
Fixed maturity investments:				
Number of positions	143	120	373	636
Market value	$ 1,033.2	$ 704.7	$ 1,968.5	$ 3,706.4
Amortized cost	$ 1,040.1	$ 711.4	$ 2,008.8	$ 3,760.3
Unrealized loss	$ (6.9)	$ (6.7)	$ (40.3)	$ (53.9)
Common equity securities:				
Number of positions	55	5		60
Market value	$ 64.2	$ 15.4	$	$ 79.6
Cost	$ 70.8	$ 16.3	$	$ 87.1
Unrealized loss	$ (6.6)	$ (.9)	$	$ (7.5)
Other investments:				
Number of positions	4	1	2	7
Market value	$ 13.2	$ 6.0	$ 2.8	$ 22.0
Cost	$ 16.5	$ 6.2	$ 3.3	$ 26.0
Unrealized loss	$ (3.3)	$ (.2)	$ (.5)	$ (4.0)
Total:				
Number of positions	202	126	375	703
Market value	$ 1,110.6	$ 726.1	$ 1,971.3	$ 3,808.0
Amortized cost	$ 1,127.4	$ 733.9	$ 2,012.1	$ 3,873.4
Unrealized loss	$ (16.8)	$ (7.8)	$ (40.8)	$ (65.4)
% of total gross unrealized losses	25.7 %	11.9 %	62.4 %	100.0 %

For the nine months ended September 30, 2006, White Mountains did not experience any material other-than-temporary impairment charges. White Mountains believes that the gross unrealized losses relating to its fixed maturity investments at September 30, 2006 resulted primarily from increases in market interest rates from the dates that certain investments within that portfolio were acquired as opposed to fundamental changes in the credit quality of the issuers of such securities. White Mountains views these decreases in value as being temporary because it has the intent and ability to retain such investments until recovery. However, should White Mountains determine that it no longer has the intent and ability to hold a fixed maturity investment that has an existing unrealized loss resulting from an increase in market interest rates until it recovers, this loss would be realized through the income statement at the time such determination is made. White Mountains also believes that the gross unrealized losses recorded on its common equity securities and its other investments at September 30, 2006 resulted primarily from decreases in quoted market values from the dates that certain investments securities within that portfolio were acquired as opposed to fundamental changes in the issuer s financial performance and near-term financial prospects. Therefore, these decreases are also viewed as being temporary. However, due to the inherent risk involved in investing in the equity markets, it is possible that the decrease in market value of these investments may ultimately prove to be other than temporary. As of September 30, 2006, White Mountains investment portfolio did not include any investment securities with an after-tax unrealized loss of more than $3.0 million for more than a six-month period.

Note 6. Earnings Per Share

Basic earnings per share amounts are based on the weighted average number of common shares outstanding excluding unearned restricted common shares (Restricted Shares). Diluted 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 three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Basic earnings per share numerators (in millions):				
Net income	**$ 162.1**	$ (66.3)	**$ 373.9**	$ 256.8
Diluted earnings per share numerators (in millions):				
Net income	**$ 162.1**	$ (66.3)	**$ 373.9**	$ 256.8
Other effects on diluted earnings (1)				(.6)
Adjusted net income	**$ 162.1**	$ (66.3)	**$ 373.9**	$ 256.2
Basic earnings per share denominator (in thousands):				
Average common shares outstanding	**10,780**	10,774	**10,780**	10,774
Average unearned Restricted Shares	**(10)**	(13)	**(11)**	(14)
Basic earnings per share denominator	**10,770**	10,761	**10,769**	10,760
Diluted earnings per share denominator (in thousands):				
Average common shares outstanding during the period	**10,780**	10,774	**10,780**	10,774
Average unearned Restricted Shares (2)	**(1)**	(13)	**(1)**	(14)
Average outstanding dilutive options (3)	**22**		**23**	35
Diluted earnings per share denominator	**10,801**	10,761	**10,802**	10,795
Basic earnings per share (in dollars)	**$ 15.05**	$ (6.16)	**$ 34.72**	$ 23.87
Diluted earnings per share (in dollars)	**$ 15.01**	$ (6.16)	**$ 34.61**	$ 23.73

(1) The diluted earnings per share numerator for the nine months ended September 30, 2005 has been adjusted to exclude $.6 million of income associated with outstanding options to acquire common shares (see note (3) below).

(2) The Company s Restricted Shares cliff vest on a stated anniversary date. In accordance with the adoption of FAS No. 123(R), effective January 1, 2006, the diluted earnings per share denominator adjustment for unearned Restricted Shares is limited to those Restricted Shares considered to be unearned as if the Company s Restricted Shares are earned ratably over the service period.

(3) The diluted earnings per share denominator for the three and nine months ended September 30, 2006 includes the effects of options to acquire an average of 32,850 and 33,358 common shares, respectively, at an average strike price of $155.18 and $151.78, respectively, per common share. The diluted earnings per share denominator for the nine months ended September 30, 2005 includes the effects of options to acquire an average of 45,068 Common Shares at an average strike price of $144.26 per Common Share.

Note 7. 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: (1) the nature of the business activities of each of the Company s subsidiaries and affiliates; (2) the manner in which the Company s subsidiaries and affiliates are organized; (3) the existence of primary managers responsible for specific subsidiaries and affiliates; and (4) the organization of information provided to the Board of Directors. Significant intercompany transactions among White Mountains segments have been eliminated herein. Segment information for all prior periods has been restated for the effect of the Reorganization. Financial information for White Mountains segments follows:

Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Operations**	**Total**
Three months ended September 30, 2006					
Earned insurance and reinsurance premiums	$ 492.6	$ 285.8	$ 140.5	$	$ 918.9
Net investment income	48.1	46.1	5.2	9.3	108.7
Net realized investment gains	31.9	6.8	3.5	25.6	67.8
Other revenue	36.6	31.3	1.8	21.1	90.8
Total revenues	**609.2**	**370.0**	**151.0**	**56.0**	**1,186.2**
Loss and LAE	292.0	163.1	100.5	2.5	558.1
Insurance and reinsurance acquisition expenses	89.0	65.8	34.5		189.3
Other underwriting expenses	84.0	24.8	13.5	.5	122.8
General and administrative expenses	4.9	5.6	.1	45.2	55.8
Accretion of fair value adjustment to loss and LAE reserves	5.8	.8			6.6
Interest expense on debt	12.0	.4		.5	12.9
Interest expense on preferred stock subject to mandatory redemption	14.9				14.9
Total expenses	**502.6**	**260.5**	**148.6**	**48.7**	**960.4**
Pre-tax income	**$ 106.6**	**$ 109.5**	**$ 2.4**	**$ 7.3**	**$ 225.8**

Millions	**OneBeacon**	**White Mountains Re**	**Esurance**	**Other Operations**	**Total**
Three months ended September 30, 2005					
Earned insurance and reinsurance premiums	$ 537.1	$ 363.5	$ 81.8	$	$ 982.4
Net investment income	56.0	38.9	2.3	13.6	110.8
Net realized investment gains (losses)	58.9	12.5	1.1	(53.6)	18.9
Other revenue	40.5	2.8	.8	21.4	65.5
Total revenues	692.5	417.7	86.0	(18.6)	1,177.6
Loss and LAE	396.2	478.2	54.6	.6	929.6
Insurance and reinsurance acquisition expenses	102.2	69.6	27.9		199.7
Other underwriting expenses	74.2	19.9	9.9	.4	104.4
General and administrative expenses	(.3)	2.7	.1	38.3	40.8
Accretion of fair value adjustment to loss and LAE reserves	6.5	2.6			9.1
Interest expense on debt	10.9	.6			11.5
Interest expense on preferred stock subject to mandatory redemption	13.3				13.3
Total expenses	603.0	573.6	92.5	39.3	1,308.4
Pre-tax income (loss)	$ 89.5	$ (155.9)	$ (6.5)	$ (57.9)	$ (130.8)

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Nine months ended September 30, 2006					
Earned insurance and reinsurance premiums	$ 1,458.1	$ 943.8	$ 371.5	$	$ 2,773.4
Net investment income	144.1	130.6	13.6	23.3	311.6
Net realized investment gains	97.9	48.0	7.0	49.9	202.8
Other revenue	48.4	38.2	5.7	64.8	157.1
Total revenues	**1,748.5**	**1,160.6**	**397.8**	**138.0**	**3,444.9**
Loss and LAE	891.3	727.3	265.6	1.7	1,885.9
Insurance and reinsurance acquisition expenses	249.8	217.0	95.8		562.6
Other underwriting expenses	253.9	70.3	35.9	1.4	361.5
General and administrative expenses	11.6	12.7	.1	101.1	125.5
Accretion of fair value adjustment to loss and LAE reserves	17.3	.9			18.2
Interest expense on debt	34.8	1.2		.5	36.5
Interest expense on preferred stock subject to mandatory redemption	43.3				43.3
Total expenses	**1,502.0**	**1,029.4**	**397.4**	**104.7**	**3,033.5**
Pre-tax income	**$ 246.5**	**$ 131.2**	**$ .4**	**$ 33.3**	**$ 411.4**

Millions	OneBeacon	White Mountains Re	Esurance	Other Operations	Total
Nine months ended September 30, 2005					
Earned insurance and reinsurance premiums	$ 1,622.0	$ 1,044.0	$ 213.0	$ 1.8	$ 2,880.8
Net investment income	194.1	109.1	6.5	79.6	389.3
Net realized investment gains (losses)	146.1	31.0	3.3	(61.1)	119.3
Other revenue	48.2	30.4	2.3	103.5	184.4
Total revenues	2,010.4	1,214.5	225.1	123.8	3,573.8
Loss and LAE	1,060.5	914.8	141.5	2.3	2,119.1
Insurance and reinsurance acquisition expenses	300.0	210.8	62.0	.1	572.9
Other underwriting expenses	244.5	82.1	25.0	1.3	352.9
General and administrative expenses	10.8	9.0		122.2	142.0
Accretion of fair value adjustment to loss and LAE reserves	19.5	8.6			28.1
Interest expense on debt	33.1	1.7			34.8
Interest expense on preferred stock subject to mandatory redemption	38.8				38.8
Total expenses	1,707.2	1,227.0	228.5	125.9	3,288.6
Pre-tax income (loss)	$ 303.2	$ (12.5)	$ (3.4)	$ (2.1)	$ 285.2

Note 8. Investments in Unconsolidated Affiliates

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

Symetra

White Mountains owns 24% of the common shares of Symetra on a fully converted basis, consisting of 2 million common shares and warrants to acquire an additional 1.1 million common shares. White Mountains accounts for its investment in Symetra s common shares 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.

The following table provides summary financial amounts recorded by White Mountains during the nine months ended September 30, 2006 and 2005 relating to its investment in Symetra:

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Millions	2006 Common Shares	Warrants	Total	2005 Common Shares	Warrants	Total
Carrying value of investment in Symetra as of January 1	**$ 263.9**	**$ 47.8**	**$ 311.7**	$ 267.7	$ 37.3	$ 305.0
Equity in earnings of Symetra (1)	**6.8**		**6.8**	6.8		6.8
Net unrealized gains (losses) from Symetra s equity portfolio and other	**1.8**		**1.8**	(.1)		(.1)
Net unrealized losses from Symetra s fixed maturities	**(56.8)**		**(56.8)**	(24.5)		(24.5)
Increase in value of warrants		**4.6**	**4.6**		2.1	2.1
Carrying value of investment in Symetra as of March 31 (2)	**215.7**	**52.4**	**268.1**	249.9	39.4	289.3
Equity in earnings of Symetra (1)	**6.8**		**6.8**	7.5		7.5
Net unrealized gains (losses) from Symetra s equity portfolio and other	**.2**		**.2**			
Net unrealized gains (losses) from Symetra s fixed maturities	**(36.4)**		**(36.4)**	63.6		63.6
Increase in value of warrants		**3.5**	**3.5**		1.5	1.5
Carrying value of investment in Symetra as of June 30 (3)	**$ 186.3**	**$ 55.9**	**$ 242.2**	$ 321.0	$ 40.9	$ 361.9
Equity in earnings of Symetra (1)	**7.2**		**7.2**	6.1		6.1
Net unrealized gains (losses) from Symetra s equity portfolio and other	**(.2)**		**(.2)**	.7		.7
Net unrealized gains (losses) from Symetra s fixed maturities	**64.9**		**64.9**	(56.3)		(56.3)
Increase in value of warrants		**1.2**	**1.2**		3.7	3.7
Carrying value of investment in Symetra as of September 30 (4)	**$ 258.2**	**$ 57.1**	**$ 315.3**	$ 271.5	$ 44.6	$ 316.1

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

(2) Includes White Mountains equity in net unrealized gains and (losses) from Symetra s fixed maturity portfolio of $(32.6) million and $32.1 million as of March 31, 2006 and 2005, respectively.

(3) Includes White Mountains equity in net unrealized gains and (losses) from Symetra s fixed maturity portfolio of $(69.0) million and $95.6 million as of June 30, 2006 and 2005, respectively.

(4) Includes White Mountains equity in net unrealized gains and (losses) from Symetra s fixed maturity portfolio of $(4.1) million and $39.4 million as of September 30, 2006 and 2005, respectively.

MSA

At September 30, 2006, White Mountains owned 50% of the total common shares outstanding of Main Street America Holdings, Inc. (MSA), a subsidiary of Main Street America Group Mutual Holdings, Inc., and accounted for this investment using the equity method of accounting. For the three and nine months ended September 30, 2006, White Mountains recorded ($1.6) million and $8.6 million, respectively, of after-tax equity in earnings (loss) from its investment in MSA. For the three and nine months ended September 30, 2006, White Mountains recorded $9.3 million and $0.4 million of after-tax equity in MSA s unrealized investment gains, respectively. For the three and nine months ended September 30, 2005, White Mountains recorded $2.8 million and $7.2 million, respectively, of after-tax equity in earnings from its investment in MSA. For the three and nine months ended September 30, 2005, White Mountains recorded $1.8 million and $3.9 million of after-tax equity in MSA s unrealized investment losses, respectively. As of September 30, 2006 and December 31, 2005, White Mountains investment in MSA totaled $181.8 million and $168.0 million, respectively.

Note 9. Consolidating Financial Information

The Company has fully and unconditionally guaranteed the Senior Notes issued in 2003 by its wholly-owned subsidiary, Fund American Companies, Inc. (Fund American). The following tables present White Mountains consolidating balance sheets as of September 30, 2006 and December 31, 2005, statements of income for the three and nine months ended September 30, 2006 and 2005 and cash flows for the nine months ended September 30, 2006 and 2005. These financial statements reflect the Company s financial position, results of operations and cash flows on a stand-alone basis, that of Fund American and of the Company s other entities, as well as the necessary adjustments to eliminate intercompany balances and transactions.

Consolidating Balance Sheet as of September 30, 2006	**The Company**	**Other Entities**	**Fund American**	**Eliminations**	**Total**
(Millions)					
ASSETS					
Fixed maturity investments, at fair value	$ 18.0	$ 3,913.1	$ 3,158.1	$	**$ 7,089.2**
Common equity securities, at fair value	3.7	366.0	672.3		**1,042.0**
Short-term investments, at amortized cost	18.2	757.4	447.2		**1,222.8**
Other investments	26.9	222.6	248.5		**498.0**
Total investments	66.8	5,259.1	4,526.1		**9,852.0**
Cash	.2	130.7	79.4		**210.3**
Reinsurance recoverable on paid and unpaid losses		1,406.5	2,933.1		**4,339.6**
Insurance and reinsurance premiums receivable		324.3	678.0		**1,002.3**
Securities lending collateral		169.5	414.3		**583.8**
Funds held by ceding companies		467.5			**467.5**
Investments in unconsolidated affiliates	57.1	290.2	181.8		**529.1**
Deferred tax asset		152.6	136.7	(.4)	**288.9**
Deferred acquisition costs		90.8	242.7		**333.5**
Ceded unearned premiums		90.7	23.0		**113.7**
Investment income accrued	.6	47.0	34.2		**81.8**
Accounts receivable on unsettled investment sales		141.9	212.2		**354.1**
Investment in consolidated subsidiaries	4,046.0			(4,046.0)	
Other assets	3.9	229.9	321.7		**555.5**
Total assets	$ 4,174.6	$ 8,800.7	$ 9,783.2	$ (4,046.4)	**$ 18,712.1**
LIABILITIES AND COMMON SHAREHOLDERS EQUITY					
Loss and LAE reserves	$	$ 4,172.3	$ 4,941.9	$	**$ 9,114.2**
Reserves for structured contracts		153.5			**153.5**
Unearned insurance and reinsurance premiums		554.9	1,160.0		**1,714.9**
Debt		34.1	760.1		**794.2**
Securities lending payable		169.5	414.3		**583.8**
Deferred tax liability		241.5		(.4)	**241.1**
Ceded reinsurance payable		68.6	67.0		**135.6**
Funds held under reinsurance treaties		116.6	3.0		**119.6**
Accounts payable on unsettled investment purchases	.1	84.4	219.0		**303.5**
Other liabilities	55.8	754.2	368.5		**1,178.5**
Preferred stock subject to mandatory redemption		20.0	234.5		**254.5**
Total liabilities	55.9	6,369.6	8,168.3	(.4)	**14,593.4**
Common shareholders equity	4,118.7	2,431.1	1,614.9	(4,046.0)	**4,118.7**
Total liabilities and common shareholders equity	$ 4,174.6	$ 8,800.7	$ 9,783.2	$ (4,046.4)	**$ 18,712.1**

Consolidating Balance Sheet as of December 31, 2005	**The Company**	**Other Entities**	**Fund American**	**Eliminations**	**Total**
(Millions)					
ASSETS					
Fixed maturity investments, at fair value	$ 193.5	$ 3,772.4	$ 3,616.8	$	$ 7,582.7
Common equity securities, at fair value		376.5	591.3		967.8
Short-term investments, at amortized cost	.4	482.1	245.3		727.8
Other investments		308.7	279.4		588.1
Total investments	193.9	4,939.7	4,732.8		9,866.4
Cash		143.5	44.2		187.7
Reinsurance recoverable on paid and unpaid losses		1,931.2	3,171.5		5,102.7
Insurance and reinsurance premiums receivable		406.4	607.9		1,014.3
Securities lending collateral		227.8	447.1		674.9
Funds held by ceding companies		620.4			620.4
Investments in unconsolidated affiliates	47.8	263.9	168.0		479.7
Deferred tax asset		98.1	241.8	1.3	341.2
Deferred acquisition costs		84.0	204.4		288.4
Ceded unearned premiums		172.7	28.0		200.7
Investment income accrued	1.1	46.1	46.3		93.5
Accounts receivable on unsettled investment sales		18.7	3.0		21.7
Investments in consolidated subsidiaries	3,621.9			(3,621.9)	
Other assets	3.5	123.0	400.0		526.5
Total assets	$ 3,868.2	$ 9,075.5	$ 10,095.0	$ (3,620.6)	$ 19,418.1
LIABILITIES AND COMMON SHAREHOLDERS EQUITY					
Loss and LAE reserves	$	$ 4,815.8	$ 5,415.4	$	$ 10,231.2
Reserves for structured contracts		224.6			224.6
Unearned insurance and reinsurance premiums		539.2	1,042.8		1,582.0
Debt		34.2	744.9		779.1
Securities lending payable		227.8	447.1		674.9
Deferred tax liability		273.0		1.3	274.3
Ceded reinsurance payable		123.3	81.2		204.5
Funds held under reinsurance treaties		167.0	4.4		171.4
Accounts payable on unsettled investment purchases		41.5	1.9		43.4
Other liabilities	35.0	471.0	659.5		1,165.5
Preferred stock subject to mandatory redemption		20.0	214.0		234.0
Total liabilities	35.0	6,937.4	8,611.2	1.3	15,584.9
Common shareholders equity	3,833.2	2,138.1	1,483.8	(3,621.9)	3,833.2
Total liabilities and common shareholders equity	$ 3,868.2	$ 9,075.5	$ 10,095.0	$ (3,620.6)	$ 19,418.1

Consolidating Statement of Income **Three Months Ended September 30, 2006**	**The Company**	**Other Entities**	**Fund American**	**Eliminations**	**Total**
(Millions)					
Earned insurance and reinsurance premiums	$	$ 367.6	$ 551.3	$	**$ 918.9**
Net investment income	.5	59.5	48.7		**108.7**
Net realized investment gains	6.2	26.7	34.9		**67.8**
Other revenue		39.2	51.6		**90.8**
Total revenues	6.7	493.0	686.5		**1,186.2**
Loss and LAE		239.6	318.5		**558.1**
Insurance and reinsurance acquisition expenses		64.8	124.5		**189.3**
Other underwriting expenses		38.7	84.1		**122.8**
General and administrative expenses	11.2	25.5	19.1		**55.8**
Accretion of fair value adjustment to loss and LAE reserves		.8	5.8		**6.6**
Interest expense on debt	(.5)	2.3	11.1		**12.9**
Interest expense - dividends and accretion on preferred stock		.6	14.3		**14.9**
Total expenses	10.7	372.3	577.4		**960.4**
Pre-tax income (loss)	(4.0)	120.7	109.1		**225.8**
Income tax provision	(.2)	(28.1)	(41.0)		**(69.3)**
Equity in earnings of consolidated subsidiaries	166.3			(166.3)	
Equity in earnings of unconsolidated affiliates		7.2	(1.6)		**5.6**
Net income	$ 162.1	$ 99.8	$ 66.5	$ (166.3)	**$ 162.1**

Consolidating Statement of Income **Three Months Ended September 30, 2005**	**The Company**	**Other Entities**	**Fund American**	**Eliminations**	**Total**
(Millions)					
Earned insurance and reinsurance premiums	$	$ 435.5	$ 546.9	$	$ 982.4
Net investment income	1.7	46.6	62.5		110.8
Net realized investment gains (losses)	2.9	(43.9)	59.9		18.9
Other revenue		3.7	61.8		65.5
Total revenues	4.6	441.9	731.1		1,177.6
Loss and LAE		522.0	407.6		929.6
Insurance and reinsurance acquisition expenses		99.2	100.5		199.7
Other underwriting expenses		29.9	74.5		104.4
General and administrative expenses	(.8)	19.4	22.2		40.8
Accretion of fair value adjustment to loss and LAE reserves		2.6	6.5		9.1
Interest expense on debt		.5	11.0		11.5
Interest expense - dividends and accretion on preferred stock		.5	12.8		13.3
Total expenses	(.8)	674.1	635.1		1,308.4
Pre-tax income (loss)	5.4	(232.2)	96.0		(130.8)
Income tax benefit (provision)	(.1)	101.2	(45.5)		55.6
Equity in loss of consolidated subsidiaries	(71.6)			71.6	
Equity in earnings of unconsolidated affiliates		6.1	2.8		8.9
Net income (loss)	$ (66.3)	$ (124.9)	$ 53.3	$ 71.6	$ (66.3)

Consolidating Statement of Income Nine Months Ended September 30, 2006	**The Company**	**Other Entities**	**Fund American**	**Eliminations**	**Total**
(Millions)					
Earned insurance and reinsurance premiums	$	$ 1,183.4	$ 1,590.0	$	**$ 2,773.4**
Net investment income	2.5	156.2	152.9		**311.6**
Net realized investment gains	13.3	89.4	100.1		**202.8**
Other revenue	7.6	49.7	99.8		**157.1**
Total revenues	23.4	1,478.7	1,942.8		**3,444.9**
Loss and LAE		892.2	993.7		**1,885.9**
Insurance and reinsurance acquisition expenses		265.2	297.4		**562.6**
Other underwriting expenses		106.6	254.9		**361.5**
General and administrative expenses	19.2	35.1	71.2		**125.5**
Accretion of fair value adjustment to loss and LAE reserves		.9	17.3		**18.2**
Interest expense on debt	(3.0)	5.6	33.9		**36.5**
Interest expense - dividends and accretion on preferred stock		1.6	41.7		**43.3**
Total expenses	16.2	1,307.2	1,710.1		**3,033.5**
Pre-tax income	7.2	171.5	232.7		**411.4**
Income tax benefit (provision)	(2.6)	10.5	(74.8)		**(66.9)**
Equity in earnings of consolidated subsidiaries	369.3			(369.3)	
Equity in earnings of unconsolidated affiliates		20.8	8.6		**29.4**
Net income	$ 373.9	$ 202.8	$ 166.5	$ (369.3)	**$ 373.9**

Consolidating Statement of Income Nine Months Ended September 30, 2005	**The Company**	**Other Entities**	**Fund American**	**Eliminations**	**Total**
(Millions)					
Earned insurance and reinsurance premiums	$	$ 1,257.4	$ 1,623.4	$	$ 2,880.8
Net investment income	5.2	170.5	213.6		389.3
Net realized investment gains (losses)	6.2	(35.5)	148.6		119.3
Other revenue	30.6	32.7	121.1		184.4
Total revenues	42.0	1,425.1	2,106.7		3,573.8
Loss and LAE		1,034.6	1,084.5		2,119.1
Insurance and reinsurance acquisition expenses		287.0	285.9		572.9
Other underwriting expenses		107.2	245.7		352.9
General and administrative expenses	18.1	39.6	84.3		142.0
Accretion of fair value adjustment to loss and LAE reserves		8.6	19.5		28.1
Interest expense on debt		1.7	33.1		34.8
Interest expense - dividends and accretion on preferred stock		1.5	37.3		38.8
Total expenses	18.1	1,480.2	1,790.3		3,288.6
Pre-tax income (loss)	23.9	(55.1)	316.4		285.2
Income tax benefit (provision)	(.2)	87.8	(143.7)		(56.1)
Equity in earnings of consolidated subsidiaries	233.1			(233.1)	
Equity in earnings of unconsolidated affiliates		20.4	7.3		27.7
Net income	$ 256.8	$ 53.1	$ 180.0	$ (233.1)	$ 256.8

Consolidating Statement of Cash Flows Nine Months Ended September 30, 2006	**The Company**	**Other Entities**	**Fund American**	**Total**
(Millions)				
Cash flows from operations:				
Net income, excluding equity in earnings of subsidiaries	$ 4.6	$ 202.8	$ 166.5	**$ 373.9**
Charges (credits) to reconcile net income to net cash used for operations:				
Net realized investment gains	(13.3)	(89.4)	(100.1)	**(202.8)**
Other operating items:				
Net change in loss and loss adjustment expense reserves		(419.4)	(414.3)	**(833.7)**
Net change in reinsurance recoverable on paid and unpaid losses		307.8	211.7	**519.5**
Net change in unearned insurance and reinsurance premiums		51.0	117.2	**168.2**
Net change in reserves for structured contracts		(71.1)		**(71.1)**
Net change in funds held by ceding companies		157.5		**157.5**
Net change in deferred acquisition costs		(11.8)	(38.2)	**(50.0)**
Net change in funds held under reinsurance treaties		(48.5)	(1.4)	**(49.9)**
Net change in insurance and reinsurance premiums receivable		89.0	(73.0)	**16.0**
Net change in other assets and liabilities, net	17.9	(7.8)	23.4	**33.5**
Net cash flows provided from (used for) operations	9.2	160.1	(108.2)	**61.1**
Cash flows from investing activities:				
Net change in short-term investments	(17.8)	(230.2)	(224.4)	**(472.4)**
Sales of fixed maturity investments	153.7	2,179.7	1,065.0	**3,398.4**
Maturities, calls and paydowns of fixed maturity investments	.4	223.5	389.5	**613.4**
Sales of common equity securities	.6	240.4	316.7	**557.7**
Sales of other investments		40.5	9.4	**49.9**
Sales of consolidated affiliates		110.0	11.1	**121.1**
Sale of renewal rights			32.0	**32.0**
Purchases of other investments		(20.4)	(60.2)	**(80.6)**
Purchases of common equity securities	(4.2)	(96.3)	(335.3)	**(435.8)**
Purchases of fixed maturity investments	(117.6)	(2,501.5)	(1,052.5)	**(3,671.6)**
Net change in unsettled investment purchases and sales	.1	(80.1)	7.8	**(72.2)**
Net acquisitions of property and equipment		(4.0)	(7.9)	**(11.9)**
Net cash flows provided from (used for) investing activities	15.2	(138.4)	151.2	**28.0**
Cash flows from financing activities:				
Issuance of debt	50.0		15.0	**65.0**
Repayment of debt	(50.0)			