

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).

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
Revenues:				
Financial Guarantee (HG Global/BAM)				
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
Total Financial Guarantee revenues	4.2	6.7	8.6	19.5
Specialty Insurance Distribution (NSM)				
Commission revenues	36.6	—	59.2	—
Other revenues	3.1	—	4.0	—
Total Specialty Insurance Distribution revenues	39.7	—	63.2	—
Marketing Technology (MediaAlpha)				
Advertising and commission revenues	74.5	37.9	216.4	101.2
Other revenues	—	—	1.6	—
Total Marketing Technology revenues	74.5	37.9	218.0	101.2
Other				
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
Total Other revenues	80.3	42.9	73.3	139.1
Total revenues	198.7	87.5	363.1	259.8
Expenses:				
Financial Guarantee (HG Global/BAM)				
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
Total Financial Guarantee expenses	12.6	11.6	40.7	34.8
Specialty Insurance Distribution (NSM)				
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	—
Total Specialty Insurance Distribution expenses	44.9	—	65.2	—
Marketing Technology (MediaAlpha)				
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
Total Marketing Technology expenses	69.8	38.4	209.0	104.5
Other				
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	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	2018	2017	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	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	Other long-term investments	\$ 4.0	\$(.7)	\$ 2.1	$(2.2)
Total net unrealized investment gains (losses) , pre-tax - Level 3 investments	\$ 4.0	\$(.7)	\$ 2.1	\$(2.2)

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 ⁽¹⁾⁽²⁾	126.4	83.2
Foreign currency forward contracts	—	(3.7)
Other	11.7	4.0
Total other long-term investments	\$289.7	\$ 208.8

⁽¹⁾ See Fair Value Measurements by Level table.

⁽²⁾ 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 ⁽¹⁾	313.7	300.7	13.0	—
Common equity securities:				
Exchange traded funds ⁽²⁾	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 ⁽³⁾	203.9	—	203.9	—
Total common equity securities	1,043.5	772.0	271.5	—
Other long-term investments ⁽⁴⁾	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 ⁽¹⁾	176.1	151.0	25.1	—
Common equity securities:				
Exchange traded funds ⁽²⁾	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 ⁽³⁾	210.6	—	210.6	—
Total common equity securities	866.1	593.9	272.2	—
Other long-term investments ⁽⁴⁾	87.2	—	—	87.2
Total investments	\$3,259.1	\$1,041.4	\$2,130.5	\$ 87.2

⁽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 invests in international equities.

⁽⁴⁾ 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 ⁽¹⁾	\$500.0	\$ 880.9

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

Mortgage and Asset-backed Securities

The following table presents the fair value of White Mountains's mortgage and asset-backed securities as of September 30, 2018 and December 31, 2017:

Millions	September 30, 2018			December 31, 2017		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	\$24.5	\$24.5	\$ —	—\$46.3	\$46.3	\$ —
FNMA	53.6	53.6	—	84.5	84.5	—
FHLMC	39.0	39.0	—	62.0	62.0	—
Total agency ⁽¹⁾	117.1	117.1	—	192.8	192.8	—
Non-agency:						
Commercial	—	—	—	70.5	70.5	—
Total non-agency	—	—	—	70.5	70.5	—
Total mortgage-backed securities	117.1	117.1	—	263.3	263.3	—
Other asset-backed securities:						
Credit card receivables	8.9	8.9	—	206.0	206.0	—
Vehicle receivables	2.5	2.5	—	142.4	142.4	—
Other	—	—	—	83.0	83.0	—
Total other asset-backed securities	11.4	11.4	—	431.4	431.4	—
Total mortgage and asset-backed securities	\$128.5	\$128.5	\$ —	—\$694.7	\$694.7	\$ —

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

White Mountains considers sub-prime mortgage-backed securities as those that have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., White Mountains considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics). As of September 30, 2018, White Mountains did not hold any mortgage-backed securities categorized as sub-prime.

White Mountains considers mortgage-backed securities as "non-prime" (also called "Alt A" or "A-") if they are backed by collateral that has overall credit quality between prime and sub-prime based on White Mountains's review of the

characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. As of September 30, 2018, White Mountains did not hold any mortgage-backed securities classified as non-prime.

Rollforward of Fair Value Measurements by Level

White Mountains uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturity investments, common equity securities and other long-term investments as of September 30, 2018 and 2017 consist of securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

The following tables present the changes in White Mountains's fair value measurements by level for the nine months ended September 30, 2018 and 2017:

Millions	Level 3 Investments					Hedge Funds and Private Equity Funds measured at NAV ⁽³⁾	Total
	Level 1 investments	Level 2 investments	Fixed maturity investments	Other long-term investments	Private Equity Funds		
Balance at December 31, 2017	\$ 890.4	\$ 2,105.4	\$ —	\$ 87.2	\$ 125.3	\$ 3,208.3	⁽¹⁾⁽²⁾
Net realized and unrealized gains (losses)	51.9	(33.6)	)—	(4.2)	) 17.2	31.3	⁽⁴⁾
Amortization/Accretion	.1	(2.3)	)—	—	—	(2.2))
Purchases	412.6	673.5	)—	—55.1	10.7	1,151.9	
Sales	(457.6)	) (1,565.0)	)—	—	(1.6)	) (2,024.2))
Transfers in	—	—	—	—	—	—	
Transfers out	—	—	—	—	—	—	
Balance at September 30, 2018	\$ 897.4	\$ 1,178.0	\$ —	\$ 138.1	\$ 151.6	\$ 2,365.1	⁽²⁾

⁽¹⁾ Excludes carrying value of \$(3.7) as of December 31, 2017 associated with foreign currency forward contracts.

⁽²⁾ Excludes carrying value of \$176.1 and \$313.7 at December 31, 2017 and September 30, 2018 classified as short-term investments.

⁽³⁾ Investments for which fair value is measured at NAV using the practical expedient are no longer classified within the fair value hierarchy. See Note 1 — “Basis of Presentation and Significant Accounting Policies”.

⁽⁴⁾ Excludes realized and unrealized losses associated with foreign currency forward contracts, foreign currency on cash and open trades and short-term investments of \$3.5, \$4.2 and \$0.7 for the nine months ended September 30, 2018.

Millions	Level 3 Investments					Hedge Funds and Private Equity Funds measured at NAV ⁽³⁾	Total
	Level 1 investments	Level 2 investments	Fixed maturity investments	Other long-term investments	Private Equity Funds		
Balance at December 31, 2016	\$ 279.5	\$ 2,093.8	\$ —	\$ 91.4	\$ 82.6	\$ 2,547.3	⁽¹⁾⁽²⁾⁽⁴⁾
Net realized and unrealized gains (losses)	52.4	59.8	—	(2.2)) 15.6	125.6	⁽⁵⁾
Amortization/Accretion	—	(6.6))—	—	—	(6.6))

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Purchases	940.7	1,038.5	31.2	2.9	64.9	2,078.2
Sales	(539.0)	(1,668.2)	(12.5)	(2.0)	(8.2)	(2,229.9)
Deconsolidation of SSIE	—	(5.2)	—	—	—	(5.2)
Transfers in	—	13.1	—	—	—	13.1
Transfers out	—	—	(13.1)	—	—	(13.1)
Balance at September 30, 2017	\$ 733.6	\$ 1,525.2	\$ 5.6	\$ 90.1	\$ 154.9	\$ 2,509.4 ⁽¹⁾⁽²⁾

(1) Excludes carrying value of \$175.0 and \$786.5 at December 31, 2016 and September 30, 2017 classified as short-term investments, of which \$0.1 is classified as held for sale at December 31, 2016.

(2) Excludes carrying value of \$(1.2) and \$(15.4) as of December 31, 2016 and September 30, 2017 associated with foreign currency forward contracts.

(3) Investments for which fair value is measured at NAV using the practical expedient are no longer classified within the fair value hierarchy. See Note 1 — “Basis of Presentation and Significant Accounting Policies”.

(4) Includes carrying value of \$6.6 of fixed maturity investments at December 31, 2016 that is classified as assets held for sale related to SSIE.

(5) Excludes realized and unrealized losses associated with foreign currency forward contracts of \$23.1 for the nine months ended September 30, 2017.

Fair Value Measurements — Transfers Between Levels - Nine-months ended September 30, 2018 and 2017

Transfers between levels are recorded using the fair value measurement as of the end of the quarterly period in which the event or change in circumstance giving rise to the transfer occurred.

During the first nine months of 2018, there were no fixed maturity investments or other long-term investments classified as Level 3 measurements in the prior period that were transferred to Level 2 measurements.

During the first nine months of 2017, two fixed maturity investment classified as a Level 3 measurement in the prior period was transferred to Level 2 measurement because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available as of September 30, 2017.

These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of \$13.1 million for the period ended September 30, 2017.

Significant Unobservable Inputs

The following tables present significant unobservable inputs used in estimating the fair value of other long-term investments, other than hedge funds and private equity funds, classified within Level 3 as of September 30, 2018 and December 31, 2017. The fair value of investments in hedge funds and private equity funds are generally estimated using the NAV of the funds.

\$ in millions, except share price	September 30, 2018			
Description	Valuation Technique(s)	Fair Value ⁽¹⁾	Unobservable Input	
Private equity security	Share price of most recent transaction	\$28.3	Share price	-\$56.60
Private equity security	Discounted cash flow	\$21.0	Discount rate	-25.0%
Private equity security	Discounted cash flow	\$22.1	Discount rate	-35.0%
Private convertible preferred security	Discounted cash flow	\$14.5	Discount rate	-30.0%
Private equity security	Recent transaction	\$15.8	Share price	-€338.85
Private preferred security	Multiple of EBITDA	\$3.5	EBITDA multiple	-6.00
Private debt instrument	Discounted cash flow	\$10.5	Discount rate	-9.62%

⁽¹⁾ Includes the net unrealized investment gains (losses) associated with foreign currency; foreign currency effects based on observable inputs.

\$ in millions, except share price	December 31, 2017			
Description	Valuation Technique(s)	Fair Value ⁽¹⁾	Unobservable Input	
Private equity security	Discounted cash flow	\$21.0	Discount rate	-25.0%
Private equity security	Discounted cash flow	\$22.1	Discount rate	-35.0%
Private convertible preferred security	Discounted cash flow	\$14.5	Discount rate	-30.0%
Private equity security	Discounted cash flow/ Option pricing method	\$11.3	Discount rate	-21.0%
			Time until expiration	-4 years
			Volatility/Standard deviation	-50.0%
			Risk free rate	-1.77%
Private preferred security	Multiple of EBITDA	\$0.6	EBITDA multiple	-6.00
Private equity security	Share price of most recent transaction	\$3.6	Share price	-\$2.52

⁽¹⁾ Includes the net unrealized investment gains (losses) associated with foreign currency; foreign currency effects based on observable inputs.

Note 4. Goodwill and Other Intangible Assets

White Mountains has recognized goodwill and other intangible assets at the acquisition date fair values in connection with its purchases of subsidiaries.

On May 11, 2018, White Mountains completed its acquisition of NSM, recognizing \$383.0 million of goodwill and other intangible assets, reflecting acquisition date fair values. On May 18, 2018, NSM completed its acquisition of Fresh Insurance, recognizing \$54.6 million of goodwill and other intangible assets, reflecting acquisition date fair values. The following tables presents the change in goodwill and other intangible assets:

Millions	Three Months Ended September 30, 2018			2017			
	Goodwill	Other intangible assets	Unallocated acquisition date fair value of intangible assets	Total Goodwill and other intangible assets	Goodwill	Other intangible assets	Total Goodwill and other intangible assets
Beginning balance	\$25.9	\$30.7	436.2	\$492.8	\$25.9	\$14.4	\$40.3
Attribution of acquisition date fair value estimates between goodwill and other intangible assets	295.3	140.9	(436.2)	—	—	—	—
Foreign currency translation	(1.2)	(.4)	—	(1.6)	—	—	—
Adjustments to reflect acquisition date fair value	1.4	—	—	1.4	—	—	—
Amortization ⁽¹⁾	—	(7.4)	—	(7.4)	—	(2.5)	(2.5)
Ending balance	\$321.4	\$163.8	—	\$485.2	\$25.9	\$11.9	\$37.8

⁽¹⁾ Includes the NSM intangible assets amortization of \$1.8 related to the period from May 11, 2018 through June 30, 2018 and \$3.2 for the three months ended September 30, 2018.

Millions	Nine Months Ended September 30, 2018			2017		
	Goodwill	Other intangible assets	Total Goodwill and other intangible assets	Goodwill	Other intangible assets	Total Goodwill and other intangible assets
Beginning balance	\$25.9	\$36.2	\$62.1	\$25.9	\$19.3	\$45.2
Attribution of acquisition date fair value estimates between goodwill and other intangible assets	295.3	140.9	436.2	—	—	—
Foreign currency translation	(1.2)	(.4)	(1.6)	—	—	—
Adjustments to reflect acquisition date fair value	1.4	—	1.4	—	—	—
Amortization	—	(12.9)	(12.9)	—	(7.4)	(7.4)
Ending balance	\$321.4	\$163.8	\$485.2	\$25.9	\$11.9	\$37.8

The following table presents the acquisition date values, accumulated amortization and net carrying values for other intangible assets and goodwill, by company as of September 30, 2018 and December 31, 2017:

\$ in millions	September 30, 2018			December 31, 2017		
	Acquisition date fair value	Accumulated amortization	Net carrying value	Acquisition date fair value	Accumulated amortization	Net carrying value
Goodwill:						
NSM ⁽¹⁾	\$295.5	\$ —	\$295.5	\$—	\$ —	\$ —
MediaAlpha	18.3	—	18.3	18.3	—	18.3
Buzzmove	7.6	—	7.6	7.6	—	7.6
Total goodwill	321.4	—	321.4	25.9	—	25.9
Other intangible assets:						
NSM ⁽¹⁾						
Customer relationships	85.5	3.6	81.9	—	—	—
Trade names	51.2	1.1	50.1	—	—	—
Information technology	3.8	.3	3.5	—	—	—
Subtotal	140.5	5.0	135.5	—	—	—
MediaAlpha						
Customer relationships	26.8	4.3	22.5	26.8	2.4	24.4
Information technology	33.3	29.2	4.1	33.3	24.3	9.0
Other	9.8	8.8	1.0	9.8	7.8	2.0
Subtotal	69.9	42.3	27.6	69.9	34.5	35.4
Buzzmove						
Trade names	.6	.1	.5	.6	.1	.5
Information technology	.5	.3	.2	.5	.2	.3
Subtotal	1.1	.4	.7	1.1	.3	.8
Total other intangible assets	211.5	47.7	163.8	71.0	34.8	36.2
Total goodwill and other intangible assets	\$532.9	\$ 47.7	485.2	\$96.9	\$ 34.8	62.1
Goodwill and other intangible assets attributed to non-controlling interests						
			(40.6)			(21.1)
Goodwill and other intangible assets included in White Mountains's common shareholders' equity						
			\$444.6			\$ 41.0

⁽¹⁾ Includes the effect of foreign currency translation from the date of acquisition of \$1.2 for goodwill and \$0.4 for other intangible assets.

Note 5. Debt

The following table presents White Mountains's debt outstanding as of September 30, 2018 and December 31, 2017:

Millions	September 30, Effective		December 31, Effective	
	2018	Rate ⁽¹⁾	2017	Rate ⁽¹⁾
WTM Bank Facility	\$ —	N/A	\$ —	N/A
NSM Bank Facility	150.6	7.5%	—	
Unamortized issuance cost	(3.3)	—	
NSM Bank Facility, carrying value	147.3		—	
Other NSM debt	2.0		—	
MediaAlpha Bank Facility	15.1	6.8%	23.9	5.6%
Unamortized issuance cost	(.1	)	(.1)
MediaAlpha Bank Facility, carrying value	15.0		23.8	
Total debt	\$ 164.3		\$ 23.8	

⁽¹⁾ Effective rate considers the effect of the debt issuance costs.

WTM Bank Facility

On August 14, 2013, the Company entered into a revolving credit facility with a syndicate of lenders administered by Wells Fargo Bank, N.A., which had a total commitment of \$425.0 million and a maturity date of August 14, 2018 (the "WTM Bank Facility"). White Mountains terminated the WTM Bank Facility on May 8, 2018.

NSM Bank Facility

On May 11, 2018, NSM entered into a secured credit facility (the "NSM Bank Facility") with Ares Capital Corporation in order to refinance NSM's debt and to fund the acquisition of Fresh Insurance. The NSM Bank Facility is comprised of a term loan of \$100.0 million, a delayed-draw term loan of \$51.0 million to fund the Fresh Insurance acquisition and a revolving credit loan commitment of \$10.0 million, under which NSM initially borrowed \$2.0 million. The term loans under the NSM Bank Facility mature on May 11, 2024, and the revolving loan under the NSM Bank Facility matures on May 11, 2023. During the three months ended September 30, 2018 and the period from May 11, 2018 through September 30, 2018, NSM repaid \$0.4 million on the term loans. During the period from May 11, 2018 through September 30, 2018, NSM repaid \$2.0 million on the revolving credit loan. As of September 30, 2018, \$150.6 million of term loans were outstanding and no revolving credit loans were outstanding under the NSM Bank Facility. Interest on the NSM Bank Facility accrues at a floating interest rate equal to the three month LIBOR or the Prime Rate, as published by the Wall Street Journal plus, in each case, an applicable margin. The margin over LIBOR may vary between 4.25% and 4.75%, and the margin over the Prime Rate may vary between 3.25% and 3.75%, in each case, depending on the consolidated total leverage ratio of the borrower.

On June 15, 2018, NSM entered into an interest rate swap agreement to hedge its exposure to interest rate risk on its variable rate term loans. Under the terms of the swap agreement, NSM pays a fixed rate of 2.97% and receives a variable rate, which is reset monthly, based on then-current LIBOR. The variable rate received by NSM under the swap agreement was 2.07%. As of September 30, 2018, NSM's blended interest rate on the outstanding term loan principal amount of \$150.6 million was 6.69%, and 7.47% after consideration of the interest rate swap. See Note 7 — "Derivatives — NSM Interest Rate Swap".

The NSM Bank Facility is secured by all property of the loan parties and contains various affirmative, negative and financial covenants that White Mountains considers to be customary for such borrowings, including a maximum consolidated total leverage ratio covenant.

MediaAlpha Bank Facility

On May 12, 2017, MediaAlpha entered into a secured credit facility (the “MediaAlpha Bank Facility”) with Western Alliance Bank, which had a total commitment of \$20.0 million and a maturity date of May 12, 2020. On October 5, 2017, MediaAlpha refinanced the MediaAlpha Bank Facility in order to fund the acquisition of certain assets associated with the Health, Life and Medicare insurance business of Healthplans.com. The total commitment of the MediaAlpha Bank Facility was increased to \$28.4 million and has a maturity date of October 6, 2020. The MediaAlpha Bank Facility consists of a \$18.4 million term loan facility, which has an outstanding balance of \$15.1 million as of September 30, 2018, and a revolving credit loan facility for \$10.0 million, which was undrawn as of September 30, 2018.

The MediaAlpha Bank Facility carries a variable interest rate that is based on the Prime Rate, as published by the Wall Street Journal, plus a spread of 1.50% on the term loan facility and 0.25% on the revolving credit loan facility as of September 30, 2018.

During the three and nine months ended September 30, 2018, MediaAlpha repaid \$0.8 million and \$2.8 million on the term loan and \$4.0 million and \$6.0 million on the revolving credit loan under the MediaAlpha Bank Facility.

The MediaAlpha Bank Facility is secured by intellectual property and the common stock of MediaAlpha’s subsidiaries, and contains various affirmative, negative and financial covenants that White Mountains considers to be customary for such borrowings, including a fixed charge coverage ratio and an asset coverage ratio covenant.

Other

On December 12, 2016, in connection with the acquisition of a wholly-owned subsidiary, NSM assumed a secured term loan facility with Ageas Insurance Limited, which has a maturity date of May 11, 2024. As of September 30, 2018, the secured term loan facility has an outstanding balance of \$2.3 million. The acquisition date fair value of the debt was \$2.0 million.

Compliance

At September 30, 2018, White Mountains was in compliance with the covenants under all of its debt instruments.

Note 6. Income Taxes

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. If there is a change in the law to impose tax, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company’s subsidiaries and branches are subject to tax are Barbados, Gibraltar, Ireland, Israel, Luxembourg, the United Kingdom and the United States.

White Mountains’s income tax benefit related to pre-tax income from continuing operations for the three months ended September 30, 2018 and pre-tax loss from continuing operations for the nine months ended September 30, 2018 represented an effective tax rate of (8.1)% and 1.2%. The effective tax rate was different from the current U.S. statutory rate of 21%, primarily due to a full valuation allowance on most of the net deferred tax assets at U.S. operations, withholding taxes and a tax benefit recorded at BAM. For BAM, member surplus contributions (“MSC”) and the related taxes thereon are recorded directly to non-controlling interest equity, while the valuation allowance on such taxes is recorded through the income statement. For the three and nine months ended September 30, 2018, BAM recorded a tax benefit of \$1.8 million and \$4.0 million associated with the valuation allowance on taxes related to MSC that is included in the effective tax rate.

White Mountains’s income tax benefit related to pre-tax income from continuing operations for the three and nine months ended September 30, 2017 represented an effective tax rate of (47.6)% and (203.9)%. The effective tax rate

was different from the 2017 U.S. statutory rate of 35%, primarily due to a full valuation allowance on all net deferred tax assets at U.S. operations, pre-tax income from continuing operations being near break-even and a tax benefit recorded at BAM. For BAM, MSC and the related taxes thereon are recorded directly to non-controlling interest equity, while the valuation allowance on such taxes is recorded through the income statement. For the three and nine months ended September 30, 2017, BAM recorded a tax benefit of \$2.1 million and \$6.9 million associated with the valuation allowance on taxes related to MSC that is included in the effective tax rate.

In arriving at the effective tax rate for the three and nine months ended September 30, 2018 and 2017, White Mountains forecasted all income and expense items including the change in unrealized investment gains (losses) and realized investment gains (losses) for the years ending December 31, 2018 and 2017.

White Mountains records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods and strategies that if executed would result in the realization of a deferred tax asset.

With few exceptions, White Mountains is no longer subject to U.S. federal, state, or non-U.S. income tax examinations by tax authorities for years before 2013.

Note 7. Derivatives

NSM Interest Rate Swap

On May 11, 2018, NSM entered into the NSM Bank Facility. Interest on the NSM Bank Facility accrues at a floating interest rate equal to the three month LIBOR or the Prime Rate, as published by the Wall Street Journal plus, in each case, an applicable margin. The margin over LIBOR may vary between 4.25% and 4.75%, and the margin over the Prime Rate may vary between 3.25% and 3.75%, in each case, depending on the consolidated total leverage ratio of the borrower.

On June 15, 2018, NSM entered into an interest rate swap agreement to hedge its exposure to interest rate risk on its variable rate term loans. Under the terms of the swap agreement, NSM pays a fixed rate of 2.97% and receives a variable rate, which is reset monthly, based on then-current LIBOR. The variable rate received by NSM under the swap agreement was 2.07% at September 30, 2018. Over the term of the swap, the notional amount decreases in accordance with the principal repayments NSM expects to make on its term loans. As of September 30, 2018, NSM's blended interest rate on the outstanding term loan principal amount of \$150.6 million was 6.69%, and 7.47% after consideration of the interest rate swap. NSM's obligations under the swap are secured by the same collateral securing the NSM Bank Facility on a pari passu basis. NSM does not currently hold any collateral deposits from or provide any collateral deposits to the swap counterparty.

NSM evaluated the effectiveness of the swap to hedge its interest rate risk associated with its variable rate debt and concluded at the swap inception date that the swap was highly effective in hedging that risk. NSM will evaluate the effectiveness of the hedging relationship on an ongoing basis.

For the three months ended September 30, 2018 and the period from May 11, 2018 through September 30, 2018, NSM recognized net interest expense of \$0.3 million and \$0.4 million for the periodic net settlement payments on the swap. As of September 30, 2018, the estimated fair value of the swap and the accrual of the periodic net settlement payments recorded in other liabilities was \$0.1 million. There was no ineffectiveness in the hedge for the three months ended September 30, 2018 and the period from May 11, 2018 through September 30, 2018. Accordingly, the full amount of the change in the fair value of the swap of \$1.0 million and \$(0.1) million for the three months ended September 30, 2018 and the period from May 11, 2018 through September 30, 2018 are included within accumulated other comprehensive income (loss).

Foreign Currency Forward Contracts

White Mountains's investment portfolio includes investments denominated in Japanese Yen, Euros, GBP and other foreign currencies. White Mountains previously entered into foreign currency forward contracts to manage its foreign currency exposure related to these investments. In conjunction with the liquidation of the GBP investment grade corporate bond mandate in the first quarter of 2018, White Mountains closed the associated foreign currency forward contract.

White Mountains no longer has any open foreign currency forward contracts. As of December 31, 2017, White Mountains held \$206.3 million total gross notional value of a foreign currency forward contract with a carrying value of \$(3.7) million.

The derivative (losses) gains recognized in net realized and unrealized investment gains (losses) for the nine months ended September 30, 2018 were \$(3.5) million. The derivative (losses) gains recognized in net realized and unrealized investment gains (losses) for the three and nine months ended September 30, 2017 were \$(10.0) million and \$(23.1) million.

Note 8. Municipal Bond Guarantee Insurance

In 2012, HG Global was capitalized with \$594.5 million from White Mountains and \$14.5 million from non-controlling interests to fund BAM, a newly formed mutual municipal bond insurer. As of September 30, 2018, White Mountains owned 96.9% of HG Global's preferred equity and 88.4% of its common equity. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of \$503.0 million of BAM Surplus Notes. At inception, BAM and HG Re also entered into a first loss reinsurance treaty ("FLRT"). HG Re provides first loss reinsurance protection up to 15% of par outstanding on each municipal bond insured by BAM. In return, BAM cedes 60% of the risk premium charged for insuring the municipal bond, net of a ceding commission. During 2017, HG Global and BAM made certain changes to the ceding commission arrangements under the FLRT. These changes serve to accelerate growth in BAM's statutory capital but do not impact the net risk premium ceded from BAM to HG Re. HG Re's obligations to BAM are collateralized in trusts, and there is an aggregate loss limit that is equal to the total assets in the collateral trusts at any point in time.

The interest rate on the BAM Surplus Notes for the five years ending December 31, 2018 is a variable rate equal to the one-year U.S. treasury rate plus 300 basis points, set annually, which is 4.60% for 2018 and was 3.78% for 2017. Prior to the end of 2018, BAM has the option to extend the variable rate period for an additional three years. At the end of the variable rate period, the interest rate will be fixed at the higher of the then current variable rate or 8.0%. No payment of interest or principal on the BAM Surplus Notes may be made without the approval of the New York State Department of Financial Services ("NYDFS"). BAM has stated its intention to seek regulatory approval to pay interest and principal on its surplus notes only to the extent that its remaining qualified statutory capital and other capital resources continue to support its outstanding obligations, business plan and its AA stable rating from S&P. BAM repaid \$4.0 million of the BAM Surplus Notes and \$1.0 million of the related accrued interest in 2017. There were no repayments for the three and nine months ended September 30, 2018.

In order to further support BAM's long-term capital position and business prospects, in 2017 HG Global agreed to contribute the \$203.0 million of Series A BAM Surplus Notes ("Series A Notes") into the supplemental collateral trust (the "Supplemental Trust") at HG Re. The Supplemental Trust already held the \$300.0 million of Series B BAM Surplus Notes ("Series B Notes"). Assets held in the Supplemental Trust serve to collateralize HG Re's obligations to BAM under the FLRT. HG Global and BAM also changed the payment terms of the Series B Notes, so that payments will reduce principal and accrued interest on a pro rata basis, consistent with the payment terms on the Series A Notes. The terms of the Series B Notes had previously stipulated that payments would first reduce interest owed, then reduce principal owed once all accrued interest had been paid. The Supplemental Trust target balance is equal to approximately \$603.0 million. As the BAM Surplus Notes are repaid over time, the BAM Surplus Notes will be replaced in the Supplemental Trust by cash and fixed income securities. The collateral trust balances must be at target levels before capital can be distributed out of the Supplemental Trust. In connection with the contribution, the Series A Notes were merged with the Series B Notes.

As of September 30, 2018 and December 31, 2017, the collateral trusts held assets of \$741.7 million and \$715.1 million, which both included \$499.0 million of BAM Surplus Notes. As of September 30, 2018 and December 31, 2017, HG Global has accrued \$143.2 million and \$126.0 million of interest receivable on the BAM Surplus Notes. The following table presents a schedule of BAM's insured obligations:

	September 30, 2018	December 31, 2017
Contracts outstanding	7,184	6,371
Remaining weighted average contract period outstanding (in years)	10.8	10.9
Contractual debt service outstanding (in millions):		
Principal	\$47,259.1	\$42,090.6
Interest	23,707.4	21,057.1
Total debt service outstanding	\$70,966.5	\$63,147.7
Gross unearned insurance premiums	\$156.2	\$136.8

The following table presents a schedule of BAM's future premium revenues as of September 30, 2018:

Millions	September 30, 2018
October 1, 2018 - December 31, 2018	\$ 3.3
January 1, 2019 - March 31, 2019	3.3
April 1, 2019 - June 30, 2019	3.3
July 1, 2019 - September 30, 2019	3.3
October 1, 2019 - December 31, 2019	3.2
Total 2019	13.1
2020	12.6
2021	12.1
2022	11.5
2023 and thereafter	103.6
Total gross unearned insurance premiums	\$ 156.2

The following table presents a schedule of net written premiums included in White Mountains's HG Global/BAM segment for the three months years ended September 30, 2018 and 2017:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross written premiums	\$3.9	\$10.9	\$28.9	\$42.0
Assumed (ceded) written premiums	—	—	—	—
Net written premiums	\$3.9	\$10.9	\$28.9	\$42.0

In April 2018, BAM entered into a collateralized financial guarantee excess of loss reinsurance agreement with Fidus Re, a special purpose insurer. The agreement has a term of twelve years, but is callable by BAM after five years, and covers all policies written prior to December 31, 2017, excluding non-investment grade bonds and surety policies. Under the agreement, BAM retains the first \$165.0 million of aggregate losses, before giving effect to HG's reinsurance coverage, on the ceded business. Losses above BAM's \$165.0 million retention will be split pro rata between BAM and Fidus Re, with BAM retaining 10% and Fidus Re assuming the remaining 90% of the losses under the agreement. The losses covered under the agreement may not exceed the principal and interest amount of the underlying bond guarantee during the risk period. The aggregate loss limit under the agreement is \$276.1 million. Because the agreement does not meet the risk transfer requirements necessary to be accounted for as reinsurance, the agreement is accounted for using deposit accounting and any related financing expenses are recorded in general and administrative expenses.

Note 9. Earnings Per Share

White Mountains calculates earnings per share using the two-class method, which allocates earnings between common shares and unvested restricted common shares. Both classes of shares participate equally in dividends and earnings on a per share basis. Basic earnings per share amounts are based on the weighted average number of common shares outstanding adjusted for unvested restricted common shares.

The following table presents the Company's computation of earnings per share from continuing operations for the three months ended September 30, 2018 and 2017. See Note 16 — "Held for Sale and Discontinued Operations".

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Basic and diluted earnings per share numerators (in millions):				
Net income (loss) attributable to White Mountains's common shareholders	\$40.8	\$562.1	\$(3.7)	\$604.7
Less: total income from discontinued operations, net of tax	(17.3)	539.1	(17.2)	573.2
Net income from continuing operations attributable to White Mountains's common shareholders	\$58.1	\$23.0	\$13.5	\$31.5
Allocation of earnings to participating restricted common shares ⁽¹⁾	(.8)	(.3)	(.2)	(.4)
Basic and diluted earnings per share numerators	\$57.3	\$22.7	\$13.3	\$31.1
Basic earnings per share denominators (in thousands):				
Total average common shares outstanding during the period	3,180.4	4,297.2	3,450.8	4,477.0
Average unvested restricted common shares ⁽²⁾	(41.5)	(53.7)	(39.7)	(54.5)
Basic earnings per share denominator	3,138.9	4,243.5	3,411.1	4,422.5
Diluted earnings per share denominator (in thousands):				
Total average common shares outstanding during the period	3,180.4	4,297.2	3,450.8	4,477.0
Average unvested restricted common shares ⁽²⁾	(41.5)	(53.7)	(39.7)	(54.5)
Diluted earnings per share denominator	3,138.9	4,243.5	3,411.1	4,422.5
Basic and diluted earnings per share (in dollars) - continuing operations:				
Distributed earnings - dividends declared and paid	\$—	\$—	\$1.00	\$1.00
Undistributed earnings (losses)	18.27	5.36	2.90	6.03
Basic and diluted earnings per share	\$18.27	\$5.36	\$3.90	\$7.03

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

⁽²⁾ Restricted shares outstanding vest either in equal annual installments or upon a stated date. See Note 10 — "Employee Share-Based Incentive Compensation Plans"

The following table presents the undistributed net earnings (losses) from continuing operations for the three months ended September 30, 2018 and 2017. See Note 16 — "Held for Sale and Discontinued Operations".

Millions	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Undistributed net income (losses) - continuing operations:				
Net income attributable to White Mountains's common shareholders, net of restricted common share amounts	\$57.3	\$22.7	\$13.3	\$31.1
Dividends declared net of restricted common share amounts ⁽¹⁾	—	—	(3.7)	(4.5)

Total undistributed net losses, net of restricted common share amounts	\$57.3	\$22.7	\$9.6	\$26.6
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(1) Restricted shares issued by White Mountains receive dividends, and therefore, are considered participating securities.

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Note 10. Employee Share-Based Incentive Compensation Plans

White Mountains's Long-Term Incentive Plan (the "WTM Incentive Plan") provides for grants of various types of share-based and non share-based incentive awards to key employees of White Mountains. As of September 30, 2018, White Mountains's share-based compensation incentive awards consist of performance shares and restricted shares.

Performance Shares

Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. Awards generally vest at the end of a three-year period, are subject to the attainment of pre-specified performance goals, and are valued based on the market value of common shares at the time awards are approved for payment.

The following table presents the performance share activity for the three and nine months ended September 30, 2018 and 2017 for performance shares granted under the WTM Incentive Plan:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Target	Accrued	Target	Accrued	Target	Accrued	Target	Accrued
Millions, except share amounts	Performance Shares Outstanding	Expense	Performance Shares Outstanding	Expense	Performance Shares Outstanding	Expense	Performance Shares Outstanding	Expense
Beginning of period	40,616	\$ 27.2	50,575	\$ 31.2	50,515	\$ 45.8	80,353	\$ 42.4
Shares paid ⁽¹⁾	—	—	—	—	(23,186)	(28.4)	(30,838)	(21.6)
New grants	—	—	—	—	14,105	—	17,510	—
Forfeitures and cancellations ⁽²⁾	—	(.1)	(256)	(.4)	(818)	.1	(16,706)	(9.4)
Expense recognized	—	7.8	—	7.0	—	17.4	—	26.4
End of period ⁽³⁾	40,616	\$ 34.9	50,319	\$ 37.8	40,616	\$ 34.9	50,319	\$ 37.8

⁽¹⁾ WTM performance share payments in 2018 for the 2015-2017 performance cycle, which were paid in March 2018, ranged from 145% to 147% of target. WTM performance share payments in 2017 for the 2014-2016 performance cycle, which were paid in March 2017, ranged from 34% to 76% of target.

⁽²⁾ Amounts include changes in assumed forfeitures, as required under GAAP.

⁽³⁾ Outstanding performance share awards as of September 30, 2017 excludes 2,195 performance share awards granted to employees of Sirius Group.

For performance shares earned in the 2015-2017 and 2014-2016 performance cycles, all performance shares earned were settled in cash. If all the outstanding WTM performance shares had vested on September 30, 2018, the total additional compensation cost to be recognized would have been \$20.4 million, based on accrual factors (common share price and payout assumptions) at September 30, 2018.

The following table presents performance shares outstanding and accrued expense for performance shares awarded under the WTM Incentive Plan at September 30, 2018 for each performance cycle:

	Target Performance Shares Outstanding	Accrued Expense
Millions, except share amounts		
Performance cycle:		
2016 – 2018	13,715	\$ 18.9
2017 – 2019	14,070	13.3
2018 – 2020	13,450	3.2
Sub-total	41,235	35.4
Assumed forfeitures	(619)	(.5)

September 30, 2018 40,616 \$ 34.9

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Restricted Shares

The following table presents the unrecognized compensation cost associated with the outstanding restricted share awards for the three and nine months ended September 30, 2018 and 2017:

Millions, except share amounts	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
Non-vested,								
Beginning of period	41,510	\$ 19.0	53,815	\$ 23.5	53,755	\$ 14.3	70,620	\$ 19.7
Issued	—	—	—	—	14,105	11.4	17,785	16.7
Vested	—	—	(260)	—	(25,381)	—	(28,846)	—
Forfeited	—	—	—	—	(969)	(.2)	(6,004)	(3.5)
Expense recognized	—	(3.2)	—	(3.8)	—	(9.7)	—	(13.2)
End of period ⁽¹⁾	41,510	\$ 15.8	53,555	\$ 19.7	41,510	\$ 15.8	53,555	\$ 19.7

⁽¹⁾ Restricted share awards outstanding as of September 30, 2017 includes 2,195 restricted shares issued to employees of Sirius Group, which was accounted for as discontinued operations.

During the first quarter of 2018, White Mountains issued 13,450 restricted shares that vest on January 1, 2021, 290 restricted shares that vest on January 1, 2020 and 365 restricted shares that vest on January 1, 2019. During the second quarter of 2017, White Mountains issued 550 restricted shares that vest on January 1, 2020, 250 restricted shares that vest on January 1, 2019 and 250 restricted shares that vest on January 1, 2018. During the first quarter of 2017, White Mountains issued 16,735 restricted shares that vest on January 1, 2020. The unamortized issue date fair value at September 30, 2018 is expected to be recognized ratably over the remaining vesting periods.

Non-Qualified Options

As of January 20, 2017, the 125,000 Non-Qualified options issued to the Company's former Chairman and CEO were exercised. During the first quarter of 2017, 40,000 Non-Qualified Options, with an intrinsic value of \$4.4 million, were exercised in exchange for 5,142 common shares with an equal total market value. The intrinsic value represents the difference between the market price of the Company's common shares at the date of exercise and the fixed strike price of \$742 per common share. The Non-Qualified Options were fully amortized as of 2011.

MediaAlpha Class B Unit Awards

MediaAlpha has issued Class B unit awards to certain employees. The units entitle the award recipient to participate in distributions from MediaAlpha, subject to a cumulative distribution threshold, which is a performance condition, and a service period. The grant date fair value of the awards is determined when it is deemed probable that the distribution threshold will be met. The service period ranges from 36 months to 48 months. For the three and nine months ended September 30, 2018, MediaAlpha recognized \$0.2 million and \$6.9 million of compensation expense for the vested portion of the awards for which achievement of the performance award is now probable, and \$0.1 million of unearned compensation expense for unvested awards, which will be recognized over the remaining service periods of the awards.

Note 11. Non-controlling Interests

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

The following table presents the balance of non-controlling interests included in White Mountains's total equity and the related percentage of each consolidated entity's total equity owned by non-controlling shareholders as of September 30, 2018 and December 31, 2017:

\$ in millions	September 30, 2018		December 31, 2017	
	Non-controlling Percentage	Equity	Non-controlling Percentage	Equity
Other, excluding mutuals				
HG Global	3.1 %	\$ 14.8	3.1 %	\$ 15.9
NSM	5.0	14.1	—	—
MediaAlpha	37.8	15.3	35.7	13.1
Buzzmove	22.9	1.5	22.9	2.5
Total other, excluding mutuals		45.7		31.5
Mutuals				
BAM	100.0	(190.1)	100.0	(163.2)
Total non-controlling interests		\$ (144.4)		\$ (131.7)

Note 12. Segment Information

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

Significant intercompany transactions among White Mountains's segments have been eliminated herein. The following table presents the financial information for White Mountains's segments:

Millions	HG Global/BAM	NSM	MediaAlpha	Other Operations	Total
Three Months Ended September 30, 2018					
Earned insurance premiums	\$ 3.3	\$—	\$ —	\$ —	\$3.3
Net investment income	4.8	—	—	8.6	13.4
Net realized and unrealized investment (losses) gains	(4.1)	—	—	70.2	66.1
Advertising and commission revenues ⁽¹⁾	—	36.6	74.5	1.1	112.2
Other revenue	.2	3.1	—	.4	3.7
Total revenues	4.2	39.7	74.5	80.3	198.7
Insurance acquisition expenses	1.2	—	—	—	1.2
Other underwriting expenses	.1	—	—	—	.1
Cost of sales	—	—	61.8	1.1	62.9
General and administrative expenses	11.3	25.8	5.4	26.0	68.5
Broker commission expense	—	10.9	—	—	10.9
Amortization of other intangible assets	—	5.0	2.4	—	7.4
Interest expense	—	3.2	.2	—	3.4
Total expenses	12.6	44.9	69.8	27.1	154.4
Pre-tax (loss) income	\$ (8.4)	\$(5.2)	\$ 4.7	\$ 53.2	\$44.3

(1) Approximately 30% of MediaAlpha's advertising revenue for the three months ended September 30, 2018 was associated with one customer.

Millions	HG Global/BAM	MediaAlpha	Other Operations	Total
Three Months Ended September 30, 2017				
Earned insurance premiums	\$ 2.4	\$ —	\$ —	\$ 2.4
Net investment income	3.3	—	8.9	12.2
Net realized and unrealized investment gains	.8	—	31.7	32.5
Advertising and commission revenues ⁽¹⁾	—	37.9	.9	38.8
Other revenue	.2	—	1.4	1.6
Total revenues	6.7	37.9	42.9	87.5
Insurance acquisition expenses	.9	—	—	.9
Other underwriting expenses	.1	—	—	.1
Cost of sales	—	32.2	.9	33.1
General and administrative expenses	10.6	3.8	27.3	41.7
Amortization of other intangible assets	—	2.3	.1	2.4
Interest expense	—	.1	.8	.9
Total expenses	11.6	38.4	29.1	79.1
Pre-tax (loss) income	\$ (4.9)	\$ (.5)	\$ 13.8	\$ 8.4

(1) Approximately 32% of MediaAlpha's advertising revenue for the three months ended September 30, 2017 was associated with one customer.

Millions	HG Global/BAM	NSM (2)	MediaAlpha	Other Operations	Total
Nine Months Ended September 30, 2018					
Earned insurance premiums	\$ 9.7	\$—	\$ —	—	\$9.7
Net investment income	12.5	—	—	32.4	44.9
Net realized and unrealized investment (losses) gains	(14.4)	—	—	37.3	22.9
Advertising and commission revenues ⁽¹⁾	—	59.2	216.4	3.0	278.6
Other revenue	.8	4.0	1.6	.6	7.0
Total revenues	8.6	63.2	218.0	73.3	363.1
Insurance acquisition expenses	3.9	—	—	—	3.9
Other underwriting expenses	.3	—	—	—	.3
Cost of sales	—	—	179.1	2.9	182.0
General and administrative expenses	36.5	37.9	21.2	79.0	174.6
Broker commission expense	—	17.5	—	—	17.5
Amortization of other intangible assets	—	5.0	7.8	.1	12.9
Interest expense	—	4.8	.9	.3	6.0
Total expenses	40.7	65.2	209.0	82.3	397.2
Pre-tax (loss) income	\$ (32.1)	\$(2.0)	\$ 9.0	\$ (9.0)	\$(34.1)

(1) Approximately 31% of MediaAlpha's advertising revenue for the nine months ended September 30, 2018 was associated with one customer.

(2) NSM's results are from May 11, 2018, the date of acquisition, to the end of the third quarter.

Millions	HG Global/BAM	MediaAlpha	Other Operations	Total
Nine Months Ended September 30, 2017				
Earned insurance premiums	\$ 6.6	\$ —	\$ —	\$ 6.6
Net investment income	8.9	—	30.8	39.7
Net realized and unrealized investment gains	3.2	—	99.3	102.5
Advertising and commission revenues ⁽¹⁾	—	101.2	2.7	103.9
Other revenue	.8	—	6.3	7.1
Total revenues	19.5	101.2	139.1	259.8
Insurance acquisition expenses	3.0	—	—	3.0
Other underwriting expenses	.3	—	—	.3
Cost of sales	—	86.0	2.7	88.7
General and administrative expenses	31.5	10.7	113.9	156.1
Amortization of other intangible assets	—	7.2	.1	7.3
Interest expense	—	.6	1.2	1.8
Total expenses	34.8	104.5	117.9	257.2
Pre-tax (loss) income	\$ (15.3)	\$ (3.3)	\$ 21.2	\$ 2.6

(1) Approximately 29% of MediaAlpha's advertising revenue for the nine months ended September 30, 2017 was associated with one customer.

Note 13. Investments in Unconsolidated Entities

White Mountains's investments in unconsolidated entities are included within other long-term investments and consist of investments in common equity securities or similar instruments, which give White Mountains the ability to exert significant influence over the investee's operating and financial policies ("equity method eligible unconsolidated entities"). Such investments may be accounted for under either the equity method or, alternatively, White Mountains may elect to account for them under the fair value option.

The following table presents the carrying values of investments in equity method eligible unconsolidated entities recorded within other long-term investments:

Millions	September 30, 2018	December 31, 2017
Equity method eligible private equity securities, at fair value	\$ 97.3	\$ 58.0
Investments, accounted for under the equity method	11.6	4.6
Total investments in equity method eligible unconsolidated entities	108.9	62.6
Other unconsolidated investments ⁽¹⁾	180.8	146.2
Total other long-term investments	\$ 289.7	\$ 208.8

(1) Consists of other long-term investments that are not equity method eligible.

The following table presents White Mountains's investments in equity method eligible unconsolidated entities as of September 30, 2018 and December 31, 2017:

Investee	Ownership Interest		Instrument Held
	September 30, 2018	December 31, 2017	
PassportCard ⁽¹⁾	50.0%	50.0%	Common shares
DavidShield ⁽¹⁾	50.0%	—	Common shares
Kudu	49.5%	—	Units
durchblicker	45.0%	45.0%	Common shares
Compare.com	22.1%	22.1%	Common shares
Tuckerman Capital Fund III, L.P.	21.8%	21.3%	Limited partnership interest

(1) At September 30, 2018, White Mountains's ownership interest in PassportCard comprised a 25% direct ownership interest and a 25% indirect interest through DavidShield. At December 31, 2017, White Mountains's ownership

interest was a 50% direct ownership interest. See Note 2 — “Significant Transactions”.

For the three and nine months ending September 30, 2018, White Mountains recorded \$4.2 million and \$8.1 million associated with Tuckerman Capital Fund III L.P. (“Tuckerman III, L.P.”) within unrealized investment gains (losses) and net investment income. Financial data submitted by Tuckerman III L.P. is on a one-quarter lag. For the three and nine trailing months ended June 30, 2018, Tuckerman III L.P.’s total net income was \$31.9 million and \$43.7 million. For the three and nine trailing months ended June 30, 2017, Tuckerman III L.P.’s total net income was \$3.2 million and \$7.1 million. As of June 30, 2018 and December 31, 2017, Tuckerman III, L.P.’s total assets were \$61.9 million and \$21.8 million.

Note 14. Fair Value of Financial Instruments

White Mountains accounts for all its financial instruments at fair value with the exception of the NSM Bank Facility and the MediaAlpha Bank Facility, which are recorded as debt at face value less unamortized original issue discount. The following table presents the fair value and carrying value of this financial instrument as of September 30, 2018 and December 31, 2017:

Millions	September 30, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
NSM Bank Facility	\$ 147.3	\$ 147.3	\$ —	\$ —
MediaAlpha Bank Facility	\$ 15.3	\$ 15.0	\$ 23.9	\$ 23.8

The fair value estimates for the MediaAlpha Bank Facility and the NSM Bank Facility have been determined based on a discounted cash flows approach and are considered to be Level 3 measurements.

Note 15. Contingencies

Legal Contingencies

White Mountains is subject to litigation and arbitration in the normal course of business. White Mountains considers the requirements of ASC 450 when evaluating its exposure to litigation and arbitration. ASC 450 requires that accruals be established for litigation and arbitration if it is probable that a loss has been incurred and it can be reasonably estimated. ASC 450 also requires that litigation and arbitration be disclosed if it is probable that a loss has been incurred or if there is a reasonable possibility that a loss may have been incurred. White Mountains does not have any current litigation that may have a material adverse effect on White Mountains’s financial condition, results of operations or cash flows.

The following description presents significant legal contingencies, ongoing non-claims related litigation or arbitration as of September 30, 2018:

Sirius Group Tax Contingency

In late October 2018, the Swedish Administrative Court ruled against Sirius Group on its appeal of the Swedish Tax Agency’s denial of certain interest deductions relating to periods prior to the sale of Sirius Group to CMI in 2016. In connection with the sale, White Mountains indemnified Sirius Group against the loss of these interest deductions. As a result, in the third quarter of 2018, White Mountains recorded a loss of \$17.3 million within net (loss) gain on sale of discontinued operations reflecting the value of these interest deductions. Sirius Group intends to appeal the decision to the Swedish Administrative Court of Appeal.

NSM Contingent Liability

In connection with White Mountains’s acquisition of NSM, White Mountains and NSM entered into an agreement with AIG to facilitate a sale of NSM’s U.S. collector car renewal rights owned by AIG to a third party by December 31, 2019. Under the terms of the agreement, if White Mountains and NSM are unable to facilitate a sale by December 31,

2019, AIG has the right to require NSM to purchase the renewal rights for \$82.5 million. The Company has guaranteed NSM's obligations under the agreement with AIG. The manner in which these obligations are ultimately discharged depends on a number of factors, including the market value of the renewal rights, the number of potential buyers and the current and prospective environment for U.S. collector car insurance. White Mountains believes that the estimated fair value of the renewal rights is greater than \$82.5 million and, accordingly, no accrual of a liability is necessary at September 30, 2018.

Note 16. Held for Sale and Discontinued Operations

OneBeacon

On September 28, 2017, Intact Financial Corporation completed its acquisition of OneBeacon in an all-cash transaction for \$18.10 per share. White Mountains received total proceeds of \$1.3 billion and recorded a gain of \$554.6 million, net of transaction costs. During the three months ended September 30, 2017, net loss from discontinued operations related to OneBeacon was \$(15.2) million. For 2017 through the closing date of the transaction, net income from discontinued operations related to OneBeacon was \$20.5 million.

Tranzact

On July 21, 2016, White Mountains completed its sale of Tranzact to Clayton, Dubilier & Rice, LLC. During the nine months ended September 30, 2017, White Mountains recorded a \$1.0 million reduction to the gain from sale of Tranzact in discontinued operations as a result of 2016 state tax payments.

Sirius Group

On April 18, 2016, White Mountains completed the sale of Sirius Group to CMI. During the three and nine months ended September 30, 2018, White Mountains recorded a \$17.3 million loss and \$17.2 million loss from the sale of Sirius Group which includes the tax contingency loss of \$17.3 million recorded during the third quarter of 2018. See Note 15 — “Contingencies”. During the nine months ended September 30, 2018, White Mountains recorded a \$0.1 million gain from the sale of Sirius Group as a result of a change to the valuation of the accrued incentive compensation payable to Sirius Group employees.

During the three and nine months ended September 30, 2017, White Mountains recorded a \$0.2 million and \$0.8 million reduction to the gain from sale of Sirius Group as a result of a change to the valuation of the accrued incentive compensation payable to Sirius Group employees.

Other

As of December 31, 2017, White Mountains has classified its Guilford, Connecticut property, which consists of an office building and adjacent land, as held for sale. The property has been measured at its estimated fair value net of costs of disposal, of \$3.3 million as of September 30, 2018 and December 31, 2017.

Net Income (Loss) from Discontinued Operations

For the three and nine months ended September 30, 2018, White Mountains recognized net loss from sale of discontinued operations of \$17.3 million and \$17.2 million, which was primarily due to a tax contingency related to the sale of Sirius Group. See Note 15 — “Contingencies”.

The following table presents the results of operations, including related income taxes, associated with the business classified as discontinued operations for the three and nine months ended September 30, 2017. The amounts presented relate to OneBeacon, Sirius Group, and Tranzact. The results of discontinued operations from Sirius Group and Tranzact up to the closing date of the transaction inured to White Mountains. Given the fixed price nature of the OneBeacon Transaction, OneBeacon’s results were economically transferred to the buyer at signing.

Millions	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017			
	OneBeacon	Sirius Group	Total	OneBeacon	Sirius Group	Tranzact	Total
Revenues							
Earned insurance premiums	\$268.4	\$ —	\$268.4	\$807.6	\$ —	\$ —	\$807.6
Net investment income	13.0	—	13.0	39.7	—	—	39.7
Net realized and unrealized gains	11.5	—	11.5	38.8	—	—	38.8
Other revenue	2.2	—	2.2	7.7	—	—	7.7
Total revenues	295.1	—	295.1	893.8	—	—	893.8
Expenses							
Loss and loss adjustment expenses	206.8	—	206.8	546.0	—	—	546.0
Insurance and reinsurance acquisition expenses	51.9	—	51.9	145.6	—	—	145.6
Other underwriting expenses	44.9	—	44.9	156.2	—	—	156.2
General and administrative expenses	7.4	—	7.4	21.2	—	—	21.2
Interest expense	3.4	—	3.4	10.0	—	—	10.0
Total expenses	314.4	—	314.4	879.0	—	—	879.0
Pre-tax (loss) income	(19.3)	—	(19.3)	14.8	—	—	14.8
Income tax benefit	4.1	—	4.1	5.7	—	—	5.7
Net (loss) income from discontinued operations	(15.2)	—	(15.2)	20.5	—	—	20.5
Net gain (loss) from sale of discontinued operations	554.5	(.2)	554.3	554.5	(.8)	(1.0)	552.7
Total income (loss) from discontinued operations	539.3	(.2)	539.1	575.0	(.8)	(1.0)	573.2
Change in foreign currency translation and other from discontinued operations	.1	—	.1	.3	—	—	.3
Recognition of benefit plan assets and obligations from the sale of OneBeacon, net of tax	2.9	—	2.9	2.9	—	—	2.9
Comprehensive income (loss) from discontinued operations	\$542.3	\$ (.2)	\$542.1	\$578.2	\$ (.8)	\$ (1.0)	\$576.4

Net Change in Cash from Discontinued Operations

The following table presents the net change in cash, including income tax payments to national governments and interest paid associated with the business classified as discontinued operations:

	Nine Months Ended September 30, 2017
Millions	2017
Net cash provided from (used for) operations	\$-157.0
Net cash (used for) provided from investing activities	-3.0
Net cash used for financing activities	-(61.9)
Net change in cash during the period	-98.1
Cash balances at beginning of period	-70.5
Net change in cash held for sale, excluding discontinued operations	-(.9)
Cash sold as part of sale of consolidated subsidiaries	-167.7
Cash balances at end of period	\$-\$
Supplemental cash flows information:	
Interest paid	\$-\$
Net income tax payment to national governments	\$-\$

Earnings Per Share from Discontinued Operations

White Mountains calculates earnings per share using the two-class method, which allocates earnings between common and unvested restricted common shares. Both classes of shares participate equally in earnings on a per share basis. Basic earnings per share amounts are based on the weighted average number of common shares outstanding adjusted for unvested restricted common shares. Diluted earnings per share amounts are also impacted by the net effect of potentially dilutive common shares outstanding.

The following table presents the Company's computation of earnings per share for discontinued operations for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Basic and diluted earnings per share numerators (in millions):				
Net income (loss) attributable to White Mountains's common shareholders	\$40.8	\$562.1	\$(3.7)	\$604.7
Less total loss from continuing operations, net of tax	58.1	23.0	13.5	31.5
Net income from discontinued operations attributable to White Mountains's common shareholders	\$(17.3)	\$539.1	\$(17.2)	\$573.2
Allocation of earnings to participating restricted common shares ⁽¹⁾	.2	(6.7)	.2	(7.0)
Basic and diluted earnings per share numerators	\$(17.1)	\$532.4	\$(17.0)	\$566.2
Basic earnings per share denominators (in thousands):				
Total average common shares outstanding during the period	3,180.4	4,297.2	3,450.8	4,477.0
Average unvested restricted common shares ⁽³⁾	(41.5)	(53.7)	(39.7)	(54.5)
Basic earnings per share denominator	3,138.9	4,243.5	3,411.1	4,422.5
Diluted earnings per share denominator (in thousands):				
Total average common shares outstanding during the period	3,180.4	4,297.2	3,450.8	4,477.0
Average unvested restricted common shares ⁽³⁾	(41.5)	(53.7)	(39.7)	(54.5)

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Diluted earnings per share denominator	3,138.9	4,243.5	3,411.1	4,422.5
Basic and diluted earnings per share (in dollars) - discontinued operations:	\$(5.44)	\$125.45	\$(4.98)	\$128.03

(1) Restricted shares issued by White Mountains contain dividend participation features, and therefore, are considered participating securities.

(2) Net earnings attributable to White Mountains's common shareholders, net of restricted share amounts, is equal to undistributed earnings for the three and nine months ended September 30, 2018 and 2017.

(3) Restricted common shares outstanding vest either in equal annual installments or upon a stated date. See Note 10 — "Employee Share-Based Incentive Compensation Plans".

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains "forward-looking statements". White Mountains intends statements that are not historical in nature, which are hereby identified as forward-looking statements, to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. White Mountains cannot promise that its expectations in such forward-looking statements will turn out to be correct. White Mountains's actual results could be materially different from and worse than its expectations. See "FORWARD-LOOKING STATEMENTS" for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.

The following discussion also includes four non-GAAP financial measures (i) adjusted book value per share, (ii) gross written premiums and MSC from new business (iii) adjusted capital, and (iv) adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") that have been reconciled from their most comparable GAAP financial measures on page 64. White Mountains believes these measures to be useful in evaluating White Mountains's financial performance and condition.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Overview

White Mountains is engaged in the business of making opportunistic and value-oriented acquisitions of businesses and assets in the insurance, financial services and related sectors, operating these businesses and assets through our subsidiaries and, if and when attractive exit valuations become available, disposing of these businesses and assets.

White Mountains ended the third quarter of 2018 with book value per share of \$938 and adjusted book value per share of \$926. Book value per share and adjusted book value per share both increased 2% in the third quarter of 2018 and 1% in the first nine months of 2018, including dividends.

Gross written premiums and MSC in the HG Global/BAM segment totaled \$16 million and \$56 million in the third quarter and first nine months of 2018, compared to \$19 million and \$68 million in the third quarter and first nine months of 2017. BAM insured municipal bonds with par value of \$2.2 billion and \$6.6 billion in the third quarter and first nine months of 2018, compared to \$2.0 billion and \$7.1 billion in the third quarter and first nine months of 2017. Total pricing, which is gross written premiums and MSC adjusted to include the present value of future installment MSC not yet collected and to exclude the impact of gross written premium adjustments on existing policies, weighted by the par value of municipal bonds insured, was 75 and 91 basis points in the third quarter and first nine months of 2018, compared to 103 and 99 basis points in the third quarter and first nine months of 2017. BAM's total claims paying resources were \$835 million at September 30, 2018, compared to \$708 million at December 31, 2017 and \$687 million at September 30, 2017. The increase in claims paying resources was primarily driven by the \$100 million reinsurance agreement BAM entered into with Fidus Reinsurance Ltd. ("Fidus Re"), in the second quarter of 2018.

NSM reported pre-tax loss of \$5 million and \$2 million for the third quarter of 2018 and the period from May 11, 2018 through September 30, 2018. NSM's adjusted EBITDA was \$6 million and \$11 million for the third quarter of 2018 and the period from May 11, 2018 through September 30, 2018. NSM reported revenues of \$40 million and \$63 million for the third quarter of 2018 and the period from May 11, 2018 through September 30, 2018..

MediaAlpha reported pre-tax income of \$5 million and \$9 million in the third quarter and first nine months of 2018, compared to pre-tax loss of \$1 million and \$3 million in the third quarter and first nine months of 2017. MediaAlpha's adjusted EBITDA was \$8 million and \$25 million in the third quarter and first nine months of 2018, compared to \$2 million and \$5 million in the third quarter and first nine months of 2017. MediaAlpha reported revenues of \$75 million and \$218 million in the third quarter and first nine months of 2018, compared to \$38 million and \$101 million in the third quarter and first nine months of 2017. The increases in pre-tax income, adjusted EBITDA and revenues for both periods were primarily driven by growth in the P&C vertical and the Health, Medicare and Life vertical, which includes the impact of the acquisition of assets from Healthplans.com in the fourth quarter of 2017.

The pre-tax total return on invested assets was 3.1% and 2.8% in the third quarter and first nine months of 2018 compared to 1.4% and 4.3% in the third quarter and first nine months of 2017.

White Mountains's portfolio of common equity securities returned 6.1% and 7.4% for the third quarter and first nine months of 2018, underperforming the S&P 500 Index return of 7.7% and 10.6%, primarily due to underperformance in White Mountains's non-U.S. common equity securities. White Mountains's portfolio of common equity securities returned 4.3% and 14.4% for the third quarter and first nine months of 2017, underperforming the S&P 500 Index return of 4.5% for the third quarter and outperforming the S&P 500 Index return of 14.2% for the first nine months of 2017.

White Mountains's other long-term investments portfolio returned 6.5% and 3.7% for the third quarter and first nine months of 2018. The results for the third quarter of 2018 were primarily attributable to gains from private equity funds. The results for the first nine months of 2018 were primarily attributable to gains from private equity funds and a long/short hedge fund, partially offset by losses from the foreign currency forward contract closed during the first quarter. White Mountains's other long-term investments portfolio returned -2.3% and -2.9% for the third quarter and first nine months of 2017. The results were primarily attributable to losses from foreign currency forward contracts, partially offset by a favorable mark-to-market adjustment to the OneBeacon surplus notes during the third quarter of 2017 and strong private equity fund and hedge fund results for the first nine months of 2017.

White Mountains's fixed income portfolio returned 0.4% and 0.0% for the third quarter and first nine months of 2018, outperforming the longer duration Bloomberg Barclays U.S. Intermediate Aggregate Index return of 0.1% and -0.9%. Outperformance in both periods was driven by White Mountains's overweight exposure to debt securities issued by corporations coupled with the short duration positioning of its fixed income portfolio, which mitigated the adverse impact of rising interest rates. White Mountains's fixed income portfolio returned 1.0% and 3.0% for the third quarter and first nine months of 2017, outperforming the Bloomberg Barclays U.S. Intermediate Aggregate Index return of 0.7% and 2.3% as short-term yields rose in both periods.

In late October 2018, the Swedish Administrative Court ruled against Sirius Group on its appeal of the Swedish Tax Agency's denial of certain interest deductions relating to periods prior to the sale of Sirius Group to CMI in 2016. In connection with the sale, White Mountains indemnified Sirius Group against the loss of these interest deductions. As a result, in the third quarter of 2018, White Mountains recorded a loss of \$17 million within net (loss) gain on sale of discontinued operations reflecting the value of these interest deductions. Sirius Group intends to appeal the decision to the Swedish Administrative Court of Appeal.

White Mountains did not repurchase any common shares in the third quarter of 2018. During the first nine months of 2018, White Mountains repurchased and retired 585,033 of its common shares for \$513 million at an average share price of \$877, or approximately 93% of White Mountains's September 30, 2018 book value per share and approximately 94% of White Mountains's September 30, 2018 adjusted book value per share.

Adjusted Book Value Per Share

The following table presents White Mountains's book value per share and reconciles it to adjusted book value per share, a non-GAAP measure. See NON-GAAP FINANCIAL MEASURES on page 64.

	September 30, 2018	June 30, 2018	December 31, 2017	September 30, 2017
Book value per share numerators (in millions):				
White Mountains's common shareholders' equity	\$ 2,984.0	\$ 2,940.1	\$ 3,492.5	\$ 3,468.8
Time value of money discount on expected future payments on the BAM Surplus Notes ⁽¹⁾	(146.3)	(150.1)	(157.0)	(161.8)
HG Global's unearned premium reserve ⁽¹⁾	120.2	119.5	103.9	88.4
HG Global's net deferred acquisition costs ⁽¹⁾	(29.4)	(29.1)	(24.3)	(19.6)
Adjusted book value per share numerator	\$ 2,928.5	\$ 2,880.4	\$ 3,415.1	\$ 3,375.8
Book value per share denominators (in thousands of shares):				
Common shares outstanding - GAAP book value per share denominator	3,180.5	3,180.4	3,750.2	3,750.0
Unearned restricted common shares	(18.5)	(22.4)	(16.8)	(22.7)
Adjusted book value per share denominator	3,162.0	3,158.0	3,733.4	3,727.3
GAAP book value per share	\$ 938.19	\$ 924.46	\$ 931.30	\$ 925.04

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Adjusted book value per share	\$ 926.14	\$912.08	\$ 914.75	\$ 905.72
Year-to-date dividends paid per share	\$ 1.00	\$1.00	\$ 1.00	\$ 1.00

⁽¹⁾ Amount reflects White Mountains's preferred share ownership in HG Global of 96.9%.

Goodwill and Other Intangible Assets

During the quarter ended September 30, 2018, White Mountains completed the analysis of the acquisition date fair values associated with its purchase of NSM, including the fair values attributed to goodwill and separately identifiable intangible assets. The following table presents a summary of goodwill and other intangible assets that are included in White Mountains's book value as of September 30, 2018, June 30, 2018, December 31, 2017, and September 30, 2017:

Millions	September 30, 2018	June 30, 2018	December 31, 2017	September 30, 2017
Summary of goodwill and other intangible assets:				
Goodwill:				
NSM	\$ 295.5	\$436.2	\$ —	\$ —
MediaAlpha	18.3	18.3	18.3	18.3
Other	7.6	7.6	7.6	7.6
Total goodwill	321.4	462.1	25.9	25.9
Other intangible assets:				
NSM	135.5	—	—	—
MediaAlpha	27.6	30.0	35.4	11.0
Other	.7	.7	.8	.9
Total other intangible assets	163.8	30.7	36.2	11.9
Total goodwill and other intangible assets	485.2	492.8	62.1	37.8
Goodwill and other intangible assets attributed to non-controlling interests	(40.6)	(41.7)	(21.1)	(13.7)
Goodwill and other intangible assets included in White Mountains's common shareholders' equity	\$ 444.6	\$451.1	\$ 41.0	\$ 24.1

⁽¹⁾ See Note 4 — “Goodwill and Other Intangible Assets” for details of other intangible assets.

Summary of Consolidated Results

The following table presents White Mountains's consolidated financial results for the three and nine months ended September 30, 2018 and 2017:

Millions	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Revenues				
Financial Guarantee revenues	\$4.2	\$6.7	\$8.6	\$19.5
Specialty Insurance Distribution revenues	39.7	—	63.2	—
Marketing Technology revenues	74.5	37.9	218.0	101.2
Other revenues	80.3	42.9	73.3	139.1
Total revenues	198.7	87.5	363.1	259.8
Expenses				
Financial Guarantee expenses	12.6	11.6	40.7	34.8
Specialty Insurance Distribution expenses	44.9	—	65.2	—
Marketing Technology expenses	69.8	38.4	209.0	104.5
Other expenses	27.1	29.1	82.3	117.9
Total expenses	154.4	79.1	397.2	257.2
Pre-tax income (loss)				
Financial Guarantee pre-tax loss	(8.4)	(4.9)	(32.1)	(15.3)
Specialty Insurance Distribution pre-tax loss	(5.2)	—	(2.0)	—
Marketing Technology pre-tax income (loss)	4.7	(.5)	9.0	(3.3)
Other pre-tax income (loss)	53.2	13.8	(9.0)	21.2
Total pre-tax income (loss)	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 on 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 income 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
Other comprehensive (loss) income, net of tax	(.8)	—	(1.7)	.2
Other comprehensive income from discontinued operations, net of tax	—	3.0	—	3.2
Comprehensive income (loss)	40.0	565.1	(5.4)	608.1
Comprehensive loss (income) 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

I. Summary of Operations By Segment

White Mountains conducts its operations through four segments: (1) HG Global/BAM, (2) NSM, (3) MediaAlpha and (4) Other Operations. A discussion of White Mountains's consolidated investment operations is included after the discussion of operations by segment. White Mountains's segment information is presented in Note 12 — "Segment Information" to the Consolidated Financial Statements.

HG Global/BAM

The following table presents the components of pre-tax income (loss) included in White Mountains's HG Global/BAM segment related to the consolidation of HG Global, which includes HG Re and its other wholly-owned subsidiaries, and BAM for the three and nine months ended September 30, 2018 and 2017:

Millions	Three Months Ended September 30, 2018			
	HG Global	BAM	Eliminations	Total
Gross written premiums	\$—	\$3.9	\$ —	\$3.9
Assumed (ceded) written premiums	3.4	(3.4)	—	—
Net written premiums	\$3.4	\$.5	\$ —	\$3.9
Earned insurance premiums	\$2.6	\$.7	\$ —	\$3.3
Net investment income	1.6	3.2	—	4.8
Net investment income - BAM Surplus Notes	5.7	—	(5.7)	—
Net realized and unrealized investment losses	(.7)	(3.4)	—	(4.1)
Other revenue	—	.2	—	.2
Total revenues	9.2	.7	(5.7)	4.2
Insurance acquisition expenses	.6	.6	—	1.2
Other underwriting expenses	—	.1	—	.1
General and administrative expenses	.2	11.1	—	11.3
Interest expense - BAM Surplus Notes	—	5.7	(5.7)	—
Total expenses	.8	17.5	(5.7)	12.6
Pre-tax income (loss)	\$8.4	\$(16.8)	\$ —	\$(8.4)
Supplemental information:				
MSC collected ⁽¹⁾	\$—	\$12.1	\$ —	\$12.1

⁽¹⁾ MSC are recorded directly to BAM's equity, which is recorded as non-controlling interest on White Mountains's balance sheet.

Millions	Three Months Ended September 30, 2017			
	HG Global	BAM	Eliminations	Total
Gross written premiums	\$—	\$10.9	\$ —	\$10.9
Assumed (ceded) written premiums	9.0	(9.0)	—	—
Net written premiums	\$9.0	\$1.9	\$ —	\$10.9
Earned insurance premiums	\$1.8	\$.6	\$ —	\$2.4
Net investment income	1.0	2.3	—	3.3
Net investment income - BAM Surplus Notes	4.8	—	(4.8)	—
Net realized and unrealized investment gains	.1	.7	—	.8
Other revenue	—	.2	—	.2
Total revenues	7.7	3.8	(4.8)	6.7
Insurance acquisition expenses	.4	.5	—	.9
Other underwriting expenses	—	.1	—	.1
General and administrative expenses	.3	10.3	—	10.6
Interest expense - BAM Surplus Notes	—	4.8	(4.8)	—
Total expenses	.7	15.7	(4.8)	11.6
Pre-tax income (loss)	\$7.0	\$(11.9)	\$ —	\$(4.9)
Supplemental information:				
MSC collected ⁽¹⁾	\$—	\$8.4	\$ —	\$8.4

⁽¹⁾ MSC are recorded directly to BAM's equity, which is recorded as non-controlling interest on White Mountains's balance sheet.

Millions	Nine Months Ended September 30, 2018			
	HG Global	BAM	Eliminations	Total
Gross written premiums	\$—	\$28.9	\$ —	\$28.9
Assumed (ceded) written premiums	24.5	(24.5)	—	—
Net written premiums	\$24.5	\$4.4	\$ —	\$28.9
Earned insurance premiums	\$7.6	\$2.1	\$ —	\$9.7
Net investment income	4.1	8.4	—	12.5
Net investment income - BAM Surplus Notes	17.2	—	(17.2)	—
Net realized and unrealized investment losses	(5.5)	(8.9)	—	(14.4)
Other revenue	—	.8	—	.8
Total revenues	23.4	2.4	(17.2)	8.6
Insurance acquisition expenses	1.8	2.1	—	3.9
Other underwriting expenses	—	.3	—	.3
General and administrative expenses	.8	35.7	—	36.5
Interest expense - BAM Surplus Notes	—	17.2	(17.2)	—
Total expenses	2.6	55.3	(17.2)	40.7
Pre-tax income (loss)	\$20.8	\$(52.9)	\$ —	\$(32.1)
Supplemental information:				
MSC collected ⁽¹⁾	\$—	\$26.9	\$ —	\$26.9

⁽¹⁾ MSC are recorded directly to BAM's equity, which is recorded as non-controlling interest on White Mountains's balance sheet.

Millions	Nine Months Ended September 30, 2017			
	HG Global	BAM	Eliminations	Total
Gross written premiums	\$—	\$42.0	\$ —	\$42.0
Assumed (ceded) written premiums	35.4	(35.4)	—	—
Net written premiums	\$35.4	\$6.6	\$ —	\$42.0
Earned insurance premiums	\$5.0	\$1.6	\$ —	\$6.6
Net investment income	2.4	6.5	—	8.9
Net investment income - BAM Surplus Notes	14.3	—	(14.3)	—
Net realized and unrealized investment gains	.4	2.8	—	3.2
Other revenue	—	.8	—	.8
Total revenues	22.1	11.7	(14.3)	19.5
Insurance acquisition expenses	1.0	2.0	—	3.0
Other underwriting expenses	—	.3	—	.3
General and administrative expenses	.8	30.7	—	31.5
Interest expense - BAM Surplus Notes	—	14.3	(14.3)	—
Total expenses	1.8	47.3	(14.3)	34.8
Pre-tax income (loss)	\$20.3	\$(35.6)	\$ —	\$(15.3)
Supplemental information:				
MSC collected ⁽¹⁾	\$—	\$25.7	\$ —	\$25.7

⁽¹⁾ MSC are recorded directly to BAM's equity, which is recorded as non-controlling interest on White Mountains's balance sheet.

HG Global/BAM Results—Three Months Ended September 30, 2018 versus Three Months Ended September 30, 2017
BAM reports on a statutory accounting basis to the NYDFS and does not report stand-alone GAAP financial results. BAM is owned by its members, the municipalities that purchase BAM's insurance for their debt issuances. BAM charges an insurance premium on each municipal bond insurance policy it writes. A portion of the premium is MSC and the remainder is gross written premium. In the event of a municipal bond refunding, the MSC from the original issuance can be reutilized, in effect serving as a credit against the total insurance premium on the refunding of the municipal bond. Issuers of debt insured by BAM are members of BAM so long as any of their BAM-insured debt is outstanding, and as members they have certain interests in BAM, including the right to vote for BAM's directors and to receive dividends in the future, if declared.

Gross written premiums and MSC in the HG Global/BAM segment were \$16 million during the third quarter of 2018, compared to \$19 million during the third quarter of 2017. BAM insured \$2.2 billion of municipal bonds, \$2.0 billion of which were in the primary market, during the third quarter of 2018, compared to \$2.0 billion of municipal bonds, \$1.9 billion of which were in the primary market, during the third quarter of 2017. Total pricing, which is gross written premiums and MSC adjusted to include the present value of future installment MSC not yet collected and to exclude the impact of gross written premium adjustments on existing policies, weighted by the par value of municipal bonds insured, was 75 basis points in the third quarter of 2018, down from 103 basis points in the third quarter of 2017. Pricing in the primary market decreased to 69 basis points in the third quarter of 2018 compared to 102 basis points in the third quarter of 2017.

The following table presents the gross par value of primary and secondary market policies issued, the gross written premiums plus MSC and total pricing for the three months ended September 30, 2018 and 2017:

\$ in millions	Three Months Ended September 30,	
	2018	2017
Gross par value of primary market policies issued	\$2,029.4	\$1,872.5
Gross par value of secondary market policies issued	144.9	170.9
Total gross par value of market policies issued	\$2,174.3	\$2,043.4
Gross written premiums	\$3.9	\$10.9
MSC collected	12.1	8.4
Total gross written premiums and MSC collected	\$16.0	\$19.3
Present value of future installment MSC collections	.2	1.7
Gross written premium adjustments on existing installment policies	—	—
Gross written premiums and MSC from new business	\$16.2	\$21.0
Total pricing	75 bps	103 bps

HG Global reported GAAP pre-tax income of \$8 million in the third quarter of 2018, compared to \$7 million in the third quarter of 2017. Results during the third quarter of 2018 include \$6 million of interest income on the BAM Surplus Notes, compared to \$5 million of interest income during the third quarter of 2017.

BAM is a mutual insurance company that is owned by its members. BAM's results are consolidated into White Mountains's GAAP financial statements and attributed to non-controlling interests. White Mountains reported \$17 million of GAAP pre-tax loss from BAM in the third quarter of 2018, compared to \$12 million in the third quarter of 2017. The increase in pre-tax loss was primarily driven by lower investment returns in 2018, primarily from unrealized losses on fixed income investments, as interest rates rose during the third quarter of 2018.

Results for the third quarter of 2018 include \$6 million of interest expense on the BAM Surplus Notes and \$11 million of general and administrative expenses, compared to \$5 million of interest expense and \$10 million of general and administrative expenses in the third quarter of 2017.

HG Global/BAM Results—Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017
Gross written premiums and MSC in the HG Global/BAM segment were \$56 million during the first nine months of 2018, compared to \$68 million during the first nine months of 2017. The decrease was primarily due to a market wide decrease in new issuance volume during the first quarter of 2018, as the uncertainty over tax reform caused many issuers to pull forward planned 2018 issuance volume into 2017. Under tax laws effective in 2018, interest income received by investors on new bonds that are issued to refinance existing municipal bonds and are issued more than 90 days before the refinanced municipal bond is scheduled to be redeemed (“advance refundings”) are now treated as taxable income to the investor.

BAM insured \$6.6 billion of municipal bonds, \$6.0 billion of which were in the primary market, during the first nine months of 2018, compared to \$7.1 billion of municipal bonds, \$6.5 billion of which were in the primary market, during the first nine months of 2017. Total pricing was 91 basis points in the first nine months of 2018, down from 99 basis points in the first nine months of 2017. Pricing in the primary market decreased to 67 basis points in the first nine months of 2018 compared to 76 basis points in in the first nine months of 2017.

The following table presents the gross par value of primary and secondary market policies issued, the gross written premiums plus MSC and total pricing for the nine months ended September 30, 2018 and 2017:

\$ in millions	Nine Months Ended September 30,	
	2018	2017
Gross par value of primary market policies issued	\$5,953.6	\$6,487.8
Gross par value of secondary market policies issued	605.0	627.6
Total gross par value of market policies issued	\$6,558.6	\$7,115.4
Gross written premiums	\$28.9	\$42.0
MSC collected	26.9	25.7
Total gross written premiums and MSC collected	\$55.8	\$67.7
Present value of future installment MSC collections	3.0	2.9
Gross written premium adjustments on existing installment policies	1.1	—
Gross written premiums and MSC from new business	\$59.9	\$70.6
Total pricing	91 bps	99 bps

HG Global reported GAAP pre-tax income of \$21 million in the first nine months of 2018, compared to \$20 million in the first nine months of 2017. Results for the first nine months of 2018 include \$17 million of interest income on the BAM Surplus Notes, compared to \$14 million of interest income in the first nine months of 2017.

BAM is a mutual insurance company that is owned by its members. BAM's results are consolidated into White Mountains's GAAP financial statements and attributed to non-controlling interests. White Mountains reported \$53 million of GAAP pre-tax loss from BAM in the first nine months of 2018, compared to \$36 million in the first nine months of 2017. The increase in pre-tax loss was primarily due to lower investment returns in 2018, primarily from unrealized losses on fixed income investments, as interest rates rose during the first nine months of 2018. Results for the first nine months of 2018 include \$17 million of interest expense on the BAM Surplus Notes and \$36 million of general and administrative expenses, compared to \$14 million of interest expense and \$31 million of general and administrative expenses in the first nine months of 2017. The increase in general and administrative expenses was primarily due to financing expense from the reinsurance agreement with Fidus Re, which is accounted for using the deposit method under GAAP.

Claims Paying Resources

BAM's "claims paying resources" represent the capital and other financial resources BAM has available to pay claims and, as such, is a key indication of BAM's financial strength. BAM's claims paying resources include BAM's qualified statutory capital, including MSC, net unearned premiums, contingency reserves, present value of future installment premiums and MSC, the first loss reinsurance protection provided by HG Re, which is collateralized and held in trusts, and the reinsurance protection provided by Fidus Re, which is collateralized and held in trust.

As of September 30, 2018, BAM's claims paying resources increased to \$835 million from \$708 million as of December 31, 2017. The increase was primarily driven by the \$100 million reinsurance agreement with Fidus Re. In April 2018, BAM expanded its claims paying resources by \$100 million through a collateralized reinsurance agreement with Fidus Re, a special-purpose insurer created solely to provide collateralized reinsurance protection to BAM.

The following table presents BAM's total claims paying resources as of September 30, 2018 and December 31, 2017:

Millions	September 30, 2018	December 31, 2017
Policyholders' surplus	\$ 419.8	\$ 427.3
Contingency reserve	44.9	34.8
Qualified statutory capital	464.7	462.1
Net unearned premiums	33.3	30.5
Present value of future installment premiums and MSC	12.7	9.0

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HG Re, Ltd. collateral trusts at statutory value	223.9	206.8
Fidus Re, Ltd. collateral trusts at statutory value	100.0	—
Claims paying resources	\$ 834.6	\$ 708.4

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As of September 30, 2017, BAM's claims paying resources increased to \$687 million from \$644 million as of December 31, 2016. The increase was primarily driven by a \$26 million increase in the HG Re collateral trusts and \$26 million of MSC, partially offset by BAM's \$19 million statutory net loss for the nine months ended September 30, 2017.

The following table presents BAM's total claims paying resources as of September 30, 2017 and December 31, 2016:

Millions	September 30, 2017	December 31, 2016
Policyholders' surplus	\$ 429.2	\$ 431.5
Contingency reserve	31.6	22.7
Qualified statutory capital	460.8	454.2
Net unearned statutory premiums	27.9	23.2
Present value of future installment premiums and MSC	8.8	3.3
HG Re, Ltd. collateral trusts at statutory value	189.2	163.0
Claims paying resources	\$ 686.7	\$ 643.7

HG Global/BAM Balance Sheets

The following table presents amounts from HG Global, which includes HG Re and its other wholly-owned subsidiaries, and BAM that are contained within White Mountains's consolidated balance sheet as of September 30, 2018 and December 31, 2017:

Millions	September 30, 2018			
	HG Global	BAM	Eliminations and Segment Adjustment	Total
Assets				
Fixed maturity investments	\$206.6	\$471.1	\$ —	\$677.7
Short-term investments	11.8	24.1	—	35.9
Total investments	218.4	495.2	—	713.6
Cash	.8	17.1	—	17.9
BAM Surplus Notes	499.0	—	(499.0)	—
Accrued interest receivable on BAM Surplus Notes	143.2	—	(143.2)	—
Deferred acquisition costs	30.3	17.6	(30.3)	17.6
Insurance premiums receivable	3.8	6.5	(4.0)	6.3
Other assets	1.4	8.7	—	10.1
Total assets	\$896.9	\$545.1	\$ (676.5)	\$765.5
Liabilities				
BAM Surplus Notes ⁽¹⁾	\$—	\$499.0	\$ (499.0)	\$—
Accrued interest payable on BAM Surplus Notes ⁽²⁾	—	143.2	(143.2)	—
Preferred dividends payable to White Mountains's subsidiaries ⁽³⁾	265.5	—	—	265.5
Preferred dividends payable to non-controlling interests	9.1	—	—	9.1
Unearned insurance premiums	124.1	32.1	—	156.2
Accounts payable on unsettled investment purchases	—	6.5	—	6.5
Other liabilities	.8	54.4	(34.3)	20.9
Total liabilities	399.5	735.2	(676.5)	458.2
Equity				
White Mountains's common shareholders' equity	482.6	—	—	482.6
Non-controlling interests	14.8	(190.1)	—	(175.3)
Total equity	497.4	(190.1)	—	307.3

Total liabilities and equity \$896.9 \$545.1 \$ (676.5) \$765.5

- (1) Under GAAP, the BAM Surplus Notes are classified as debt by the issuer. Under U.S. Statutory accounting, they are classified as policyholders' surplus.
- (2) Under GAAP, interest accrues daily on the BAM Surplus Notes. Under U.S. Statutory accounting, interest is not accrued on the BAM Surplus Notes until it has been approved for payment by insurance regulators.
For segment reporting, the HG Global preferred dividend receivable at White Mountains is reclassified from the
- (3) Other Operations segment to the HG Global/BAM segment. Dividends on HG Global preferred shares payable to White Mountains's subsidiaries are eliminated in White Mountains's consolidated financial statements.

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Millions	December 31, 2017			
	HG Global	BAM	Eliminations and Segment Adjustment	Total Segment
Assets				
Fixed maturity investments	\$ 175.5	\$ 448.1	\$ —	\$ 623.6
Short-term investments	28.5	41.3	—	69.8
Total investments	204.0	489.4	—	693.4
Cash	1.9	23.7	—	25.6
BAM Surplus Notes	499.0	—	(499.0)	—
Accrued interest receivable on BAM Surplus Notes	126.0	—	(126.0)	—
Deferred acquisition costs	25.1	14.9	(25.2)	14.8
Insurance premiums receivable	2.7	4.7	(2.9)	4.5
Accounts receivable on unsettled investment sales	—	.1	—	.1
Other assets	.8	8.2	—	9.0
Total assets	\$ 859.5	\$ 541.0	\$ (653.1)	\$ 747.4
Liabilities				
BAM Surplus Notes ⁽¹⁾	\$ —	\$ 499.0	\$ (499.0)	\$ —
Accrued interest payable on BAM Surplus Notes ⁽²⁾	—	126.0	(126.0)	—
Preferred dividends payable to White Mountains's subsidiaries ⁽³⁾	227.9	—	—	227.9
Preferred dividends payable to non-controlling interests	7.7	—	—	7.7
Unearned insurance premiums	107.2	29.6	—	136.8
Accounts payable on unsettled investment purchases	—	.6	—	.6
Other liabilities	1.0	49.0	(28.1)	21.9
Total liabilities	343.8	704.2	(653.1)	394.9
Equity				
White Mountains's common shareholders' equity	499.8	—	—	499.8
Non-controlling interests	15.9	(163.2)	—	(147.3)
Total equity	515.7	(163.2)	—	352.5
Total liabilities and equity	\$ 859.5	\$ 541.0	\$ (653.1)	\$ 747.4

(1) Under GAAP, the BAM Surplus Notes are classified as debt by the issuer. Under U.S. Statutory accounting, they are classified as policyholders' surplus.

(2) Under GAAP, interest accrues daily on the BAM Surplus Notes. Under U.S. Statutory accounting, interest is not accrued on the BAM Surplus Notes until it has been approved for payment by insurance regulators.

For segment reporting, the HG Global preferred dividend receivable at White Mountains is reclassified from the

(3) Other Operations segment to the HG Global/BAM segment. Dividends on HG Global preferred shares payable to White Mountains's subsidiaries are eliminated in White Mountains's consolidated financial statements.

Par Value of Policies Issued and Priced by BAM

The following table presents the gross par value of policies priced and closed by BAM 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
Gross par value of primary market policies issued	\$ 2,029.4	\$ 1,872.5	\$ 5,953.6	\$ 6,487.8
Gross par value of secondary market policies issued	144.9	170.9	605.0	627.6
Total gross par value of policies issued	2,174.3	2,043.4	6,558.6	7,115.4
Gross par value of policies priced yet to close	327.3	535.2	327.3	535.2

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Less: Gross par value of policies closed that were previously priced	(369.1)	(163.7)	(114.4)	(353.3)
Total gross par value of policies priced	\$2,132.5	\$2,414.9	\$6,771.5	\$7,297.3

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NSM

The following table presents the components of GAAP net loss and adjusted EBITDA included in White Mountains's NSM segment for the three months ended September 30, 2018 and the period from May 11, 2018 through September 30, 2018:

Millions	Three Months Ended September 30, 2018	Period Ended September 30, 2018 ⁽¹⁾
Commission revenues	\$ 36.6	\$ 59.2
Broker commission expense	10.9	17.5
Gross profit	25.7	41.7
Other revenue	3.1	4.0
General and administrative expenses	25.8	37.9
Amortization of other intangible assets	5.0	5.0
Interest expense	3.2	4.8
GAAP pre-tax loss	(5.2)	(2.0)
Income tax benefit	(1.6)	(.5)
GAAP net loss	(3.6)	(1.5)
Add back:		
Change in fair value of contingent consideration earnout liabilities	2.6	2.6
Interest expense	3.2	4.8
Income tax benefit	(1.6)	(.5)
General and administrative expenses — depreciation	.6	1.0
Amortization of other intangible assets	5.0	5.0
Adjusted EBITDA ⁽²⁾	\$ 6.2	\$ 11.4

⁽¹⁾ NSM's results are from May 11, 2018, the date of acquisition, to the end of the third quarter.

⁽²⁾ See "NON-GAAP FINANCIAL MEASURES" on page 64.

On May 11, 2018, White Mountains acquired 95% of NSM, an insurance managing general agency and program administrator. White Mountains paid \$274 million of cash consideration, subject to a customary purchase price adjustment, for its equity interest in NSM. White Mountains recognized a purchase price adjustment of \$2 million during the three months ended September 30, 2018 that was paid in October of 2018. As part of the acquisition, White Mountains assumed estimated contingent consideration earnout liabilities related to NSM's previous acquisitions of its U.K.-based operations of \$10 million.

On May 18, 2018, NSM acquired 100% of Fresh Insurance, an insurance broker that specializes in non-standard personal lines, motor trade, van, and travel insurance in the United Kingdom. NSM paid \$50 million of upfront cash consideration for its equity interest in Fresh Insurance. NSM recognized a purchase price adjustment of \$1 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. In connection with the acquisition, NSM recorded a contingent consideration earnout liability of \$8 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 \$3 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 million.

NSM reported pre-tax loss of \$5 million and \$2 million for the third quarter of 2018 and the period from May 11, 2018 through September 30, 2018. NSM's adjusted EBITDA was \$6 million and \$11 million for the third quarter of 2018 and the period from May 11, 2018 through September 30, 2018. NSM reported revenues of \$40 million and \$63 million for the third quarter of 2018 and the period from May 11, 2018 through September 30, 2018. NSM's pre-tax loss for the third quarter of 2018 includes \$5 million of amortization of other intangible assets and \$3 million of general and administrative expenses related to the change in the fair value of its contingent consideration earnout liabilities.

MediaAlpha

The following table presents the components of GAAP net income (loss) and adjusted EBITDA included in White Mountains's MediaAlpha segment for the three and nine months ended September 30, 2018 and 2017:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Advertising and commission revenues	\$74.5	\$37.9	\$216.4	\$101.2
Cost of sales	61.8	32.2	179.1	86.0
Gross profit	12.7	5.7	37.3	15.2
Other revenue	—	—	1.6	—
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
GAAP pre-tax income (loss)	4.7	(.5)	9.0	(3.3)
Income tax expense	—	—	—	—
GAAP net income (loss)	4.7	(.5)	9.0	(3.3)
Add back:				
Non-cash equity-based compensation expense	.2	—	6.9	—
Interest expense	.2	.1	.9	.6
Income tax expense	—	—	—	—
General and administrative expenses — depreciation	.2	—	.2	.1
Amortization of other intangible assets	2.4	2.3	7.8	7.2
Adjusted EBITDA ⁽¹⁾	\$7.7	\$1.9	\$24.8	\$4.6

⁽¹⁾ See “NON-GAAP FINANCIAL MEASURES” on page 64.

MediaAlpha Results—Three Months Ended September 30, 2018 versus Three Months Ended September 30, 2017
MediaAlpha reported GAAP pre-tax income of \$5 million and adjusted EBITDA of \$8 million in the third quarter of 2018, compared to GAAP pre-tax loss of \$1 million and adjusted EBITDA of \$2 million in the third quarter of 2017. MediaAlpha reported revenues of \$75 million in the third quarter of 2018, compared to \$38 million in third quarter of 2017. The increase in GAAP pre-tax income, adjusted EBITDA and revenues were primarily driven by growth in MediaAlpha's P&C verticals, driven by increased demand from advertisers, and growth in the Health, Medicare and Life vertical, driven by strong contributions from assets acquired from Healthplans.com in the fourth quarter of 2017. Revenues from MediaAlpha's P&C verticals were \$42 million in the third quarter of 2018, compared to \$23 million in the third quarter of 2017, while revenues from the Health, Medicare and Life vertical were \$24 million in the third quarter of 2018 compared to \$9 million in the third quarter of 2017.

MediaAlpha's cost of sales is comprised primarily of revenue share based payments to partners, which are correlated to and vary with revenue volume. Cost of sales were \$62 million in the third quarter of 2018, compared to \$32 million in the third quarter of 2017. MediaAlpha's general and administrative expenses were \$5 million in the third quarter of 2018, compared to \$4 million in the third quarter of 2017.

MediaAlpha Results—Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017
MediaAlpha reported GAAP pre-tax income of \$9 million and adjusted EBITDA of \$25 million in the first nine months of 2018, compared to GAAP pre-tax loss of \$3 million and adjusted EBITDA of \$5 million in the first nine months of 2017. MediaAlpha reported revenues of \$216 million in the first nine months of 2018, compared to \$101 million in first nine months of 2017. The increase in GAAP pre-tax income, adjusted EBITDA and revenues were

primarily driven by growth in MediaAlpha's P&C verticals, driven by increased demand from advertisers, and growth in the Health, Medicare and Life vertical, driven by strong contributions from assets acquired from Healthplans.com in the fourth quarter of 2017. Revenues from MediaAlpha's P&C verticals were \$124 million in the first nine months of 2018, compared to \$63 million in the first nine months of 2017, while revenues from the Health, Medicare and Life vertical were \$66 million in the first nine months of 2018, compared to \$26 million in the first nine months of 2017. Cost of sales were \$179 million in the first nine months of 2018, compared to \$86 million in the first nine months of 2017. MediaAlpha's general and administrative expenses were \$21 million in the first nine months of 2018, compared to \$11 million in the first nine months of 2017. The increase was primarily driven by the recognition of non-cash equity-based compensation expense of \$7 million in the first nine months of 2018.

Other Operations

The following table presents a summary of White Mountains's financial results from its Other Operations segment for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Millions				
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
Total revenues	80.3	42.9	73.3	139.1
Cost of sales	1.1	.9	2.9	2.7
General and administrative expenses	26.0	27.3	79.0	113.9
Amortization of other intangible assets	—	.1	.1	.1
Interest expense	—	.8	.3	1.2
Total expenses	27.1	29.1	82.3	117.9
Pre-tax income (loss)	\$53.2	\$13.8	\$(9.0)	\$21.2

Other Operations Results—Three Months Ended September 30, 2018 versus Three Months Ended September 30, 2017
White Mountains's Other Operations segment reported pre-tax income of \$53 million in the third quarter of 2018, compared to pre-tax income of \$14 million in the third quarter of 2017. The change was driven primarily by higher investment returns in the third quarter of 2018. White Mountains's Other Operations segment reported \$70 million of net realized and unrealized investment gains in the third quarter of 2018, compared to \$32 million of net realized and unrealized investment gains in the third quarter of 2017. White Mountains's Other Operations segment reported \$9 million of net investment income in both the third quarter of 2018 and the third quarter of 2017. See Summary of Investment Results on page 55. General and administrative expenses were \$26 million in the third quarter of 2018, compared to \$27 million in the third quarter of 2017.

Other Operations Results—Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017
White Mountains's Other Operations segment reported pre-tax loss of \$9 million in the first nine months of 2018, compared to pre-tax income of \$21 million in the first nine months of 2017. The change was driven primarily by lower investment returns in the first nine months of 2018, partially offset by a reduction in general and administrative expenses. White Mountains's Other Operations segment reported \$37 million of net realized and unrealized investment gains in the first nine months of 2018, compared to \$99 million of net realized and unrealized investment gains in the first nine months of 2017. White Mountains's Other Operations segment reported \$32 million of net investment income in the first nine months of 2018, compared to \$31 million of net investment income in the first nine months of 2017. See Summary of Investment Results on page 55. General and administrative expenses were \$79 million in the first nine months of 2018, which included \$6 million of transaction costs related to the acquisition of NSM, compared to \$114 million in the first nine months of 2017. The decrease was primarily driven by lower incentive compensation costs.

II. Summary of Investment Results

White Mountains's total investment results include continuing operations and discontinued operations. OneBeacon's investment results are included in discontinued operations for the first nine months of 2017. For purposes of discussing rates of return, all percentages are presented gross of management fees and trading expenses in order to produce a better comparison to benchmark returns, while all dollar amounts are presented net of management fees and trading expenses.

The following table presents the pre-tax investment returns for White Mountains's consolidated portfolio, including the returns from discontinued operations, for the three and nine months ended September 30, 2018 and 2017:

Gross Investment Returns and Benchmark Returns⁽¹⁾

	Three Months Ended		September 30,		Nine Months Ended		September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
Common equity securities	6.1%	4.3%	7.4%	14.4%				
Other long-term investments	6.5%	(2.3)%	3.7%	(2.9)%				
Total common equity securities and other long-term investments	6.2%	2.6%	6.6%	9.0%				
S&P 500 Index (total return)	7.7%	4.5%	10.6%	14.2%				
Fixed income investments	0.4%	1.0%	—	3.0%				
Bloomberg Barclays U.S. Intermediate Aggregate Index	0.1%	0.7%	(0.9)%	2.3%				
Total consolidated portfolio	3.1%	1.4%	2.8%	4.3%				

⁽¹⁾ For the 2018 periods, investment returns are calculated using a daily weighted average of investments held. For periods prior to 2018, investment returns are calculated using a quarterly weighted average of investments held.

Investment Returns—Three and Nine Months Ended September 30, 2018 versus Three and Nine Months Ended September 30, 2017

White Mountains's pre-tax total return on invested assets was 3.1% and 2.8% in the third quarter and first nine months of 2018 compared to 1.4% and 4.3% in the third quarter and first nine months of 2017. The returns for the third quarter of 2018 were driven primarily by White Mountains' exposure to U.S. equity markets through its investments in ETFs as U.S. equity markets continued to rally in the quarter. Weak performance in non-U.S. common equity securities were offset by gains from private equity funds. The returns for the first nine months of 2018 were driven primarily by White Mountains' exposure to U.S. equity markets through its investments in ETFs, which more than offset losses from non-U.S. common equity securities. The returns for the third quarter and first nine months of 2017 were driven primarily by strong results from common equity securities.

Common Equity Securities and Other Long-Term Investments Results

White Mountains maintains a portfolio of common equity securities and other long-term investments. White Mountains's management believes that prudent levels of investments in common equity securities and other long-term investments are likely to enhance long-term after-tax total returns.

White Mountains's portfolio of common equity securities and other long-term investments returned 6.2% and 6.6% for the third quarter and first nine months of 2018. White Mountains's portfolio of common equity securities and other long-term investments returned 2.6% and 9.0% for the third quarter and first nine months of 2017. White Mountains's portfolio of common equity securities and other long-term investments represented approximately 50%, 32% and 31% of total invested assets as of September 30, 2018, December 31, 2017 and September 30, 2017. The increase in this

percentage is primarily attributable to management's decision to add equity exposure over the period and a decline in the investment asset base due to the OneBeacon Transaction and share repurchase activity.

White Mountains's portfolio of common equity securities primarily consists of passive ETFs and publicly-traded common equity securities that are actively managed by third party managers. White Mountains's portfolio of common equity securities returned 6.1% and 7.4% for the third quarter and first nine months of 2018, underperforming the S&P 500 Index return of 7.7% and 10.6%. White Mountains's portfolio of common equity securities returned 4.3% and 14.4% for the third quarter and first nine months of 2017, underperforming the S&P 500 Index return of 4.5% for the third quarter and outperforming the S&P 500 Index return of 14.2% for the first nine months of 2017.

White Mountains's portfolio of ETFs seeks to provide investment results that, before expenses, generally correspond to the performance of broad market indices. As of September 30, 2018 and December 31, 2017, White Mountains had approximately \$743 million and \$570 million invested in ETFs. In the third quarter and first nine months of 2018 and 2017, the ETFs essentially earned the effective index return, before expenses, over the period in which White Mountains was invested in these funds.

White Mountains's third party common equity manager relationships (the "actively managed common equity portfolios") have been with Silchester International Investors ("Silchester"), who invests in value-oriented non-U.S. equity securities through a unit trust, and Lateef Investment Management, a growth at a reasonable price adviser managing a highly concentrated portfolio of mid-cap and large-cap growth companies. During the first quarter of 2017, White Mountains established a new third-party manager relationship with Lazard Asset Management ("Lazard"), to manage a Pan-European equity portfolio, of which the majority of the securities were denominated in Euros. In September 2017, White Mountains terminated its relationship with Lazard in order to concentrate its non-U.S. equity exposure in small to mid-cap international equities through other third-party managers. During the third quarter of 2017 and prior to terminating Lazard, White Mountains established a new third-party manager relationship with Highclere International Investors ("Highclere"), who invests in small to mid-cap equity securities listed in markets outside of the United States and Canada through a unit trust.

White Mountains's actively managed common equity portfolios returned 2.8% and 1.8% for the third quarter and first nine months of 2018, underperforming the S&P 500 Index return of 7.7% and 10.6% for the comparable periods. The underperformance for both periods was primarily attributable to weak returns from White Mountains's non-U.S. third party managers. White Mountains's actively managed common equity portfolios returned 5.0% and 19.4% for the third quarter and first nine months 2017, outperforming the S&P 500 Index return of 4.5% and 14.2%, driven primarily by strong performance from White Mountains's non-U.S. third party managers in both periods.

White Mountains entered into foreign currency forward contracts, which were recorded in other long-term investments, to manage its foreign currency exposure relating to the common equity portfolio managed by Lazard and a portion of the common equity portfolios managed by Silchester and Highclere. These foreign currency forward contracts were closed as of December 31, 2017.

White Mountains maintains a portfolio of other long-term investments that primarily consists of hedge funds, private equity funds and unconsolidated private capital investments. As of September 30, 2018, approximately 52% of these other long-term investments were in one long-short hedge fund and thirteen private equity funds, with a general emphasis on narrow, sector-focused funds.

White Mountains's other long-term investments portfolio returned 6.5% and 3.7% for the third quarter and first nine months of 2018. The results for the third quarter of 2018 were driven primarily by gains from the Tuckerman Capital and Enlightenment Capital private equity funds, two investment management businesses in which White Mountains has limited and general partnership interests. The results for the first nine months of 2018 were driven primarily by gains from the Tuckerman Capital and Enlightenment Capital private equity funds and a long/short hedge fund, partially offset by losses from the foreign currency forward contract closed during the first quarter. White Mountains's other long-term investments portfolio returned -2.3% and -2.9% for the third quarter and first nine months of 2017. The results for the third quarter and first nine months were primarily attributable to losses from foreign currency forward contracts, partially offset by a favorable mark-to-market adjustment to the OneBeacon surplus notes during the third quarter of 2017 and strong private equity fund and hedge fund results for the first nine months of 2017.

Fixed Income Results

White Mountains maintains a high quality, short-duration fixed income portfolio. As of September 30, 2018, the fixed income portfolio duration, including short-term investments, was 3.3 years compared to 3.4 years as of December 31, 2017 and 2.9 years as of September 30, 2017.

White Mountains's fixed income portfolio returned 0.4% and 0.0% for the third quarter and first nine months of 2018, outperforming the longer duration Bloomberg Barclays U.S. Intermediate Aggregate Index return of 0.1% and -0.9%. Outperformance in both periods was driven by solid performance from White Mountains's overweight exposure to debt securities issued by corporations coupled with the short duration positioning of its fixed income portfolio, which mitigated the adverse impact of rising interest rates.

White Mountains's fixed income portfolio returned 1.0% and 3.0% for the third quarter and first nine months of 2017, outperforming the Bloomberg Barclays U.S. Intermediate Aggregate Index return of 0.7% and 2.3% as short-term yields rose in both periods. In the fourth quarter of 2017, White Mountains established a U.S. investment grade corporate bond portfolio with Principal Global Investors, LLC ("Principal"), a third party manager. As of September 30, 2018, the fair value of the Principal investment grade corporate bond investments was \$247 million and the duration

of the Principal investment grade corporate bond portfolio was approximately 4.5 years.

In the fourth quarter of 2016, White Mountains established a medium duration GBP investment grade corporate bond mandate with Legal & General Investment Management, Ltd. (“LGIM”), a third-party manager. White Mountains also entered into a foreign currency forward contract, which was recorded in other long-term investments, to manage its GBP foreign currency exposure relating to this mandate. In the first quarter of 2018, White Mountains liquidated the LGIM portfolio and closed the associated foreign currency forward contract.

In the third quarter of 2016, White Mountains established a relatively concentrated portfolio of high-yield fixed maturity investments managed by Principal. The portfolio was invested in issuers of U.S. dollar denominated publicly traded and 144A debt securities issued by corporations with generally at least one rating between “B-” and “BB+” inclusive by S&P or similar ratings from other rating agencies. In July 2018, White Mountains liquidated the Principal high-yield fixed maturity portfolio and reinvested the bulk of the proceeds into U.S. government securities.

Foreign Currency Exposure

As of September 30, 2018, White Mountains had gross foreign currency exposure on approximately \$276 million of net assets primarily relating to common equity securities managed by Silchester and Highclere, NSM’s foreign operations including the acquisition of Fresh Insurance and various other consolidated and unconsolidated private capital investments.

White Mountains may enter into foreign currency forward contracts to mitigate its foreign currency exposure on certain invested assets. In the fourth quarter of 2017, White Mountains closed the foreign currency forward contracts associated with the investment assets managed by Silchester and Highclere. In conjunction with the liquidation of the GBP investment grade corporate bond mandate managed by LGIM in the first quarter of 2018, White Mountains closed the associated foreign currency forward contract.

The following table presents the fair value of White Mountains’s foreign denominated assets as of September 30, 2018:

Currency ⁽¹⁾	Fair Value	% of Common Shareholders’ Equity
\$ in millions		
GBP	\$87.2	2.9 %
JPY	60.8	2.0
EUR	59.6	2.0
All other	68.4	2.3
Total	\$276.0	9.2 %

⁽¹⁾ Includes net assets of NSM’s foreign operations, Wobi and Buzzmove.

Income Taxes

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

White Mountains’s income tax benefit related to pre-tax income from continuing operations for the three months ended September 30, 2018 and pre-tax loss from continuing operations for the nine months ended September 30, 2018 represented an effective tax rate of (8.1)% and 1.2%. The effective tax rate was different from the current U.S. statutory rate of 21%, primarily due to a full valuation allowance on most of the net deferred tax assets at U.S. operations, withholding taxes and a tax benefit recorded at BAM. For BAM, MSC and the related taxes thereon are recorded directly to non-controlling interest equity, while the valuation allowance on such taxes is recorded through the income statement. For the three and nine months ended September 30, 2018, BAM recorded a tax benefit of \$2 million and \$4 million associated with the valuation allowance on taxes related to MSC that is included in the effective tax rate. See Note 6 — “Income Taxes”.

White Mountains's income tax benefit related to pre-tax income from continuing operations for the three and nine months ended September 30, 2017 represented effective tax rates of (47.6)% and (203.9)%. The effective tax rate was different from the 2017 U.S. statutory rate of 35%, primarily due to a full valuation allowance on all net deferred tax assets at U.S. operations, pre-tax income from continuing operations being near break-even and a tax benefit recorded at BAM. For BAM, MSC and the related taxes thereon are recorded directly to non-controlling interest equity, while the valuation allowance on such taxes is recorded through the income statement. For the three and nine months ended September 30, 2017, BAM recorded a tax benefit of \$2 million and \$7 million associated with the valuation allowance on taxes related to MSC that is included in the effective tax rate. See Note 6 — "Income Taxes".

Discontinued Operations

Sirius Group Tax Contingency

In late October 2018, the Swedish Administrative Court ruled against Sirius Group on its appeal of the Swedish Tax Agency's denial of certain interest deductions relating to periods prior to the sale of Sirius Group to CMI in 2016. In connection with the sale, White Mountains indemnified Sirius Group against the loss of these interest deductions. As a result, in the third quarter of 2018, White Mountains recorded a loss of \$17 million within net (loss) gain on sale of discontinued operations reflecting the value of these interest deductions. Sirius Group intends to appeal the decision to the Swedish Administrative Court of Appeal.

OneBeacon

On September 28, 2017, White Mountains received \$1.3 billion in cash proceeds from the OneBeacon Transaction and recorded a gain of \$555 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.

White Mountains reported a net loss of \$15 million from OneBeacon in discontinued operations in the third quarter of 2017, driven primarily by underwriting losses. OneBeacon's combined ratio for the third quarter of 2017 was 113%, driven by 9 points of net unfavorable loss reserve development, primarily in the Program, Healthcare and Government Risk businesses, and 9 points of catastrophe losses primarily due to losses from Hurricane Harvey.

White Mountains reported net income from OneBeacon of \$21 million in discontinued operations in the first nine months of 2017. OneBeacon's combined ratio for the first nine months of 2017 was 105%, driven by 4 points of net unfavorable loss reserve development, primarily in the Program, Healthcare and Government Risk businesses, and 4 points of catastrophe losses, primarily due to losses from Hurricane Harvey. See Note 16 — "Held for Sale and Discontinued Operations".

LIQUIDITY AND CAPITAL RESOURCES

Operating Cash and Short-term Investments

Holding Company Level. The primary sources of cash for the Company and certain of its intermediate holding companies are expected to be distributions and tax sharing payments received from its operating subsidiaries, capital raising activities, net investment income, proceeds from sales, repayments and maturities of investments and, from time to time, proceeds from sales of operating subsidiaries. The primary uses of cash are expected to be repurchases of the Company's common shares, payments on and repurchases/retirements of its debt obligations, dividend payments to holders of the Company's common shares, distributions to non-controlling interest holders of consolidated subsidiaries, purchases of investments, payments to tax authorities, contributions to operating subsidiaries, operating expenses and, from time to time, purchases of operating subsidiaries.

Operating Subsidiary Level. The primary sources of cash for White Mountains's reinsurance and other operating subsidiaries are expected to be premium and fee collections, net investment income, proceeds from sales, repayments and maturities of investments, contributions from holding companies, capital raising activities and, from time to time, proceeds from sales of operating subsidiaries. The primary uses of cash are expected to be loss payments, policy acquisition and other underwriting costs, cost of sales, purchases of investments, payments on and repurchases/retirements of its debt obligations, distributions and tax sharing payments made to holding companies, distributions to non-controlling interest holders, operating expenses and, from time to time, purchases of operating subsidiaries.

Both internal and external forces influence White Mountains's financial condition, results of operations and cash flows. Premium and fee levels, loss payments, cost of sales and investment returns may be impacted by changing rates of inflation and other economic conditions. Some time may lapse between the occurrence of an insured loss, the reporting of the loss to White Mountains and the settlement of the liability for that loss. The exact timing of the payment of losses and benefits cannot be predicted with certainty. White Mountains's reinsurance subsidiary maintains

a portfolio of invested assets with varying maturities and a substantial amount of cash and short-term investments to provide adequate liquidity for the payment of losses.

Management believes that White Mountains's cash balances, cash flows from operations and routine sales and maturities of investments are adequate to meet expected cash requirements for the foreseeable future on both a holding company and subsidiary level.

Dividend Capacity

Following is a description of the dividend capacity of White Mountains's reinsurance and other operating subsidiaries:

HG Global/BAM

At September 30, 2018, HG Global had \$619 million face value of preferred shares outstanding, of which White Mountains owned 96.9%. Holders of the HG Global preferred shares receive cumulative dividends at a fixed annual rate of 6.0% on a quarterly basis, when and if declared by HG Global. HG Global did not declare or pay any preferred dividends in the first nine months of 2018. As of September 30, 2018, HG Global has accrued \$275 million of dividends payable to holders of its preferred shares, \$265 million of which is payable to White Mountains and eliminated in consolidation.

HG Re is a Special Purpose Insurer subject to regulation and supervision by the BMA, but does not require regulatory approval to pay dividends. However, HG Re's dividend capacity is limited to amounts held outside of the collateral trusts pursuant to the FLRT with BAM. As of September 30, 2018, HG Re had statutory capital and surplus of \$693 million, \$742 million of assets held in the collateral trusts pursuant to the FLRT with BAM and less than \$1 million of cash and investments held outside the collateral trusts.

BAM repaid \$4.0 million of the BAM Surplus Notes and \$1.0 million of the related accrued interest in 2017. There were no repayments during the nine months ended September 30, 2018.

NSM

During the period from White Mountains's acquisition of NSM through September 30, 2018, NSM did not pay any dividends to its shareholders. As of September 30, 2018, NSM had \$61 million of cash, of which \$41 million was held in fiduciary trust accounts.

MediaAlpha

During the nine months ended September 30, 2018, MediaAlpha paid \$12 million of dividends to its shareholders. White Mountains received \$8 million of these dividends. As of September 30, 2018, MediaAlpha had \$13 million of cash.

Other Operations

During the first quarter of 2018, White Mountains paid a \$4 million common share dividend. As of September 30, 2018, the Company and its intermediate holding companies had \$636 million of net unrestricted cash, short-term investments and fixed maturity investments, \$1,044 million of common equity securities and \$70 million of other long-term investments included in its Other Operations segment.

Financing

The following table presents White Mountains's capital structure as of September 30, 2018 and December 31, 2017:

(\$ in millions)	September 30, December 31,	
	2018	2017
WTM Bank Facility	\$ —	\$ —
NSM Bank Facility, carrying value	147.3	—
MediaAlpha Bank Facility, carrying value	15.0	23.8
Other NSM debt	2.0	—
Total debt	164.3	23.8
Non-controlling interests—other, excluding mutuals	45.7	31.5
Total White Mountains's common shareholders' equity	2,984.0	3,492.5
Total capital	3,194.0	3,547.8
Time-value discount on expected future payments on the BAM Surplus Notes ⁽¹⁾	(146.3)	(157.0)
HG Global's unearned premium reserve ⁽¹⁾	120.2	103.9

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HG Global's net deferred acquisition costs ⁽¹⁾	(29.4)	(24.3)
Total adjusted capital	\$ 3,138.5		\$ 3,470.4	
Total debt to total adjusted capital	5.2	%	0.7	%

⁽¹⁾ Amount reflects White Mountains's preferred share ownership in HG Global of 96.9%.

Management believes that White Mountains has the flexibility and capacity to obtain funds externally through debt or equity financing on both a short-term and long-term basis. However, White Mountains can provide no assurance that, if needed, it would be able to obtain additional debt or equity financing on satisfactory terms, if at all.

It is possible that, in the future, one or more of the rating agencies may lower White Mountains's existing ratings. If one or more of its ratings were lowered, White Mountains could incur higher borrowing costs on future borrowings and its ability to access the capital markets could be impacted.

White Mountains had an unsecured revolving credit facility with a syndicate of lenders administered by Wells Fargo Bank, N.A., which had a total commitment of \$425 million and a maturity date of August 14, 2018. White Mountains terminated the WTM Bank Facility on May 8, 2018 in conjunction with the tender offer completed on May 11, 2018. See Share Repurchases on page 61.

On May 11, 2018, NSM entered into a secured credit facility (the "NSM Bank Facility") with Ares Capital Corporation in order to refinance NSM's debt and to fund the acquisition of Fresh Insurance. The NSM Bank Facility is comprised of a term loan of \$100 million, a delayed-draw term loan of \$51 million to fund the Fresh Insurance acquisition and a revolving credit loan commitment of \$10 million, under which NSM initially borrowed \$2 million. The term loans under the NSM Bank Facility mature on May 11, 2024, and the revolving credit loan under the NSM Bank Facility matures on May 11, 2023. During the period from May 11, 2018 through September 30, 2018, NSM repaid \$0.4 million on the term loans. During the period from May 11, 2018 through September 30, 2018, NSM repaid \$2 million on the revolving credit loan. As of September 30, 2018, \$151 million of term loans were outstanding and no revolving credit loans were outstanding under the NSM Bank Facility.

Interest on the NSM Bank Facility accrues at a floating interest rate equal to the three month LIBOR or the Prime Rate, as published by the Wall Street Journal plus, in each case, an applicable margin. The margin over LIBOR may vary between 4.25% and 4.75%, and the margin over the Prime Rate may vary between 3.25% and 3.75%, in each case, depending on the consolidated total leverage ratio of the borrower.

On June 15, 2018, NSM entered into an interest rate swap agreement to hedge its exposure to interest rate risk on its variable rate term loans. Under the terms of the swap agreement, NSM pays a fixed rate of 2.97% and receives a variable rate, which is reset monthly, based on then-current LIBOR. The variable rate received by NSM under the swap agreement was 2.07% at September 30, 2018. As of September 30, 2018, NSM's blended interest rate on the outstanding term loan principal amount of \$151 million was 6.69%, and 7.47% after consideration of the interest rate swap. See Note 7 — "Derivatives — NSM Interest Rate Swap".

The NSM Bank Facility is secured by all property of the loan parties and contains various affirmative, negative and financial covenants that White Mountains considers to be customary for such borrowings, including a maximum consolidated total leverage ratio covenant.

On May 12, 2017, MediaAlpha entered into a secured credit facility (the "MediaAlpha Bank Facility") with Western Alliance Bank, which had a total commitment of \$20 million and a maturity date of May 12, 2020. On October 5, 2017, MediaAlpha refinanced the MediaAlpha Bank Facility in order to fund the acquisition of certain assets associated with the Health, Life and Medicare insurance business of Healthplans.com. The total commitment of the MediaAlpha Bank Facility was increased to \$28 million and the maturity date was extended to October 6, 2020. The MediaAlpha Bank Facility consists of an \$18 million term loan facility, which has an outstanding balance of \$15 million as of September 30, 2018, and a revolving credit loan facility for \$10 million, which was undrawn as of September 30, 2018. During the nine months ended September 30, 2018, MediaAlpha repaid \$3 million on the term loan and \$6 million on the revolving credit loan under the MediaAlpha Bank Facility.

The MediaAlpha Bank Facility is secured by intellectual property and the common stock of MediaAlpha's subsidiaries, and contains various affirmative, negative and financial covenants that White Mountains considers to be customary for such borrowings, including a maximum leverage ratio covenant.

Covenant Compliance

As of September 30, 2018, White Mountains was in compliance with all of the covenants under all of its debt instruments.

NSM Bank Facility

The consolidated total leverage ratio in the NSM Bank Facility is determined by dividing NSM's debt by its EBITDA, both as defined in the NSM Bank Facility.

Debt is defined to include indebtedness for borrowed money, due and payable earnouts on permitted acquisitions and various other adjustments specified in the NSM Bank Facility, less unrestricted cash and cash equivalents ("Bank Debt"). NSM's Bank Debt was \$134 million as of September 30, 2018.

EBITDA is defined to include adjusted EBITDA (see NON-GAAP FINANCIAL MEASURES on page 64) plus additional adjustments to (i) exclude certain expenses, including program start up and shutdown expenses, mergers and acquisition expenses, terminations and various other adjustments specified in NSM's Bank Facility and (ii) include/exclude historical earnings of acquired/disposed companies ("Bank EBITDA"). NSM's Bank EBITDA was \$34 million for the trailing twelve months ended September 30, 2018.

The maximum consolidated total leverage ratio covenant as of September 30, 2018 was 5.5x. NSM's actual consolidated total leverage ratio was 3.9x.

Share Repurchases

White Mountains's board of directors has authorized the Company to repurchase its common shares from time to time, subject to market conditions. The repurchase authorizations do not have a stated expiration date. As of September 30, 2018, White Mountains may repurchase an additional 643,130 shares under these board authorizations. In addition, from time to time White Mountains has also repurchased its common shares through tender offers that were separately approved by its board of directors. On May 11, 2018, White Mountains completed a "modified Dutch auction" tender offer, through which it repurchased 575,068 of its common shares at a purchase price of \$875 per share for a total cost of approximately \$505 million, including expenses. Shares repurchased under this tender offer did not impact the remaining number of shares authorized for repurchase. This activity left White Mountains with \$1.4 billion of undeployed capital as of September 30, 2018.

The following table presents common shares repurchased by the Company through the first 10 months of 2018 and 2017, as well as the average price per share as a percent of adjusted book value per share. For the second quarter of 2017, the average price per share as a percent of adjusted book value per share including the estimated gain from the sale of OneBeacon is presented.

Dates	Shares Repurchased	Cost (millions)	Average price per share	Percentage of adjusted book value per share, including estimated transaction gains ⁽¹⁾
1st quarter 2018	9,965	\$ 8.4	\$840.63	93 %
2nd quarter 2018	575,068	504.7	877.78	96 %
3rd quarter 2018	—	—	—	— %
Year-to-date September 30, 2018 ⁽²⁾	585,033	513.1	877.14	95 %
October 2018	—	—	—	N/A
Year-to-date October 31, 2018	585,033	\$ 513.1	\$877.14	95 %
1st quarter 2017	7,699	\$ 6.4	\$836.05	105 %
2nd quarter 2017	3,184	2.8	869.70	97 %
3rd quarter 2017	821,842	714.7	869.60	96 %
Year-to-date September 30, 2017	832,725	723.9	869.29	96 %
October 2017	—	—	—	N/A
Year-to-date October 31, 2017 ⁽²⁾	832,725	723.9	869.29	98 %

(1) Average price per share is expressed as a percentage of White Mountains's adjusted book value per share as of March 31, 2018 for the first quarter of 2018 and September 30, 2018 for all other 2018 periods presented and as of March 31, 2017 for the first quarter of 2017 and September 30, 2017 for all other 2017 periods presented. For the second quarter 2017, adjusted book value per share includes estimated gain from the sale of OneBeacon.

(2) Includes 9,965 and 10,883 common shares repurchased by the Company during the ten months of 2018 and 2017 to satisfy employee income tax withholding pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not reduce the board authorization referred to above.

Cash Flows

Detailed information concerning White Mountains's cash flows during the three months ended September 30, 2018 and 2017 follows:

Cash flows from continuing operations for the nine months ended September 30, 2018 and September 30, 2017
Net cash used in continuing operations was \$31 million in the first nine months of 2018 compared to \$64 million in the first nine months of 2017. Cash used from continuing operations decreased in the first nine months of 2018 compared to the first nine months of 2017, primarily due to \$28 million in employee retirement payments paid in the first nine months of 2017 relative to 2018, which was partially offset by increased long-term incentive payments in 2018. White Mountains made long-term incentive payments totaling \$28 million and \$22 million during the first nine months of 2018 and 2017. White Mountains does not believe these trends will have a meaningful impact on its future liquidity or its ability to meet its future cash requirements.

Cash flows from investing and financing activities for the nine months ended September 30, 2018

Financing and Other Capital Activities

During the first nine months of 2018, the Company declared and paid a \$4 million cash dividend to its common shareholders.

During the first nine months of 2018, White Mountains repurchased and retired 585,033 of its common shares for \$513 million, which included 9,965 shares for \$8 million repurchased under employee benefit plans for statutory withholding tax payments.

During the first nine months of 2018, BAM received \$27 million in MSC.

During the first nine months of 2018, NSM borrowed \$51 million under the NSM Bank Facility to fund the Fresh Insurance acquisition.

During the first nine months of 2018, NSM repaid \$2 million on the revolving loan under the NSM Bank Facility.

During the first nine months of 2018, MediaAlpha paid \$12 million of dividends to its shareholders, of which \$8 million was paid to White Mountains.

During the first nine months of 2018, MediaAlpha repaid \$3 million of the term loan and \$6 million of the revolving loan under the MediaAlpha Bank Facility.

During the first nine months of 2018, Wobi borrowed 20 million Israeli New Shekels ("ILS") (approximately \$6 million) from White Mountains under an internal credit facility. In August 2018, White Mountains contributed ILS 91 million (approximately \$25 million based on the spot rate at the date of contribution) to Wobi, which Wobi used to repay its internal credit facility to White Mountains, consisting of ILS 88 million of principal and ILS 3 million of accrued interest.

Acquisitions and Dispositions

On January 24, 2018, White Mountains paid \$42 million in connection with the DavidShield transaction.

On May 11, 2018, White Mountains closed its previously announced acquisition of 95% of NSM for a purchase price of \$274 million.

On May 18, 2018, NSM acquired 100% of Fresh Insurance for an upfront purchase price of GBP 37 million (approximately \$50 million based on the spot rate at the date of acquisition).

Cash flows from investing and financing activities for the nine months ended September 30, 2017

Financing and Other Capital Activities

During the first nine months of 2017, the Company declared and paid a \$5 million cash dividend to its common shareholders.

During the first nine months of 2017, White Mountains repurchased and retired 832,725 of its common shares for \$724 million, which included 10,993 for \$9 million under employee benefit plans for statutory withholding tax

payments.

During the first nine months of 2017, White Mountains borrowed and repaid \$350 million under the WTM Bank Facility.

During the first nine months of 2017, BAM received \$26 million in surplus contributions from its members.

During the first nine months of 2017, MediaAlpha paid \$2 million of dividends, of which \$1 million was paid to White Mountains.

During the first nine months of 2017, MediaAlpha borrowed \$11 million and repaid \$2 million under the MediaAlpha Bank Facility and repaid \$13 million under the previous MediaAlpha Bank Facility.

During the first nine months of 2017, Wobi borrowed ILS 43 million (approximately \$12 million) from White Mountains under an internal credit facility.

Acquisitions and Dispositions

On August 1, 2017, White Mountains purchased 37,409 newly-issued preferred shares of Buzzmove for GBP 4 million (approximately \$5 million based upon the foreign exchange spot rate at the date of acquisition) and 5,808 common shares from the company founders for GBP \$0.5 million (approximately \$0.7 million based upon the foreign exchange spot rate at the date of acquisition).

On September 28, 2017, OneBeacon closed its definitive merger agreement with Intact and White Mountains received proceeds of \$1,299 million, or \$18.10 per OneBeacon common share.

FAIR VALUE CONSIDERATIONS

General

White Mountains records certain assets and liabilities at fair value in its consolidated financial statements, with changes therein recognized in current period earnings. In addition, White Mountains discloses estimated fair value for certain liabilities measured at historical or amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price) at a particular measurement date. 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 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”).

Assets and liabilities carried at fair value include substantially all of the investment portfolio, derivative instruments, both exchange traded and over the counter instruments, and reinsurance assumed liabilities associated with variable annuity benefit guarantees. Valuation of assets and liabilities measured at fair value require management to make estimates and apply judgment to matters that may carry a significant degree of uncertainty. In determining its estimates of fair value, White Mountains uses a variety of valuation approaches and inputs. Whenever possible, White Mountains estimates fair value using valuation methods that maximize the use of observable prices and other inputs. Where appropriate, assets and liabilities measured at fair value have been adjusted for the effect of counterparty credit risk.

Invested Assets

As of September 30, 2018, approximately 89% of the investment portfolio recorded at fair value was priced based upon quoted market prices or other observable inputs. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, short-term investments, which include U.S. Treasury Bills and common equity securities. Investments valued using Level 2 inputs include fixed maturity investments, which have been disaggregated into classes, including debt securities issued by corporations, mortgage and asset-backed securities, municipal obligations, and foreign government, agency and provincial obligations. Investments valued using Level 2 inputs also include certain passive exchange traded funds (“ETFs”) that track U.S. stock indices such as the S&P 500 but are traded on foreign exchanges, which management values using the fund manager’s published NAV to account for the difference in market close times. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Investments valued using Level 3 fair value estimates are based upon unobservable inputs and include investments in certain fixed maturity investments, equity securities and other long-term investments where quoted market prices are unavailable or are not considered reasonable. Transfers between levels are based on investments held as of the beginning of the period.

White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services White Mountains uses have indicated that they will only provide prices where

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

White Mountains's process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of its fixed maturity investments and includes, but is not limited to, the evaluation of pricing methodologies and a review of the pricing services' quality control procedures on at least an annual basis, a comparison of its invested asset prices obtained from alternate independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices and a review of the underlying assumptions utilized by the pricing services for select measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and \$0.5 million from the expected price based on these assessment procedures are considered outliers. Also considered outliers are prices that have not changed from period to period and prices that have trended unusually compared to market conditions. In circumstances where the results of White Mountains's review process does not appear to support the market price provided by the pricing services, White Mountains challenges the vendor provided price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The valuation process described above is generally applicable to all of White Mountains's fixed maturity investments. For more detail on the techniques and inputs specific to asset classes within White Mountains's fixed maturity investments. See Note 3 — "Investment Securities."

Level 3 valuations are generated from techniques that use assumptions not observable in the market. These unobservable assumptions reflect White Mountains's assumptions that market participants would use in valuing the investment. Generally, certain securities may start out as Level 3 when they are originally issued but as observable inputs become available in the market, they may be reclassified to Level 2.

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

NON-GAAP FINANCIAL MEASURES

This report includes four non-GAAP financial measures that have been reconciled with their most comparable GAAP financial measures.

Adjusted book value per share is a non-GAAP financial measure which is derived by adjusting (i) the GAAP book value per share numerator and (ii) the common shares outstanding denominator, as described below. Beginning in 2017, the GAAP book value per share numerator has been adjusted (i) to include a discount for the time value of money arising from the expected timing of cash payments of principal and interest on the BAM surplus notes and (ii) to add back the unearned premium reserve, net of deferred acquisition costs, at HG Global. Under GAAP, White Mountains is required to carry the BAM surplus notes, including accrued interest, at nominal value with no consideration for time value of money. Based on a debt service model that forecasts operating results for BAM through maturity of the surplus notes, the present value of the BAM surplus notes, including accrued interest, was estimated to be \$151 million, \$155 million, \$162 million and \$167 million less than the nominal GAAP carrying values as of September 30, 2018, June 30, 2018, December 31, 2017, and September 30, 2017, respectively. The value of HG Global's unearned premium reserve, net of deferred acquisition costs, was \$94 million, \$93 million, \$82 million and \$71 million as of September 30, 2018, June 30, 2018, December 31, 2017, and September 30, 2017, respectively. White Mountains believes these adjustments are useful to management and investors in analyzing the intrinsic value of HG Global, including the value of the surplus notes and the value of the in-force business at HG Re, HG Global's reinsurance subsidiary. The denominator used in the calculation of adjusted book value per share equals the number of common shares outstanding adjusted to exclude unearned restricted common shares, the compensation cost of which, at the date of calculation, has yet to be amortized. Restricted common shares are earned on a straight-line basis over their vesting periods. The reconciliation of GAAP book value per share to adjusted book value per share is included

on page 42.

Gross written premiums and MSC from new business is a non-GAAP financial measure, which is derived by adjusting gross written premiums (i) to add MSC (ii) to include the present value of future installment MSC not yet collected and (iii) to exclude the impact of gross written premium adjustments related to policies closed in prior periods. White Mountains believes these adjustments are useful to investors in evaluating the pricing of new business closed during the period. The reconciliation of GAAP gross written premiums to gross written premiums and MSC from new business is included on page 48.

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Adjusted EBITDA is a non-GAAP financial measure, which is defined as net income (loss) excluding interest expense on debt, income tax benefit (expense), depreciation and amortization, and certain adjustments at NSM and MediaAlpha. In the case of NSM, adjusted EBITDA also excludes the change in the fair value of NSM's contingent consideration earnout liabilities related to prior transactions. In the case of MediaAlpha, adjusted EBITDA also excludes non-cash equity-based compensation expense. White Mountains believes that adjusted EBITDA is useful to management and investors in analyzing NSM's and MediaAlpha's fundamental economic performance. White Mountains believes that investors commonly use adjusted EBITDA as a supplemental measurement to evaluate the overall operating performance of companies within the same industry. See page 52 for the reconciliation of NSM's GAAP net income (loss) to adjusted EBITDA and page 53 for the reconciliation of MediaAlpha's GAAP net income (loss) to adjusted EBITDA.

Total capital at White Mountains is comprised of White Mountains's common shareholders' equity, debt and non-controlling interests other than non-controlling interests attributable to mutuals. Total adjusted capital is a non-GAAP financial measure, which is derived by adjusting total capital (i) to include a discount for the time value of money arising from the expected timing of cash payments of principal and interest on the BAM Surplus Notes and (ii) to add back the unearned premium reserve, net of deferred acquisition costs, at HG Global. The reconciliation of total capital to total adjusted capital is included on page 59.

CRITICAL ACCOUNTING ESTIMATES

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

FORWARD-LOOKING STATEMENTS

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

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

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

the risks that are described from time to time in White Mountains's filings with the Securities and Exchange Commission, including but not limited to White Mountains's Annual Report on Form 10-K for the fiscal year ended December 31, 2017;

business opportunities (or lack thereof) that may be presented to it and pursued;

actions taken by ratings agencies from time to time, such as financial strength or credit ratings downgrades or placing ratings on negative watch;

the continued availability of capital and financing;

general economic, market or business conditions;

competitive forces, including the conduct of other insurers;

changes in domestic or foreign laws or regulations, or their interpretation, applicable to White Mountains, its competitors or its customers;

an economic downturn or other economic conditions adversely affecting its financial position; and

other factors, most of which are beyond White Mountains's control.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Refer to White Mountains's 2017 Annual Report on Form 10-K and in particular Item 7A. - "Quantitative and Qualitative Disclosures About Market Risk".

Item 4. Controls and Procedures.

The Principal Executive Officer ("PEO") and the Principal Financial Officer ("PFO") of White Mountains have evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the PEO and PFO have concluded that White Mountains's disclosure controls and procedures are effective.

There were no significant changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended September 30, 2018.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

There have been no material changes to any of the risk factors previously disclosed in the Registrant's 2017 Annual Report on Form 10-K.

Item 2. Issuer Purchases of Equity Securities.

Months	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans ⁽¹⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans ⁽¹⁾
July 1-July 31, 2018	—	\$	—	643,130
August 1-August 31, 2018	—	\$	—	643,130
September 1-September 30, 2018	—	\$	—	643,130
Total	—	\$	—	643,130

⁽¹⁾ White Mountains's board of directors has authorized the Company to repurchase its common shares, from time to time, subject to market conditions. The repurchase authorizations do not have a stated expiration date.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

(a)	Exhibit number	Name
	2	<u>Plan of Reorganization (incorporated by reference herein to the Company's Registration Statement on S-4 (No. 333-87649) dated September 23, 1999)</u>
	3.1	<u>Memorandum of Continuance of the Company (incorporated by reference herein to Exhibit (3)(i) of the Company's Current Report on Form 8-K dated November 1, 1999)</u>
	3.2	<u>Amended and Restated Bye-Laws of the Company (incorporated by reference herein to Exhibit 3 of the Company's Report on Form 10-Q dated May 2, 2017)</u>
	10	<u>Credit Agreement Dated as of May 11, 2018 among NSM Insurance Group, LLC, as the Borrower, NSM Insurance Holdco, LLC, as Holdings, Ares Capital Corporation, as Administrative Agent, and the Lenders and L/C Issuers Party Hereto from Time to Time (incorporated by reference herein to Exhibit 10 of the Company's Report on Form 10-Q dated August 7, 2018)</u>
	11	<u>Statement Re Computation of Per Share Earnings. **</u>
	31.1	<u>Principal Executive Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as Amended. *</u>
	31.2	<u>Principal Financial Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as Amended. *</u>
	32.1	<u>Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *</u>
	32.2	<u>Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *</u>
	101	The following financial information from White Mountains's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 formatted in XBRL: (i) Consolidated Balance Sheets, September 30, 2018 and December 31, 2017; (ii) Consolidated Statements of Operations and Comprehensive Income, Three and Nine Months Ended September 30, 2018 and 2017; (iii) Consolidated Statements of Changes in Equity, Nine Months Ended September 30, 2018 and 2017; (iv) Consolidated Statements of Cash Flows, Nine Months Ended September 30, 2018 and 2017; and (v) Notes to Consolidated Financial Statements. *

* Included herein

** Not included as an exhibit as the information is contained elsewhere within this report. See Note 9 — "Earnings Per Share" of the Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WHITE MOUNTAINS INSURANCE
GROUP, LTD.
(Registrant)

Date: November 5, 2018 By: /s/ J. Brian Palmer
J. Brian Palmer
Managing Director and Chief Accounting Officer