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

FORM 10-Q

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

For the period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda	**94-2708455**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
80 South Main Street, Hanover, New Hampshire	**03755-2053**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer ☒ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

As of October 30, 2012, 6,583,653 common shares with a par value of $1.00 per share were outstanding (which includes 96,095 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 SHEET

(Millions, except share amounts)	September 30, 2012	December 31, 2011
Assets	**Unaudited**	
Fixed maturity investments, at fair value	**$ 4,912.4**	$ 6,221.9
Short-term investments, at amortized cost (which approximates fair value)	**917.3**	846.0
Common equity securities, at fair value	**1,004.8**	755.0
Convertible fixed maturity investments, at fair value	**142.0**	143.8
Other long-term investments	**307.1**	301.3
Total investments	**7,283.6**	8,268.0
Cash (restricted: $341.7 and $453.5)	**549.2**	705.4
Reinsurance recoverable on unpaid losses	**356.8**	2,507.3
Reinsurance recoverable on paid losses	**14.8**	30.5
Insurance and reinsurance premiums receivable	**678.1**	489.2
Funds held by ceding companies	**102.7**	106.5
Investments in unconsolidated affiliates	**376.3**	275.3
Deferred acquisition costs	**211.3**	187.0
Deferred tax asset	**555.0**	536.9
Ceded unearned insurance and reinsurance premiums	**113.6**	87.3
Accrued investment income	**45.5**	51.4
Accounts receivable on unsettled investment sales	**167.2**	4.7
Other assets	**626.5**	681.9
Assets held for sale	**2,388.2**	132.6
Total assets	**$ 13,468.8**	$ 14,064.0
Liabilities		
Loss and loss adjustment expense reserves	**$ 3,059.8**	$ 5,702.3
Unearned insurance and reinsurance premiums	**1,067.1**	846.9
Variable annuity benefit guarantee	**672.4**	768.5
Debt	**676.6**	677.5
Deferred tax liability	**399.7**	365.5
Accrued incentive compensation	**144.7**	187.9
Ceded reinsurance payable	**138.6**	134.6
Funds held under reinsurance treaties	**33.8**	42.9
Accounts payable on unsettled investment purchases	**47.7**	34.6
Other liabilities	**461.8**	527.8
Liabilities held for sale	**2,388.2**	107.6
Total liabilities	**9,090.4**	9,396.1
Equity		
White Mountains' common shareholders' equity		
White Mountains' common shares at $1 par value per share - authorized 50,000,000 shares;		
issued and outstanding 6,583,653 and 7,577,855 shares	**6.6**	7.6
Paid-in surplus	**1,095.6**	1,253.7
Retained earnings	**2,577.4**	2,789.7
Accumulated other comprehensive income, after tax:		
Equity in net unrealized gains from investments in unconsolidated affiliates	**59.3**	—
Net unrealized foreign currency translation gains	**80.8**	46.1
Pension liability and other	**(10.4)**	(9.4)
Total White Mountains' common shareholders' equity	**3,809.3**	4,087.7
Noncontrolling interests		
Noncontrolling interest - OneBeacon Ltd.	**259.7**	273.1
Noncontrolling interest - SIG Preference Shares	**250.0**	250.0
Noncontrolling interest - HG Global	**16.6**	—
Noncontrolling interest - BAM	**(18.0)**	—
Noncontrolling interest - other	**60.8**	57.1
Total noncontrolling interests	**569.1**	580.2
Total equity	**4,378.4**	4,667.9
Total liabilities and equity	**$ 13,468.8**	$ 14,064.0

See Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per share amounts)	**2012**	**2011**	**2012**	**2011**
Revenues:				
Earned insurance and reinsurance premiums	**$ 536.8**	$ 491.1	**$ 1,545.3**	$ 1,433.5
Net investment income	**37.6**	42.8	**119.8**	138.1
Net realized and unrealized investment gains	**72.7**	2.9	**123.2**	36.4
Other revenue	**50.3**	(35.0)	**81.0**	(28.3)
Total revenues	**697.4**	501.8	**1,869.3**	1,579.7
Expenses:				
Loss and loss adjustment expenses	**308.1**	280.2	**821.7**	920.4
Insurance and reinsurance acquisition expenses	**107.6**	107.0	**326.2**	296.6
Other underwriting expenses	**76.6**	64.3	**228.4**	203.9
General and administrative expenses	**58.7**	36.2	**146.3**	120.4
Interest expense on debt	**11.3**	12.8	**33.1**	38.8
Total expenses	**562.3**	500.5	**1,555.7**	1,580.1
Pre-tax income (loss) from continuing operations	**135.1**	1.3	**313.6**	(.4)
Income tax (expense) benefit	**(47.8)**	.6	**(85.3)**	(.8)
Net income (loss) from continuing operations	**87.3**	1.9	**228.3**	(1.2)
Loss from sale of discontinued operations, net of tax	**(91.0)**	(18.2)	**(91.0)**	(18.2)
Net loss from discontinued operations, net of tax	**(15.8)**	(12.0)	**(24.5)**	(7.8)
(Loss) income before equity in earnings of unconsolidated affiliates	**(19.5)**	(28.3)	**112.8**	(27.2)
Equity in earnings of unconsolidated affiliates, net of tax	**7.7**	1.5	**24.4**	16.1
Net (loss) income	**(11.8)**	(26.8)	**137.2**	(11.1)
Net (income) loss attributable to noncontrolling interests	**30.9**	11.0	**2.0**	(21.2)
Net income (loss) attributable to White Mountains' common shareholders	**19.1**	(15.8)	**139.2**	(32.3)
Comprehensive income, net of tax:				
Change in equity in net unrealized gains from investments in unconsolidated affiliates	**32.3**	55.1	**59.3**	77.2
Change in foreign currency translation and other	**39.6**	(81.8)	**33.3**	(25.3)
Comprehensive income (loss)	**91.0**	(42.5)	**231.8**	19.6
Comprehensive income attributable to noncontrolling interests	**.4**	—	**.4**	—
Comprehensive income (loss) attributable to White Mountains' common shareholders	**$ 91.4**	$ (42.5)	**$ 232.2**	$ 19.6
Income (loss) per share attributable to White Mountains' common shareholders				
Basic income (loss) per share				
Continuing operations	**$ 19.11**	$ 1.81	**$ 36.96**	$ (.80)
Discontinued operations	**(16.21)**	(3.81)	**(16.77)**	(3.26)
Total consolidated operations	**$ 2.90**	$ (2.00)	**$ 20.19**	$ (4.06)
Diluted income (loss) per share				
Continuing operations	**$ 19.11**	$ 1.81	**$ 36.96**	$ (.80)
Discontinued operations	**(16.21)**	(3.81)	**(16.77)**	(3.26)
Total consolidated operations	**$ 2.90**	$ (2.00)	**$ 20.19**	$ (4.06)
Dividends declared per White Mountains' common share	**$ —**	$ —	**$ 1.00**	$ 1.00

See Notes to Consolidated Financial Statements

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

	White Mountains' Common Shareholders' Equity				
(Millions)	**Common shareholders' equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income, after tax**	**Non-controlling interests**
Balance at January 1, 2012	$ 4,087.7	$ 1,261.3	$ 2,789.7	$ 36.7	$ 580.2
Net income (loss)	139.2	—	139.2	—	(2.0)
Other comprehensive income (loss), after tax	93.0	—	—	93.0	(.4)
Dividends declared on common shares	(6.6)	—	(6.6)	—	—
Dividends to noncontrolling interests	—	—	—	—	(24.5)
Repurchases and retirements of common shares	(517.5)	(172.6)	(344.9)	—	—
Issuances of common shares	5.8	5.8	—	—	—
Net contributions from noncontrolling interests	—	—	—	—	13.0
Amortization of restricted share and option awards	9.9	9.9	—	—	.6
Allocation of fair value of net assets acquired to noncontrolling interests	(2.2)	(2.2)	—	—	2.2
Balance at September 30, 2012	**$ 3,809.3**	**$ 1,102.2**	**$ 2,577.4**	**$ 129.7**	**$ 569.1**

	White Mountains' Common Shareholders' Equity				
(Millions)	**Common shareholders' equity**	**Common shares and paid-in surplus**	**Retained earnings**	**Accum. other comprehensive income, after tax**	**Non-controlling interests**
Balance at January 1, 2011	$ 3,653.0	$ 1,359.0	$ 2,175.6	$ 118.4	$ 607.8
Net (loss) income	(32.3)	—	(32.3)	—	21.2
Other comprehensive income, after tax	52.0	—	—	52.0	—
Dividends declared on common shares	(8.0)	—	(8.0)	—	—
Dividends to noncontrolling interests	—	—	—	—	(47.2)
Repurchases and retirements of common shares	(229.8)	(98.5)	(131.3)	—	—
Issuances of common shares	.9	.9	—	—	—
Net distributions to noncontrolling interests	—	—	—	—	(7.7)
Amortization of restricted share and option awards	8.9	8.9	—	—	.3
Balance at September 30, 2011	$ 3,444.7	$ 1,270.3	$ 2,004.0	$ 170.4	$ 574.4

See Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
(Millions)	**2012**	**2011**
Cash flows from operations:		
Net income (loss)	**$ 137.2**	$ (11.1)
Charges (credits) to reconcile net income to net cash (used for) provided from operations:		
Net realized and unrealized investment gains	**(123.2)**	(36.4)
Net loss from discontinued operations	**24.5**	7.8
Net loss on sale of discontinued operations	**91.0**	18.2
Undistributed equity in earnings from unconsolidated affiliates, net of tax	**(24.4)**	(16.1)
Deferred income tax expense (benefit)	**50.4**	(45.6)
Other operating items:		
Net change in loss and loss adjustment expense reserves	**(241.6)**	46.3
Net change in reinsurance recoverable on paid and unpaid losses	**98.1**	102.9
Net change in unearned insurance and reinsurance premiums	**206.6**	190.8
Net change in funds held by ceding companies	**5.3**	(17.2)
Net change in variable annuity benefit guarantee liabilities	**(96.1)**	151.1
Net change in variable annuity benefit derivative instruments	**48.3**	(6.3)
Net change in deferred acquisition costs	**(21.9)**	(31.2)
Net change in ceded unearned premiums	**(22.1)**	(25.4)
Net change in funds held under reinsurance treaties	**1.9**	(46.0)
Net change in insurance and reinsurance premiums receivable	**(206.9)**	(165.0)
Net change in ceded reinsurance payable	**31.5**	44.2
Net change in other assets and liabilities, net	**68.4**	13.5
Net cash provided from operations - continuing operations	**27.0**	174.5
Net cash used for operations - discontinued operations	**(155.6)**	(133.9)
Net cash (used for) provided from operations	**(128.6)**	40.6
Cash flows from investing activities:		
Net change in short-term investments	**(127.3)**	112.6
Sales of fixed maturity and convertible fixed maturity investments	**4,918.8**	2,905.7
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	**408.7**	1,015.3
Sales of common equity securities	**99.7**	125.4
Distributions and redemptions of other long-term investments	**20.9**	90.0
Sale of unconsolidated affiliates (net of held in escrow)	**9.8**	—
Purchases of other long-term investments	**(28.8)**	(30.6)
Contributions to discontinued operations	**(155.6)**	(248.5)
Purchases of common equity securities	**(284.2)**	(189.0)
Purchases of fixed maturity and convertible fixed maturity investments	**(4,239.0)**	(3,497.6)
Net change in unsettled investment purchases and sales	**(149.5)**	54.0
Net acquisitions of property and equipment	**(1.5)**	(3.3)
Net cash provided from investing activities - continuing operations	**472.0**	334.0
Net cash provided from investing activities - discontinued operations	**155.6**	325.1
Net cash provided from investing activities	**627.6**	659.1
Cash flows from financing activities:		
Repurchase of debt	**—**	(161.6)
Cash dividends paid to the Company's common shareholders	**(6.6)**	(8.0)
Cash dividends paid to OneBeacon Ltd.'s noncontrolling common shareholders	**(14.9)**	(37.9)
Cash dividends paid on SIG Preference Shares	**(9.4)**	(9.4)
Common shares repurchased	**(517.5)**	(229.7)
Proceeds from issuances of common shares	**—**	.9
Net cash used for financing activities - continuing operations	**(548.4)**	(445.7)
Net cash (used for) provided from financing activities - discontinued operations	**—**	**—**
Net cash used for financing activities	**(548.4)**	(445.7)
Effect of exchange rate changes on cash	**3.0**	(2.0)
Net change in cash during the period	**(46.4)**	252.0
Net change in cash from discontinued operations	**—**	(191.2)
Cash reclassified from assets held for sale (net of cash sold of $3.5 and $0)	**2.0**	—

Cash balances at beginning of period (excludes restricted cash balances of $453.5 and $286.7 and AutoOne cash of $0 and $4.7)		**251.9**		103.6
Cash balances at end of period (excludes restricted cash balances of $341.7 and $393.3)	**$**	**207.5**	$	164.4
Supplemental cash flows information:				
Interest paid	**$**	**(21.4)**	$	(38.5)
Net income tax payments to national governments	**$**	**(6.5)**	$	(6.4)

[1] AutoOne cash of $5.5 is included in assets held for sale at September 30, 2011.

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements include the accounts of White Mountains Insurance Group, Ltd. (the "Company" or the "Registrant") and its subsidiaries (collectively, with the Company, "White Mountains") and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. The Company's headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains' reportable segments are OneBeacon, Sirius Group and Other Operations. As discussed further in **Note 2**, on October 7, 2011, White Mountains completed its sale of Esurance Holdings, Inc. and its subsidiaries ("Esurance Insurance") and Answer Financial Inc. and its subsidiaries ("AFI") (collectively, "Esurance"). Esurance has been presented as discontinued operations. (See **Note 14** for discontinued operations).

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. ("OneBeacon Ltd."), an exempted Bermuda limited liability company that owns a family of U.S.-based property and casualty insurance companies (collectively "OneBeacon"), most of which operate in a multi-company pool. OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. As of September 30, 2012 and December 31, 2011, White Mountains owned 75.2% and 75.5% of OneBeacon Ltd.'s outstanding common shares.

As discussed further in **Note 2**, OneBeacon entered into a definitive agreement to sell its runoff business in October 2012 and sold its AutoOne Insurance business ("AutoOne") in February 2012. The runoff business and AutoOne are presented as discontinued operations. Assets and liabilities associated with the runoff business as of September 30, 2012 and AutoOne as of December 31, 2011 have been presented as held for sale in the financial statements. Prior year income statement and cash flow amounts have been reclassified to conform to the current year's presentation. (See **Note 14** for discontinued operations).

The Sirius Group segment consists of Sirius International Insurance Group, Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, "Sirius Group"). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation ("Sirius International"), Sirius America Insurance Company ("Sirius America") and Lloyds Syndicate 1945 ("Syndicate 1945"). Sirius Group also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division. On December 31, 2011, Sirius Group completed a transaction led by White Mountains Solutions to acquire the runoff loss reserve portfolio of Old Lyme Insurance Company Ltd. ("Old Lyme"). Sirius Group also includes Scandinavian Reinsurance Company, Ltd. ("Scandinavian Re") and Central National Insurance Company of Omaha ("Central National"), which are both in runoff.

White Mountains' Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC ("WM Advisors"), White Mountains' variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. ("WM Life Re"), which is in runoff, as well as various other entities not included in other segments. For 2011, the Other Operations segment also included the consolidated results of the Tuckerman Capital, LP fund ("Tuckerman Fund I"). On December 31, 2011, Tuckerman Fund I liquidated and distributed all of its assets, which consisted of shares of two small manufacturing companies, Hamer, LLC ("Hamer") and Bri-Mar Manufacturing, LLC ("Bri-Mar"), to its partners, including White Mountains. Commencing on January 1, 2012, the consolidated results of Hamer and Bri-Mar are included in the Other Operations segment.

In July 2012, White Mountains capitalized HG Global Ltd. ("HG Global") to fund Build America Mutual Assurance Company ("BAM"), a newly formed mutual municipal bond insurer, and HG Re, Ltd. ("HG Re"), a wholly-owned subsidiary of HG Global. As of September 30, 2012, White Mountains owned 97% of HG Global's preferred equity and 89% of its common equity. HG Global provided the initial capitalization of BAM through the purchase of surplus notes. Through HG Re, HG Global provides first loss reinsurance protection for policies underwritten by BAM of 15% of par outstanding, on a per policy basis. HG Re's obligations to BAM are collateralized in trusts, and there is an aggregate loss limit that is equal to the total assets in the collateral trusts at any point in time. HG Global and BAM are both included in the Other Operations segment. U.S. GAAP requires White Mountains to consolidate the results of BAM. However, BAM is a mutual insurance company owned by its members and its equity and results of operations are included in noncontrolling interests.

White Mountains' discontinued operations consist of Esurance Insurance, AFI, OneBeacon's runoff business and AutoOne. Esurance Insurance wrote personal auto insurance directly to customers in 30 states through its website and over the phone and also sold other lines of personal insurance for unaffiliated insurance companies. Esurance Insurance also wrote personal auto policies through select online agents and provided other insurance products through partnerships with industry leading online providers. Esurance Insurance earned commissions and fees by referring to unaffiliated insurance companies those shoppers that it could not underwrite because of pricing or underwriting eligibility. AFI sold insurance online and through call centers for both Esurance Insurance and unaffiliated companies utilizing a comparison quoting platform. AutoOne was formed by OneBeacon in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey.

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains. 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 2011 Annual Report on Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company's 2011 Annual Report on Form 10-K for a complete discussion regarding White Mountains' significant accounting policies.

Noncontrolling Interests

Noncontrolling interests consist of the ownership interests of noncontrolling parties in consolidated entities and are presented separately as a component of equity on the balance sheet.

The percentage of the noncontrolling equity interests in OneBeacon Ltd. at September 30, 2012 and December 31, 2011 was 24.8% and 24.5%.

In July 2012, HG Global was capitalized with $594.5 million from White Mountains and $14.5 million from certain management members of BAM, the latter of which is included in noncontrolling interest. Upon closing, certain BAM management members also received additional common and preferred shares of HG Global that resulted in a $2.2 million allocation of the carrying value of White Mountains' investment in HG Global to the noncontrolling interest, which was recorded as an adjustment to paid-in surplus in White Mountains' consolidated statement of changes in equity.

White Mountains is required to consolidate BAM in its GAAP financial statements. However, since BAM is a mutual insurance company that is owned by its members and not White Mountains, BAM's results do not affect White Mountains' common shareholders' equity as they are attributable to noncontrolling interests. For the third quarter of 2012, BAM reported $18 million in pre-tax losses that have been allocated to noncontrolling interest.

In May 2007, Sirius International Group, Ltd. ("SIG"), an intermediate holding company of Sirius Group, issued $250 million non-cumulative perpetual preference shares with a $1,000 per share liquidation preference (the "SIG Preference Shares"). Proceeds of $245.7 million, net of $4.3 million of issuance costs and commissions, were received from the issuance. The SIG Preference Shares are included in noncontrolling interests on the balance sheet.

At September 30, 2012 and December 31, 2011, the noncontrolling equity interest in limited partnerships that are consolidated with White Mountains (the Prospector Offshore Fund, the Prospector Turtle Fund and Tuckerman Fund I prior to December 31, 2011) was $52.8 million and $54.2 million. On December 31, 2011, Tuckerman Fund I was dissolved and all of the net assets of the fund, which consisted of common stock of Hamer and Bri-Mar, were distributed. At September 30, 2012, the noncontrolling equity interest in Hamer and Bri-Mar was $4.5 million. At September 30, 2012 and December 31, 2011, the noncontrolling equity interest in A.W.G. Dewar Inc, a subsidiary of OneBeacon, was $3.2 million and $2.3 million. At September 30, 2012 and December 31, 2011, the noncontrolling equity interest in Passage2Health Limited, a subsidiary of Sirius Group, was $0.3 million and $0.6 million.

Recently Adopted Changes in Accounting Principles

Policy Acquisition Costs

On January 1, 2012, White Mountains adopted ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (ASC 944). The new standard changes the types of policy acquisition costs that are eligible for deferral. Specifically, the new guidance limits deferrable costs to those that are incremental direct costs of contract acquisition and certain costs related to acquisition activities performed by the insurer, such as underwriting, policy issuance and processing, medical and inspection costs and sales force contract selling. The ASU defines incremental direct costs as those costs that result directly from and were essential to the contract acquisition and would not have been incurred absent the acquisition. Accordingly, under the new guidance, deferrable acquisition costs are limited to costs related to successful contract acquisitions. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred.

White Mountains adopted ASU 2010-26 prospectively. Upon adoption, certain acquisition costs, primarily a portion of the profit sharing commissions associated with OneBeacon's collector car and boats business, no longer meet the criteria for deferral. Deferred acquisition costs of $5.6 million at January 1, 2012 that no longer meet the criteria for deferral under ASU 2010-26 will be recognized in expense over the original amortization periods. For the three and nine months ended September 30, 2012, White Mountains recognized $0.9 million and $5.3 million of expense related to such previously deferrable acquisition costs. If White Mountains had adopted ASU 2010-26 retrospectively, $1.4 million and $5.7 million of acquisition costs that were deferred would have been recognized in expense for the three and nine months ended September 30, 2011.

Fair Value Measurements

On January 1, 2012, White Mountains adopted ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements* in U.S. GAAP and IFRS. The ASU clarifies existing guidance with respect to the concepts of highest and best use and valuation premise and measuring instruments classified within a reporting entity's shareholders' equity. The ASU also clarifies disclosure requirements, requiring disclosure of quantitative information about unobservable inputs used in Level 3 fair value measurements. The ASU also amends existing guidance. In circumstances where a reporting entity manages a portfolio of financial assets and liabilities based on the net market and counterparty credit risk exposures, the ASU permits determination of the fair value of those instruments to be based on the net risk exposure. In addition, the ASU permits the application of premiums or discounts to be applied in a fair value measurement to the extent that market participants would consider them in valuing the financial instruments. The ASU also expands the required disclosures for Level 3 measurements, requiring that reporting entities provide a narrative description of the sensitivity of Level 3 fair value measurements to changes in unobservable inputs and the interrelationships between those inputs, if any. As a result of adopting ASU 2011-04, White Mountains expanded its fair value disclosures. (See **Note 5**).

Comprehensive Income

For fiscal periods beginning after December 15, 2011, ASU 2011-05, *Comprehensive Income*, became effective, which requires all components of comprehensive income to be reported in a continuous financial statement or in consecutive statements displaying the components of net income and the components of other comprehensive income. Since White Mountains previously presented comprehensive income in a continuous financial statement, adoption of ASU 2011-05 had no effect on White Mountains' financial statement presentation.

Recently Issued Accounting Pronouncements

Offsetting Assets and Liabilities

On December 16, 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities (ASC 210).* The new standard expands the required disclosures in circumstances where either balances have been offset or the right of offset exists. The required disclosures are intended to provide information to enable financial statement users to evaluate the effect or potential effect of netting arrangements on a reporting entity's financial position. Disclosures required under the new standard include the gross amount of assets and liabilities recognized; the amounts that have been offset to arrive at the amounts presented in the statement of financial position; and for any amounts subject to an enforceable master netting arrangement, whether such amounts have been offset. In addition, a description of the rights of offset should be disclosed. ASU 2011-11 is effective for periods beginning on or after January 1, 2013. White Mountains is party to master netting arrangements in connection with the derivative instruments held by WM Life Re and is currently evaluating the effect of adoption will have on its disclosures, but does not expect adoption to have a material effect on its financial position, results of operations or cash flows.

Note 2. Significant Transactions

Formation of HG Global and BAM

In July 2012, White Mountains capitalized HG Global with $594.5 million to fund BAM, a newly formed mutual municipal bond insurer. As of September 30, 2012, White Mountains owned 97% of HG Global's preferred equity and 89% of its common equity. HG Global provided the initial capitalization of BAM through the purchase of $503.0 million of BAM surplus notes. Through HG Re, HG Global provides first loss reinsurance protection for policies underwritten by BAM of 15% of par outstanding, on a per policy basis. HG Re's obligations to BAM are collateralized in trusts, and there is an aggregate loss limit that is equal to the total assets in the collateral trusts at any point in time. U.S. GAAP requires White Mountains to consolidate BAM in its financial statements. However, since BAM is a mutual insurance company that is owned by its members and not White Mountains, BAM's results do not affect White Mountains' common shareholders' equity as they are attributable to noncontrolling interests. For the three and nine months ended September 30, 2012, HG Global had pre-tax income of $4.8 million, which included $8.3 million of interest income on the BAM surplus notes. For the three and nine months ended September 30, 2012, BAM had a pre-tax loss of $18.0 million that was recorded in net loss attributable to noncontrolling interests, which included $8.3 million of interest expense on its surplus notes.

Sale of OneBeacon runoff business

On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC, entered into a definitive agreement with Trebuchet US Holdings, Inc. (“Trebuchet”), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, “Armour”), to sell its runoff business (the "Runoff Transaction"). Pursuant to the terms of the agreement, at closing OneBeacon will transfer to Trebuchet all of the issued and outstanding shares of common stock of certain legal entities that will contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the runoff business as well as certain elements of the runoff business infrastructure, including staff and office space. Additionally, as part of the Runoff Transaction, OneBeacon may provide financing in the form of surplus notes. The transaction is subject to regulatory approvals and is expected to close in the second half of 2013.

During the third quarter of 2012, OneBeacon recorded $100.5 million in after-tax losses related to the Runoff Transaction. These losses are presented in discontinued operations and are composed of a $91.5 million after-tax loss on sale and a $9.0 million after-tax loss related to an reduction in the workers compensation loss reserve discount rate on reserves being transferred as part of the sale. OneBeacon also recognized $6.5 million of after-tax underwriting losses primarily related to unfavorable loss reserve development from a legacy assumed reinsurance treaty, which is presented in discontinued operations (**see Note 14**).

Sale of AutoOne

On February 22, 2012, OneBeacon completed the sale of AutoOne to Interboro Holdings, Inc. (“Interboro”). OneBeacon formed AutoOne in 2001 to provide products and services to automobile assigned risk markets primarily in New York and New Jersey. OneBeacon transferred to the buyer AutoOne Insurance Company (“AOIC”) and AutoOne Select Insurance Company (“AOSIC”), which contained the assets, liabilities (including loss reserves and unearned premiums), and the capital of the AutoOne business, and transferred substantially all of the AutoOne infrastructure including systems and office space as well as certain staff. As a result of the sale, AutoOne is reported as discontinued operations (**see Note 14**).

Sale of Esurance

On October 7, 2011, White Mountains completed the sale of Esurance Insurance and AFI to The Allstate Corporation (“Allstate”) for $700 million plus tangible book value. White Mountains recorded a gain on the sale of $677.5 million in discontinued operations in the fourth quarter of 2011. The transaction is subject to a true-up of the estimated tangible book value of the entities sold through the date of closing and certain other contingencies (**see Note 14)**.

Share Repurchases

On March 22, 2012, White Mountains completed a fixed-price tender offer and repurchased 816,829 of its common shares at $500 per share. The total cost of the share repurchase was $408.6 million, including fees and expenses. During 2011, White Mountains completed two “modified Dutch auction” self-tender offers and repurchased 332,346 of its common shares at an average price of $418 per share. The total cost of the share repurchases was $138.8 million, including fees and expenses.

In addition to the tender offers, which were separately authorized, the board of directors has authorized the Company to repurchase its common shares, from time to time, subject to market conditions. In 2006, White Mountains’ board of directors authorized the Company to repurchase up to 1,000,000 of its common shares and in 2010 White Mountains’ board of directors authorized the Company to repurchase an additional 600,000 of its common shares. On May 25, 2012, White Mountains' board of directors authorized the Company to repurchase an additional 1,000,000 of its common shares. Shares may be repurchased on the open market or through privately negotiated transactions. The repurchase authorization does not obligate the Company to acquire any specific number of shares, nor is there a stated expiration date.

During the three and nine months ended September 30, 2012, the Company repurchased 50,000 and 217,801 common shares for $26.4 million and $107.6 million under this program.

During the nine months ended September 30, 2011, the Company repurchased 265,768 common shares for $93.2 million.

Since the inception of this authorization through September 30, 2012, the Company repurchased 1,629,504 common shares for $645.1 million. At September 30, 2012, the Company may repurchase an additional 970,496 shares under this authorization.

Note 3. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense ("LAE") reserve activities of White Mountains' insurance and reinsurance subsidiaries for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Gross beginning balance	**$ 5,329.8**	$ 5,642.4	**$ 5,702.3**	$ 5,736.8
Less beginning reinsurance recoverable on unpaid losses	**(2,369.4)**	(2,193.0)	**(2,507.3)**	(2,344.0)
Net loss and LAE reserves	**2,960.4**	3,449.4	**3,195.0**	3,392.8
Less: Beginning net loss and LAE reserves for AutoOne and OneBeacon's runoff business [1]	(296.0)	(503.2)	**(384.1)**	(620.6)
Loss and LAE incurred relating to:				
Current year losses	**318.2**	307.1	**842.9**	968.0
Prior year losses	**(10.1)**	(26.9)	**(21.2)**	(47.6)
Total incurred losses and LAE	**308.1**	280.2	**821.7**	920.4
Accretion of fair value adjustment to loss and LAE reserves	**1.1**	2.1	**9.4**	6.2
Foreign currency translation adjustment to loss and LAE reserves	**12.0**	(25.5)	**11.7**	5.7
Loss and LAE paid relating to:				
Current year losses	**(101.1)**	(109.7)	**(223.9)**	(226.3)
Prior year losses	**(181.5)**	(186.9)	**(726.8)**	(571.8)
Total loss and LAE payments	**(282.6)**	(296.6)	**(950.7)**	(798.1)
Plus: Ending net loss and LAE reserves for AutoOne and OneBeacon's runoff business (1)	—	394.4	**—**	394.4
Net ending balance	**2,703.0**	3,300.8	**2,703.0**	3,300.8
Plus ending reinsurance recoverable on unpaid losses	**356.8**	2,581.2	**356.8**	2,581.2
Gross ending balance	**$ 3,059.8**	$ 5,882.0	**$ 3,059.8**	$ 5,882.0

[1] Loss and LAE reserve balances for OneBeacon's run-off business prior to September 30, 2012 and AutoOne prior to September 30, 2011 were not classified as held for sale. Adjustment is to present loss and LAE reserve activities from continuing operations.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2012

During the three and nine months ended September 30, 2012, White Mountains experienced $10.1 million and $21.2 million of net favorable loss reserve development.

For the three and nine months ended September 30, 2012, OneBeacon had net favorable loss reserve development of $2.3 million and $7.6 million, primarily related to professional liability lines, multiple peril liability lines and other general liability lines.

For the three and nine months ended September 30, 2012, Sirius Group had net favorable loss reserve development of $7.8 million and $13.6 million. With the completion of a ground-up asbestos reserve study in the quarter, Sirius Group increased asbestos loss reserves by $33.0 million and $45.0 million in the three and nine months ended September 30, 2012. These increases were more than offset by reductions in liability and property loss reserves.

Loss and LAE incurred relating to prior year losses for the three and nine months ended September 30, 2011

During the three and nine months ended September 30, 2011, White Mountains experienced $26.9 million and $47.6 million of net favorable loss reserve development.

For the three and nine months ended September 30, 2011, OneBeacon had net favorable loss reserve development of $6.0 million and $14.4 million, primarily related to professional liability lines, multiple peril liability lines and other general liability lines.

For the three and nine months ended September 30, 2011, Sirius Group had net favorable loss reserve development of $20.9 million and $33.2 million, primarily attributable to property lines.

Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for acquisitions, White Mountains was required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on their respective acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled. White Mountains recognized $1.1 million and $9.4 million of such charges, recorded as loss and LAE for the three and nine months ended September 30, 2012, and $2.1 million and $6.2 million for the three and nine months ended September 30, 2011. Accretion of fair value adjustment to losses and LAE reserves for the nine months ended September 30, 2012 included $5.0 million from the first quarter of 2012 due to the acceleration of the amortization of the purchase accounting established for the acquisition of Scandinavian Re. This acceleration was a result of a final settlement and commutation of Scandinavian Re's multi-year retrocessional Casualty Aggregate Stop Loss Agreement with St. Paul Fire & Marine Insurance Company ("St Paul"). As of September 30, 2012, the remaining unamortized fair value adjustment for Scandinavian Re was $2.0 million.

Note 4. Third Party Reinsurance

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

OneBeacon

At September 30, 2012, OneBeacon had $2.0 million of reinsurance recoverables on paid losses and $41.3 million that will become recoverable if claims are paid in accordance with current reserve estimates. The reinsurance balances associated with the runoff business are included in discontinued operations (**see Note 14**). OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength of its reinsurers on an ongoing basis. Uncollectible amounts historically have not been significant.

Effective May 1, 2012, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2013. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first $25 million of losses resulting from any single catastrophe are retained and the next $155 million of losses resulting from the catastrophe are reinsured in three layers, OneBeacon retains a co-participation of 55% of losses from $25 million to $40 million, 15% of losses from $40 million to $80 million and 10% of losses from $80 million to $180 million. Thus, for a $180 million loss, OneBeacon would retain $49.3 million. Any loss above $180 million would be retained in full. In the event of a catastrophe, OneBeacon's property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

The following table provides a listing of OneBeacon's top reinsurers, based upon recoverable amounts, the percentage of total paid and unpaid reinsurance recoverables and the reinsurer's A.M Best Company, Inc. ("A.M. Best") rating.

Top Reinsurers (Millions)	Balance at September 30, 2012	% of Total	A.M. Best Rating [1]
Hannover Ruckversich	**$ 6.4**	15%	A+
Hartford Steam Boiler	**4.6**	11%	A++
Munich Reinsurance America	**4.5**	10%	A+
Platinum Underwriters Re	**4.1**	9%	A
Transatlantic Reinsurance	**2.0**	5%	A

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

Sirius Group

At September 30, 2012, Sirius Group had $12.7 million of reinsurance recoverables on paid losses and $315.5 million of reinsurance that will become recoverable if claims are paid in accordance with current reserve estimates. Because reinsurance contracts do not relieve Sirius Group of its obligation to its ceding companies, the collectability of balances due from its reinsurers is important to Sirius Group's financial strength. Sirius Group monitors the financial strength of its reinsurers on an ongoing basis.

The following table provides a listing of Sirius Group's top reinsurers based upon recoverable amounts, the percentage of total paid and unpaid reinsurance recoverables and the reinsurers' A.M. Best ratings.

Top Reinsurers (Millions)	Balance at September 30, 2012	% of Total	A.M. Best Rating [1]	% Collateralized
General Reinsurance Corporation	**$ 42.3**	13%	A++	1%
Swiss Re Group	**33.7**	10%	A+	5%
Lloyds of London [2]	**29.9**	9%	A	4%
Olympus [3]	**28.8**	9%	NR-5	100%
Michigan Catastrophic Claims Association [4]	**14.6**	4%	N/A	—%

[1] A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of fifteen financial strength ratings), "A+" (Superior, which is the second highest of fifteen financial strength ratings), "A" (Excellent, which is the third highest of fifteen financial strength ratings) and "NR-5" (Not formally followed).

[2] Represents the total of reinsurance recoverables due to Sirius Group from all Lloyds Syndicates.

[3] Non-U.S. insurance entity. The balance is fully collateralized through funds held, letters of credit or trust agreements.

[4] Michigan Catastrophic Claims Association ("MCCA") is a non-profit unincorporated association., established by the State of Michigan with the power to issue and collect assessments, to which every insurance company that sells automobile coverage in Michigan is required to be a member. A.M. Best does not rate MCCA. Sirius Group acquired its recoverable from MCCA in the acquisition of Stockbridge Insurance Company. As part of the acquisition, Sirius Group obtained $25.0 of reinsurance protection from the seller (currently rated A+ by A.M. Best) for unfavorable loss reserve development, including uncollectible reinsurance.

Note 5. Investment Securities

White Mountains' invested assets consist of securities and other long-term investments held for general investment purposes. The portfolio of investment securities includes short-term investments, fixed maturity investments, convertible fixed maturity investments and equity securities which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Realized and unrealized investment gains and losses on trading securities are reported in pre-tax revenues. White Mountains' investments in debt securities, including mortgage-backed and asset-backed securities, are generally valued using industry standard pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

Realized investment gains and losses resulting from sales of investment securities are accounted for using the specific identification method. Premiums and discounts on all fixed maturity investments are amortized or accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized or accreted cost, which approximated fair value as of September 30, 2012 and December 31, 2011.

Other long-term investments primarily comprise White Mountains' investments in hedge funds and private equity funds.

Net Investment Income

Pre-tax net investment income for the three and nine months ended September 30, 2012 and 2011 consisted of the following:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Investment income:				
Fixed maturity investments	**$ 33.0**	$ 38.5	**$ 105.1**	$ 127.0
Short-term investments	**.5**	.9	**2.3**	3.2
Common equity securities	**4.8**	3.6	**13.8**	10.1
Convertible fixed maturity investments	**2.0**	1.3	**5.9**	3.9
Other long-term investments	**.7**	1.2	**2.2**	1.9
Interest on funds held under reinsurance treaties	**—**	.2	**—**	(.6)
Total investment income	**41.0**	45.7	**129.3**	145.5
Less third-party investment expenses	**(3.4)**	(2.9)	**(9.5)**	(7.4)
Net investment income, pre-tax	**$ 37.6**	$ 42.8	**$ 119.8**	$ 138.1

Net Realized and Unrealized Investment Gains and Losses

Net realized and unrealized investment gains and losses for the three and nine months ended September 30, 2012 and 2011 consisted of the following:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Net realized investment gains, pre-tax	**$ 23.7**	$ 38.3	**$ 40.5**	$ 67.7
Net unrealized investment (losses) gains, pre-tax	**49.0**	(35.4)	**82.7**	(31.3)
Net realized and unrealized investment gains, pre-tax	**72.7**	2.9	**123.2**	36.4
Income tax expense attributable to net realized and unrealized investment gains (losses)	**(12.3)**	(1.4)	**(28.3)**	(12.7)
Net realized and unrealized investment gains, after tax	**$ 60.4**	$ 1.5	**$ 94.9**	$ 23.7

Net realized investment gains (losses)

Net realized investment gains (losses) for the three and nine months ended September 30, 2012 and 2011 consisted of the following:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Fixed maturity investments	**$ 29.0**	$ 14.1	**$ 69.5**	$ 3.3
Short-term investments	**(3.4)**	.4	**(3.9)**	(10.9)
Common equity securities	**3.9**	23.1	**(2.2)**	41.0
Convertible fixed maturity investments	**1.1**	(.7)	**3.2**	6.3
Other long-term investments	**(7.2)**	1.4	**(26.4)**	28.0
Forward contracts	**.3**	—	**.3**	—
Net realized investment gains, pre-tax	**23.7**	38.3	**40.5**	67.7
Income tax expense attributable to net realized investment gains	**(7.4)**	(8.3)	**(12.8)**	(20.7)
Net realized investment gains, after tax	**$ 16.3**	$ 30.0	**$ 27.7**	$ 47.0

Net unrealized investment gains (losses)

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

Millions	Three Months Ended September 30, 2012 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings	Nine Months Ended September 30, 2012 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings
Fixed maturity investments	$ 27.2	$ (40.6)	$ (13.4)	$ 35.5	$ (36.9)	$ (1.4)
Short-term investments	—	.1	.1	—	.1	.1
Common equity securities	65.1	(.1)	65.0	71.5	(.1)	71.4
Convertible fixed maturity investments	(.6)	—	(.6)	(2.9)	—	(2.9)
Other long-term investments	1.6	(3.7)	(2.1)	18.2	(2.7)	15.5
Net unrealized investment gains (losses), pre-tax	**93.3**	**(44.3)**	**49.0**	**122.3**	**(39.6)**	**82.7**
Income tax expense attributable to net unrealized investment (losses) gains	**(16.7)**	**11.8**	**(4.9)**	**(25.9)**	**10.4**	**(15.5)**
Net unrealized investment gains (losses), after tax	**$ 76.6**	**$ (32.5)**	**$ 44.1**	**$ 96.4**	**$ (29.2)**	**$ 67.2**

Millions	Three Months Ended September 30, 2011 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings	Nine Months Ended September 30, 2011 Net unrealized gains (losses)	Net foreign exchange gains (losses)	Total changes in fair value reflected in earnings
Fixed maturity investments	$ 3.5	$ 67.5	$ 71.0	$ 12.6	$ 77.7	$ 90.3
Short-term investments	(.1)	(.4)	(.5)	(.1)	(1.4)	(1.5)
Common equity securities	(101.0)	(.9)	(101.9)	(95.1)	(1.8)	(96.9)
Convertible fixed maturity investments	(11.2)	—	(11.2)	(19.3)	—	(19.3)
Other long-term investments	(1.2)	8.4	7.2	(8.4)	4.5	(3.9)
Net unrealized investment (losses) gains, pre-tax	**(110.0)**	**74.6**	**(35.4)**	**(110.3)**	**79.0**	**(31.3)**
Income tax benefit (expense) attributable to net unrealized investment gains (losses)	**26.4**	**(19.5)**	**6.9**	**28.5**	**(20.5)**	**8.0**
Net unrealized investment (losses) gains, after tax	**$ (83.6)**	**$ 55.1**	**$ (28.5)**	**$ (81.8)**	**$ 58.5**	**$ (23.3)**

The following table summarizes the amount of total pre-tax gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 investments for the three and nine months ended September 30, 2012 and 2011:

Millions	Three Months Ended Sept 30, 2012	Three Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2012	Nine Months Ended Sept 30, 2011
Fixed maturity investments	**$ (1.0)**	$ (13.5)	**$ 7.3**	$ (14.9)
Common equity securities	**.8**	(17.5)	**1.8**	(17.0)
Convertible fixed maturities	**—**	—	**—**	—
Other long-term investments	**2.9**	(3.2)	**11.3**	(6.5)
Total unrealized investment losses, pre-tax - Level 3 investments	**$ 2.7**	$ (34.2)	**$ 20.4**	$ (38.4)

Investment Holdings

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses and carrying values of White Mountains' fixed maturity investments as of September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$ 393.7	$ 1.2	$ (.1)	$ (.1)	$ 394.7
Debt securities issued by corporations	2,213.8	91.6	(3.0)	(21.1)	2,281.3
Municipal obligations	3.8	—	—	—	3.8
Mortgage-backed and asset-backed securities	2,023.3	30.3	(1.1)	(5.1)	2,047.4
Foreign government, agency and provincial obligations	475.2	8.0	(.4)	(6.4)	476.4
Preferred stocks	79.8	6.3	—	—	86.1
Total fixed maturity investments including assets held for sale	$ 5,189.6	$ 137.4	$ (4.6)	$ (32.7)	$ 5,289.7
Fixed maturity investments reclassified to assets held for sale related the Runoff Transaction					(377.3)
Total fixed maturity investments					$ 4,912.4

	December 31, 2011				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	$ 299.4	$ 5.3	$ (.1)	$ .4	$ 305.0
Debt securities issued by corporations	2,072.1	73.7	(7.8)	(2.9)	2,135.1
Municipal obligations	2.7	—	—	—	2.7
Mortgage-backed and asset-backed securities	3,190.5	25.9	(3.9)	10.4	3,222.9
Foreign government, agency and provincial obligations	581.2	11.0	(.1)	(2.9)	589.2
Preferred stocks	82.3	3.2	(6.7)	—	78.8
Total fixed maturity investments including assets held for sale	$ 6,228.2	$ 119.1	$ (18.6)	$ 5.0	$ 6,333.7
Fixed maturity investments reclassified to assets held for sale related to AutoOne					(111.8)
Total fixed maturity investments					$ 6,221.9

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses and carrying values of White Mountains' common equity securities, convertible fixed maturities and other long-term investments as of September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	$ 870.0	$ 139.7	$ (4.9)	$ —	**$ 1,004.8**
Convertible fixed maturity investments	$ 140.2	$ 7.6	$ (5.8)	$ —	**$ 142.0**
Other long-term investments	$ 264.8	$ 57.1	$ (8.6)	$ (6.2)	**$ 307.1**

	December 31, 2011				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
Common equity securities	$ 691.7	$ 72.0	$ (8.7)	$ —	$ 755.0
Convertible fixed maturity investments	$ 139.2	$ 6.2	$ (1.6)	$ —	$ 143.8
Other long-term investments	$ 274.4	$ 55.5	$ (25.2)	$ (3.4)	$ 301.3

Other long-term investments

White Mountains holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. At September 30, 2012, White Mountains held investments in 17 hedge funds and 36 private equity funds. The largest investment in a single fund was $19.2 million at September 30, 2012. The following table summarizes investments in hedge funds and private equity interests by investment objective and sector at September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
Millions	**Fair Value**	**Unfunded Commitments**	**Fair Value**	**Unfunded Commitments**
Hedge funds				
Long/short equity	$ 58.6	$ —	$ 48.8	$ —
Long/short credit & distressed	33.8	—	32.3	—
Long diversified strategies	2.3	—	16.9	—
Long/short equity REIT	15.2	—	14.5	—
Long/short equity activist	14.0	—	12.3	—
Long bank loan	.4	—	.5	—
Total hedge funds	124.3	—	125.3	—
Private equity funds				
Multi-sector	29.3	6.4	26.9	8.2
Energy infrastructure & services	32.9	11.7	28.0	9.9
Distressed residential real estate	19.2	—	27.4	—
Real estate	12.2	3.3	9.5	3.3
Private equity secondaries	11.0	3.2	11.3	4.0
International multi-sector, Europe	4.3	4.9	7.8	4.7
Manufacturing/Industrial	10.6	29.1	6.2	—
Healthcare	4.3	5.4	2.3	7.0
International multi-sector, Asia	.4	2.7	3.6	2.6
Insurance	3.2	41.3	3.5	41.3
Venture capital	2.4	.5	2.4	.5
Total private equity funds	129.8	108.5	128.9	81.5
Total hedge and private equity funds included in other long-term investments	$ 254.1	$ 108.5	$ 254.2	$ 81.5

Redemption of investments in certain hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period.

The following summarizes the September 30, 2012 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

	Notice Period				
Millions Redemption frequency	**30-59 days notice**	**60-89 days notice**	**90-119 days notice**	**120+ days notice**	**Total**
Monthly	$ —	$ —	$ —	$ 6.8	$ 6.8
Quarterly	27.1	29.3	19.9	9.4	85.7
Semi-annual	—	20.6	—	—	20.6
Annual	2.3	—	8.5	.4	11.2
Total	$ 29.4	$ 49.9	$ 28.4	$ 16.6	$ 124.3

Certain of the hedge fund investments in which White Mountains is invested are no longer active and are in process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. At September 30, 2012, distributions of $3.3 million were outstanding from these investments. The actual amount of the final distribution remittances remain subject to market fluctuations. The date at which such remittances will be received is not determinable at September 30, 2012.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. At September 30, 2012, redemptions of $13.9 million are outstanding and are subject to market fluctuations. The majority of such remittances are expected to be received in the fourth quarter of 2012. Redemptions are recorded as receivables when approved by the hedge funds and no longer subject to market fluctuations.

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

At September 30, 2012, investments in private equity funds were subject to lock-up periods as follows:

Millions	**1-3 years**	**3 – 5 years**	**5 – 10 years**	**>10 years**	**Total**
Private Equity Funds — expected lock-up period remaining	$27.7	$15.6	$75.9	$10.6	$129.8

Fair value measurements at September 30, 2012

White Mountains' invested assets measured at fair value include fixed maturity investments, common and preferred equity securities, convertible fixed maturity investments and other long-term investments which primarily consist of hedge funds and private equity funds. Fair value measurements reflect management's best estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements fall into a hierarchy with three levels based on the nature of the inputs. Fair value measurements based on quoted prices in active markets for identical assets are at the top of the hierarchy ("Level 1"), followed by fair value measurements based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments ("Level 2"). Measurements based on unobservable inputs, including a reporting entity's estimates of the assumptions that market participants would use are at the bottom of the hierarchy ("Level 3").

White Mountains uses quoted market prices or other observable inputs to estimate fair value for the vast majority of its investment portfolio. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs consist of fixed maturity investments including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains' investments in hedge funds and private equity funds, as well as investments in certain debt securities where quoted market prices are unavailable. 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 used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating, prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected 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 $1.0 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains' review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.

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

White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing the audited annual financial statements of each hedge fund and private equity fund and periodically discussing each fund's pricing with the fund manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of White Mountains' investments in hedge funds and private equity funds have been classified as Level 3 measurements. The fair value of White Mountains' investments in hedge funds and private equity funds has been determined using net asset value.

In addition to the investments described above, White Mountains has $77.1 million and $68.1 million of investment-related liabilities recorded at fair value and included in other liabilities as of September 30, 2012 and December 31, 2011. These liabilities relate to securities that have been sold short by limited partnerships in which White Mountains has investments and is required to consolidate under GAAP. All of the liabilities included have a Level 1 designation.

Fair Value Measurements by Level

The following tables summarize White Mountains' fair value measurements for investments at September 30, 2012 and December 31, 2011, by level.

	September 30, 2012			
Millions	**Fair value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Fixed maturity investments:				
US Government and agency obligations	$ 394.7	$ 340.5	$ 54.2	$ —
Debt securities issued by corporations:				
Consumer	597.2	—	597.2	—
Industrial	488.1	—	488.1	—
Financials	405.4	1.1	404.3	—
Communications	217.1	—	217.1	—
Basic materials	175.1	—	175.1	—
Energy	172.9	—	172.9	—
Utilities	204.4	—	204.4	—
Technology	21.1	—	21.1	—
Diversified	—	—	—	—
Total debt securities issued by corporations:	2,281.3	1.1	2,280.2	—
Municipal obligations	3.8	—	3.8	—
Mortgage-backed and asset-backed securities	2,047.4	—	2,041.9	5.5
Foreign government, agency and provincial obligations	476.4	56.9	419.5	—
Preferred stocks	86.1	—	15.5	70.6
Total fixed maturity investments [1]	5,289.7	398.5	4,815.1	76.1
Short-term investments	917.3	917.3	—	—
Common equity securities:				
Financials	316.1	277.9	2.3	35.9
Consumer	249.7	249.6	.1	—
Basic materials	118.2	118.2	—	—
Energy	96.8	96.8	—	—
Technology	51.6	51.6	—	—
Utilities	42.9	42.7	.2	—
Other	129.5	73.2	56.3	—
Total common equity securities	1,004.8	910.0	58.9	35.9
Convertible fixed maturity investments	142.0	—	142.0	—
Other long-term investments [2]	272.6	—	—	272.6
Total investments	$ 7,626.4	$ 2,225.8	$ 5,016.0	$ 384.6

[1] Carrying value includes $377.3 that is classified as assets held for sale relating to discontinued operations.

[2] Excludes carrying value of $34.3 associated with other long-term investment limited partnerships accounted for using the equity method and $0.3 related to forward contracts.

Millions	December 31, 2011			
	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
US Government and agency obligations	$ 305.0	$ 296.2	$ 8.8	$ —
Debt securities issued by corporations:				
Consumer	790.7	—	790.7	—
Industrial	359.4	—	359.4	—
Financials	239.6	3.8	235.8	—
Communications	225.8	—	225.8	—
Basic materials	195.7	—	195.7	—
Energy	155.8	—	155.8	—
Utilities	140.1	—	140.1	—
Technology	24.5	—	24.5	—
Diversified	3.5	—	3.5	—
Total debt securities issued by corporations:	2,135.1	3.8	2,131.3	—
Municipal obligations	2.7	—	2.7	—
Mortgage-backed and asset-backed securities	3,222.9	—	3,207.8	15.1
Foreign government, agency and provincial obligations	589.2	65.7	523.5	—
Preferred stocks	78.8	—	15.0	63.8
Total fixed maturity investments [1]	6,333.7	365.7	5,889.1	78.9
Short-term investments	846.0	846.0	—	—
Common equity securities:				
Financials	219.2	185.8	1.5	31.9
Consumer	188.8	188.5	.3	—
Basic materials	121.0	119.9	1.1	—
Energy	72.6	72.6	—	—
Utilities	42.0	41.8	.2	—
Technology	25.8	25.8	—	—
Other	85.6	33.0	52.2	.4
Total common equity securities	755.0	667.4	55.3	32.3
Convertible fixed maturity investments	143.8	—	143.8	—
Other long-term investments [2]	268.3	—	—	268.3
Total investments	$ 8,346.8	$ 1,879.1	$ 6,088.2	$ 379.5

[1] Carrying value includes $111.8 that is classified as assets held for sale relating to AutoOne discontinued operations.

[2] Excludes carrying value of $33.0 associated with other long-term investments accounted for using the equity method.

Debt securities issued by corporations

The following table summarizes the ratings of the corporate debt securities held in White Mountains' investment portfolio as of September 30, 2012 and December 31, 2011:

Millions	September 30, 2012	December 31, 2011
AAA	$ —	$ —
AA	165.5	206.8
A	992.8	802.8
BBB	1,108.5	1,110.8
BB	7.6	6.2
Other	6.9	8.5
Debt securities issued by corporations [1]	$ 2,281.3	$ 2,135.1

[1] Credit ratings are assigned based on the following hierarchy: 1) Standard & Poor's, 2) Moody's and 3) Bloomberg (Composite rating).

Mortgage-backed, Asset-backed Securities

White Mountains purchases commercial and residential mortgage-backed securities with the goal of maximizing risk adjusted returns in the context of a diversified portfolio. White Mountains' non-agency commercial mortgage-backed portfolio ("CMBS") is generally short tenor and structurally senior, with more than 25 points of subordination on average for fixed rate CMBS and more than 50 points of subordination on average for floating rate CMBS as of September 30, 2012. In general, subordination represents the percentage principal loss on the underlying collateral that would be absorbed by other securities lower in the capital structure before the more senior security incurs a loss. White Mountains believes these levels of protection will mitigate the risk of loss tied to the refinancing challenges facing the commercial real estate market. As of September 30, 2012, on average less than 1.0% of the underlying loans were reported as non-performing for all non-agency CMBS held by White Mountains. White Mountains is not an originator of residential mortgage loans and did not hold any residential mortgage-backed securities ("RMBS") categorized as sub-prime as of September 30, 2012. White Mountains' investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities at September 30, 2012. 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).

White Mountains categorizes mortgage-backed securities as "non-prime" (also called "Alt A" or "A-") if they are backed by collateral that has overall credit quality between prime and sub-prime based on White Mountains' review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. White Mountains' non-agency residential mortgage-backed portfolio is generally short tenor and structurally senior. White Mountains does not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

The following table summarizes mortgage and asset-backed securities as of September 30, 2012 and December 31, 2011:

	September 30, 2012			December 31, 2011		
Millions	**Fair Value**	**Level 2**	**Level 3**	**Fair Value**	**Level 2**	**Level 3**
Mortgage-backed securities:						
Agency:						
GNMA	$ 1,165.5	$ 1,165.5	$ —	$ 1,365.8	$ 1,365.8	$ —
FNMA	97.2	97.2	—	712.6	712.6	—
FHLMC	37.6	37.6	—	35.9	35.9	—
Total Agency [1]	1,300.3	1,300.3	—	2,114.3	2,114.3	—
Non-agency:						
Residential	160.5	160.5	—	83.1	68.0	15.1
Commercial	389.3	383.8	5.5	276.7	276.7	—
Total Non-agency	549.8	544.3	5.5	359.8	344.7	15.1
Total mortgage-backed securities	1,850.1	1,844.6	5.5	2,474.1	2,459.0	15.1
Other asset-backed securities:						
Credit card receivables	80.8	80.8	—	380.6	380.6	—
Vehicle receivables	80.3	80.3	—	345.6	345.6	—
Other	36.2	36.2	—	22.6	22.6	—
Total other asset-backed securities	197.3	197.3	—	748.8	748.8	—
Total mortgage and asset-backed securities	**$ 2,047.4**	$ 2,041.9	$ 5.5	$ 3,222.9	$ 3,207.8	$ 15.1

[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).

Non-agency Mortgage-backed Securities

The security issuance years of White Mountains' investments in non-agency RMBS and non-agency CMBS securities as of September 30, 2012 are as follows:

		Security Issuance Year						
Millions	**Fair Value**	**2003**	**2006**	**2007**	**2009**	**2010**	**2011**	**2012**
Non-agency RMBS	$ 160.5	$ 2.2	$ 21.4	$ 7.1	$ 1.7	$ 53.2	$ 74.9	$ —
Non-agency CMBS	389.3	—	4.5	15.3	11.9	6.1	127.4	224.1
Total	$ 549.8	$ 2.2	$ 25.9	$ 22.4	$ 13.6	$ 59.3	$ 202.3	$ 224.1

Non-agency Residential Mortgage-backed Securities

The classification of the underlying collateral quality and the tranche levels of White Mountains' non-agency RMBS securities are as follows as of September 30, 2012:

Millions	**Fair Value**	**Super Senior [1]**	**Senior [2]**	**Subordinate [3]**
Prime	$ 160.0	$ 13.0	$ 147.0	$ —
Non-prime	.5	—	.5	—
Sub-prime	—	—	—	—
Total	$ 160.5	$ 13.0	$ 147.5	$ —

[1] At issuance, Super Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa bonds.
[2] At issuance, Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to non-AAA or non-Aaa bonds.
[3] At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were junior to AAA or Aaa bonds.

Non-agency Commercial Mortgage-backed Securities

The amount of fixed and floating rate securities and their tranche levels of White Mountains' non-agency CMBS securities are as follows as of September 30, 2012:

Millions	Fair Value	Super Senior [1]	Senior [2]	Subordinate [3]
Fixed rate CMBS	$ 367.1	$ 253.0	$ 109.6	$ 4.5
Floating rate CMBS	22.2	15.3	1.4	5.5
Total	$ 389.3	$ 268.3	$ 111.0	$ 10.0

[1] At issuance, Super Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa bonds.
[2] At issuance, Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to non-AAA or non-Aaa bonds.
[3] At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were junior to AAA or Aaa bonds.

Rollforward of Fair Value Measurements by Level

White Mountains uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturity investments, common equity securities, convertible fixed maturity investments and other long-term investments at September 30, 2012 and 2011 consist of securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

The following tables summarize the changes in White Mountains' fair value measurements by level for the three and nine months ended September 30, 2012 and 2011:

			Level 3 Investments				
Millions	Level 1 Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Convertible fixed maturities	Other long-term investments	Total
Balance at January 1, 2012	$ 1,879.1	$ 6,088.2	$ 78.9	$ 32.3	$ —	$ 268.3	$ 8,346.8 [1][2]
Total realized and unrealized gains (losses)	57.8	53.8	8.4	11.4	—	(8.2)	123.2
Foreign currency gains (losses) through OCI	13.2	75.5	.7	.1	—	3.1	92.6
Amortization/Accretion	(.7)	(34.0)	(.7)	—	—	—	(35.4)
Purchases	6,712.0	3,823.7	144.3	2.5	—	40.6	10,723.1
Sales	(6,435.6)	(5,048.1)	(99.2)	(9.8)	—	(31.2)	(11,623.9)
Transfers in	—	56.9	—	—	—	—	56.9
Transfers out	—	—	(56.3)	(.6)	—	—	(56.9)
Balance at September 30, 2012	$ 2,225.8	$ 5,016.0	$ 76.1	$ 35.9	$ —	$ 272.6	$ 7,626.4 [1][2]

[1] Excludes carrying value of $33.0 and $34.3 at January 1, 2012 and September 30, 2012 associated with other long-term investments accounted for using the equity method and $0.3 at September 30, 2012 related to forward contracts.
[2] Carrying value includes $111.8 and $377.3 at January 1, 2012 and September 30, 2012 that is classified as assets held for sale relating to discontinued operations.

Millions	Level 1 Investments	Level 2 Investments	Level 3 Investments: Fixed Maturities	Level 3 Investments: Common equity securities	Level 3 Investments: Convertible fixed maturities	Level 3 Investments: Other long-term investments	Total
Balance at January 1, 2011	$ 1,894.4	$ 5,477.4	$ 128.4	$ 71.2	$ —	$ 330.2 [1]	$ 7,901.6 [1]
Total realized and unrealized gains (losses)	(50.5)	115.9	(10.6)	(4.9)	—	22.5	72.4
Foreign currency gains (losses) through OCI	.3	(84.4)	(4.4)	1.6	—	(5.0)	(91.9)
Amortization/Accretion	2.4	(40.7)	(.1)	—	—	—	(38.4)
Purchases	6,690.7	3,987.4	212.8	19.7	—	27.9	10,938.5
Sales	(6,782.1)	(4,596.9)	1.6	(55.5)	—	(83.4)	(11,516.3)
Transfers in	—	111.8	1.0	—	—	—	112.8
Transfers out	—	(1.0)	(111.8)	—	—	—	(112.8)
Balance at September 30, 2011	$ 1,755.2	$ 4,969.5	$ 216.9	$ 32.1	$ —	$ 292.2 [1]	$ 7,265.9 [1]

[1] Excludes carrying value of $36.6 and $41.9 at September 30, 2011 and January 1, 2011 associated with other long-term investment limited partnerships accounted for using the equity method.

Fair Value Measurements — transfers between levels - Three-month period ended September 30, 2012 and 2011

During the first nine months of 2012, one security classified as Level 3 measurements in the prior period was recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at September 30, 2012. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of $56.9 million in fixed maturities for the period ended September 30, 2012.

During the first nine months of 2011, seven securities which had been classified as Level 3 measurements at January 1, 2011 were recategorized as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available at September 30, 2011. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of $111.8 million in fixed maturities for the period ended September 30, 2011. One security that was classified as a Level 2 investment at January 1, 2011 was priced with unobservable inputs and represents “Transfers in” of $1.0 million in Level 3 investments. The fair value of this security was estimated using industry standard pricing models, in which management selected inputs using its best judgment. The pricing models used by White Mountains use the same valuation methodology for all Level 3 measurements for fixed maturities. The security is considered to be Level 3 because the measurements are not directly observable. At September 30, 2011, the estimated fair value for this security determined using the industry standard pricing models was $0.8 million less than the estimated fair value based upon quoted prices provided by a third party pricing vendor.

Significant Unobservable Inputs

The following summarizes significant unobservable inputs used in estimating the fair value of investment securities classified within Level 3 at September 30, 2012:

($ in Millions)	September 30, 2012					
Description	Fair Value	Rating [1]	Valuation Technique(s)	Unobservable Input	Range [1]	
Non-agency commercial mortgage-backed securities	$5.5	A2	Discounted cash flow	Prepayment Rate	0.0%	CPY [2]
				Discount Margin over LIBOR	2.1%	
Preferred Stock	$70.6	NR	Discounted cash flow	Discount yield	8.0%	

[1] Each asset type consists of one security.
[2] CPY refers to the market convention for CMBS prepayment.

The assumed prepayment rate is a significant unobservable input used to estimate the fair value of investments in non-agency commercial mortgage-backed securities (“CMBS”). Generally for bonds priced at a premium, increases in prepayment speeds will result in a lower fair value, while decreases in prepayment speed may result in a higher fair value.

Note 6. Debt

White Mountains' debt outstanding as of September 30, 2012 and December 31, 2011 consisted of the following:

Millions	September 30, 2012	December 31, 2011
OBH Senior Notes, at face value	**$ 269.9**	$ 269.9
Unamortized original issue discount	**(.1)**	(.1)
OBH Senior Notes, carrying value	**269.8**	269.8
SIG Senior Notes, at face value	**400.0**	400.0
Unamortized original issue discount	**(.6)**	(.7)
SIG Senior Notes, carrying value	**399.4**	399.3
WTM Bank Facility	**—**	—
Old Lyme	**2.1**	2.1
Other debt [(1)]	**5.3**	6.3
Total debt	**$ 676.6**	$ 677.5

[(1)] Other debt relates to White Mountains' consolidation of Hamer and Bri-Mar.

Bank Facility

White Mountains has a revolving credit facility with a total commitment of $375.0 million (the "WTM Bank Facility") with a syndicate of lenders administered by Bank of America, N.A. As of September 30, 2012, the WTM Bank Facility was undrawn.

Debt Covenants

At September 30, 2012, White Mountains was in compliance with all of the covenants under the WTM Bank Facility, the OneBeacon U.S. Holdings, Inc. ("OBH") Senior Notes and the SIG Senior Notes.

Old Lyme

On December 31, 2011, Sirius Group acquired the runoff loss reserve portfolio of Old Lyme. As part of the acquisition, Sirius Group entered into a five year $2.1 million purchase note. The principal amount of the purchase note is subject to upward adjustments for favorable loss reserve development (up to 50% of $6.0 million) and downward adjustments for any adverse loss reserve development.

Note 7. Income Taxes

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law such that taxes are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company's subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Denmark, Germany, Gibraltar, Luxembourg, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

White Mountains' income tax expense for the three months ended September 30, 2012 represented an effective tax rate of 35.4%, which is in line with the U.S. statutory rate of 35%. White Mountains' income tax expense for the nine months ended September 30, 2012 represented effective tax rate of 27.2%, which differed from the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States.

White Mountains' effective tax rate for the three and nine months ended September 30, 2011 was not meaningful as pre-tax income was near break-even.

In arriving at the effective tax rate for the three and nine months ended September 30, 2012 and 2011, White Mountains forecasted the change in unrealized investment gains (losses) and realized investment gains (losses) for the years ending December 31, 2012 and 2011 and included these gains (losses) in the effective tax rate calculation pursuant to ASC 740-270.

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 a valuation allowance, or change therein, is warranted, White Mountains considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods and strategies that if executed would result in the realization of a deferred tax asset. During the next twelve months, it is possible that certain planning strategies will no longer be sufficient to utilize the entire deferred tax asset, which could result in material changes to White Mountains' deferred tax assets and tax expense.

Upon completion of the Runoff Transaction, it is expected that the unrecognized tax benefits associated with tax positions where the deductibility is certain but the timing is uncertain, will decrease by approximately $11.5 million. White Mountains does not expect the decrease to result in a material change to its financial position.

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 2005.

The IRS is conducting an examination of income tax returns for 2005 and 2006 for certain U.S. subsidiaries of OneBeacon. On January 5, 2011, White Mountains received Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2005 and 2006. The estimated total assessment, including interest and utilization of alternative minimum and foreign tax credit carryovers, is $20.6 million. White Mountains disagrees with the adjustments proposed by the IRS and intends to defend its position. The timing of the resolution of these issues is uncertain, however, it is reasonably possible that the resolution could occur within the next twelve months. An estimate of the range of potential outcomes cannot be made at this time. When ultimately settled, White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

On July 28, 2011, the IRS commenced an examination of the income tax returns for 2007, 2008 and 2009 for certain U.S. subsidiaries of OneBeacon. White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

On December 15, 2011, the IRS commenced an examination of the income tax returns for 2010 for certain U.S. subsidiaries of AFI. Pursuant to a Stock Purchase Agreement dated as of May 17, 2011 between White Mountains and Allstate, White Mountains is required to indemnify Allstate for any changes in pre-closing taxes. White Mountains does not expect the resolution of this examination to result in a material change to its financial position.

The IRS conducted an examination of income tax returns for 2006 and 2007 for certain U.S. subsidiaries of Sirius Group. On October 26, 2011, the Sirius Group received and signed the IRS Revenue Agent's Report, which contained no proposed adjustments. The IRS also examined the U.S. income tax return filed by WM Belvaux S.à r.l., a Luxembourg subsidiary, for tax year 2007. On May 3, 2011, the exam was completed with no proposed adjustments.

The Ministry of Finance in Sweden has proposed reducing the corporate income tax rate in Sweden to 22.0% from 26.3%. If this proposal is enacted, the reduction in the Swedish corporate income tax rate would reduce the White Mountains' net deferred tax liability by approximately $60 million. The Ministry of Finance in Sweden has also proposed tax legislation that, if enacted, would limit the deductibility of interest paid on certain intra-group debt instruments after January 1, 2013. At September 30, 2012, White Mountains has $272.1 million of deferred tax assets related to net operating loss carryforwards that are being utilized from interest income on intra-group debt instruments that would be affected by the proposed tax legislation. However, management does not expect that the proposed tax legislation will adversely affect the carrying value of these deferred tax assets as management believes it has alternate strategies to utilize the deferred tax assets.

Note 8. Derivatives

Variable Annuity Reinsurance

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. At September 30, 2012 and December 31, 2011, the total guarantee value was approximately ¥230.5 billion (approximately $3.0 billion at exchange rates on that date) and ¥233.7 billion (approximately $3.0 billion at exchange rates on that date). The collective account values of the underlying variable annuities were approximately 80% and 78% of the guarantee value at September 30, 2012 and December 31, 2011.

The following table summarizes the pre-tax operating results of WM Life Re for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Fees, included in other revenues	**$ 8.1**	$ 8.4	**$ 24.1**	$ 24.3
Change in fair value of variable annuity liability, included in other revenues	**(11.3)**	(164.4)	**89.4**	(148.0)
Change in fair value of derivatives, included in other revenues	**(11.0)**	148.9	**(122.0)**	105.4
Foreign exchange, included in other revenues	**9.0**	14.8	**(6.4)**	17.1
Other investment income and gains (losses)	**3.8**	.5	**2.9**	(.1)
Total revenues	**(1.4)**	8.2	**(12.0)**	(1.3)
Change in fair value of variable annuity death benefit liabilities, included in other expenses	**.7**	(5.6)	**6.7**	(3.1)
Death benefit claims paid, included in other expenses	**(1.5)**	(.7)	**(4.9)**	(2.4)
General and administrative expenses	**(1.1)**	(1.1)	**(3.8)**	(3.2)
Pre-tax (loss) income	**$ (3.3)**	$ .8	**$ (14.0)**	$ (10.0)

All of White Mountains' variable annuity reinsurance liabilities were classified as Level 3 measurements at September 30, 2012 and 2011. The following tables summarize the changes in White Mountains' variable annuity reinsurance liabilities and derivative instruments for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30, 2012				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	**Level 3**	**Level 3 [1]**	**Level 2 [1][2]**	**Level 1 [3]**	**Total [4]**
Beginning of period	$ (661.8)	$ 213.0	$ 61.0	$ (23.7)	$ 250.3
Purchases	—	—	—	—	—
Realized and unrealized (losses) gains	(10.6)	6.7	(15.3)	(2.4)	(11.0)
Transfers in	—	—	—	—	—
Sales/settlements	—	(6.7)	(12.5)	22.0	2.8
End of period	$ (672.4)	$ 213.0	$ 33.2	$ (4.1)	$ 242.1

	Nine Months Ended September 30, 2012				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	**Level 3**	**Level 3 [1]**	**Level 2 [1][2]**	**Level 1 [3]**	**Total [4]**
Beginning of period	$ (768.5)	$ 247.1	$ 39.2	$ 4.1	$ 290.4
Purchases	—	6.1	—	—	6.1
Realized and unrealized gains (losses)	96.1	(24.1)	(71.8)	(26.1)	(122.0)
Transfers in	—	—	—	—	—
Sales/settlements	—	(16.1)	65.8	17.9	67.6
End of period	$ (672.4)	$ 213.0	$ 33.2	$ (4.1)	$ 242.1

	Three Months Ended September 30, 2011				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total [4]
Beginning of period	$ (591.3)	$ 232.7	$ 48.2	$ (11.9)	$ 269.0
Purchases	—	—	—	—	—
Realized and unrealized (losses) gains	(170.0)	45.6	75.7	27.6	148.9
Transfers in	—	—	—	—	—
Sales/settlements	—	—	(48.4)	(15.7)	(64.1)
End of period	$ (761.3)	$ 278.3	$ 75.5	$ —	$ 353.8

	Nine Months Ended September 30, 2011				
	Variable Annuity (Liabilities)	Derivative Instruments			
Millions	Level 3	Level 3 [1]	Level 2 [1][2]	Level 1 [3]	Total [4]
Beginning of period	$ (610.2)	$ 275.3	$ 72.2	$ —	$ 347.5
Purchases	—	5.0	—	—	5.0
Realized and unrealized (losses) gains	(151.1)	27.1	67.5	10.8	105.4
Transfers in	—	—	—	—	—
Sales/settlements	—	(29.1)	(64.2)	(10.8)	(104.1)
End of period	$ (761.3)	$ 278.3	$ 75.5	$ —	$ 353.8

[1] Consists of over-the-counter instruments.
[2] Consists of interest rate swaps, total return swaps, foreign currency forward contracts, and bond forwards. Fair value measurement based upon bid/ask pricing quotes for similar instruments that are actively traded, where available. Swaps for which an active market does not exist have been priced using observable inputs including the swap curve and the underlying bond index.
[3] Consists of exchange traded equity index, foreign currency and interest rate futures. Fair value measurements based upon quoted prices for identical instruments that are actively traded.
[4] In addition to derivative instruments, WM Life Re held cash, short-term and fixed maturity investments of $477.5 and $419.7 at September 30, 2012 and 2011 posted as collateral to its reinsurance counterparties.

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

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

	September 30, 2012					
($ in Millions) Description	**Fair Value**	**Valuation Technique(s)**	**Unobservable Input**	**Range**		**Weighted Average**
Variable annuity benefit guarantee liabilities	$ 672.4	Discounted cash flows	Surrenders	0.1%	3.0%	0.4%
			Mortality	0.0% -	6.4%	0.9%
			Foreign exchange volatilities	10.8% -	17.4%	12.8%
			Index volatilities	13.1% -	23.9%	19.5%
Foreign exchange and equity index options	$ 213.0	Black-Scholes option pricing model	Expected equity dividends	1.9% -	5.2%	3.1%
			Foreign exchange volatilities	10.8% -	17.4%	12.8%
			Index volatilities	13.1% -	23.9%	19.5%

The following summarizes realized and unrealized derivative gains (losses) recognized in other revenues for the three and nine months ended September 30, 2012 and 2011 and the carrying values, included in other assets, at September 30, 2012 and December 31, 2011, by type of instrument:

	Gains (Losses)				Carrying Value	
	Three Months Ended Sept 30,		Nine Months Ended Sept 30,		As of	
Millions	**2012**	**2011**	**2012**	**2011**	**Sept 30, 2012**	**Dec 31, 2011**
Fixed income/Interest rate	**$ (22.6)**	$ 29.8	**$ (73.1)**	$ 17.3	**$ 29.1**	$ 31.1
Foreign exchange	**6.5**	63.0	**(21.0)**	32.8	**127.9**	161.3
Equity	**5.1**	56.1	**(27.9)**	55.3	**85.1**	98.0
Total	**$ (11.0)**	$ 148.9	**$ (122.0)**	$ 105.4	**$ 242.1**	$ 290.4

WM Life Re enters into both over-the-counter (“OTC”) and exchange traded derivative instruments to economically hedge the liability from the variable annuity benefit guarantee. In the case of OTC derivatives, WM Life Re has exposure to credit risk for amounts that are uncollateralized by counterparties. WM Life Re’s internal risk management guidelines establish net counterparty exposure thresholds that take into account OTC counterparties’ credit ratings. WM Life Re has entered into master netting agreements with certain of its counterparties whereby the collateral provided (held) is calculated on a net basis. The following summarizes collateral provided to WM Life Re from counterparties:

Millions	**September 30, 2012**	**December 31, 2011**
Short-term investments	**$ 63.3**	$ 73.2
Fixed maturity securities	—	—
Total	**$ 63.3**	$ 73.2

Collateral held by or provided by WM Life Re in the form of fixed maturity securities comprise U.S. Treasury securities, which are recorded at fair value. Collateral in the form of short-term investments consists of money-market instruments, carried at amortized cost, which approximates fair value. The following summarizes the value, collateral (held) provided by WM Life Re and net exposure to credit losses on OTC derivative instruments recorded within other assets:

Millions	**September 30, 2012**	**December 31, 2011**
OTC derivative instruments [(1)]	**$ 251.4**	$ 295.4
Collateral held	**(63.3)**	(73.2)
Collateral provided	**85.6**	83.0
Net exposure to credit losses on fair value of OTC instruments	**$ 273.7**	$ 305.2

[(1)] Value of OTC derivative instruments as of September 30, 2012 and December 31, 2011 excludes adjustments for counterparty credit risk of $(5.2) and $(9.1) included in fair value under GAAP.

The following table summarizes uncollateralized amounts due under WM Life Re's OTC derivative contracts:

Millions	Uncollateralized balance as of September 30, 2012	S&P Rating[1]
Citigroup [2]	**$ 63.4**	A
Royal Bank of Scotland	**58.5**	A
Bank of America	**50.3**	A
JP Morgan [2]	**40.8**	A+
Nomura [2]	**35.9**	BBB+
Barclays	**20.7**	A+
Goldman Sachs [2]	**4.1**	A-
Total	**$ 273.7**	

[1] Standard & Poor's ("S&P") ratings as detailed above are: "A+" (Strong, which is the fifth highest of twenty-two creditworthiness ratings), "A" (Strong, which is the sixth highest of twenty-two creditworthiness ratings), "A-" (Strong, which is the seventh highest of twenty-two creditworthiness ratings) and "BBB+" (Adequate, which is the eighth highest of twenty-two creditworthiness ratings).
[2] Collateral provided (held) calculated under master netting agreement.

The OTC derivative contracts are subject to restrictions on liquidation of the instruments and distribution of proceeds under collateral agreements. In addition, WM Life Re held cash, short-term and fixed maturity investments posted as collateral to its reinsurance counterparties. The additional collateral consists of the following:

Millions	September 30, 2012	December 31, 2011
Cash	**$ 341.7**	$ 453.5
Short-term investments	**14.6**	.6
Fixed maturity investments	**121.2**	31.2
Total	**$ 477.5**	$ 485.3

Forward Contracts

Beginning in September 2012, White Mountains has entered into forward contracts as a tool to assist in maintaining currency positions within pre-defined ranges at Sirius Group. White Mountains monitors its exposure to foreign currency and adjusts its forward positions within the risk guidelines and ranges established by senior management for each currency, as necessary. While White Mountains actively manages its forward positions, mismatches between movements in foreign currency rates and its forward contracts may result in currency positions being outside the pre-defined ranges and/or foreign currency losses. At September 30, 2012, White Mountains held approximately $38.8 million (SEK 254.0 million) total gross notional value of foreign currency forward contracts.

All of White Mountains' forward contracts are traded over-the-counter. The fair value of the contracts has been estimated using OTC quotes for similar instruments and accordingly, the measurements have been classified as Level 2 measurements at September 30, 2012.

The following tables summarize the changes in White Mountains' forward contracts for the three and nine months ended September 30, 2012:

	Forward contracts	
Millions	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Beginning of period	$ —	$ —
Purchases	—	—
Realized and unrealized gains(losses)	.3	.3
Sales/settlements	—	—
End of period	$ .3	$ .3

The following summarizes realized and unrealized derivative gains (losses) recognized in net realized and unrealized investment gains for the three and nine months ended September 30, 2012 and the carrying values, included in other long-term investments, at September 30, 2012 by type of currency:

	Gains (Losses)		
	Three Months Ended September 30,	Nine Months Ended September 30,	Carrying Value As of September 30,
Millions	2012	2012	2012
USD	$ .4	$ .4	$ .4
SEK	—	—	—
EUR	(.1)	(.1)	(.1)
GBP	—	—	—
Currency Translation	—	—	—
Total	$ .3	$ .3	$ .3

White Mountains does not hold or provide any collateral for the forward contracts. The following table summarizes uncollateralized notional amounts associated with forward currency contracts:

	Uncollateralized balance as of	
Millions	September 30, 2012	S&P Rating(1)
Deutsche Bank	$ 5.5	A+
Royal Bank of Canada	8.0	A+
HSBC Bank plc	12.4	AA-
JP Morgan	7.3	A
Goldman Sachs	5.6	AA-
Total	$ 38.8	

(1) Standard & Poor's ("S&P") ratings as detailed above are: "AA-" (Very Strong, which is the sixth highest of twenty-two creditworthiness ratings), "A+" (Strong, which is the seventh highest of twenty-two creditworthiness ratings) and "A" (Strong, which is the eighth highest of twenty-two creditworthiness ratings).

Note 9. Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are based on the weighted average number of common shares outstanding including unvested restricted shares that are considered participating securities. Diluted earnings (loss) per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. The following table outlines the Company's computation of earnings (loss) per share from continuing operations for the three and nine months ended September 30, 2012 and 2011 (see **Note 14** for earnings per share amounts for discontinued operations):

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2012	**2011**	**2012**	**2011**
Basic and diluted earnings (loss) per share numerators (in millions):				
Net income (loss) from continuing operations attributable to White Mountains' common shareholders	**$ 125.9**	$ 14.3	**$ 254.6**	$ (6.3)
Allocation of (income) loss for unvested restricted common shares	**(1.8)**	(.1)	**(3.3)**	.1
Dividends declared on participating restricted common shares [1]	**—**	—	**(.1)**	(.1)
Total allocation to restricted common shares	**(1.8)**	(.1)	**(3.4)**	—
Net income (loss) attributable to White Mountains' common shareholders, net of restricted common share amounts	**$ 124.1**	$ 14.2	**$ 251.2**	$ (6.3)
Undistributed net earnings (loss) (in millions):				
Net income (loss) attributable to White Mountains' common shareholders, net of restricted common share amounts	**$ 124.1**	$ 14.2	**$ 251.2**	$ (6.3)
Dividends declared net of participating restricted common share amounts [1]	**—**	—	**(6.5)**	(7.9)
Total undistributed net earnings (loss), net of restricted common share amounts	**$ 124.1**	$ 14.2	**$ 244.7**	$ (14.2)
Basic earnings (loss) per share denominators (in thousands):				
Total average common shares outstanding during the period	**6,590.4**	7,919.3	**6,885.9**	7,970.0
Average unvested restricted shares [2]	**(96.5)**	(73.5)	**(89.5)**	(68.0)
Basic earnings (loss) per share denominator	**6,493.9**	7,845.8	**6,796.4**	7,902.0
Diluted earnings (loss) per share denominator (in thousands):				
Total average common shares outstanding during the period	**6,590.4**	7,919.3	**6,885.9**	7,970.0
Average unvested restricted common shares [2]	**(96.5)**	(73.5)	**(89.5)**	(68.0)
Average outstanding dilutive options to acquire common shares [3]	**—**	**—**	**—**	**—**
Diluted earnings (loss) per share denominator	**6,493.9**	7,845.8	**6,796.4**	7,902.0
Basic earnings (loss) per share (in dollars):				
Net income (loss) attributable to White Mountains' common shareholders	**$ 19.11**	$ 1.81	**$ 36.96**	$ (.80)
Dividends declared	**—**	—	**(1.00)**	(1.00)
Undistributed earnings (loss)	**$ 19.11**	$ 1.81	**$ 35.96**	$ (1.80)
Diluted earnings (loss) per share (in dollars)				
Net income (loss) attributable to White Mountains' common shareholders	**$ 19.11**	$ 1.81	**$ 36.96**	$ (.80)
Dividends declared	**—**	—	**(1.00)**	(1.00)
Undistributed earnings (loss)	**$ 19.11**	$ 1.81	**$ 35.96**	$ (1.80)

[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 12**).

[3] The diluted earnings (loss) per share denominator for the three and nine months ended September 30, 2012 and 2011 do not include common shares issuable upon exercise of the Non-Qualified Options as they are anti-dilutive to the calculation.

Note 10. Segment Information

White Mountains has determined that its reportable segments are OneBeacon, Sirius Group, 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' segments have been eliminated herein. Financial information for White Mountains' segments follows:

Millions	OneBeacon	Sirius Group	Other Operations	Total
Three Months Ended September 30, 2012				
Earned insurance and reinsurance premiums	$ 293.9	$ 242.9	$ —	$ 536.8
Net investment income	12.8	16.7	8.1	37.6
Net realized and unrealized investment gains (losses)	40.0	(8.9)	41.6	72.7
Other revenue	(.4)	48.2	2.5	50.3
Total revenues	**346.3**	**298.9**	**52.2**	**697.4**
Losses and loss adjustment expenses	164.7	143.4	—	308.1
Insurance and reinsurance acquisition expenses	66.6	41.0	—	107.6
Other underwriting expenses	47.4	29.1	.1	76.6
General and administrative expenses	4.4	10.2	44.1	58.7
Interest expense on debt	4.1	6.5	.7	11.3
Total expenses	**287.2**	**230.2**	**44.9**	**562.3**
Pre-tax income	**$ 59.1**	**$ 68.7**	**$ 7.3**	**$ 135.1**

Millions	OneBeacon	Sirius Group	Other Operations	Total
Three Months Ended September 30, 2011				
Earned insurance and reinsurance premiums	$ 259.1	$ 232.0	$ —	$ 491.1
Net investment income	16.1	22.1	4.6	42.8
Net realized and unrealized investment gains (losses)	(47.4)	65.9	(15.6)	2.9
Other revenue	.1	(29.3)	(5.8)	(35.0)
Total revenues	227.9	290.7	(16.8)	501.8
Losses and loss adjustment expenses	149.7	130.5	—	280.2
Insurance and reinsurance acquisition expenses	58.6	48.4	—	107.0
Other underwriting expenses	36.0	28.3	—	64.3
General and administrative expenses	2.5	7.4	26.3	36.2
Interest expense on debt	4.1	6.5	2.2	12.8
Total expenses	250.9	221.1	28.5	500.5
Pre-tax (loss) income	$ (23.0)	$ 69.6	$ (45.3)	$ 1.3

Millions	OneBeacon	Sirius Group	Other Operations	Total
Nine Months Ended September 30, 2012				
Earned insurance and reinsurance premiums	$ 846.0	$ 699.3	$ —	$ 1,545.3
Net investment income	41.5	50.9	27.4	119.8
Net realized and unrealized investment gains (losses)	57.9	22.9	42.4	123.2
Other revenue	(.1)	48.9	32.2	81.0
Total revenues	**945.3**	**822.0**	**102.0**	**1,869.3**
Losses and loss adjustment expenses	452.5	369.2	—	821.7
Insurance and reinsurance acquisition expenses	185.6	140.6	—	326.2
Other underwriting expenses	146.2	82.1	.1	228.4
General and administrative expenses	9.6	35.4	101.3	146.3
Interest expense on debt	12.2	19.6	1.3	33.1
Total expenses	**806.1**	**646.9**	**102.7**	**1,555.7**
Pre-tax income (loss)	**$ 139.2**	**$ 175.1**	**$ (.7)**	**$ 313.6**

Millions	OneBeacon	Sirius Group	Other Operations	Total
Nine Months Ended September 30, 2011				
Earned insurance and reinsurance premiums	$ 748.0	$ 685.5	$ —	$ 1,433.5
Net investment income	55.8	68.3	14.0	138.1
Net realized and unrealized investment gains (losses)	(13.3)	60.7	(11.0)	36.4
Other revenue	(12.2)	(13.8)	(2.3)	(28.3)
Total revenues	778.3	800.7	.7	1,579.7
Losses and loss adjustment expenses	421.3	499.1	—	920.4
Insurance and reinsurance acquisition expenses	161.5	135.1	—	296.6
Other underwriting expenses	124.5	79.4	—	203.9
General and administrative expenses	7.4	23.3	89.7	120.4
Interest expense on debt	16.4	19.6	2.8	38.8
Total expenses	731.1	756.5	92.5	1,580.1
Pre-tax income (loss)	$ 47.2	$ 44.2	$ (91.8)	$ (.4)

Note 11. Investments in Unconsolidated Affiliates

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

Millions	September 30, 2012	December 31, 2011
Symetra common shares	**$ 284.0**	$ 261.0
Unrealized gains from Symetra's fixed maturity portfolio	**64.6**	—
GAAP Carrying value of Symetra common shares	**348.6**	261.0
Symetra warrants	**26.2**	12.6
Total investment in Symetra	**374.8**	273.6
Pentelia Capital Management	**1.5**	1.7
Total investments in unconsolidated affiliates	**$ 376.3**	$ 275.3

Symetra

At September 30, 2012 and December 31, 2011, White Mountains owned 17.4 million common shares of Symetra Financial Corporation ("Symetra") and warrants to acquire an additional 9.5 million common shares. White Mountains accounts for its investment in common shares of Symetra using the equity method. At December 31, 2011, due to the prolonged low interest rate environment in which life insurance companies currently operate, White Mountains concluded that its investment in Symetra common shares was other-than-temporarily impaired and wrote down the GAAP book value of the investment to its estimated fair value of $261.0 million, or $15 per share at December 31, 2011. White Mountains recorded $45.9 million of after-tax equity in losses of unconsolidated affiliates and $136.6 million of after-tax equity in net unrealized losses of unconsolidated affiliates.

Under the equity method, the GAAP carrying value of White Mountains' investment in Symetra common shares is normally equal to the percentage of Symetra's GAAP book value represented by White Mountains' common share ownership, which was 15% at September 30, 2012. As a result of recording the write-down, White Mountains' carrying value of its investment in Symetra differs from the carrying value by applying its ownership share against Symetra's GAAP equity as normally done under the equity method. The pre-tax basis difference of $195.8 million as of December 31, 2011 is being amortized over a 30 year period pro rata based on estimated future cash flows associated with Symetra's underlying assets and liabilities to which the basis difference has been attributed. White Mountains continues to record its equity in Symetra's earnings and net unrealized gains (losses). In addition, White Mountains recognizes the amortization of the basis difference through equity in earnings of unconsolidated affiliates and equity in net unrealized gains (losses) from investments in unconsolidated affiliates consistent with the original attribution of the writedown between equity in earnings and equity in net unrealized gains (losses). For the three and nine months ended September 30, 2012, White Mountains recognized after-tax amortization of $0.8 million and $2.4 million through equity in earnings of unconsolidated affiliates and $3.0 million and $9.1 million through equity in net unrealized gains from investments in unconsolidated affiliates. At September 30, 2012, the pre-tax unamortized basis difference was $183.3 million.

White Mountains accounts for its Symetra warrants as derivatives with changes in fair value recognized through the income statement as a gain or loss recognized through other revenues. White Mountains uses a Black Scholes valuation model to determine the fair value of the Symetra warrants. The major assumptions used in valuing the Symetra warrants at September 30, 2012 were a risk free rate of 0.22%, volatility of 36.5%, an expected life of 1.82 years, a strike price of $11.49 per share and a share price of $12.30 per share.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra for the three months ended September 30, 2012 and 2011:

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
Millions	**Common Shares**	**Warrants**	**Total**	**Common Shares**	**Warrants**	**Total**
Carrying value of investment in Symetra as of June 30	**$ 305.9**	**$ 29.8**	**$ 335.7**	$ 388.5	$ 32.5	$ 421.0
Equity in earnings [1][2]	**8.8**	—	**8.8**	1.6	—	1.6
Equity in net unrealized gains from Symetra's fixed maturity portfolio [3]	**35.2**	—	**35.2**	59.9	—	59.9
Dividends received	**(1.3)**	—	**(1.3)**	(1.0)	—	(1.0)
Increase (decrease) in value of warrants	—	**(3.6)**	**(3.6)**	—	(24.8)	(24.8)
Carrying value of investment in Symetra as September 30 [4][5]	**$ 348.6**	**$ 26.2**	**$ 374.8**	$ 449.0	$ 7.7	$ 456.7

[1] Equity in earnings excludes tax expense of $0.7 and $0.1.
[2] Equity in earnings includes $0.9 increase relating to the pre-tax amortization of Symetra common share impairment from September 30, 2012
[3] Net unrealized gains includes $3.3 increase relating to the pre-tax amortization of Symetra common share impairment from September 30, 2012.
[4] Includes White Mountains' equity in net unrealized gains from Symetra's fixed maturity portfolio of $35.2 and $147.7 as of September 30, 2012 and 2011, which exclude tax expense of $2.8 and $12.3.
[5] The aggregate value of White Mountains' investment in common shares of Symetra was $214.0 based upon the quoted market price of $12.30 per share at September 30, 2012.

The following table summarizes amounts recorded by White Mountains relating to its investment in Symetra for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
Millions	**Common Shares**	**Warrants**	**Total**	**Common Shares**	**Warrants**	**Total**
Carrying value of investment in Symetra as of January 1	**$ 261.0**	**$ 12.6**	**$ 273.6**	$ 350.4	$ 37.1	$ 387.5
Equity in earnings [1][2]	**26.7**	—	**26.7**	17.5	—	17.5
Equity in net unrealized gains from Symetra's fixed maturity portfolio [3]	**64.6**	—	**64.6**	84.0	—	84.0
Dividends received	**(3.7)**	—	**(3.7)**	(2.9)	—	(2.9)
Increase (decrease) in value of warrants	—	**13.6**	**13.6**	—	(29.4)	(29.4)
Carrying value of investment in Symetra as September 30 [4][5]	**$ 348.6**	**$ 26.2**	**$ 374.8**	$ 449.0	$ 7.7	$ 456.7

[1] Equity in earnings excludes tax expense of $2.2 and $1.4.
[2] Equity in earnings includes $0.9 increase relating to the pre-tax amortization of Symetra common share impairment from September 30, 2012.
[3] Net unrealized gains includes $9.9 increase relating to the pre-tax amortization of Symetra common share impairment from September 30, 2012.
[4] Includes White Mountains' equity in net unrealized gains from Symetra's fixed maturity portfolio of $64.6 and $147.7 as of September 30, 2012 and 2011, which exclude tax expense of $5.2 and $24.2.
[5] The aggregate value of White Mountains' investment in common shares of Symetra was $214.0 based upon the quoted market price of $12.30 per share at September 30, 2012.

During the three and nine months ended September 30, 2012, White Mountains received cash dividends from Symetra of $1.3 million and $3.7 million on its common share investment that was recorded as a reduction of White Mountains' investment in Symetra. During the three and nine months ended September 30, 2012, White Mountains also received cash dividends of $0.7 million and $2.0 million from Symetra on its investment in Symetra warrants that was recorded in net investment income.

Note 12. Employee Share-Based Incentive Compensation Plans

White Mountains' 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 and service providers of the Company and certain of its subsidiaries. White Mountains' share-based compensation incentive awards consist of performance shares, restricted shares and stock options.

Share-Based Compensation Based on White Mountains Common Shares

WTM Performance Shares

Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. Performance share awards vest, subject to the attainment of performance goals, at the end of a three-year period and are valued based on the market value of common shares at the time awards are paid. The following table summarizes performance share activity for the three and nine months ended September 30, 2012 and 2011 for performance shares granted under the WTM Incentive Plan and phantom performance shares granted under the Sirius Group Performance Plan (the "WTM Phantom Share Plan"):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	118,450	**$ 32.7**	150,064	$ 56.5	150,064	**$ 66.1**	163,184	$ 29.4
Shares paid or expired [1]	**—**	**—**	—	—	(68,357)	**(48.4)**	(51,131)	—
New grants	**2,500**	**—**	—	—	38,432	**—**	37,675	—
Assumed forfeitures and cancellations [2]	**(1,359)**	**(.4)**	—	—	(548)	**.4**	336	(.6)
Expense recognized	**—**	**6.6**	—	(1.0)	—	**20.8**	—	26.7
Ending September 30,	119,591	**$ 38.9**	150,064	$ 55.5	119,591	**$ 38.9**	150,064	$ 55.5

[1] WTM performance share payments in 2012 for the 2009-2011 performance cycle ranged from147% to 155% of target. There were no payments made in 2011 for the 2008-2010 performance cycle; those performance shares did not meet the threshold performance goals and expired.

[2] Amounts include changes in assumed forfeitures, as required under GAAP.

For the 2009-2011 performance cycle, the Company issued common shares for 9,577 performance shares earned and all other performance shares earned were settled in cash.

If the outstanding WTM performance shares had vested on September 30, 2012, the total additional compensation cost to be recognized would have been $26.6 million, based on accrual factors at September 30, 2012 (common share price and payout assumptions).

Performance Shares granted under the WTM Incentive Plan

The following table summarizes performance shares outstanding and accrued expense for performance shares awarded under the WTM Incentive Plan at September 30, 2012 for each performance cycle:

Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2010 – 2012	42,320	**$ 19.0**
2011 – 2013	37,255	**12.9**
2012 – 2014	38,092	**5.4**
Sub-total	117,667	**37.3**
Assumed forfeitures	(2,941)	**(1.0)**
Total at September 30, 2012	114,726	**$ 36.3**

Phantom Performance Shares granted under WTM Phantom Share Plan

The following table summarizes phantom performance shares outstanding and accrued expense for grants made under WTM Phantom Share Plan at September 30, 2012 for each performance cycle:

Millions, except share amounts	Target WTM Phantom Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2010 – 2012	4,990	**$ 2.7**
2011 – 2013 [(1)]	—	**—**
2012 – 2014 [(1)]	—	**—**
Sub-total	4,990	**2.7**
Assumed forfeitures	(125)	**(.1)**
Total at September 30, 2012	4,865	**$ 2.6**

[(1)] All performance shares for the 2011–2013 and 2012–2014 performance cycles were granted from the WTM Incentive Plan.

Restricted Shares

The following outlines the unrecognized compensation cost associated with the outstanding restricted share awards for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Millions, except share amounts	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	93,460	**$ 21.5**	73,500	$ 18.9	72,000	**$ 13.3**	46,250	$ 14.1
Issued	3,700	**2.0**	—	—	32,160	**15.7**	27,250	9.9
Vested	—	**—**	—	—	(7,000)	**—**	—	—
Forfeited	(1,065)	**(.2)**	—	—	(1,065)	**(.2)**	—	—
Expense recognized	—	**(3.2)**	—	(2.8)	—	**(8.7)**	—	(7.9)
Non-vested at September 30,	96,095	**$ 20.1**	73,500	$ 16.1	96,095	**$ 20.1**	73,500	$ 16.1

During the third quarter of 2012, White Mountains issued 2,500 restricted shares that vest on January 1, 2015 and 1,200 restricted shares that vest on July 16, 2015. During the first quarter of 2012, White Mountains issued 25,460 restricted shares that vest on January 1, 2015 and 3,000 restricted shares that vest in two equal annual installments beginning in February 2014. During the second quarter of 2011, White Mountains issued 250 restricted shares that vest on January 1, 2014. During the first quarter of 2011, White Mountains issued 27,000 restricted shares that vest on January 1, 2014. During the first quarter of 2010, White Mountains issued 19,750 restricted shares that vest on December 31, 2012. The unrecognized compensation cost at September 30, 2012 is expected to be recognized ratably over the remaining vesting periods.

Non-Qualified Options

In January 2007, the Company issued 200,000 seven year Non-Qualified Options to the Company's Chairman and CEO that vested in equal annual installments over five years and that had an initial exercise price of $650 per common share that escalated at an annual rate of 5% less the annual regular dividend rate. At the 2010 Annual General Meeting of Members held on May 26, 2010, the Company's shareholders approved the following amendments to the Non-Qualified Options: (1) extend the term of the Non-Qualified Options by three years to January 20, 2017; (2) freeze the exercise price at $742 per common share, the exercise price on February 24, 2010; (3) extinguish 75,000 of the 200,000 Non-Qualified Options; and (4) limit the potential in-the-money value of the Non-Qualified Options in excess of $100.0 million to 50% of the amount in excess of $100.0 million. For the nine months ended September 30, 2011, White Mountains recognized a total of $0.1 million of expense related to amortizing the Non-Qualified Options. As of the first quarter of 2011 the Non-Qualified Options were fully amortized.

Share-Based Compensation Based on OneBeacon Ltd. Common Shares

The OneBeacon Long-Term Incentive Plan (the "OneBeacon Incentive Plan") provides for grants of various types of share-based and non share-based incentive awards to key employees of OneBeacon Ltd. and certain of its subsidiaries. OneBeacon's share-based incentive awards consist of OneBeacon performance shares, stock options granted in connection with OneBeacon's initial public offering, restricted shares and restricted stock units ("RSUs").

OneBeacon Performance Shares

OneBeacon performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. OneBeacon performance share awards vest, subject to the attainment of performance goals, at the end of a three-year period and are valued based on the market value of OneBeacon Ltd. common shares at the time awards are paid.

The following table summarizes performance share activity for the three and nine months ended September 30, 2012 and 2011 for OneBeacon performance shares granted under the OneBeacon Incentive Plan:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Millions, except share amounts	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense	Target Performance Shares Outstanding	Accrued Expense
Beginning of period	560,577	**$ 3.1**	671,727	$ 10.0	642,667	**$ 9.7**	1,464,295	$ 18.5
Payments and deferrals [1][2]	—	**—**	—	—	(258,901)	**(7.8)**	(936,150)	(10.5)
New awards	—	**—**	—	—	181,290	**—**	194,900	—
Assumed forfeitures and cancellations [3]	(3,354)	**—**	(19,583)	.1	(7,833)	**—**	(70,901)	(.2)
Expense recognized	—	**(2.2)**	—	(.5)	—	**(1.0)**	—	1.8
Ending September 30,	557,223	**$ .9**	652,144	$ 9.6	557,223	**$ .9**	652,144	$ 9.6

[1] OneBeacon performance share payments in 2012 for the 2009-2011 performance cycle were at 138.6% of target. OneBeacon performance shares payments in 2011 for the 2008-2010 performance cycle were at 68.5% of target. Amounts include deposits into OneBeacon's deferred compensation plan.

[2] OneBeacon performance share payments also include accelerated payments resulting from the OneBeacon Personal Lines and Commercial Lines Transactions. The accelerated OneBeacon performance shares payments for the 2009-2011 and 2010-2012 performance cycles were on a pro rata basis and at a performance factor of 100%.

[3] Amounts include changes in assumed forfeitures, as required under GAAP.

If the outstanding OneBeacon performance shares had been vested on September 30, 2012, the total additional compensation cost to be recognized would have been $1.7 million, based on accrual factors at September 30, 2012 (common share price and payout assumptions).

The following table summarizes OneBeacon performance shares outstanding awarded under the OneBeacon Incentive Plan at September 30, 2012 for each performance cycle:

Millions, except share amounts	Target OneBeacon Performance Shares Outstanding	Accrued Expense
Performance cycle:		
2010 – 2012	238,658	**$ —**
2011 – 2013	151,563	**.4**
2012 – 2014	181,290	**.5**
Sub-total	571,511	**.9**
Assumed forfeitures	(14,288)	**—**
Total at September 30, 2012	557,223	**$ .9**

OneBeacon Restricted Shares

The following outlines the unrecognized compensation cost associated with the outstanding restricted share awards for the three and nine months ended September 30, 2012:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Millions, except share amounts	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	930,000	**$ 11.2**	630,000	$ 8.5	630,000	**$ 7.7**	630,000	$ 8.6
Issued	—	**—**	—	—	300,000	**4.6**	—	—
Vested	—	**—**	—	—	—	**—**	—	—
Forfeited	—	**—**	—	—	—	**—**	—	—
Expense recognized	—	**(.8)**	—	(.4)	—	**(1.9)**	—	(.5)
Non-vested at September 30,	930,000	**$ 10.4**	630,000	$ 8.1	930,000	**$ 10.4**	630,000	$ 8.1

On March 1, 2012, OneBeacon issued 300,000 restricted shares that vest in two equal annual installments on February 28, 2014 and 2015.

On May 25, 2011, OneBeacon issued 630,000 restricted shares to its CEO that vest in four equal annual installments beginning on February 22, 2014. Concurrently with the grant of the restricted shares, 35,000 OneBeacon performance shares issued to OneBeacon's CEO for the 2011-2013 performance share cycle were forfeited and performance share awards to OneBeacon's CEO for the subsequent five years will also be reduced by 35,000 shares.

The unrecognized compensation cost at September 30, 2012 is expected to be recognized ratably over the remaining vesting periods.

Non-Qualified Options

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

The following table summarizes option activity for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Millions, except share amounts	Target Options Outstanding	Target Options Outstanding	Target Options Outstanding	Target Options Outstanding
Beginning of period	—	750,130	740,870	768,652
New awards	—	—	—	—
Forfeitures and cancellations	—	(9,260)	—	(27,782)
Vested and expired	—	—	(740,870)	—
Exercised	—	—	—	—
Expense recognized	—	—	—	—
Ending September 30,	—	740,870	—	740,870

The fair value of each option award at grant was estimated using a Black-Scholes option pricing model using an expected volatility assumption of 30%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. The options originally had a per share exercise price of $30.00. On May 27, 2008, the OneBeacon Compensation Committee of the Board of Directors (the "OB Compensation Committee") amended the exercise price to $27.97 as a result of the $2.03 per share special dividend paid in the first quarter of 2008. On November 16, 2010, the OB Compensation Committee adjusted the exercise price to $25.47 as a result of the $2.50 per share special dividend paid in the third quarter of 2010. The compensation expense associated with the options and the incremental fair value of the award modifications were recognized ratably over the vesting period.

For the three and nine months ended September 30, 2011, White Mountains recognized $0.1 million and $0.4 million of expense related to amortizing the OneBeacon Non-Qualified Options. As of December 31, 2011, the OneBeacon Non-Qualified Options were fully amortized. The options expired unexercised in the second quarter of 2012.

Restricted Stock Units

The Non-Qualified Options granted by OneBeacon Ltd., in connection with its initial public offering, did not include a mechanism in the options to reflect the contribution to total return from the regular quarterly dividend. As a result, during the first quarter of 2008, OneBeacon granted 116,270 Restricted Stock Units ("RSUs") to actively employed option holders that were scheduled to vest equally on November 9, 2009, 2010 and 2011 subject to, for each vesting tranche of units, the attainment of 4% growth in OneBeacon's book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date. Consistent with the terms of the RSU plan, all of the RSUs have vested and were deferred into a OneBeacon non-qualified deferred compensation plan that were paid out in May 2012.

Note 13. Fair Value of Financial Instruments

White Mountains carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness and the SIG Preference Shares, which are recorded as noncontrolling interest.

The following table summarizes the fair value and carrying value of financial instruments as of September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
Millions	Fair Value	Carrying Value	Fair Value	Carrying Value
OBH Senior Notes	**$ 276.3**	**$ 269.8**	$ 277.4	$ 269.8
SIG Senior Notes	**442.9**	**399.4**	418.6	399.3
SIG Preference Shares	**257.5**	**250.0**	217.5	250.0

The fair value estimate for the OBH Senior Notes has been determined using observable inputs for similar instruments and is considered a Level 2 measurement. The fair value estimates for the SIG Senior Notes and the SIG Preference Shares have been determined based on indicative broker quotes and are considered to be Level 3 measurements.

Note 14. Discontinued Operations

Esurance

On October 7, 2011, White Mountains completed the sale of Esurance Insurance and AFI to Allstate (see **Note 2**). As a result of the transaction, Esurance Insurance, AFI and the business Esurance Insurance cedes to Sirius Group (collectively, "the Esurance Disposal Group") are reported as discontinued operations. White Mountains recognized a gain of $677.5 million on the Esurance Sale which is recorded net of tax in discontinued operations. Effective as of December 31, 2011, the results of operations for the Esurance Disposal Group have been classified as discontinued operations and are presented, net of related income taxes, in the statement of comprehensive income.

AutoOne

On February 22, 2012, OneBeacon completed the sale of the AutoOne business to Interboro. AutoOne operated as a division within OneBeacon that offered products and services to automobile assigned risk markets. The transaction included the sale of two insurance entities, AOIC and AOSIC, through which substantially all of the AutoOne business was written on a direct basis. The results of operations for the AutoOne business have been classified as discontinued operations and are presented, net of related income taxes, in the statement of comprehensive income. The assets and liabilities associated with the AutoOne business as of December 31, 2011 have been presented in the balance sheet as held for sale.

During the third quarter of 2012, OneBeacon and Interboro finalized the post-closing adjustments to the closing balance sheet resulting in OneBeacon recording a net gain of $0.5 million after tax. This after-tax net gain is included in loss from sale of discontinued operations in the statements of comprehensive income (loss) for the three and nine months ended September 30, 2012. During the third quarter of 2011, OneBeacon recorded an after-tax loss of $18.2 million in loss from sale of discontinued operations for the estimated loss on sale of AutoOne.

OneBeacon runoff business

On October 17, 2012, OneBeacon entered into an agreement to sell its runoff business to Armour. For the nine months ended September 30, 2012, the results of operations for the runoff business have been classified as discontinued operations and are presented, net of related income taxes, in the statement of comprehensive income. Prior year results of operations have been reclassified to conform to the current period's presentation. The assets and liabilities associated with the runoff business as of September 30, 2012 have been presented in the balance sheet as held for sale. The amounts classified as discontinued operations exclude investing and financing activities that are conducted on an overall consolidated level and, accordingly, there were no separately identifiable investments associated with the runoff business. Therefore, the prior period balance sheet has not been reclassified to conform to the current period's presentation.

During the third quarter of 2012, OneBeacon recorded $100.5 million in after-tax losses related to the Runoff Transaction. These losses are presented in discontinued operations and are composed of a $91.5 million after-tax loss on sale and a $9.0 million after-tax loss related to a reduction in the workers compensation loss reserve discount rate on reserves being transferred as part of the sale. OneBeacon also recognized $6.5 million of after-tax underwriting losses primarily related to unfavorable loss reserve development from a legacy assumed reinsurance treaty, which is presented in discontinued operations.

Reinsurance

Included in the assets held for sale are reinsurance recoverables from two reinsurance contracts with subsidiaries of Berkshire Hathaway Inc. that OneBeacon was required to purchase in connection with White Mountains' acquisition of OneBeacon in 2001: a reinsurance contract with National Indemnity Company ("NICO") for up to $2.5 billion in old asbestos and environmental ("A&E") claims and certain other exposures (the "NICO Cover") and an adverse loss reserve development cover from General Reinsurance Corporation ("GRC") for up to $570.0 million, comprised of $400.0 million of adverse loss reserve development occurring in years 2000 and prior (the "GRC Cover") in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for under GAAP as a seller guarantee. As of September 30, 2012, the total reinsurance recoverables on paid and unpaid losses of $1,449.2 million related to both the NICO cover and the GRC cover has been included in assets held for sale. Both NICO and GRC have an A.M Best rating of A++, Superior, which is the highest of fifteen ratings.

The total reinsurance recoverables on paid and unpaid losses in assets held for sale were $17.6 million and $2,110.0 million as of September 30, 2012. The reinsurance recoverable on unpaid amount is gross of $153.4 million in purchase accounting adjustments that will become recoverable if claims are paid in accordance with current reserve estimates. In addition, $36.7 million of the amount that is currently included in assets held for sale on the balance sheet will be reported in reinsurance recoverables on unpaid losses when the Runoff Transaction closes (at the then current value) as a result of a related reinsurance contract.

Net Assets Held for Sale

The following summarizes the assets and liabilities associated with the businesses classified as held for sale:

Millions	September 30, 2012	December 31, 2011
Assets held for sale		
Fixed maturity investments, at fair value	$ 377.3	$ 111.8
Cash	—	5.5
Reinsurance recoverable on unpaid losses	1,956.6	—
Reinsurance recoverable on paid losses	17.6	—
Insurance premiums receivable	13.6	8.8
Deferred acquisition costs	—	2.2
Deferred tax asset	6.1	1.9
Other assets	17.0	2.4
Total assets held for sale	$ 2,388.2	$ 132.6
Liabilities held for sale		
Loss and loss adjustment expense reserves	$ 2,212.9	$ 64.7
Unearned insurance premiums	.6	34.1
Ceded reinsurance payable	19.5	—
Other liabilities	155.2	8.8
Total liabilities held for sale	2,388.2	107.6
Net assets held for sale	$ —	$ 25.0

Loss from Discontinued Operations

The following summarizes the results of operations, including related income taxes associated with the businesses classified as discontinued operations:

Millions, except per share amounts	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2012	2011	2012	2011
Revenues				
Earned insurance premiums	**$ (.4)**	$ 233.3	**$ 10.0**	$ 701.9
Net investment income	**—**	3.8	**—**	11.8
Net realized and unrealized investment gains (losses)	**—**	(6.4)	**—**	1.4
Other revenue	**—**	17.5	**—**	54.0
Total revenues	**(.4)**	248.2	**10.0**	769.1
Expenses				
Loss and loss adjustment expenses	**27.7**	177.4	**48.4**	512.3
Insurance and reinsurance acquisition expenses	**(.8)**	51.4	**(1.3)**	154.1
Other underwriting expenses	**(1.1)**	35.0	**1.1**	83.9
General and administrative expenses	**—**	1.7	**—**	37.5
Total expenses	**25.8**	265.5	**48.2**	787.8
Pre-tax loss	**(26.2)**	(17.3)	**(38.2)**	(18.7)
Income tax benefit	**10.4**	5.3	**13.7**	10.9
Loss from discontinued operations	**(15.8)**	(12.0)	**(24.5)**	(7.8)
Loss from sale of discontinued operations	**(91.0)**	(18.2)	**(91.0)**	(18.2)
Net loss from discontinued operations	**$ (106.8)**	$ (30.2)	**$ (115.5)**	$ (26.0)

Loss Per Share

Basic loss per share amounts are based on the weighted average number of common shares outstanding including unvested restricted shares that are considered participating securities. Diluted loss per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding.

The following table outlines the computation of loss per share for discontinued operations for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2012	**2011**	**2012**	**2011**
Basic and diluted loss per share numerators (in millions):				
Net loss attributable to White Mountains' common shareholders	$ (106.8)	$ (30.2)	$ (115.5)	$ (26.0)
Allocation of income for participating unvested restricted common shares [1]	1.5	.3	1.5	.2
Net loss attributable to White Mountains' common shareholders, net of restricted common share amounts [2]	$ (105.3)	$ (29.9)	$ (114.0)	$ (25.8)
Basic loss per share denominators (in thousands):				
Total average common shares outstanding during the period	6,590.4	7,919.3	6,885.9	7,970.0
Average unvested restricted common shares [3]	(96.5)	(73.5)	(89.5)	(68.0)
Basic loss per share denominator	6,493.9	7,845.8	6,796.4	7,902.0
Diluted loss per share denominator (in thousands):				
Total average common shares outstanding during the period	6,590.4	7,919.3	6,885.9	7,970.0
Average unvested restricted common shares	(96.5)	(73.5)	(89.5)	(68.0)
Average outstanding dilutive options to acquire common shares	—	—	—	—
Diluted loss per share denominator	6,493.9	7,845.8	6,796.4	7,902.0
Basic and diluted loss per share (in dollars):	**$ (16.21)**	$ (3.81)	**$ (16.77)**	$ (3.26)

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

[2] Net loss attributable to White Mountains' common shareholders, net of restricted share amounts, is equal to undistributed loss for the three and nine months ended September 30, 2012 and 2011.

[3] Restricted common shares outstanding vest either in equal annual installments or upon a stated date (see **Note 12**)

Note 15. Contingencies

Legal Contingencies

White Mountains, and the insurance and reinsurance industry in general, are routinely subject to claims related litigation and arbitration in the normal course of business, as well as litigation and arbitration that do not arise from, or are directly related to, claims activity. White Mountains' estimates of the costs of settling matters routinely encountered in claims activity are reflected in the reserves for unpaid loss and LAE. See Note 3.

Except as described below, White Mountains is not a party to any material non-claims litigation or arbitration. White Mountains considers the requirements of ASC 450 when evaluating its exposure to non-claims related 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.

Although the ultimate outcome of claims and non-claims related litigation and arbitration, and the amount or range of potential loss at any particular time, is often inherently uncertain, management does not believe that the ultimate outcome of such claims and non-claims related litigation and arbitration will have a material adverse effect on White Mountains' financial condition, results of operations or cash flows.

Esurance Sale

In 2011, the Company sold its Esurance and Answer Financial businesses (the "Transferred Companies") to The Allstate Corporation ("Allstate") for a purchase price of approximately $1.01 billion. The purchase price consisted of $700 million plus the tangible book value of the Transferred Companies at the closing, which was estimated to be $308 million. Following closing, Allstate was required to prepare a final closing statement, including an audited balance sheet for the Transferred Companies as of the closing date. The Company believes this final closing statement was required to be prepared and audited no later than January 5, 2012. Allstate did not deliver the final closing statement to the Company until June 6, 2012, with an audit report dated June 1, 2012. The Company is disputing Allstate's calculation of tangible book value in the closing statement. The amount in dispute is approximately $20 million, after tax. The dispute principally relates to (i) the elimination of $24.7 million (pre-tax) of deferred acquisition costs ($16.0 million, after tax) and (ii) the inclusion of a liability equal to the costs associated with an Esurance extra-contractual ("ECO") matter settled in April 2012 of $5.2 million ($3.4 million, after tax).

The Company believes that Allstate's failure to have the final closing statement prepared and audited by the required date constitutes a breach of Allstate's obligations under the agreement governing the sale of the Transferred Companies. The Company has brought suit in the United States District Court for the Southern District of New York in connection with such breach.

Tribune Company

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as "Plaintiffs"), in their capacity as trustees for certain senior notes issued by the Tribune Company ("Tribune"), filed lawsuits in various jurisdictions (the "Noteholder Actions") against numerous defendants including OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the "LBO"). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the "Bankruptcy Court"). The Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. OneBeacon and OBIC-sponsored benefit plans received approximately $32 million for Tribune common stock tendered in connection with the LBO.

In December 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate all of the Noteholder Actions for pretrial matters and transfer all such proceedings to the United States District Court for the Southern District of New York.

In addition, OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company, on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the "Committee Action"). The Committee Action has since been consolidated with the Noteholder Actions.

In September 2012, a case management order was entered in the consolidated cases, setting forth, among other things, a briefing schedule for an omnibus motion to dismiss in the Noteholder Actions. The court is expected to hear oral argument on that motion in March 2013. Discovery and other motion practice (other than motions to amend the complaints) in the Committee Action and the Noteholder Actions is stayed until further order of the court.

Ace American Insurance Company

A subsidiary of OneBeacon, OneBeacon U.S. Holdings, Inc. ("OBH"), was sued in Federal Court in the Eastern District of Pennsylvania on August 17, 2012 by Ace American Insurance Company ("Ace"). The complaint alleges that OBH, through a professional recruiting firm, improperly hired a group of Ace employees from Ace's surety division. The complaint seeks injunctive relief and unspecified damages. Upon motions of both parties, the court ordered expedited discovery, which has been completed. OBH's response to Ace's motion for preliminary injunction is due at the end of October. OneBeacon believes that Ace's motion is without merit and intends to vigorously defend the lawsuit.

Note 16. Subsequent Event

On October 16, 2012, OneBeacon announced it entered into an agreement to terminate its exclusive underwriting agreement with Hagerty Insurance Agency and to sell one of its insurance entities to Markel Corporation. OneBeacon anticipates recording an after-tax gain of $15 million related to this transaction. The sale is subject to regulatory approvals and is expected to close during the first quarter of 2013. The business associated with this agreement generated written premiums of approximately $179 million, or 16% of OneBeacon's consolidated written premiums for the twelve months prior to September 30, 2012.

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' 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 three non-GAAP financial measures - adjusted comprehensive income (loss), adjusted book value per share and total adjusted capital - that have been reconciled to their most comparable GAAP financial measures (see page 70). White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains' financial performance and condition.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

Overview

White Mountains ended the third quarter of 2012 with an adjusted book value per share of $574, an increase of 1.6% for the quarter and 6.0% for the first nine months of 2012, including dividends. White Mountains reported adjusted comprehensive income of $59 million and $173 million in the third quarter and first nine months of 2012 compared to adjusted comprehensive loss of $98 million and $58 million in the third quarter and first nine months of 2011. In the third quarter of 2012, strong investment and underwriting results more than offset a $101 million loss at OneBeacon from the sale of its runoff business.

White Mountains' GAAP pre-tax total return on invested assets was 2.8% and 4.3% for the third quarter and first nine months of 2012, which included 0.6% and 0.4% of foreign currency gains, compared to a GAAP total return of -1.5% and 1.7% for the third quarter and first nine months of 2011, which included -1.2% and -0.2% of foreign currency losses.

OneBeacon's book value per share decreased 5.6% for the third quarter of 2012 and increased 0.5% for the first nine months of 2012, including dividends. During the third quarter of 2012, OneBeacon recorded $101 million in after-tax losses related to the sale of its runoff business. These losses are presented in discontinued operations and are composed of a $92 million after-tax loss on sale and a $9 million after-tax loss related to a reduction in the workers compensation loss reserve discount rate on reserves being transferred as part of the sale. OneBeacon's GAAP combined ratio was 95% for the third quarter of 2012 compared to 94% for the third quarter of last year, while the GAAP combined ratio was 93% for the first nine months of 2012 compared to 95% for the first nine months of last year. Both the quarter and first nine month results benefited from lower catastrophe losses partially offset by lower favorable development. In addition, the third quarter of 2011 had lower expenses due to an adjustment to incentive compensation accruals. Catastrophe losses were 2 points in both the third quarter and first nine months of 2012 compared to 5 points in the comparable periods of last year. Favorable loss reserve development was 1 point in the third quarter and in the first nine months of 2012 compared to 2 points in the comparable periods of last year.

Sirius Group's GAAP combined ratio was 88% for the third quarter of 2012 compared to 89% for the third quarter of 2011, while the GAAP combined ratio was 85% for the first nine months of 2012 compared to 104% for the first nine months of 2011. The combined ratio for the third quarter of 2012 included 19 points ($45 million) of losses from Sirius Group's agricultural line of business, primarily as a result of the drought in the Midwestern United States. These loss estimates are subject to change as the majority of losses are based on both yield and final contractual commodity prices for corn and soybeans, which have not yet been set. Additionally, the combined ratio for the third quarter of 2012 included 3 points ($6 million) of catastrophe losses, mainly due to storm losses in the United States, compared to 11 points ($25 million) in the third quarter of last year, mainly as a result of hurricane Irene. The combined ratio for the first nine months of 2012 included 2 points ($14 million) of catastrophe losses compared to 27 points ($188 million) in the first nine months of last year. The combined ratio for first nine months of 2012 also included 7 points from the aforementioned agricultural losses. There was $8 million of net favorable loss reserve development in the third quarter of 2012 compared to $21 million in the third quarter of last year. With the completion of a ground-up asbestos reserve study in the quarter, Sirius Group increased asbestos loss reserves by $33 million. This increase was more than offset by reductions in liability and property loss reserves. Favorable loss reserve development was 2 points in the first nine months of 2012 compared to 5 points in the first nine months of last year. In addition, in the third quarter of 2012, Sirius Group sold its interest in an equity affiliate investment, International Medical Group ("IMG"), a managing general underwriter in the medical and travel business, for a gain of $15 million.

During the third quarter of 2012, White Mountains capitalized HG Global Ltd. ("HG Global") with $595 million to fund Build America Mutual Assurance Company ("BAM"), a newly formed mutual municipal bond insurer, and HG Re Ltd. ("HG Re"), a wholly-owned subsidiary of HG Global. As of September 30, 2012, White Mountains owned 97% of HG Global's preferred equity and 89% of its common equity. HG Global provided the initial capitalization of BAM through the purchase of $503 million of BAM surplus notes. Through HG Re, HG Global provides first loss reinsurance protection for policies underwritten by BAM of 15% of par outstanding, on a per policy basis. HG Re's obligations to BAM are collateralized in trusts, and there is an aggregate loss limit that is equal to the total assets in the collateral trusts at any point in time. For the third quarter of 2012, HG Global reported pre-tax income of $5 million, which was driven by $8 million of interest income on the BAM surplus notes, partially offset by startup and operational costs. For the third quarter of 2012, BAM reported $18 million in pre-tax losses that were driven by $8 million of interest expense on the BAM surplus notes and startup and operational costs. U.S. GAAP requires White Mountains to consolidate the results of BAM. However, since BAM is a mutual insurance company that is owned by its members and not White Mountains, BAM's results do not affect White Mountains' adjusted book value per share as they are attributed to noncontrolling interests.

White Mountains' total net written premiums increased 9% for both the third quarter and first nine months of 2012 to $559 million and $1,730 million, compared to $511 million and $1,589 million in the third quarter and first nine months of 2011. OneBeacon's net written premiums increased 13% for both the third quarter and first nine months of 2012 to $335 million and $930 million. A change in the method of estimating written premiums associated with the A.W.G. Dewar ("Dewar") tuition reimbursement insurance product resulted in approximately $9 million in net written premiums being recorded in the third quarter of 2012 that, under the prior method, would have been recorded in the fourth quarter. Excluding this change in estimate, premiums for the three and nine months ended September 30, 2012 would have increased 9% and 12%. Sirius Group's net written premiums increased 5% and 4% for the third quarter and first nine months of 2012 to $224 million and $800 million (increases of 6% for both periods in local currencies).

Adjusted Book Value Per Share

The following table presents White Mountains' adjusted book value per share and reconciles this non-GAAP measure to the most comparable GAAP measure. (See **NON-GAAP FINANCIAL MEASURES** on page 70).

	September 30, 2012	June 30, 2012	December 31, 2011	September 30, 2011
Book value per share numerators (in millions):				
White Mountains' common shareholders' equity	**$ 3,809.3**	$ 3,742.5	$ 4,087.7	$ 3,444.7
Equity in net unrealized gains from Symetra's fixed maturity portfolio	**(59.3)**	(27.0)	—	(135.7)
Adjusted book value per share numerator [1]	**$ 3,750.0**	$ 3,715.5	$ 4,087.7	$ 3,309.0
Book value per share denominators (in thousands of shares):				
Common shares outstanding	**6,583.7**	6,630.3	7,577.9	7,630.7
Unearned restricted shares	**(46.8)**	(51.6)	(37.6)	(44.5)
Adjusted book value per share denominator [1]	**6,536.9**	6,578.7	7,540.3	7,586.2
Book value per share [2]	**$ 578.60**	$ 564.45	$ 539.43	$ 451.42
Adjusted book value per share [2]	**$ 573.66**	$ 564.77	$ 542.11	$ 436.18

[1] Excludes out of-the-money stock options.

[2] During the first nine months of both 2012 and 2011, White Mountains declared and paid a dividend of $1.00 per common share.

Review of Consolidated Results

White Mountains' consolidated financial results for the three and nine months ended September 30, 2012 and 2011 follow:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Gross written premiums	**$ 608.0**	$ 559.2	**$ 1,977.4**	$ 1,813.3
Net written premiums	**$ 559.1**	$ 511.2	**$ 1,729.9**	$ 1,588.9
Revenues				
Earned insurance and reinsurance premiums	**$ 536.8**	$ 491.1	**$ 1,545.3**	$ 1,433.5
Net investment income	**37.6**	42.8	**119.8**	138.1
Net realized and unrealized investment gains	**72.7**	2.9	**123.2**	36.4
Other revenue — foreign currency translation gains (losses)	**33.1**	(30.4)	**33.1**	(16.0)
Other revenue — Hamer and Bri-Mar	**8.6**	8.0	**24.1**	18.9
Other revenue — Symetra warrants	**(3.6)**	(24.7)	**13.6**	(29.3)
Other revenue — other	**12.2**	12.1	**10.2**	(1.9)
Total revenues	**697.4**	501.8	**1,869.3**	1,579.7
Expenses				
Losses and LAE	**308.1**	280.2	**821.7**	920.4
Insurance and reinsurance acquisition expenses	**107.6**	107.0	**326.2**	296.6
Other underwriting expenses	**76.6**	64.3	**228.4**	203.9
General and administrative expenses	**39.0**	27.1	**104.7**	97.5
General and administrative expenses — BAM	**11.2**	—	**11.2**	—
General and administrative expenses — Hamer and Bri-Mar	**7.4**	7.0	**21.0**	16.7
Accretion of fair value adjustment to loss and LAE reserves	**1.1**	2.1	**9.4**	6.2
Interest expense on debt	**11.3**	12.8	**33.1**	38.8
Total expenses	**562.3**	500.5	**1,555.7**	1,580.1
Pre-tax income (loss)	**135.1**	1.3	**313.6**	(.4)
Income tax (expense) benefit	**(47.8)**	.6	**(85.3)**	(.8)
Net income (loss) from continuing operations	**87.3**	1.9	**228.3**	(1.2)
Loss income from sale of discontinued operations, net of tax	**(91.0)**	(18.2)	**(91.0)**	(18.2)
Net loss from discontinued operations, net of tax	**(15.8)**	(12.0)	**(24.5)**	(7.8)
Equity in earnings of unconsolidated affiliates, net of tax	**7.7**	1.5	**24.4**	16.1
Net income (loss)	**(11.8)**	(26.8)	**137.2**	(11.1)
Net income (loss) attributable to noncontrolling interests	**30.9**	11.0	**2.0**	(21.2)
Net income (loss) attributable to White Mountains' common shareholders	**19.1**	(15.8)	**139.2**	(32.3)
Other comprehensive income (loss), net of tax	**71.9**	(26.7)	**92.6**	51.9
Comprehensive income (loss)	**91.0**	(42.5)	**231.8**	19.6
Comprehensive income attributable to noncontrolling interests	**.4**	—	**.4**	—
Comprehensive income (loss) attributable to White Mountains' common shareholders	**91.4**	(42.5)	**232.2**	19.6
Change in equity in net unrealized gains from Symetra's fixed maturity portfolio	**(32.3)**	(55.1)	**(59.3)**	(77.2)
Adjusted comprehensive income (loss)	**$ 59.1**	$ (97.6)	**$ 172.9**	$ (57.6)

Consolidated Results - Three Months Ended September 30, 2012 versus Three Months Ended September 30, 2011

White Mountains' total revenues increased 39% to $697 million in the third quarter of 2012 compared to $502 million in the third quarter of 2011, primarily due to higher investment gains, higher foreign currency translation gains, higher earned insurance and reinsurance premiums and lower mark-to-market losses on White Mountains' investment in Symetra warrants. Earned insurance and reinsurance premiums increased 9% (10% in local currencies) to $537 million in the third quarter of 2012, with OneBeacon up 13% and Sirius Group up 5% (7% in local currencies). Net investment income was down 12% to $38 million in the third quarter of 2012, primarily from lower fixed maturity yields and the gradual shift in White Mountains' investment portfolio to common equity securities. White Mountains reported net realized and unrealized investment gains of $73 million in the third quarter of 2012 compared to $3 million of gains in the third quarter of 2011 (see **Investment Returns** on page 56). Other revenues improved to a gain of $50 million in the third quarter of 2012 from a loss of $35 million in the third quarter of 2011, as the third quarter of 2012 included $33 million in foreign currency translation gains compared to $30 million of foreign currency losses in the third quarter of 2011. In addition, the third quarter of 2012 included $3 million of mark-to-market losses on the Symetra warrants compared to $25 million of such losses in the third quarter of 2011. The third quarter of 2012 also included a $15 million gain from Sirius Group's sale of its interest in IMG.

White Mountains' total expenses increased 12% to $562 million in the third quarter of 2012 compared to $501 million in the third quarter of 2011. Losses and LAE, insurance and reinsurance acquisition expenses and other underwriting expenses in total increased 9%, as increases from the growth in business at both OneBeacon and Sirius Group and losses from Sirius Group's agricultural business were partially offset by decreased catastrophe losses. The third quarter of 2012 included $11 million of catastrophe losses compared to $42 million in the third quarter of 2011. General and administrative expenses increased 62% to $59 million, primarily due to $11 million resulting from the consolidation of BAM and higher incentive compensation expenses.

White Mountains' income tax expense for the third quarter of 2012 represented an effective tax rate of 35.4%, which is in line with the U.S. statutory rate of 35%. The effective tax rate for the third quarter of 2011 was not meaningful as pre-tax income was near break-even ($1.3 million).

The Ministry of Finance in Sweden has proposed reducing the corporate income tax rate in Sweden to 22.0% from 26.3%. If this proposal is enacted, the reduction in the Swedish corporate income tax rate would reduce the White Mountains' net deferred tax liability by approximately $60 million. The Ministry of Finance in Sweden has also proposed tax legislation that, if enacted, would limit the deductibility of interest paid on certain intra-group debt instruments after January 1, 2013. At September 30, 2012, White Mountains has $272 million of deferred tax assets related to net operating loss carryforwards that are being utilized from interest income on intra-group debt instruments that would be affected by the proposed tax legislation. However, management does not expect that the proposed tax legislation will adversely affect the carrying value of these deferred tax assets as management believes it has alternate strategies to utilize the deferred tax assets.

Consolidated Results - Nine Months Ended September 30, 2012 versus Nine Months Ended September 30, 2011

White Mountains' total revenues increased 18% to $1,869 million in the first nine months of 2012 compared to $1,580 million in the first nine months of 2011, primarily due to higher earned insurance and reinsurance premiums, higher foreign currency translation gains, higher mark-to-market gains on White Mountains' investment in Symetra warrants and higher investment gains, partially offset by lower net investment income. Earned premiums increased 8% (9% in local currencies) to $1,545 million in the first nine months of 2012, with OneBeacon up 13% and Sirius Group up 2% (4% in local currencies). Net investment income was down 13% to $120 million in the first nine months of 2012, due primarily to lower fixed maturity yields and the gradual shift in White Mountains' investment portfolio to common equity securities. White Mountains reported net realized and unrealized investment gains of $123 million in the first nine months of 2012, compared to $36 million in the first nine months of 2011 (see **Investment Returns** on page 56). Other revenues increased to a gain of $81 million in the first nine months of 2012 from a loss of $28 million in the first nine months of 2011, as the first nine months of 2012 included $33 million in foreign currency translation gains compared to $16 million of foreign currency losses in the first nine months of 2011. In addition, the first nine months of 2012 included $14 million of mark-to-market gains on the Symetra warrants compared to $29 million of losses in the first nine months of 2011. Other revenues in the first nine months of 2012 also included a $15 million gain reported by the Sirius Group related to the sale of its interest in IMG, while the first nine months of 2011 included a $12 million loss from the repurchase of $150 million of OBH Senior Notes.

White Mountains' total expenses decreased 2% to $1,556 million in the first nine months of 2012, compared to $1,580 million in the first nine months of 2011. Losses and LAE, insurance and reinsurance acquisition expenses and other underwriting expenses in total decreased 3%, as decreased catastrophe losses were partially offset by increased expenses due to the growth in business at OneBeacon and Sirius Group. The first nine months of 2012 included $27 million of catastrophe losses compared to $231 million in catastrophe losses in the first nine months of 2011, primarily from the Japan earthquake and tsunami and New Zealand earthquakes. General and administrative expenses increased 22% to $146 million, primarily due to $11 million resulting from the consolidation of BAM and higher incentive compensation expenses. Interest expense on debt decreased 15% to $33 million in the first nine months of 2012 compared to $39 million in the first nine months of 2011, primarily due to reductions of outstanding debt resulting from repurchases of OBH Senior Notes.

White Mountains' income tax expense for the first nine months of 2012 represented an effective tax rate of 27.2%, which differed from the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States. White Mountains' effective tax rate for the first nine months of 2011 was not meaningful as pre-tax loss was near break-even ($(0.4) million).

I. Summary of Operations By Segment

White Mountains conducts its operations through three segments: (1) OneBeacon, (2) Sirius Group, and (3) Other Operations. While investment results are included in these segments, because White Mountains manages the majority of its investments through its wholly-owned subsidiary, WM Advisors, a discussion of White Mountains' consolidated investment operations is included after the discussion of operations by segment. White Mountains' segment information is presented in **Note 10 —"Segment Information"** to the Consolidated Financial Statements.

OneBeacon

Financial results for OneBeacon for the three and nine months ended September 30, 2012 and 2011 follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Gross written premiums	**$ 353.4**	$ 308.8	**$ 983.8**	$ 869.1
Net written premiums	**$ 335.2**	$ 297.2	**$ 930.4**	$ 821.4
Earned insurance and reinsurance premiums	**$ 293.9**	$ 259.1	**$ 846.0**	$ 748.0
Net investment income	**12.8**	16.1	**41.5**	55.8
Net realized and unrealized investment (losses) gains	**40.0**	(47.4)	**57.9**	(13.3)
Other revenue	**(.4)**	.1	**(.1)**	(12.2)
Total revenues	**346.3**	227.9	**945.3**	778.3
Losses and LAE	**164.7**	149.7	**452.5**	421.3
Insurance and reinsurance acquisition expenses	**66.6**	58.6	**185.6**	161.5
Other underwriting expenses	**47.4**	36.0	**146.2**	124.5
General and administrative expenses	**4.4**	2.5	**9.6**	7.4
Interest expense on debt	**4.1**	4.1	**12.2**	16.4
Total expenses	**287.2**	250.9	**806.1**	731.1
Pre-tax income (loss)	**$ 59.1**	$ (23.0)	**$ 139.2**	$ 47.2

The following table presents OneBeacon's book value per share:

(Millions, except per share amounts)	September 30, 2012	June 30, 2012	December 31, 2011	September 30, 2011
OneBeacon book value per share:				
OneBeacon's common shareholders' equity	**$ 1,048.4**	$ 1,131.8	$ 1,099.8	$ 1,100.2
OneBeacon common shares outstanding	**95.4**	95.4	95.1	95.1
OneBeacon book value per common share [(1)]	**$ 10.99**	$ 11.86	$ 11.56	$ 11.57

[(1)] OneBeacon declared an paid a regularly quarterly dividend of $0.21 per common share in each of the first three quarters of 2012 and the last quarter of 2011.

The following table provides OneBeacon's GAAP ratios, net written premiums and earned insurance premiums for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	**2012**	2011	**2012**	2011
GAAP Ratios:				
Loss and LAE	**56%**	58%	**54%**	56%
Expense	**39%**	36%	**39%**	39%
Combined	**95%**	94%	**93%**	95%
Net written premiums	**$ 335.2**	$ 297.2	**$ 930.4**	$ 821.4
Earned premiums	**$ 293.9**	$ 259.1	**$ 846.0**	$ 748.0

Recent Developments

On October 17, 2012, OneBeacon entered into a definitive agreement to sell its runoff business to an affiliate of Armour Group Holdings Limited ("Armour") (the "Runoff Transaction"). At closing, OneBeacon will transfer to Armour certain legal entities within the OneBeacon group, which will contain the assets, liabilities (including gross and ceded loss reserves), and capital supporting the runoff business, as well as certain elements of the runoff business infrastructure including staff and office space. The transaction is subject to regulatory approvals and is expected to close in the second half of 2013.

During the third quarter of 2012, OneBeacon recorded $101 million in after-tax losses related to the Runoff Transaction. These losses are presented in discontinued operations and are composed of a $92 million after-tax loss on sale and a $9 million after-tax loss related to a reduction in the workers compensation loss reserve discount rate on reserves being transferred as part of the sale.

On October 15, 2012, OneBeacon entered into definitive agreement to terminate its exclusive underwriting arrangement with Hagerty Insurance Agency. The business associated with this agreement generated written premiums of approximately $179 million for the twelve months ended September 30, 2012. In connection with this agreement, OneBeacon also agreed to sell its wholly-owned insurance subsidiary Essentia Insurance Company ("Essentia"). OneBeacon anticipates recording a $23 million pre-tax gain on the sale ($15 million after tax) upon closing the transaction. The sale is subject to regulatory approvals and is expected to close during the first quarter of 2013. The termination of the agency agreement will be effective as of the close date of the Essentia sale.

OneBeacon Results - Three Months Ended September 30, 2012 versus Three Months Ended September 30, 2011

OneBeacon's GAAP combined ratio was 95% for the third quarter of 2012 compared to 94% for the third quarter of 2011. The increase in the combined ratio was primarily due to lower favorable prior year development, partially offset by lower catastrophe losses. The third quarter of 2012 included 2 points of catastrophe losses, primarily related to hurricane Isaac, compared to 5 points of catastrophe losses in the third quarter of 2011, primarily related to hurricane Irene. The third quarter of 2012 included 1 point of favorable loss reserve development, as compared to 2 points of favorable loss reserve development in the prior year period. The expense ratio was 39% for the third quarter of 2012 compared to 36% for the third quarter of 2011. The increase was driven by higher incentive compensation expenses and employee costs associated with building new specialty businesses in the third quarter of 2012, primarily OneBeacon Property and Inland Marine and OneBeacon Programs.

OneBeacon's net written premiums increased 13% for the third quarter of 2012 to $335 million, compared to $297 million in the third quarter of 2011. A change in estimating premiums associated with the Dewar tuition reimbursement insurance product resulted in approximately $9 million in net written premiums being recorded in the third quarter of 2012 that, under the prior method, would have been recorded in the fourth quarter. Excluding this change in estimate, premiums for the third quarter of 2012 would have increased 9%. The increase was primarily due to a $10 million increase from OneBeacon Professional Insurance, a $5 million increase from OneBeacon Government Risks, a $5 million increase from OneBeacon Energy Group, a $4 million increase from its collector cars and boats business, and a $4 million increase from OneBeacon Entertainment, partially offset by an $11 million decrease in net written premiums from OneBeacon Property and Inland Marine.

Reinsurance protection. OneBeacon purchases reinsurance in order to minimize loss from large risks or catastrophic events. OneBeacon also purchases individual property reinsurance coverage for certain risks to reduce large loss volatility through property-per-risk excess of loss reinsurance programs and individual risk facultative reinsurance. OneBeacon also maintains excess of loss casualty reinsurance programs that provide protection for individual risk or catastrophe losses involving workers compensation, general liability, automobile liability, professional liability or umbrella liability. The availability and cost of reinsurance protection is subject to market conditions, which are outside of OneBeacon's control. Limiting the risk of loss through reinsurance arrangements serves to mitigate the impact of large losses; however, the cost of this protection in an individual period may exceed the benefit.

For the third quarter of 2012, OneBeacon's net combined ratio was higher than its gross combined ratio by 5 points, primarily due to the impact of favorable development on a large loss that had been ceded under the marine reinsurance treaty, and to a lesser extent the cost of facultative reinsurance, property reinsurance and catastrophe reinsurance. For the third quarter of 2011, OneBeacon's net combined ratio was higher than its gross combined ratio by 3 points, primarily due to the impact of the cost of property reinsurance, catastrophe reinsurance, and to a lesser extent the cost of facultative reinsurance and marine reinsurance.

OneBeacon Results - Nine Months Ended September 30, 2012 versus Nine Months Ended September 30, 2011

OneBeacon's GAAP combined ratio was 93% for the first nine months of 2012 compared to 95% for the first nine months of 2011. The decrease in the combined ratio was primarily due to lower catastrophe losses and lower current accident year losses, partially offset by lower favorable loss reserve development. The first nine months of 2012 included 2 points of catastrophe losses, primarily related to hurricane Isaac and storms in the midwestern United States, compared to 5 points of catastrophe losses in the first nine months of 2011, primarily related to hurricane Irene and tornadoes in the southeast and midwestern United States, as well as storms and freezing weather in the northeast and southwest. The first nine months of 2012 included 1 point of favorable loss reserve development compared to 2 points of favorable loss reserve development in the prior year period. The expense ratio for first nine months of 2012 also included one point ($5 million) from the amortization of previously deferred acquisition costs that are no longer eligible for deferral under ASU 2010-26, primarily a portion of the profit sharing commissions associated with OneBeacon’s collector car and boats business.

OneBeacon's net written premiums increased 13% in the first nine months of 2012 to $930 million compared to $821 million in the first nine months of 2011. Excluding the effect of the change in estimate at Dewar's, premiums for the first nine months of 2012 would have increased 12% from the first nine months of 2011. The increase was primarily due to a $21 million increase from OneBeacon Professional Insurance primarily related to the medical excess line, a $20 million increase from OneBeacon Technology Insurance, a $14 million increase from OneBeacon Accident Group, a $13 million increase from OneBeacon Energy Group and a $12 million increase from its collector cars and boats business primarily related to growth in new business, partially offset by a $15 million decrease in net written premiums from OneBeacon Property and Inland Marine.

Reinsurance protection. For the first nine months of 2012, OneBeacon's net combined ratio was higher than its gross combined ratio by 6 points, primarily due to favorable development on a large loss that had been previously ceded and the cost of property reinsurance, facultative reinsurance and catastrophe reinsurance. For the first nine months of 2011, OneBeacon's net combined ratio was higher than its gross combined ratio by 4 points, primarily due to the impact of the cost of property reinsurance, facultative reinsurance, catastrophe reinsurance and marine reinsurance.

Sirius Group

Financial results and GAAP combined ratios for Sirius Group for the three and nine months ended September 30, 2012 and 2011 follow:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
($ in millions)	**2012**	**2011**	**2012**	**2011**
Gross written premiums	**$ 254.6**	$ 250.4	**$993.6**	$ 944.2
Net written premiums	**$ 223.9**	$ 214.0	**$799.5**	$ 767.5
Earned insurance and reinsurance premiums	**$ 242.9**	$ 232.0	**$699.3**	$ 685.5
Net investment income	**16.7**	22.1	**50.9**	68.3
Net realized and unrealized investment (losses) gains	**(8.9)**	65.9	**22.9**	60.7
Other revenue - foreign currency translation gains (losses)	**33.1**	(30.4)	**33.1**	(16.0)
Other revenue	**15.1**	1.1	**15.8**	2.2
Total revenues	**298.9**	290.7	**822.0**	800.7
Losses and LAE	**143.4**	130.5	**369.2**	499.1
Insurance and reinsurance acquisition expenses	**41.0**	48.4	**140.6**	135.1
Other underwriting expenses	**29.1**	28.3	**82.1**	79.4
General and administrative expenses	**9.1**	5.3	**26.0**	17.1
Accretion of fair value adjustment to loss and LAE reserves	**1.1**	2.1	**9.4**	6.2
Interest expense on debt	**6.5**	6.5	**19.6**	19.6
Total expenses	**230.2**	221.1	**646.9**	756.5
Pre-tax income	**$ 68.7**	$ 69.6	**$175.1**	$ 44.2
GAAP ratios:				
Losses and LAE	**59%**	56%	**53%**	73%
Expense	**29%**	33%	**32%**	31%
Combined	**88%**	89%	**85%**	104%

Sirius Group Results - Three Months Ended September 30, 2012 versus Three Months Ended September 30, 2011

Sirius Group's GAAP combined ratio was 88% for the third quarter of 2012 compared to 89% for the third quarter of 2011. The combined ratio for the third quarter of 2012 included 19 points ($45 million) of losses from Sirius Group's agricultural line of business, primarily as a result of the drought in the Midwestern United States. These loss estimates are subject to change as the majority of losses are based on both yield and final contractual commodity prices for corn and soybeans, which have not yet been set. The combined ratio for the third quarter of 2012 also included 3 points ($6 million) of catastrophe losses, mainly due to storm losses in the United States, compared to 11 points ($25 million) for the third quarter of 2011, which included $11 million related to hurricane Irene and $7 million from the June 2011 New Zealand earthquake. Favorable loss reserve development was 3 points the third quarter of 2012 compared to 9 points in the third quarter of last year. With the completion of a ground-up asbestos reserve study in the quarter, Sirius Group increased asbestos loss reserves by $33 million. This increase was more than offset by reductions in liability and property loss reserves. The third quarter of 2011 included favorable loss reserve development primarily attributable to the property lines.

Sirius Group's gross written premiums increased 2% (3% in local currencies) to $255 million in the third quarter of 2012 from $250 million for the third quarter of 2011, while net written premiums increased 5% (6% in local currencies) to $224 million in the third quarter of 2012 from $214 million in 2011. These increases were primarily from the property and accident and health lines of business somewhat offset by decreases in trade credit. Net earned premiums increased 5% (7% in local currencies) to $243 million in the third quarter of 2012 compared to $232 million in the third quarter of 2011.

Sirius Group's insurance and reinsurance acquisition expenses decreased 15% ($7 million) in the third quarter of 2012 from the third quarter of 2011. The third quarter of 2011 included non-recurring profit commission expenses related to a commutation.

Sirius Group's other revenues primarily consisted of $33 million of foreign currency translation gains recorded in the third quarter of 2012 compared to a loss of $30 million in the third quarter of 2011. (See **Foreign Currency Translation** on page 57). In addition, in the third quarter of 2012, Sirius Group sold its interest in IMG for a gain of $15 million.

Reinsurance protection. Sirius Group's reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain property exposures. Sirius Group's proportional reinsurance programs provide protection for part of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East, and Australia. This reinsurance is designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events. Attachment points and coverage limits vary by region around the world.

Sirius Group's gross combined ratio was lower than the net combined ratio by 5 points for the third quarter of 2012 and 9 points for the third quarter of 2011. The higher net combined ratio for both the third quarter of 2012 and 2011 was driven by the cost of property retrocessions with limited ceded property loss recoveries, primarily due to the low level of catastrophe losses.

Sirius Group Results - Nine Months Ended September 30, 2012 versus Nine Months Ended September 30, 2011

Sirius Group's GAAP combined ratio decreased to 85% for the nine months ended September 30, 2012 from 104% for the nine months ended September 30, 2011. The decrease was primarily due to lower catastrophe losses, offset by 7 points of agriculture losses, primarily as a result of the drought in the Midwestern United States. The combined ratio for the first nine months of 2012 included 2 points ($14 million) of catastrophe losses, mainly due to $7 million of losses from earthquakes in Italy and $3 million of storm losses in the United States, compared to 27 points ($188 million) of catastrophe losses in the first nine months of 2011, primarily composed of $90 million of losses from the Japan earthquake and tsunami, $49 million of losses from New Zealand earthquakes and $25 million of losses from severe weather and tornadoes in the Midwestern United States. The first nine months of 2012 included 2 points of favorable loss reserve development compared to 5 points for the first nine months of 2011. For the first nine months of 2012, Sirius Group increased asbestos loss reserves by $45 million, which was offset by reductions in casualty and property loss reserves, whereas reductions in the first nine months of 2011 were primarily attributable to property lines.

Sirius Group's gross written premiums increased 5% (8% in local currencies) to $994 million in the first nine months of 2012 from $944 million for the first nine months of 2011, while net written premiums increased 4% (6% in local currencies) to $800 million for the first nine months of 2012 from $768 million in the first nine months of 2011. These increases were primarily from the property and accident and health lines of business partially offset by decreases in the casualty and trade credit lines. Net written premiums for the first nine months of 2012 increased less than gross written premiums due to increased retrocessions on the property and accident and health lines of business. Net earned premiums increased 2% (4% in local currencies) to $699 million for the first nine months of 2012 from $686 million in the first nine months of 2011.

Sirius Group's other revenues primarily consisted of $33 million of foreign currency translation gains recorded in the first nine months of 2012 compared to a loss of $16 million in the third quarter of 2011. (See **Foreign Currency Translation** on page 57). In addition, in the third quarter of 2012, Sirius Group sold its interest in IMG for gain of $15 million.

Reinsurance protection. Sirius Group's gross combined ratio was lower than the net combined ratio by 5 points for the first nine months of 2012 and 9 points for the first nine months of 2011. The higher net combined ratio for the first nine months of 2012 was primarily due the cost of property retrocessions with limited ceded property loss recoveries, primarily due to the low level of catastrophe losses. The higher net combined ratio for the first nine months of 2011 was primarily due to the Japan and New Zealand earthquake losses, very little of which were ceded under Sirius Group's retrocessional reinsurance coverage, in addition to the cost of the property retrocessions.

Catastrophe Risk Management

To manage its aggregate exposure to very large catastrophe events, among other measures Sirius Group has been monitoring the largest net financial impact (“NFI”) that third-party models predict it would suffer in the worst modeled aggregate loss year (i.e., the 10,000-year global annual aggregate probable maximum loss (“PML”)). Sirius Group's NFI at January 31, 2012 was under $750 million. In 2012, Sirius Group started using a new proprietary property underwriting and pricing tool (“GPI”), which consolidates and reports on all its worldwide property exposures. GPI is used to calculate individual and aggregate PMLs by statistical blending of multiple third-party and proprietary models. In October 2012, GPI produced a significantly higher 10,000-year annual aggregate PML than previously estimated, and the resulting NFI increased from $725 million in July 2012 to $950 million. This increase was primarily driven by the variability of the models at the extreme tail and was not due to changes in Sirius' property portfolio, as limited new and renewal property business is written after July. Sirius Group monitors multiple indicators of catastrophe tail risk to measure its financial exposure to such scenarios. Prospectively, Sirius Group will not publish any single indicator of catastrophe tail risk. Sirius Group remains focused on monitoring tail risk in order to manage the potential impact of remote events on Sirius Group's and White Mountains' financial position.

Other Operations

A summary of White Mountains' financial results from its Other Operations segment for the three and nine months ended September 30, 2012 and 2011 follow:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Net investment income	**$ 8.1**	$ 4.6	**$ 27.4**	$ 14.0
Net realized and unrealized investment (losses) gains	**41.6**	(15.6)	**42.4**	(11.0)
Other revenue - Hamer and Bri-Mar [1]	**8.6**	8.0	**24.1**	18.9
Other revenue — Symetra warrants	**(3.6)**	(24.7)	**13.6**	(29.3)
Other revenue	**(2.5)**	10.9	**(5.5)**	8.1
Total revenues	**52.2**	(16.8)	**102.0**	.7
Other underwriting expenses	**.1**	—	**.1**	—
General and admin expenses - Hamer and Bri-mar [1]	**7.4**	7.0	**21.0**	16.7
General and admin expenses - BAM	**11.2**	—	**11.2**	—
General and admin expenses	**25.5**	19.3	**69.1**	73.0
Interest expense — debt	**.7**	2.2	**1.3**	2.8
Total expenses	**44.9**	28.5	**102.7**	92.5
Pre-tax income (loss)	**$ 7.3**	$ (45.3)	**$ (.7)**	$ (91.8)

[1] On December 31, 2011, Tuckerman Fund I was dissolved and all of the net assets of the fund, which consisted of common shares of Hamer and Bri-Mar, two small manufacturing companies, were distributed to White Mountains.

Other Operations Results - Three and Nine Months Ended September 30, 2012 versus Three and Nine Months Ended September 30, 2011

White Mountains' Other Operations segment reported pre-tax income of $7 million and pre-tax loss of $1 million in the third quarter and first nine months of 2012 compared to $45 million and $92 million of pre-tax loss in the third quarter and first nine months of 2011. The improvement in the third quarter was primarily driven by better investment results and lower mark-to-market losses from the Symetra warrants, partially offset by higher incentive compensation expenses and higher losses from WM Life Re. The improvement in the nine-month period was primarily driven by better investment results and a mark-to-market gain from the Symetra warrants compared to a loss in the 2011 period, partially offset by higher losses from WM Life Re. The increase in net investment income was primarily from the investment of the proceeds from the Esurance Sale in October 2011, partially offset by lower yields. White Mountains' Other Operations segment reported net realized and unrealized investment gains of $42 million in both the third quarter and first nine months of 2012 compared to $16 million and $11 million of losses in the third quarter and first nine months of 2011 (see **Investment Returns** on page 56).

The value of White Mountains' investment in Symetra warrants decreased $4 million in the third quarter of 2012 and increased $14 million in the first nine months of 2012 compared to a decrease of $25 million and $29 million in the third quarter and first nine months of 2011. WM Life Re reported pre-tax losses of $3 million and $14 million in the third quarter and first nine months of 2012 compared to a $1 million pre-tax gain and a $10 million pre-tax loss in the third quarter and first nine months of 2011.

HG Global and BAM. The following table illustrates the components of pre-tax income included in White Mountains' Other Operations segment results related to the consolidation of HG Global and BAM for the three and nine months ended September 30, 2012:

	Three and Nine Months Ended September 30, 2012		
Millions	**HG Global**	**BAM**	**Other Operations**
Net investment income	$ 0.1	$ 0.6	**$ 0.7**
Net investment income - surplus note interest	8.3	(8.3)	**—**
Net realized and unrealized investment gains	0.2	1.0	**1.2**
Total revenues	8.6	(6.7)	**1.9**
Other underwriting expenses	—	0.1	**0.1**
General and admin expenses - BAM	—	11.2	**11.2**
General and admin expenses - HG Global	3.8	—	**3.8**
Total expenses	3.8	11.3	**15.1**
Pre-tax income (loss)	$ 4.8	$ (18.0)	**$ (13.2)**

For the third quarter of 2012, HG Global reported pre-tax income of $5 million, which was driven by $8 million of interest income on the BAM surplus notes, partially offset by startup and operational costs. For the third quarter of 2012, BAM reported $18 million in pre-tax losses that were driven by $8 million of interest expense on the BAM surplus notes and startup and operational costs.

White Mountains is required to consolidate BAM's results in its GAAP financial statements. However, since BAM is a mutual insurance company that is owned by its members and not White Mountains, BAM's results do not affect White Mountains' adjusted book value per share as they are attributed to noncontrolling interests.

II. Summary of Investment Results

Investment Returns

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 any management fees and trading expenses. A summary of White Mountains' consolidated pre-tax investment results for the three and nine months ended September 30, 2012 and 2011 follows:

Pre-tax investment results Millions	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2012	**2011**	**2012**	**2011**
Net investment income	**$ 37.6**	$ 42.8	**$ 119.8**	$ 138.1
Net realized and unrealized investment gains [1]	**72.7**	2.9	**123.2**	36.4
Net unrealized foreign currency gains (losses) on investments [2]	**92.5**	(172.2)	**80.6**	(52.8)
Pre-tax investment gains included in discontinued operations	**—**	(2.6)	**—**	13.2
Total GAAP pre-tax investment gains (losses)	**$ 202.8**	$ (129.1)	**$ 323.6**	$ 134.9

[1] Includes foreign currency gains (losses) of $(52.1) , $75.7, $(49.1), and $37.1.
[2] Amounts recognized through other comprehensive income. Excludes non-investment related foreign currency gains (losses) of $(51.1) , $90.2, $(45.9), and $27.1.

Gross investment returns and benchmark returns

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2012	**2011**	**2012**	**2011**
Fixed maturity investments	**2.4 %**	(0.5)%	**4.4 %**	2.7 %
Short-term investments	**0.7 %**	(0.2)%	**0.7 %**	0.8 %
Total fixed income	**2.2 %**	(0.5)%	**3.9 %**	2.5 %
Barclay's U.S. Intermediate Aggregate Index	**1.4 %**	2.3 %	**3.4 %**	5.0 %
Common equity securities	**7.7 %**	(11.3)%	**9.4 %**	(6.7)%
Convertible fixed maturity investments	**(0.8)%**	(8.5)%	**1.8 %**	(6.8)%
Other long-term investments	**— %**	(0.1)%	**(0.4)%**	6.8 %
Total equities, convertibles and other long-term investments	**5.2 %**	(7.8)%	**6.3 %**	(2.8)%
S&P 500 Index (total return)	**6.3 %**	(13.9)%	**16.4 %**	(8.7)%
Total consolidated portfolio	**2.8 %**	(1.5)%	**4.3 %**	1.7 %

White Mountains' GAAP pre-tax total return on invested assets was 2.8% and 4.3% for the third quarter and first nine months of 2012, which included 0.6% and 0.4% of foreign currency gains, compared to a total return of -1.5% and 1.7% for the third quarter and first nine months of 2011, which included -1.2% and -0.2% of foreign currency losses. White Mountains' high-quality, short-duration, fixed income portfolio (a duration of approximately 2.4 years, including short term investments at September 30, 2012) returned 2.2% (1.5% in local currencies) and 3.9% (3.3% in local currencies) for the third quarter and first nine months of 2012, which was relatively in line with the Barclays U.S. Intermediate Aggregate return of 1.4% and 3.4%. White Mountains' value-oriented equity portfolio, approximately 20% of GAAP invested assets at September 30, 2012, was up 5.2% for the quarter and 6.3% for the first nine months of 2012 compared to the S&P 500 Index returns of 6.3% and 16.4% for the comparable periods. The underperformance against the benchmark in both periods reflect large positions in other long-term investments and convertible fixed maturity investments (as opposed to common equity securities). It also reflects underweight exposure in common equity and convertible securities to the technology, consumer discretionary, and industrial sectors and an overweight position in materials, in particular gold mining stocks, relative to the S&P 500 Index. The common equity security portfolio managed by Prospector Partners LLC ("Prospector") was up 6.8% in the quarter, outperforming the S&P 500 Index total return of 6.3%.

WM Advisors has a sub-advisory agreement with Prospector, a registered investment adviser, under which Prospector manages most of White Mountains' publicly-traded common equity securities and convertible fixed maturity securities. Total annualized returns for White Mountains' equity portfolio managed by Prospector compared to the annualized total returns of the S&P 500 Index are as follows:

	Periods ending September 30, 2012			
Annualized returns	**1-year**	**3-years**	**5-years**	**7-years**
Prospector separate accounts	15.6%	9.5%	(0.1)%	4.6%
S&P 500 Index	30.2%	13.2%	1.1 %	4.5%

Foreign Currency Translation

A summary of the impact of foreign currency translation on White Mountains' consolidated financial results for the three and nine months ended September 30, 2012 and 2011 follows:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
Millions	**2012**	**2011**	**2012**	**2011**
Net unrealized investment (losses) gains — foreign currency	**$ (44.3)**	$ 74.6	**$ (39.6)**	$ 79.0
Net realized investment (losses) gains — foreign currency	**(7.8)**	3.7	**(9.5)**	(39.3)
Net realized and unrealized investment (losses) gains — foreign currency	**(52.1)**	78.3	**(49.1)**	39.7
Other revenue — foreign currency translation gains (losses)	**33.1**	(30.4)	**33.1**	(16.0)
Total foreign currency translation (losses) gains recognized through net income, pre-tax	**(19.0)**	47.9	**(16.0)**	23.7
Income tax benefit expense	**(.7)**	(9.9)	**(2.0)**	(5.7)
Total foreign currency translation (losses) gains recognized through net income after tax	**(19.7)**	38.0	**(18.0)**	18.0
Change in foreign currency translation on investments	**92.5**	(172.2)	**80.6**	(52.8)
Change in foreign currency translation on non-investment net liabilities	**(51.1)**	90.2	**(45.9)**	27.1
Total foreign currency translation gains (losses) recognized through other comprehensive income	**41.4**	(82.0)	**34.7**	(25.7)
Total foreign currency gains (losses) recognized through comprehensive income	**$ 21.7**	$ (44.0)	**$ 16.7**	$ (7.7)

At September 30, 2012, White Mountains' investment portfolio included $1.2 billion in non-U.S. dollar-denominated investments, most of which are held at Sirius International and are denominated in Swedish kronor or euros. The value of the investments in this portfolio is impacted by changes in the exchange rate between the U.S. dollar and the krona and between the U.S. dollar and the euro. During the third quarter and first nine months of 2012, the U.S. dollar weakened 5% against the kronor. During the third quarter and first nine months of 2012, the U.S. dollar weakened 2% and strengthened 1% against the euro. These currency movements resulted in approximately $40 million and $32 million of pre-tax foreign currency investment gains for the three and nine months ended September 30, 2012, which are recorded as components of net realized and unrealized investment gains and change in foreign currency translation on investments (recognized through other comprehensive income). During the third quarter and first nine months of 2011, the U.S. dollar strengthened 9% and 2% against the kronor. During the third quarter and first nine months of 2011, the U.S dollar strengthened 8% and was flat against the euro. These currency movements resulted in approximately $94 million and $13 million of pre-tax foreign currency investment losses for the three and nine months ended September 30, 2011.

Sirius International holds a large portfolio of investments that are denominated in U.S. dollars, but its functional currency is the Swedish kronor. When Sirius International prepares its stand-alone GAAP financial statements, it translates its U.S. dollar-denominated investments to Swedish kronor and recognizes the related foreign currency translation gains or losses through income. When White Mountains consolidates Sirius International, it translates Sirius International's stand-alone GAAP financial statements to U.S. dollars and recognizes the foreign currency gains or losses arising from this translation, including those associated with Sirius International's U.S. dollar-denominated investments, through other comprehensive income. Since White Mountains reports its financial statements in U.S. dollars, there is no net effect to adjusted book value per share or to investment returns from foreign currency translation on its U.S. dollar-denominated investments at Sirius International. However, net realized and unrealized investment gains, other revenues and other comprehensive income can be significantly affected during periods of high volatility in the foreign exchange rate between the U.S. dollar and the Swedish kronor.

The amount of foreign currency translation on Sirius International's U.S. dollar denominated investments recognized as an increase of other comprehensive income and a decrease of net income was $39 million and $35 million for the third quarter and first nine months of 2012. The amount of foreign currency translation on Sirius International's U.S. dollar denominated investments recognized as a decrease of other comprehensive income and an increase of net income was $66 million and $27 million for the third quarter and first nine months of 2011.

White Mountains' investment portfolio consists of debt and equity securities issued in over 30 countries worldwide. The United States represents the country of issue for 75% of White Mountains' fixed maturity, common equity and convertible fixed maturity investment portfolio. White Mountains has no direct sovereign risk exposure to European peripheral countries Ireland, Greece, Portugal, Spain and Italy ("peripheral countries"). White Mountains' portfolio includes .3 % of total fixed maturity, convertible fixed maturity and common equity investments issued from peripheral countries at September 30, 2012. However, White Mountains has indirect exposure to peripheral countries through securities issued from non-peripheral countries as the issuers of the securities could have exposure to peripheral countries.

The following tables list White Mountains' investments in fixed maturities, common equities and convertible fixed maturities at September 30, 2012 categorized as financial or non-financial investments and by country of issue:

Millions	September 30, 2012 Fair value
Debt securities issued by corporations:	
Non-financial	
Australia	$ 44.9
Canada	166.9
France	56.1
Greece	—
Ireland	—
Italy	13.8
Netherlands	80.4
Portugal	—
Spain	8.3
Sweden	30.3
United Kingdom	115.9
United States	1,294.4
Other	64.9
Total non-financial debt	1,875.9
Financial	
Australia	15.8
Greece	—
Ireland	—
Italy	—
Netherlands	47.6
Portugal	—
Spain	—
United Kingdom	17.3
United States	303.6
Other	21.1
Total financial debt	405.4
Debt securities issued by corporations	2,281.3
Mortgage-backed and asset-backed securities	
France	13.0
Sweden	31.2
United Kingdom	164.8
United States	1,838.4
Total mortgage-backed and asset-backed securities	2,047.4
Foreign government, agency and provincial obligations	
Canada	57.9
Germany	18.9
Greece	—
France	49.4
Ireland	—
Italy	—
Japan	30.9
New Zealand	50.9
Portugal	—
Spain	—
Sweden	246.8
Other	21.6
Total foreign government, agency and provincial obligations	476.4
US Government and agency obligations[(1)]	394.7
Municipal obligations[(1)]	3.8
Preferred stocks[(1)]	86.1
Total fixed maturity investments	$ 5,289.7

[(1)] All securities were issued in the United States.

Millions	September 30, 2012 Fair value
Common equity securities:	
Non-financial	
Canada	$ 54.1
Greece	—
Ireland	8.3
Italy	—
Japan	14.5
Portugal	—
South Africa	23.7
Spain	5.0
Switzerland	8.7
United States	539.9
Other	34.5
Total non-financial common equity securities	688.7
Financial	
Bermuda	62.1
United States	251.7
Other	2.3
Total financial common equity securities	316.1
Total common equity securities	$ 1,004.8
Convertible fixed maturities:	
Canada	$ 6.4
United Kingdom	13.6
United States	122.0
Total convertible fixed maturity investments	$ 142.0

Investment in Symetra Common Shares

White Mountains recorded a GAAP other-than-temporary impairment write-down on its investment in Symetra common shares during the fourth quarter of 2011. As a result, White Mountains carried its investment in Symetra common shares at $15 per share at December 31, 2011, the estimate of its GAAP fair value. During the third quarter and first nine months of 2012, White Mountains recorded $8 million and $25 million in equity in earnings from its investment in Symetra's common shares, which increased the value of the investment in Symetra's common shares used in the calculation of White Mountains' adjusted book value per share to $16.32 per Symetra common share at September 30, 2012, compared to Symetra's quoted stock price of $12.30 and Symetra's book value per common share excluding unrealized gains and losses from its fixed maturity investment portfolio of $18.76.

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 insurance and reinsurance operating subsidiaries, capital raising activities, net investment income and proceeds from sales and maturities of investments. The primary uses of cash are expected to be repurchases of the Company's and OneBeacon Ltd.'s common shares, payments on and repurchases/retirements of its debt obligations, dividend payments to holders of the Company's common shares, to noncontrolling interest holders of OneBeacon Ltd.'s common shares and to holders of the SIG Preference Shares, purchases of investments, payments made to tax authorities, contributions to operating subsidiaries and operating expenses.

Operating subsidiary level. The primary sources of cash for White Mountains' insurance and reinsurance operating subsidiaries are expected to be premium collections, net investment income, proceeds from sales and maturities of investments, contributions from holding companies and capital raising activities. The primary uses of cash are expected to be claim payments, policy acquisition costs, purchases of investments, payments on and repurchases/retirements of its debt obligations, distributions and tax sharing payments made to holding companies and operating expenses.

Both internal and external forces influence White Mountains' financial condition, results of operations and cash flows. Claim settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, sometimes several years or more, 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 claims and benefits cannot be predicted with certainty. White Mountains' insurance and reinsurance operating subsidiaries maintain portfolios of invested assets with varying maturities and a substantial amount of cash and short-term investments to provide adequate liquidity for the payment of claims.

Management believes that White Mountains' cash balances, cash flows from operations, routine sales and maturities of investments and the liquidity provided by the WTM Bank Facility are adequate to meet expected cash requirements for the foreseeable future on both a holding company and insurance and reinsurance operating subsidiary level.

Dividend Capacity

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

OneBeacon:

Generally, OneBeacon's top tier regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. OneBeacon's top tier regulated insurance operating subsidiaries have the ability to pay $103 million of dividends during 2012 without prior approval of regulatory authorities, subject to the availability of unassigned funds. At June 30, 2012, OneBeacon's top tier regulated insurance operating subsidiaries had $0.7 billion of unassigned funds and at December 31, 2011, had statutory surplus of $1.0 billion. During the first nine months of 2012, OneBeacon's top tier regulated insurance operating subsidiaries paid $130 million of dividends to their immediate parent, which included the distribution of a regulated insurance subsidiary with a value of $34 million.

During the first nine months of 2012, OneBeacon's unregulated insurance operating subsidiaries paid $4 million of dividends to their immediate parent. At September 30, 2012, OneBeacon's unregulated insurance operating subsidiaries had $14 million of net unrestricted cash, short-term investments and fixed maturity investments.

During the first nine months of 2012, OneBeacon Ltd. paid $60 million of regular quarterly dividends to its common shareholders. White Mountains received $45 million of these dividends.

At September 30, 2012, OneBeacon Ltd. and its intermediate holding companies had $232 million of net unrestricted cash, short-term investments and fixed maturity investments and $67 million of common equity securities and convertible fixed maturity investments outside of its regulated and unregulated insurance operating subsidiaries.

Sirius Group:

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer all or a portion of its pre-tax income to its Swedish parent companies to minimize taxes (referred to as a group contribution). In 2012, Sirius International intends to transfer approximately $86 million (based on the September 30, 2012 SEK to USD exchange rate) of its 2011 pre-tax income to its Swedish parent companies as a group contribution, $73 million of which was transferred during the first nine months of 2012.

Sirius International has the ability to pay dividends subject to the availability of unrestricted statutory surplus. Historically, Sirius International has allocated the majority of its pre-tax income, after group contributions to its Swedish parent companies, to the Safety Reserve (see "**Safety Reserve**" below). At December 31, 2011, Sirius International had $515 million (based on the December 31, 2011 SEK to USD exchange rate) of unrestricted statutory surplus, which is available for distribution in 2012. During the first nine months of 2012, Sirius International has paid $12 million in dividends to its immediate parent.

Sirius America has the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Based upon June 30, 2012 statutory surplus of $577 million, Sirius America has the ability to pay $58 million of dividends during 2012 without prior approval of regulatory authorities, subject to the availability of earned surplus. At June 30, 2012, Sirius America had $109 million of earned surplus. Sirius America did not pay any dividends to its parent in the first nine months of 2012.

At September 30, 2012, Sirius Group and its intermediate holding companies had $67 million of net unrestricted cash, short-term investments and fixed maturity investments and $18 million of other long-term investments outside of its regulated and unregulated insurance and reinsurance operating subsidiaries.

Capital Maintenance

In connection with Sirius Group's reorganization in October 2011, Sirius International and Sirius America entered into a capital maintenance agreement, which obligates Sirius International to make contributions to Sirius America's surplus in order for Sirius America to maintain surplus equal to at least 125% of the company action level risk based capital as defined in the NAIC Property/Casualty Risk-Based Capital Report. The agreement provides for a maximum contribution to Sirius America of $200 million. Sirius International also provides Sirius America with accident year stop loss reinsurance, which protects Sirius America's accident year loss and allocated loss adjustment expense ratio in excess of 70%, with a limit of $110 million.

Safety Reserve

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer pre-tax amounts into an untaxed reserve referred to as a safety reserve. At September 30, 2012, Sirius International's safety reserve amounted to $1.5 billion. Under GAAP, an amount equal to the safety reserve, net of a related deferred tax liability established at the Swedish tax rate of 26.3%, is classified as common shareholders' equity. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain prescribed levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities do not apply any taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International's safety reserve ($388 million at September 30, 2012) is included in solvency capital. Access to the safety reserve is restricted to coverage of insurance losses. Access for any other purpose requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, most major rating agencies generally include the $1.5 billion balance of the safety reserve, without any provision for deferred taxes, in Sirius International's capital when assessing Sirius International's financial strength.

Other Operations:

During the first nine months of 2012 of 2012, WM Advisors did not pay any dividends to its immediate parent. At September 30, 2012, WM Advisors had approximately $21 million of net unrestricted cash and short-term investments.

At September 30, 2012, the Company and its intermediate holding companies had $229 million of net unrestricted cash, short-term investments and fixed maturity investments, $530 million of common equity securities and $48 million of other long-term investments included in its Other Operations segment. During the first nine months of 2012, White Mountains paid a $7 million common share dividend.

Interest on the BAM surplus notes is payable quarterly commencing on December 1, 2012. Interest and principal payments are subject to approval of the New York Department of Insurance.

Insurance Float

Insurance float is an important aspect of White Mountains' insurance operations. Insurance float represents funds that an insurance or reinsurance company holds for a limited time. In an insurance or reinsurance operation, float arises because premiums are collected before losses are paid. This interval can extend over many years. During that time, the insurer or reinsurer invests the funds. When the premiums that an insurer or reinsurer collects do not cover the losses and expenses it eventually must pay, the result is an underwriting loss, which is considered to be the cost of insurance float.

White Mountains calculates its insurance float by taking its net investment assets and subtracting its total adjusted capital. Although insurance float can be calculated using numbers determined under GAAP, insurance float is not a GAAP concept and, therefore, there is no comparable GAAP measure.

Insurance float can increase in a number of ways, including through acquisitions of insurance and reinsurance operations, organic growth in existing insurance and reinsurance operations and recognition of losses that do not cause a corresponding reduction in investment assets. Conversely, insurance float can decrease in a number of other ways, including sales of insurance and reinsurance operations, shrinking or runoff of existing insurance and reinsurance operations, the acquisition of operations that do not have substantial investment assets (e.g., an agency) and the recognition of gains that do not cause a corresponding increase in investment assets. White Mountains has historically obtained its insurance float primarily through acquisitions, as opposed to organic growth. It is White Mountains' intention to generate low-cost float over time through a combination of acquisitions and organic growth in its existing insurance and reinsurance operations. However, White Mountains will seek to increase its insurance float organically only when market conditions allow for an expectation of generating underwriting profits.

Certain operational leverage metrics can be measured with ratios that are calculated using insurance float. There are many activities that do not change the amount of insurance float at an insurance company but can have a significant impact on the company's operational leverage metrics. For example, investment gains and losses, foreign currency gains and losses, debt issuances and repurchases/repayments, common and preferred share issuances and repurchases and dividends paid to shareholders are all activities that do not change insurance float but that can meaningfully impact operational leverage metrics.

The following table illustrates White Mountains' consolidated insurance float position as of September 30, 2012 and December 31, 2011:

($ in millions)	September 30, 2012	December 31, 2011
Total investments	**$ 7,283.6**	$ 8,268.0
Consolidated limited partnership investments [1]	**(84.8)**	(77.2)
Cash	**549.2**	705.4
Investments in unconsolidated affiliates	**376.3**	275.3
Equity in net unrealized gains from Symetra's fixed maturity portfolio	**(64.6)**	—
WM Life Re net derivative positions [2]	**(493.6)**	(551.3)
Net investment assets classified within assets held for sale	**377.3**	117.3
Accounts receivable on unsettled investment sales	**167.2**	4.7
Accounts payable on unsettled investment purchases	**(47.7)**	(34.6)
Interest-bearing funds held by ceding companies [3]	**71.4**	73.6
Interest-bearing funds held under reinsurance treaties [4]	**(14.8)**	(12.7)
Net investment assets	**$ 8,119.5**	$ 8,768.5
Total White Mountains' common shareholders' equity	**$ 3,809.3**	$ 4,087.7
Noncontrolling interest—OneBeacon Ltd.	**259.7**	273.1
Noncontrolling interest— SIG Preference Shares	**250.0**	250.0
Debt	**676.6**	677.5
Total capital [1]	**4,995.6**	5,288.3
Equity in net unrealized gains from Symetra's fixed maturity portfolio, net of applicable taxes	**(59.3)**	—
Total adjusted capital	**4,936.3**	$ 5,288.3
Insurance float	**$ 3,183.2**	$ 3,480.2
Insurance float as a multiple of total adjusted capital	**0.6x**	0.7x
Net investment assets as a multiple of total adjusted capital	**1.6x**	1.7x
Insurance float as a multiple of White Mountains' common shareholders' equity	**0.8x**	0.9x
Net investment assets as a multiple of White Mountains' common shareholders' equity	**2.1x**	2.1x

[1] Total capital only includes noncontrolling interests that White Mountains benefits from the return on or has the ability to utilize the net assets supporting this noncontrolling interest.
[2] Consists of WM Life Re's derivative instruments net of variable annuity liabilities and collateral provided to WM Life Re from counterparties.
[3] Excludes funds held by ceding companies from which White Mountains does not receive interest credits.
[4] Excludes funds held by White Mountains under reinsurance treaties for which White Mountains does not provide interest credits.

During the first nine months of 2012, insurance float decreased by $297 million, primarily due to the AutoOne Sale and the continued runoff of reserves related to the commercial lines business that was exited through a renewal rights sale at OneBeacon, the final settlement and commutation of Scandinavian Re's multi-year retrocessional Casualty Aggregate Stop Loss Agreement with St. Paul, as well as commutations and runoff of Sirius Group's casualty business and payments of losses incurred in 2010 and 2011 related to major catastrophes, primarily from earthquakes in Chile, Japan and New Zealand. These catastrophe losses increased White Mountains' insurance float when they were first recorded, which is now reversing and decreasing insurance float as the catastrophe losses are paid. These decreases in insurance float were partially offset by an increase in float resulting from the $101 million in after tax losses recognized at OneBeacon related to the Runoff Transaction. Upon closing of the Runoff Transaction, insurance float is expected to decrease by approximately $375 million.

Financing

The following table summarizes White Mountains' capital structure as of September 30, 2012 and December 31, 2011:

($ in millions)	September 30, 2012	December 31, 2011
OBH Senior Notes, carrying value	**$ 269.8**	$ 269.8
SIG Senior Notes, carrying value	**399.4**	399.3
WTM Bank Facility	**—**	**—**
Old Lyme Note	**2.1**	2.1
Other debt [1]	**5.3**	6.3
Total debt	**676.6**	677.5
Noncontrolling interest—OneBeacon Ltd.	**259.7**	273.1
Noncontrolling interest—SIG Preference Shares	**250.0**	250.0
Total White Mountains' common shareholders' equity	**3,809.3**	4,087.7
Total capital [2]	**4,995.6**	5,288.3
Equity in net unrealized gains from Symetra's fixed maturity portfolio	**(59.3)**	—
Total adjusted capital	**$ 4,936.3**	$ 5,288.3
Total debt to total adjusted capital	**14%**	13%
Total debt and preference shares to total adjusted capital	**19%**	18%
Deferred tax on safety reserve ("DTSR")[3]	**$ 388.0**	$ 370.0
Total debt to total adjusted capital, including DTSR [3]	**13%**	12%
Total debt and preference shares to total adjusted capital, including DTSR [3]	**17%**	16%

[1] Other debt relates to White Mountains' consolidation of Hamer and Bri-Mar
[2] Total capital only includes noncontrolling interests that White Mountains benefits from the return on or has the ability to utilize the net assets supporting this noncontrolling interest.
[3] The deferred tax liability on the safety reserve at Sirius International is considered regulatory capital in Sweden (See **"Safety Reserve"** on page 62) .

Management believes that White Mountains generally has the flexibility and capacity to obtain funds externally as needed through debt or equity financing on both a short-term and long-term basis. 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.

The Company's 2011 Annual Report on Form 10-K contains a full discussion of White Mountains' debt obligations as of December 31, 2011.

White Mountains has a revolving credit facility with a syndicate of lenders administered by Bank of America, N.A. with a total commitment of $375 million (the "WTM Bank Facility"). As of September 30, 2012, the WTM Bank Facility was undrawn.

OneBeacon U.S. Holdings, Inc. ("OBH") has $270 million face value of senior unsecured debt outstanding that carries an interest rate of 5.875% and is scheduled to mature in May 2013 (the "OBH Senior Notes"). OneBeacon anticipates that it will refinance the OBH Senior Notes prior to their maturity.

The WTM Bank Facility contains various affirmative, negative and financial covenants that White Mountains considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. Failure to meet one or more of these covenants could result in an event of default, which ultimately could eliminate availability under these facilities and result in acceleration of principal repayment on any amounts outstanding. At September 30, 2012, White Mountains was in compliance with all of the covenants under the WTM Bank Facility and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

White Mountains provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the OBH Senior Notes. In consideration of this guarantee OneBeacon pays White Mountains a guarantee fee equal to 25 basis points per annum on the outstanding principal amount of the OBH Senior Notes. If White Mountains' voting interest in OneBeacon Ltd.'s common shares ceases to represent more than 50% of all their voting securities, OneBeacon Ltd. will seek to redeem, exchange or otherwise modify the senior notes in order to fully and permanently eliminate White Mountains' obligations under the guarantee. In the event that White Mountains' guarantee is not eliminated, the guarantee fee will increase over time up to a maximum guarantee fee of 425 basis points.

The OBH Senior Notes and the SIG Senior Notes were issued under indentures that contain restrictive covenants which, among other things, limit the ability of the Company, OBH, SIG and their respective subsidiaries to create liens and enter into sale and leaseback transactions and limits the ability of the Company, OBH, SIG and their respective subsidiaries to consolidate, merge or transfer their properties and assets. The indentures do not contain any financial ratios or specified levels of net worth or liquidity to which the Company, OBH or SIG must adhere. At September 30, 2012, White Mountains was in compliance with all of the covenants under the OBH Senior Notes and the SIG Senior Notes, and anticipates it will continue to remain in compliance with these covenants for the foreseeable future.

Share Repurchases

In 2006, White Mountains' board of directors authorized the Company to repurchase up to 1 million of its common shares, from time to time, subject to market conditions. On August 26, 2010, White Mountains' board of directors authorized the Company to repurchase an additional 600,000 of its common shares. On May 25, 2012, White Mountains' board of directors authorized the Company to repurchase an additional 1,000,000 of its common shares. Shares may be repurchased on the open market or through privately negotiated transactions. The repurchase authorization does not obligate the Company to acquire any specific number of shares, nor is there a stated expiration date.

During the third quarter of 2012, White Mountains repurchased 50,000 of its common shares under this authorization for $26 million at an average share price of $528. White Mountains did not repurchase any of its common shares under this authorization during the third quarter of 2011. During the first nine months of 2012, White Mountains repurchased 217,801 of its common shares under this authorization for $108 million at an average share price of $494. During the first nine months of 2011, White Mountains repurchased 265,579 of its common shares under its share repurchase program for $93 million at an average share price of $351. Since the inception of this authorization through September 30, 2012, the Company repurchased 1,629,504 common shares for $645 million at an average share price of $396. At September 30, 2012, White Mountains may repurchase an additional 970,496 shares under this authorization.

In addition to the shares repurchased under the share repurchase authorization referred to above, during the first quarter of 2012, White Mountains completed a fixed-price self-tender offer, through which it repurchased 816,829 of its common shares at a price of $500 per share. The total cost of the share repurchases was $409 million, including fees and expenses related to the tender offer. White Mountains also completed two “modified Dutch auction” self-tender offers during the second half of 2011 and repurchased 332,346 of its common shares at an average price of $418 per share. The total cost of the share repurchases was $139 million, including fees and expenses related to these tender offers.

Including shares repurchased through its self-tender offer and shares repurchased under its share repurchase authorization, White Mountains repurchased a total of 1,034,630 of its common shares during the first nine months of 2012 for $516 million at an average share price of $499, which was 87% of White Mountains' adjusted book value per share of $574 at September 30, 2012.

Cash Flows

Detailed information concerning White Mountains’ cash flows during nine months ended September 30, 2012 and 2011 follows:

Cash flows from operations for the nine months ended September 30, 2012 and 2011

Net cash flows from operations was a use of $128 million and a source of $41 million in the first nine months of 2012 and 2011, respectively. The decrease in cash flows from operations in the first nine months of 2012 was primarily from the continued runoff of reserves as a result of the Commercial Lines Transaction at OneBeacon, the final settlement and commutation of Scandinavian Re’s multi-year retrocessional Casualty Aggregate Stop Loss Agreement with St. Paul, as well as commutations and runoff of Sirius Group's casualty business and payments made on losses related to major catastrophes in 2010 and 2011, primarily from earthquakes in Chile, Japan and New Zealand. White Mountains does not believe that 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, 2012

Financing and Other Capital Activities

During the first nine months of 2012, the Company declared and paid a $7 million cash dividend to its common shareholders.

During the first nine months of 2012, the Company repurchased and retired 1,037,191 of its common shares for $518 million, which included 2,561 common shares repurchased under employee benefit plans for $1 million.

During the first nine months of 2012, OneBeacon Ltd. declared and paid $60 million of cash dividends to its common shareholders. White Mountains received a total of $45 million of these dividends.

During the first nine months of 2012, OneBeacon paid a total of $8 million of interest on the OBH Senior Notes.

During the first nine months of 2012, Sirius Group paid $26 million of interest on the SIG Senior Notes and $9 million of dividends on the SIG Preference Shares.

During the first nine months of 2012, Sirius Group declared and paid $25 million of cash dividends to its immediate parent.

During the first nine months of 2012, White Mountains contributed $20 million to WM Life Re.

Acquisitions and Dispositions

In July 2012, HG Global was capitalized with $609 million of cash, $595 million of which was contributed by subsidiaries of White Mountains. Subsequently in July 2012, HG Global purchased $503 million of surplus notes from BAM for cash and contributed $100 million in cash to HG Re.

Cash flows from investing and financing activities for the nine months ended September 30, 2011

Financing and Other Capital Activities

During the first quarter of 2011, the Company declared and paid an $8 million cash dividend to its common shareholders.

During the first nine months of 2011, the Company repurchased and retired 593,640 of its common shares for $230 million.

During the first nine months of 2011, OneBeacon Ltd. declared and paid $155 million of cash dividends to its common shareholders, including $60 million of regular quarterly dividends and a $95 million special dividend. White Mountains received a total of $117 million of these dividends.

During the first nine months of 2011, OBH repurchased and retired a portion of the outstanding OBH Senior Notes for $162 million.

During the first nine months of 2011, OneBeacon paid a total of $13 million of interest on the OBH Senior Notes.

During the first nine months of 2011, Sirius Group declared and paid $85 million of cash dividends to its immediate parent.

During the first nine months of 2011, Sirius Group paid $26 million of interest on the SIG Senior Notes and $9 million of dividends on the SIG Preference Shares.

During the first nine months of 2011, White Mountains contributed $10 million to WM Life Re.

FAIR VALUE CONSIDERATIONS

White Mountains measures certain financial instruments at fair value with changes therein recognized in 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 quoted prices and other observable inputs. Where appropriate, assets and liabilities measured at fair value have been adjusted for the effect of counterparty credit risk.

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

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

As of September 30, 2012, approximately 95% 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 maturities, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturities including corporate debt, state and other governmental debt, convertible fixed maturity securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains' investments in hedge funds and private equity funds, as well as investments in certain debt securities, including asset-backed securities, where quoted market prices are unavailable. 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 used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price.

In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from a different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected 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 $1 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains' review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. The fair values of such securities are considered to be Level 3 measurements.

WM Life Re

White Mountains has entered into agreements to reinsure death and living benefit guarantees associated with certain variable annuities in Japan. White Mountains carries the benefit guarantees at fair value. The fair value of the guarantees is estimated using actuarial and capital market assumptions related to the projected discounted cash flows over the term of the reinsurance agreement. The valuation uses assumptions about surrenders rates, market volatilities and other factors, and includes a risk margin which represents the additional compensation a market participant would require to assume the risks related to the business. The selection of surrender rates, market volatility assumptions, risk margins and other factors require the use of significant management judgment. Assumptions regarding future policyholder behavior, including surrender and lapse rates, are generally unobservable inputs and significantly impact the fair value estimate. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates as well as variations in actuarial assumptions regarding policyholder behavior may result in significant fluctuations in the fair value of the liabilities associated with these guarantees that could materially affect results of operations. All of White Mountains' variable annuity reinsurance liabilities ($672 million) were classified as Level 3 measurements at September 30, 2012.

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

As of September 30, 2012, WM Life Re's annual surrender assumptions vary from 0.1% currently to 3.0% depending on the level of account value versus guarantee value; at the current levels of account value, the weighted average is approximately 0.4% per annum. The potential increase in the fair value of the liability due to a change in current actuarial assumptions is as follows:

	Increase in fair value of liability	
Millions	**September 30, 2012**	**December 31, 2011**
Decrease 50%	$3	$5
Decrease 100% (to zero surrenders)	$6	$10

The amounts in the table above could increase in the future if the fair value of the variable annuity guarantee liability changes due to factors other than the surrender assumptions (e.g., a decline in the ratio of the annuitants' aggregate account values to their aggregate guarantee values).

NON-GAAP FINANCIAL MEASURES

This report includes three non-GAAP financial measures that have been reconciled to their most comparable GAAP financial measures. White Mountains believes these measures to be more relevant than comparable GAAP measures in evaluating White Mountains' results of operations and financial condition.

Adjusted comprehensive income is a non-GAAP financial measure that excludes the change in equity in net unrealized gains and losses from Symetra's fixed maturity portfolio, net of applicable taxes, from comprehensive income. In the calculation of comprehensive income under GAAP, fixed maturity investments are marked-to-market while the liabilities to which those assets are matched are not. Symetra attempts to earn a "spread" between what it earns on its investments and what it pays out on its products. In order to try to fix this spread, Symetra invests in a manner that tries to match the duration and cash flows of its investments with the required cash outflows associated with its life insurance and structured settlements products. As a result, Symetra typically earns the same spread on in-force business whether interest rates fall or rise. Further, at any given time, some of Symetra's structured settlement obligations may extend 40 or 50 years into the future, which is further out than the longest maturing fixed maturity investments regularly available for purchase in the market (typically 30 years). For these long-dated products, Symetra is unable to fully match the obligation with assets until the remaining expected payout schedule comes within the duration of securities available in the market. If at that time, these fixed maturity investments have yields that are lower than the yields expected when the structured settlement product was originally priced, the spread for the product will shrink and Symetra will ultimately harvest lower returns for its shareholders. GAAP comprehensive income increases when rates decline, which would suggest an increase in the value of Symetra - the opposite of what is happening to the intrinsic value of the business. Therefore, White Mountains' management and Board of Directors use adjusted comprehensive income when assessing Symetra's quarterly financial performance. In addition, this measure is typically the predominant component of change in adjusted book value per share, which is used in calculation of White Mountains' performance for both short-term (annual bonus) and long-term incentive plans. The reconciliation of adjusted comprehensive income to comprehensive income is included on page 47.

Adjusted book value per share is a non-GAAP measure which is derived by expanding the GAAP calculation of book value per White Mountains common share to exclude equity in net unrealized gains and losses from Symetra's fixed maturity portfolio, net of applicable taxes. In addition, the number of common shares outstanding used in the calculation of adjusted book value per share are adjusted to exclude unearned restricted common shares, the compensation cost of which, at the date of calculation, has yet to be amortized. The reconciliation of adjusted book value per share to GAAP book value per share is included on page 46.

Total capital at White Mountains is comprised of White Mountains' common shareholders' equity, debt and noncontrolling interest in OneBeacon Ltd and the SIG Preference Shares. Total adjusted capital excludes the equity in net unrealized gains and losses from Symetra's fixed maturity portfolio, net of applicable taxes from total capital. The reconciliation of total capital to total adjusted capital is included on page 64.

CRITICAL ACCOUNTING ESTIMATES

Refer to the Company's 2011 Annual Report on Form 10-K for a complete discussion regarding White Mountains' critical accounting estimates.

FORWARD-LOOKING STATEMENTS

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

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

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

- the risks associated with Item 1A of White Mountains' 2011 Annual Report on Form 10-K and **Risk Factors** on page 72;
- claims arising from catastrophic events, such as hurricanes, earthquakes, floods or terrorist attacks;
- the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to it and pursued;
- competitive forces, including the conduct of other property and casualty insurers and reinsurers;
- changes in domestic or foreign laws or regulations, or their interpretation, applicable to White Mountains, its competitors or its clients;
- an economic downturn or other economic conditions adversely affecting its financial position;
- recorded loss reserves subsequently proving to have been inadequate;
- actions taken by ratings agencies from time to time, such as financial strength or credit ratings downgrades or placing ratings on negative watch; and
- other factors, most of which are beyond White Mountains' control.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Refer to White Mountains' 2011 Annual Report on Form 10-K and in particular **Item 7A. - "Quantitative and Qualitative Disclosures About Market Risk"**. As of September 30, 2012, there were no material changes in the market risks as described in White Mountains' most recent Annual Report.

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' disclosure controls and procedures are adequate and 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, 2012.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Refer to White Mountains' 2011 Annual Report on Form 10-K and in particular **Item 3. - "Legal Proceedings"**. As of September 30, 2012, other than what is described below, there were no material changes in the legal proceedings as described in White Mountains' most recent Annual Report.

Esurance Sale

In 2011, the Company sold its Esurance and Answer Financial businesses (the "Transferred Companies") to The Allstate Corporation ("Allstate") for a purchase price of approximately $1.01 billion. The purchase price consisted of $700 million plus the tangible book value of the Transferred Companies at the closing, which was estimated to be $308 million. Following closing, Allstate was required to prepare a final closing statement, including an audited balance sheet for the Transferred Companies as of the closing date. The Company believes this final closing statement was required to be prepared and audited no later than January 5, 2012. Allstate did not deliver the final closing statement to the Company until June 6, 2012, with an audit report dated June 1, 2012. The Company is disputing Allstate's calculation of tangible book value in the closing statement. The amount in dispute is approximately $20 million, after tax. The dispute principally relates to (i) the elimination of $25 million (pre-tax) of deferred acquisition costs ($16 million, after tax) and (ii) the inclusion of a liability equal to the costs associated with an Esurance extra-contractual ("ECO") matter settled in April 2012 of $5 million ($3 million, after tax).

The Company believes that Allstate's failure to have the final closing statement prepared and audited by the required date constitutes a breach of Allstate's obligations under the agreement governing the sale of the Transferred Companies. The Company has brought suit in the United States District Court for the Southern District of New York in connection with such breach.

Tribune Company

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as "Plaintiffs"), in their capacity as trustees for certain senior notes issued by the Tribune Company ("Tribune"), filed lawsuits in various jurisdictions (the "Noteholder Actions") against numerous defendants including OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the "LBO"). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the "Bankruptcy Court"). The Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. OneBeacon and OBIC-sponsored benefit plans received approximately $32 million for Tribune common stock tendered in connection with the LBO.

In December 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate all of the Noteholder Actions for pretrial matters and transfer all such proceedings to the United States District Court for the Southern District of New York.

In addition, OneBeacon, OBIC-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company, on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the "Committee Action"). The Committee Action has since been consolidated with the Noteholder Actions.

In September 2012, a case management order was entered in the consolidated cases, setting forth, among other things, a briefing schedule for an omnibus motion to dismiss in the Noteholder Actions. The court is expected to hear oral argument on that motion in March 2013. Discovery and other motion practice (other than motions to amend the complaints) in the Committee Action and the Noteholder Actions is stayed until further order of the court.

Ace American Insurance Company

A subsidiary of the OneBeacon, OneBeacon U.S. Holdings, Inc. ("OBH"), was sued in Federal Court in the Eastern District of Pennsylvania on August 17, 2012 by Ace American Insurance Company ("Ace"). The complaint alleges that OBH, through a professional recruiting firm, improperly hired a group of Ace employees from Ace's surety division. The complaint seeks injunctive relief and unspecified damages. Upon motions of both parties, the court ordered expedited discovery, which has been completed. OBH's response to Ace's motion for preliminary injunction is due at the end of October. OneBeacon believes that Ace's motion is without merit and intends to vigorously defend the lawsuit.

Item 1A. Risk Factors.

Other than what is described below, there have been no material changes to any of the risk factors previously disclosed the Registrant's 2011 Annual Report on Form 10-K or in the Registrant's March 31, 2012 Quarterly Report on Form 10-Q.

We may not maintain favorable financial strength or creditworthiness ratings which could adversely affect our ability to conduct business.

Third-party rating agencies assess and rate the financial strength, including claims-paying ability, of insurers and reinsurers. These ratings are based upon criteria established by the rating agencies and are subject to revision at any time at the sole discretion of the agencies. Some of the criteria relate to general economic conditions and other circumstances outside the rated company's control. These financial strength ratings are used by policyholders, agents and brokers as an important means of assessing the suitability of insurers and reinsurers as business counterparties and have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. These financial strength ratings do not refer to our ability to meet non-insurance obligations and are not a recommendation to purchase or discontinue any policy or contract issued by us or to buy, hold or sell our securities. The maintenance of an “A-” or better financial strength rating from A.M. Best and/or Standard & Poor's is particularly important to our ability to write new or renewal business in most markets. General creditworthiness ratings are used by existing or potential investors to assess the likelihood of repayment on a particular debt issue. The maintenance of an investment grade creditworthiness rating (e.g., “BBB-” or better from Standard & Poor's and “Baa3” or better from Moody's) is particularly important to our ability to raise new debt with acceptable terms. We believe that strong creditworthiness ratings are important factors that provide better financial flexibility when issuing new debt or restructuring existing debt.

Rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. The current financial strength ratings for OneBeacon's operating subsidiaries which are not being transferred as part of the Runoff Transaction (“Ongoing Subsidiaries”) are "A" (Excellent, third highest of fifteen ratings) by A. M. Best, "A-" (Strong, seventh highest of twenty-one ratings) by Standard & Poor's, "A2" (Good, sixth highest of twenty-one ratings) by Moody's and "A" (Strong, sixth highest of twenty-one ratings) by Fitch. The current financial strength ratings for Sirius Group's principal reinsurance operating subsidiaries are "A" (Excellent, third highest of fifteen ratings) by A. M. Best, "A-" (Strong, seventh highest of twenty-one ratings) by Standard & Poor's, "A3" (Good, seventh highest of twenty-one ratings) by Moody's and "A" (Strong, sixth highest of twenty-one ratings) by Fitch. OneBeacon's Ongoing Subsidiaries and Sirius Group's principal reinsurance operating subsidiaries currently have a "Stable" outlook from each of A.M. Best, Standard & Poor's, Fitch and Moody's. A downgrade, withdrawal or negative watch/outlook of our financial strength ratings could severely limit or prevent our insurance and reinsurance operating subsidiaries from writing new insurance or reinsurance policies or renewing existing policies, which could have a material adverse effect on our results of operations and financial condition. A downgrade, withdrawal or negative watch/outlook of our creditworthiness ratings could limit our ability to raise new debt or could make new debt more costly and/or have more restrictive conditions. See ***“Brokers, agents or policyholders may react negatively to the announcement of the Runoff Transaction.”*** in this Section 1A of this Form 10-Q

There is no certainty that the Runoff Transaction will close.

Consummation of the sale of the OneBeacon's Runoff Business pursuant to the Stock Purchase Agreement is subject to conditions, such as regulatory approval, that are outside of the control of the parties. There can be no assurance as to whether or when such conditions may be satisfied and a closing would occur.

Brokers, agents or policyholders may react negatively to the announcement of the Runoff Transaction.

Following OneBeacon's announcement of the Runoff Transaction, A.M. Best, Fitch, Moody's and Standard & Poor's each issued a press release regarding the ratings implications. A.M. Best placed the subsidiaries being sold in the Runoff Transaction (the "Runoff Subsidiaries") under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Mood's assigned a negative outlook. Standard & Poor's downgraded and subsequently, at the request of OneBeacon, withdrew its rating on the Runoff Subsidiaries. All four rating agencies affirmed the ratings on the Ongoing Subsidiaries with stable outlook. The Runoff Subsidiaries have been underwriting specialty policies, and they will continue to do so up until the closing of the Runoff Transaction and for a limited time following the closing through a fronting and reinsurance agreement with Armour. It is possible that certain brokers, agents or policyholders dealing with specialty policies underwritten by the Runoff Subsidiaries could determine that the Runoff Subsidiaries no longer meet their placement standards and could cease placing business with the Runoff Subsidiaries. While OneBeacon believes that the Runoff Subsidiaries' financial strength is robust notwithstanding the Runoff Transaction, it intends to take various steps to provide assurances to the Runoff Subsidiaries' brokers, agents and policyholders. However, there is no assurance that the Runoff Subsidiaries will be successful in continuing to underwrite the specialty business on an interim basis, which may have an adverse impact on OneBeacon.

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 Plan (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plan (1)
July 1- 30, 2012	50,000	$ 528.45	50,000	970,496
Total	50,000	$ 528.45	50,000	970,496

(1) On November 17, 2006, White Mountains' board of directors authorized the Company to repurchase up to 1 million of its common shares, from time to time, subject to market conditions. On August 26, 2010 and May 25, 2012, White Mountains' board of directors authorized the Company to repurchase up to an additional 600,000 and 1,000,000, respectively, common shares, for a total authorization of 2.6 million shares. Shares may be repurchased on the open market or through privately negotiated transactions. The repurchase authorization does not have a stated expiration.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a)	Exhibits	
11	—	Statement Re Computation of Per Share Earnings. **
10.1	—	Stock Purchase Agreement by and among the OneBeacon Insurance Group Ltd., OneBeacon Insurance Group LLC, Trebuchet and Armour Group Holdings Limited dated as of October 18, 2012. *
10.2	—	Regulation 114 Trust Agreement by and among Build America Mutual Assurance Company, HG Re Ltd. and The Bank of New York Mellon, dated as of July 20, 2012. *
10.3	—	Supplemental Trust Agreement by and among Build America Mutual Assurance Company, HGR Patton (Luxembourg) S.à r.l., United States of America Branch, and The Bank of New York Mellon, dated as of July 20, 2012. *
10.4	—	Surplus Note Purchase Agreement between Build America Mutual Assurance Company, as Issuer and HG Holdings Ltd. and HG Re Ltd. as Purchasers dated as of July 17, 2012. *
31.1	—	Principal Executive Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as Amended. *
31.2	—	Principal Financial Officer Certification Pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as Amended. *
32.1	—	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	—	Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.1	—	The following financial information from White Mountains' Quarterly Report on Form 10Q for the quarter ended September 30, 2012 formatted in XBRL: (i) Consolidated Balance Sheets, September 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Operations and Comprehensive Income, Three Months and Nine Months Ended September 30, 2012 and 2011; (iii) Consolidated Statements of Changes in Equity, Nine Months Ended September 30, 2012 and 2011; (iv) Consolidated Statements of Cash Flows, Nine Months Ended September 30, 2012 and 2011; 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** 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: October 30, 2012

By: /s/ J. Brian Palmer
J. Brian Palmer
Vice President and Chief Accounting Officer

STOCK PURCHASE AGREEMENT

BY AND AMONG

ONEBEACON INSURANCE GROUP LLC,

ONEBEACON INSURANCE GROUP, LTD.,

TREBUCHET US HOLDINGS, INC.

AND

ARMOUR GROUP HOLDINGS LIMITED

DATED AS OF OCTOBER 17, 2012

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Exhibit 6 Form of Run-Off Reinsurance Agreement
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Schedule 1.1(a) Pro Forma Adjustments
Schedule 5.17(a) Schedule of Shared Reinsurance
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Schedule 5.23(c) Policy Issuance Authority – Pending State Applications
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Schedule 7.3(a) Indemnifiable Liabilities

Seller Disclosure Schedule
Purchaser Disclosure Schedule

This STOCK PURCHASE AGREEMENT (this "Agreement") is dated as of October 17, 2012, by and among OneBeacon Insurance Group LLC, a limited liability company organized under the laws of the State of Delaware ("Seller"), Trebuchet US Holdings, Inc., a corporation incorporated under the laws of the State of Delaware ("Purchaser"), and solely for purposes of Section 7.3 and Article IX, OneBeacon Insurance Group, Ltd., an exempt limited liability company organized under the laws of Bermuda ("Seller Parent"), and solely for purposes of Articles II and IX Armour Group Holdings Limited, an exempt limited liability company organized under the laws of Bermuda ("Purchaser Parent").

RECITALS:

WHEREAS, Seller owns, directly or indirectly, all of the issued and outstanding shares of capital stock of OneBeacon Insurance Company, an insurance company organized under the laws of the Commonwealth of Pennsylvania ("OneBeacon Insurance"), The Employers' Fire Insurance Company, an insurance company organized under the laws of the Commonwealth of Massachusetts ("Employers' Fire"), The Northern Assurance Company of America, an insurance company organized under the laws of the Commonwealth of Massachusetts ("Northern Assurance"), OneBeacon Midwest Insurance Company, an insurance company organized under the laws of the State of Wisconsin ("OneBeacon Midwest"), OneBeacon America Insurance Company, an insurance company organized under the laws of the Commonwealth of Massachusetts ("OneBeacon America"), Traders & General Insurance Company, an insurance company organized under the laws of the State of Texas ("Traders & General"), The Camden Fire Insurance Association, an insurance company organized under the laws of the State of New Jersey ("Camden Fire"), Potomac Insurance Company, an insurance company organized under the laws of the Commonwealth of Pennsylvania ("Potomac Insurance"), OneBeacon Risk Management, Inc., a Delaware corporation ("OneBeacon Risk Management") and Houston General Insurance Company, an insurance company organized under the laws of the State of Texas ("Houston General" and, together with OneBeacon Insurance, Employers' Fire, Northern Assurance, OneBeacon Midwest, OneBeacon America, Traders & General, Camden Fire, Potomac Insurance and OneBeacon Risk Management, and subject to Section 1.2(a)(x), the "Acquired Companies").

WHEREAS, Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, all of the Purchased Shares (as defined below) (the "Acquisition"), upon the terms and subject to the conditions set forth herein; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and upon the terms and subject to the conditions set forth herein, the parties hereto hereby agree as follows:

Article I
DEFINITIONS AND TERMS

Section 1.1 Definitions. As used in this Agreement, the following terms have the meanings set forth or as referenced below:

"338 Allocation Schedule" has the meaning set forth in Section 5.4(i)(ii).

"AC SR Parties" has the meaning set forth in Section 5.17(a).

"Acceptable Investments" means (a) Cash Equivalents, (b) U.S. treasuries or (c) single-A rated (by S&P and Moody's) corporate debt securities contained in the U.S. Corporate Index Group subset of the Barclays U.S. Aggregate Index (but excluding utilities and financial company issuers).

"Accretion Rate" means five percent 5% per year calculated on the basis of a year of 365 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such accretion accrues.

"Acquired Companies" has the meaning set forth in the Recitals.

"Acquired Company Owned Intellectual Property" means all Intellectual Property owned or purported to be owned by an Acquired Company or any Subsidiary of an Acquired Company.

"Acquisition" has the meaning set forth in the Recitals.

"Acquisition Proposal" has the meaning set forth in Section 5.21.

"Action" means any claim, action, suit, proceeding, demand, arbitration, inquiry, audit, notice of violation, citation, summons, subpoena or investigation of any nature, whether civil, criminal, administrative, regulatory or otherwise, whether at law or in equity by or before any Governmental Authority.

"ADSP" has the meaning set forth in Section 5.4(i)(ii).

"Affiliate" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person**,** *provided*, however, that neither White Mountains Insurance Group, Ltd. nor any Affiliate of White Mountains Insurance Group, Ltd. shall be deemed to be an Affiliate of Seller or any Person controlled by Seller other than Seller Parent and any Person controlled by Seller Parent. For purposes of this definition, "control" (including the terms "controlled by" and "under common control with") with respect to the relationship between or among two (2) or more Persons, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person whether through the ownership of voting securities, by contract or otherwise. Notwithstanding anything herein to the contrary, for purposes of clarity, from and after the Closing, none of the Acquired Companies shall be deemed an Affiliate of Seller.

"Agreement" has the meaning set forth in the Preamble.

"Aggregate Contribution Cap" has the meaning set forth in Section 5.19.

"AGUB" has the meaning set forth in Section 5.4(i)(ii).

"Ancillary Agreements" means the Release, the Retained Business Administrative Services Agreement, the Retained Business Reinsurance Agreement, the Run-Off Business Administrative Services Agreement, the Run-Off Business Consulting Engagement Agreement, the Run-Off Business Reinsurance Agreement and the Transition Services Agreement.

"Annual Statutory Financial Statements" has the meaning set forth in Section 3.7(a).

"ASIC" means Atlantic Specialty Insurance Company.

"Bankruptcy and Equity Exceptions" has the meaning set forth in Section 3.2.

"Benefit Plans" has the meaning set forth in Section 3.11(a).

"Books and Records" means originals or copies of the books, records and documents of, or maintained by, the Acquired Companies to administer, evidence or record information relating to the business or operations of the Acquired Companies (including all contracts, computer records, general ledgers, minute books, stock ledgers and stock certificates, contract information and credit records) in the format maintained by the Acquired Companies as of the date hereof; *provided*, *however*, that, for the purposes of clarity, such Books and Records shall not include any Consolidated Tax Returns or other material commingled with material of Seller or any Affiliate of Seller (that is not an Acquired Company) and which material principally belongs to Seller or such Affiliate of Seller.

"Business Confidential Information" has the meaning set forth in Section 5.1(d).

"Business Day" means any day other than a Saturday, a Sunday or a day on which banks in New York, New York are authorized or obligated by applicable Law to close.

"Camden Fire" has the meaning set forth in the Recitals.

"Cash Equivalents" shall mean cash, checks, money orders, short-term instruments issued by the U.S. treasury having a term to maturity of no longer than 90 days and other cash equivalents, funds in time and demand deposits or similar accounts.

"Ceded Reinsurance Recoverable" means recoverables under (a) all reinsurance treaties and agreements to which any of the Acquired Companies is a party with an inception date prior to January 1, 2001 and (b) all reinsurance treaties and contracts to which any of the Acquired Companies is a party with an inception date from, and including January 1, 2001 to, and including December 31, 2010, where reinstatements are free and unlimited.

"Claim Notice" has the meaning set forth in Section 7.4(a).

"Closing" means the closing of the purchase and sale of the Purchased Shares.

"Closing Date" has the meaning set forth in Section 2.2(a).

"Closing Purchase Price" has the meaning set forth in Section 2.1(c)(iv).

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute.

"Collection Agent" has the meaning set forth in Section 5.25(a).

"Company Material Adverse Effect" means any event, occurrence, fact, condition or change that is, or would reasonably be expected to become, individually or in the aggregate, materially adverse to (i) the business, results of operations or condition (financial or otherwise) of the Acquired Companies (taken as a whole), or (ii) the ability of Seller to consummate the transactions contemplated hereby in accordance with the terms of this Agreement; *provided*, *however*, that any adverse effect arising out of or resulting from or attributable to any of the following shall not constitute and shall be disregarded when determining whether there has been or would reasonably be expected to be a Company Material Adverse Effect: (a) changes or proposed changes in applicable Laws, GAAP or SAP or in the interpretation or enforcement thereof, (b) changes in general economic, business or regulatory conditions in the United States, including those generally affecting the property & casualty industry in the United States, (c) changes in United States or global financial or securities markets or conditions, including changes in prevailing interest rates, currency exchange rates or price levels or trading volumes in the United States or foreign securities markets, (d) changes in global or national political conditions (including the outbreak or escalation of war, military action, sabotage or acts of terrorism) or changes due to natural disasters, (e) the effects of the actions or omissions required of Seller under this Agreement and the Ancillary Agreements or that are taken with the consent of Purchaser, or not taken because Purchaser did not give its consent (where such consent is required), in connection with the transactions contemplated hereby and thereby, (f) the effects of any breach, violation or non-performance of any provision of this Agreement by Purchaser or any of its Affiliates, (g) the negotiation, announcement, pendency or consummation of this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby, including the identity of, or the effect of any fact or circumstance relating to, Purchaser or any of its Affiliates or any communication by Purchaser or any of its Affiliates regarding plans, proposals or projections with respect to the Acquired Companies, (h) any increases in losses or loss adjustment expenses (in and of itself) of the Acquired Companies following the date of this Agreement (but not the underlying reasons therefor), (i) any change or development (in and of itself) in the credit, financial strength or other rating of the Acquired Companies or any of their Affiliates (but not the underlying reasons therefor nor causes and effects of any such change or development), (j) any failure (in and of itself) by the Acquired Company to meet any earnings, claims paid or loss development projections or forecasts (but not the underlying reasons therefor nor causes and effects of any such failure), or (k) changes with respect to the Retained Business, or (l) any event, occurrence, fact, condition or change that would be subject to a Reinsurance Dependency Adjustment, *provided*, *further*, *however*, that any event, occurrence, fact, condition or change referred to in any of clauses (a) – (d) immediately above shall be taken into account in determining whether a Company Material Adverse Effect has occurred or would reasonably be expected to occur to the extent that given event, occurrence, fact, condition or change has a disproportionate effect on the Acquired Companies (taken as a whole) compared to similar companies within the industries in which they operate.

"Confidentiality Agreements" means, collectively, the Confidentiality Agreement, dated as of July 13, 2011, between Seller Parent and Armour Group Holdings Limited and the Confidentiality

Agreement, dated as of July 19, 2011, between Seller Parent and the other party signatory thereto related to this Agreement.

"Consolidated Tax Returns" has the meaning set forth in Section 5.4(b)(i).

"Continued Employees" has the meaning set forth in Section 5.5(a).

"Contract" means, with respect to any Person, any written or oral agreement, contract, lease, commitment, covenant, debenture, instrument or other legally binding obligation to which such Person is a party or is otherwise subject or bound.

"Deductible" has the meaning set forth in Section 7.2(b).

"Department" means the Massachusetts Division of Insurance, the New Jersey Department of Banking and Insurance, the New York State Department of Financial Services, the Pennsylvania Insurance Department, the Texas Department of Insurance or the Wisconsin Office of the Commissioner of Insurance, as applicable.

"Deposited Investments Notice" has the meaning set forth in Section 5.15(b).

"Disclosure Schedule" has the meaning set forth in Section 9.9.

"Due Diligence Costs" has the meaning set forth in Section 9.8.

"ECO Claim" means a claim for extra-contractual obligations.

"Election Forms" has the meaning set forth in Section 5.4(i)(i).

"Electronic Data Room" means the electronic data room established by or on behalf of Seller with respect to the Acquired Companies, as the same exists as of the date of this Agreement.

"Employees" means the employees of Seller or any of its Affiliates providing services to the Acquired Companies as of the date of execution of this Agreement.

"Employers' Fire" has the meaning set forth in the Recitals.

"Encumbrance" means any conditional sale agreement, option, first refusal, preemptive right, co-sale, tag-along, drag-along or similar right, covenant, condition, default of title, easement, encroachment, infringement, right of way, security interest, pledge, mortgage, lien, encumbrance, deed of trust, hypothecation, or any adverse interest charge, or claim of any nature whatsoever on, or with respect to, any property or property interest.

"Environmental Laws" means any applicable Law that relates to or otherwise imposes liability or standards of conduct concerning environmental protection, health and safety of persons, discharges, emissions, releases or threatened releases of any odors or Hazardous Materials into ambient air, water or land, or otherwise relating to the manufacture, processing, generation, distribution, use, treatment, storage, disposal, cleanup, transport or handling of Hazardous Materials,

including the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, as amended, the Resource Conservation and Recovery Act, as amended, the Toxic Substances Control Act, as amended, the Federal Water Pollution Control Act, as amended, the Clean Water Act, as amended, any so-called "Superlien" law, and any other similar federal, state or local law.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA Affiliate" means any entity which is considered a single employer with Seller under Section 414(b) or (c) of the Code.

"Estimated Closing Date Balance Sheet" means the unaudited pro forma estimated combined balance sheet of the Acquired Companies as of the Closing Date after giving effect to the Pro Forma Adjustments, which pro forma estimated combined balance sheet will be prepared by Seller in good faith in accordance with SAP (except with respect to the Pro Forma Adjustments) applied on a basis consistent with the preparation of the Pro Forma Balance Sheet and delivered to Purchaser in accordance with Section 2.1(b).

"Estimated Target Statutory Capital" means the calculation of the Target Statutory Capital based on the Estimated Closing Date Balance Sheet.

"Expiration Date" has the meaning set forth in Section 7.1.

"Final Closing Date Balance Sheet" has the meaning set forth in Section 2.3(b)(vi).

"Final Purchase Price" has the meaning set forth in Section 2.3(a).

"Final Target Statutory Capital" has the meaning set forth in Section 2.3(b)(vi).

"Fronted Policies" has the meaning set forth in Section 5.23(b)(i).

"Fronting Completion Date" has the meaning set forth in Section 5.6(c).

"Fronting Obligation" has the meaning set forth in Section 5.23(b)(i).

"Fundamental Claims" has the meaning set forth in Section 7.1.

"GAAP" means generally accepted accounting principles and practices in the United States applied consistently with prior periods and with an Acquired Company's historical practices and methods.

"Gen Re and NICO Agreements" means (i) Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance and General Reinsurance Company dated as of April 13, 2001; and (ii) Aggregate Loss Portfolio Reinsurance Agreement between Potomac Insurance and National Indemnity Company dated as of March 14, 2001.

"Governmental Authority" means any national, regional or local governmental, legislative, judicial, administrative or regulatory authority, agency, commission, body or court.

"Governmental Authorizations" means all licenses, permits (including insurance certificates of authority, licenses, permits, etc.), variances, waivers, orders, registrations, consents, certificates and other authorizations and approvals of or by a Governmental Authority.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Guarantees" has the meaning set forth in Section 5.11.

"Hazardous Material" means any (a) hazardous substance, toxic substance, hazardous waste or pollutant (as such terms are defined by or within the meaning of any Environmental Law), (b) material or substance that is regulated or controlled as a hazardous substance, toxic substance, pollutant or other regulated or controlled material, substance or matter pursuant to any Environmental Law, (c) petroleum, crude oil or fraction thereof, (d) asbestos-containing material, (e) polychlorinated biphenyls, (f) lead-based paint or (g) radioactive material.

"HIPAA" has the meaning set forth in Section 3.13(f).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

"Houston General" has the meaning set forth in the Recitals.

"Indemnified Parties" has the meaning set forth in Section 7.3(a).

"Indemnifying Party" has the meaning set forth in Section 7.4(a).

"Indemnity Cap" has the meaning set forth in Section 7.2(b).

"Independent Accountant" has the meaning set forth in Section 2.3(b)(v).

"Initial Deductible" has the meaning set forth in Section 7.2(b).

"Initial Forecast" has the meaning set forth in Section 5.20(b)(iii).

"Insurance Contract" means any insurance policy, contract, binder or slip or reinsurance treaty, contract, binder or slip, issued, assumed or coinsured by any Acquired Company, excluding any such policy, treaty, contract, binder or slip comprising the Retained Business.

"Insurance Policies" has the meaning set forth in Section 3.23.

"Intellectual Property" means, collectively, all United States and foreign (a) patents, including continuations, divisionals, continuations-in-part, or reissues of patent applications and patents issuing thereon, (b) inventions (whether or not patentable), (c) Trademarks (whether or not registered) and goodwill associated with any of the foregoing, (d) Internet domain name

registrations, (e) copyrights (whether or not registered), including in the form of software and databases, (f) all trade secrets and confidential business information (including those consisting of ideas, concepts, formulae, know-how, research and development information, drawings, specifications, designs, plans, proposals, technical data, financial, business and marketing plans, and customer and supplier lists and related information), (g) registrations and applications for registration for the foregoing, and (h) tangible embodiments of any of the foregoing.

"Intercompany Account" means any intercompany account balance outstanding as of immediately prior to the Closing between (a) any of the Acquired Companies, on the one hand, and (b) Seller or any of its Affiliates (other than the Acquired Companies) or any of their respective directors, officers or employees, on the other hand.

"Intercompany Agreement" means any intercompany Contract between (a) any of the Acquired Companies, on the one hand, and (b) Seller or any of its Affiliates (other than the Acquired Companies) or any of their respective directors, officers or employees, on the other hand.

"Interim Statements" has the meaning set forth in Section 3.7(a).

"Investment Assets" means any investment assets (whether or not required by GAAP or SAP to be reflected on a balance sheet) beneficially owned (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) by any Acquired Company, including bonds, notes, debentures, mortgage loans, real estate and all other instruments of indebtedness, stocks, partnership or joint venture interests and all other equity interests, certificates issued by or interests in trusts, derivatives and all other assets acquired for investment purposes.

"Investment Notice" has the meaning set forth in Section 5.15(a).

"Investment Purchase Date" has the meaning set forth in Section 5.15(b).

"IRS" means the Internal Revenue Service.

"Knowledge" means with respect to: (a) Seller as it relates to any fact or other matter, the actual knowledge (after reasonable inquiry) of the natural Persons listed in Section 1.1(a) of the Seller Disclosure Schedule of such fact or matter; and (b) Purchaser as it relates to any fact or other matter, the actual knowledge (after reasonable inquiry) of the natural Persons listed in Section 1.1(b) of the Purchaser Disclosure Schedule of such fact or matter.

"Law" means any national, regional or local law, statute, ordinance, rule, regulation, order, judgment, decree, injunction or other legally binding obligation imposed by or on behalf of a Governmental Authority.

"Lease" has the meaning set forth in Section 3.15(c).

"Liability" means any indebtedness, liability, claim, Loss, damage, deficiency or obligation of any kind, whether fixed or unfixed, choate or inchoate, liquidated or unliquidated, known or unknown, asserted or unasserted, secured or unsecured, accrued, absolute, contingent or otherwise.

"Licensing Period" has the meaning set forth in Section 5.23(a).

"Losses" has the meaning set forth in Section 7.2(a).

"Management Fees" has the meaning set forth in Section 5.20(b)(iii).

"Material Contract" has the meaning set forth in Section 3.14(a).

"New York Courts" has the meaning set forth in Section 9.11.

"Northern Assurance" has the meaning set forth in the Recitals.

"Notification Date" has the meaning set forth in Section 5.15(a).

"OneBeacon America" has the meaning set forth in the Recitals.

"OneBeacon Insurance" has the meaning set forth in the Recitals.

"OneBeacon Midwest" has the meaning set forth in the Recitals.

"OneBeacon Risk Management" has the meaning set forth in the Recitals.

"Ordinary Course of Business" with respect to a Person means the ordinary course of business of such Person, consistent with past practices.

"Organizational Documents" has the meaning set forth in Section 3.3(b).

"Pension Plan" has the meaning set forth in Section 3.11(b).

"Permitted Encumbrances" means (a) any Encumbrances disclosed in the Statutory Financial Statements (including in the notes thereto), (b) liens for Taxes, assessments and other governmental charges not yet due and payable or due and being contested in good faith and for which adequate reserves have been established in accordance with GAAP, (c) mechanics', workmen's, repairmen's, warehousemen's, carriers' or other like liens arising or incurred in the Ordinary Course of Business or pursuant to original purchase price conditional sales contracts and equipment leases with third parties entered into in the Ordinary Course of Business and for which there is no default on the part of any Acquired Company, (d) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations, (e) Encumbrances related to deposits to secure policyholders' obligations as required by the insurance departments of the various states, (f) Encumbrances or other restrictions on transfer imposed by applicable insurance Law, (g) Encumbrances incurred or deposits made to a Governmental Authority in connection with a Governmental Authorization, (h) Encumbrances granted under securities lending and borrowing agreements, repurchase and reserve repurchase agreements and derivatives entered into in the Ordinary Course of Business, as such Encumbrances relate to Investment Assets, (i) clearing and settlement Encumbrances on securities and other investment properties incurred in the ordinary course of clearing and settlement transactions in such securities and other investment properties and holding them with custodians, (j) Encumbrances

recorded against the real property described in Section 3.15(b) or the Leases and which individually or in the aggregate, would not materially interfere with or effect the ownership, present use or occupancy of the affected real property, (k) landlords' or lessors' liens under the Leases, and (l) Encumbrances that would not, individually or in the aggregate, reasonably be likely to materially impair the continued use, operation or value of the property to which they relate.

"Person" means an individual, a corporation, a partnership, an association, a limited liability company, a joint venture, a trust or other entity or organization, including a Governmental Authority.

"Personal Information" has the meaning set forth in Section 3.13(f).

"Policy Issuance Authority" in a particular jurisdiction means the possession by ASIC or one of its Affiliates of the Governmental Authorizations, producer appointments or relationships, form filings or approvals and rate filings or approvals required under applicable law for ASIC or one of its Affiliates to write and issue any Retained Policy in such jurisdiction, or covering risks in such jurisdiction.

"Portfolio Notice" has the meaning set forth in Section 5.15(d).

"Post-Closing Adjustment Determination Date" has the meaning set forth in Section 2.3(b)(vi)(A).

"Post-Closing Delivery Period" has the meaning set forth in Section 2.3(b)(i).

"Potomac Insurance" has the meaning set forth in the Recitals.

"Pre-Closing Seller Contribution" has the meaning set forth in Section 5.18.

"Premises" has the meaning set forth in Section 3.15(b).

"Preparing Party" has the meaning set forth in Section 5.4(b)(iii).

"Privacy Laws" has the meaning set forth in Section 3.13(f).

"Pro Forma Adjustments" means, with respect to any balance sheet of the Acquired Companies to be prepared and delivered pursuant to this Agreement, the applicable adjustments and principles set forth on Schedule 1.1(a).

"Pro Forma Balance Sheet" means the pro forma financial statements of the Acquired Companies as of December 31, 2011 and included in Section 1.1(b) of the Seller Disclosure Schedule.

"Pro Forma Target Statutory Capital" means the calculation of the Target Statutory Capital based on the Pro Forma Balance Sheet.

"Producer Agreements" means Contracts between any Acquired Company and any agent of such Acquired Company who placed Insurance Contracts on behalf of such Acquired Company.

"Proposed Final Closing Date Balance Sheet" has the meaning set forth in Section 2.3(b)(i)(A).

"Proposed Final Target Statutory Capital" has the meaning set forth in Section 2.3(b)(i)(B).

"Proposed Financial Deliverables" has the meaning set forth in Section 2.3(b)(i)(B).

"Purchase Price Allocation Schedule" has the meaning set forth in Section 5.4(i)(ii).

"Purchased Shares" has the meaning set forth in Section 2.1(a).

"Purchaser" has the meaning set forth in the Preamble.

"Purchaser Disclosure Schedule" means the disclosure schedule delivered by Purchaser to Seller in connection with the execution and delivery of this Agreement.

"Purchaser Indemnified Parties" has the meaning set forth in Section 7.3(a).

"Purchaser Intercompany Agreement" has the meaning set forth in Section 5.20(b).

"Purchaser Material Adverse Effect" means a material impairment of the ability of Purchaser to perform its obligations under this Agreement.

"Purchaser Parent" has the meaning set forth in the Preamble.

"Registered Intellectual Property" has the meaning set forth in Section 3.13(a).

"Reinsurance Agreements" has the meaning set forth in Section 3.18.

"Release" means the Release to be delivered at the Closing and substantially in the form of Exhibit 1 attached hereto.

"Released Parties" has the meaning set forth in Section 5.11.

"Required Additional Capital Amount" has the meaning set forth in Section 5.19.

"Required Approvals" has the meaning set forth in Section 6.1(b).

"Resignations" has the meaning set forth in Section 5.9.

"Restructuring" means transactions described in Section 5.13(a) of the Seller Disclosure Schedule.

"Retained Business" means the specialty property and casualty business retained by Seller or ASIC pursuant to the Retained Business Reinsurance Agreement or written by any Affiliate of Seller that is not an Acquired Company.

"Retained Business Administrative Services Agreement" means the Retained Business Administrative Services Agreement to be delivered at the Closing and substantially in the form of Exhibit 2 attached hereto.

"Retained Business Reinsurance Agreement" means the Amended and Restated 100% Quota Share Reinsurance Agreement (Specialty) to be delivered at the Closing and substantially in the form of Exhibit 3 attached hereto.

"Retained Liabilities" means all Liabilities and obligations of the Acquired Companies arising out of actions or omissions, or the operation of their business, at any time prior to the Closing, and relating solely to the Retained Business.

"Retained Policies" means all Insurance Contracts that are subject to the Retained Business Reinsurance Agreement.

"Reviewing Party" has the meaning set forth in Section 5.4(b)(iii).

"Run-Off Business" means the business conducted by each of the Acquired Companies as of the date hereof other than the Retained Business.

"Run-Off Business Administrative Services Agreement" means the Run-Off Business Administrative Services Agreement to be delivered at the Closing and substantially in the form of Exhibit 4 attached hereto.

"Run-Off Business Consulting Engagement Agreement" means the Run-Off Business Consulting Engagement Agreement executed in the form of Exhibit 5 attached hereto.

"Run-Off Business Reinsurance Agreement" means the Amended and Restated 100% Quota Share Reinsurance Agreement (Runoff) to be delivered at the Closing and substantially in the form of Exhibit 6 attached hereto.

"SAP" means the statutory accounting principles and practices prescribed or permitted by applicable insurance Law or the applicable Department.

"Section 338(h)(10) Election" has the meaning set forth in Section 5.4(i)(i).

"Securities Act" means the Securities Act of 1933.

"Seller" has the meaning set forth in the Preamble.

"Seller Affiliated Group" has the meaning set forth in Section 3.10(b).

"Seller Disclosure Schedule" means the disclosure schedule delivered by Seller to Purchaser in connection with the execution and delivery of this Agreement.

"Seller Indemnified Parties" has the meaning set forth in Section 7.2(a).

"Seller Marks" has the meaning set forth in Section 5.6(c).

"Seller Parent" has the meaning set forth in the Preamble.

"Seller Pari Passu Amount" has the meaning set forth in Section 5.19.

"Seller Pari Passu Note" has the meaning set forth in Section 5.19.

"Seller Priority Amount" has the meaning set forth in Section 5.19.

"Seller Priority Note" has the meaning set forth in Section 5.19.

"Seller SR Parties" has the meaning set forth in Section 5.17(a).

"Share Consideration" has the meaning set forth in Section 5.4(i)(ii).

"Shared Reinsurance" has the meaning set forth in Section 5.17(a).

"Shares" has the meaning set forth in Section 2.1(a).

"Specified Transfer Taxes" has the meaning set forth in Section 5.4(a).

"Statutory Financial Statements" has the meaning set forth in Section 3.7(a).

"Subsidiary" means with respect to any entity, any other entity as to which it owns, directly or indirectly, or otherwise controls, more than fifty percent (50%) of the voting shares or other similar interests or otherwise has the ability to elect a majority of the directors, trustees, managing members or other persons or body exercising management control thereof.

"Surety Bonds" has the meaning set forth in Section 5.11.

"Surplus Note" has the meaning set forth in Section 5.19.

"Target Statutory Capital" means an amount equal to the sum of: (a) 200% of the authorized control level risk-based capital of OneBeacon Insurance, on a consolidated and combined basis with its Subsidiaries, plus (b) the capital level of Potomac Insurance, in each case, at the relevant date of determination as determined by Seller in accordance with SAP after giving effect to the Pro Forma Adjustments (other than (i) the Pre-Closing Seller Contribution, (ii) those related to the contribution of the Seller Pari Passu Amount and the Seller Priority Amount, and (iii) the issuance of any Surplus Note).

"Tax" or "Taxes" means any and all taxes, including any interest, penalties or other additions to tax that may become payable in respect thereof, imposed by any Governmental Authority, which taxes shall include all net income, gross income, profits, minimum, estimated, payroll, withholding, social security, social insurance, retirement, employment, unemployment, recording, sales, use, ad valorem, value added, real or personal property, excise, franchise, premium, gross receipts, stamp, transfer, net worth, environmental, windfall profits and other taxes, fees, duties, levies, customs,

tariffs, imposts, assessments, obligations and charges of the same or of a similar nature to any of the foregoing.

"Tax Contest" has the meaning set forth in Section 5.4(e)(i).

"Tax Dispute" has the meaning set forth in Section 5.4(b)(iii).

"Tax Returns" means any and all returns, reports, statements, certificates, schedules or claims for refund of or with respect to any Tax which is supplied or required to be supplied to any Governmental Authority, including any and all attachments, amendments and supplements thereto.

"Termination Date" has the meaning set forth in Section 8.1(d).

"Third Party Acquisition" has the meaning set forth in Section 5.21.

"Third Party Claim" has the meaning set forth in Section 7.4(b).

"Trademarks" means all trademarks, trade names, trade dress, service marks, assumed names, business names and logos, slogans and Internet domain names, together with all goodwill of the businesses symbolized thereby, and all current registrations and applications for any of the foregoing.

"Traders & General" has the meaning set forth in the Recitals.

"Trade Completion Certificate" has the meaning set forth in Section 5.15(e).

"Transfer Taxes" means any and all transfer, documentary, sales, use, registration, stamp, notarial, filing, recording, authorization and other similar Taxes (including penalties and interest with respect thereto).

"Underlying Allocated Account" has the meaning set forth in Section 5.25(a).

"Updated Forecast" has the meaning set forth in Section 5.20(b)(iii).

"Transition Services Agreement" means the Transition Services Agreement to be delivered at the Closing substantially in the form of Exhibit 7 attached hereto.

"Wire Transfer" means a payment in immediately available funds by wire transfer in lawful money of the United States of America to such account or accounts as shall have been designated by notice to the paying party not less than two (2) Business Days prior to the date of payment.

"XPL Claim" means a claim in excess of an underlying Insurance Contract's limits.

Section 1.2 Interpretation

(a) As used in this Agreement, references to the following terms have the meanings indicated:

(i) To the Preamble or to the Recitals, Sections, Articles, Exhibits or Schedules are to the Preamble or a Recital, Section or Article of, or an Exhibit or Schedule to, this Agreement unless otherwise clearly indicated to the contrary.

(ii) To any Contract (including this Agreement) or "organizational document" are to the Contract or organizational document as amended, modified, supplemented or replaced from time to time.

(iii) To any "statute" or "regulation" are to the statute or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any "section of any statute or regulation" include any successor to the section.

(iv) To any Governmental Authority include any successor to the Governmental Authority and to any Affiliate include any successor to the Affiliate.

(v) To any "copy" of any Contract or other document or instrument are to a true and complete copy.

(vi) To "hereof," "herein," "hereunder," "hereby," "herewith" and words of similar import refer to this Agreement as a whole and not to any particular Article, Section or clause of this Agreement, unless otherwise clearly indicated to the contrary.

(vii) To the "date of this Agreement," "the date hereof" and words of similar import refer to October 17, 2012.

(viii) To "this Agreement" includes the Exhibits and Schedules (including the Purchaser Disclosure Schedule and the Seller Disclosure Schedule) to this Agreement.

(ix) To a "willful and material breach" refers to a material breach that is a consequence of an act or failure to act undertaken by the breaching party with the knowledge (actual or constructive) that the taking of or failure to take such act would or would reasonably be expected to cause a breach of this Agreement.

(x) To any "Acquired Company" shall exclude such Acquired Company to the extent, and from and after the moment, Seller sells or transfers the capital stock of such Acquired Company or such Acquired Company merges with another Acquired Company and therefore ceases to exist, but shall not exclude any representations, warranties or covenants made by Seller or Seller Parent pursuant to this Agreement with respect to such Acquired Company prior to such sale, transfer or merger.

(b) Whenever the words "include," "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation." The word "or" shall not be exclusive. Any singular term in this Agreement will be deemed to include the plural, and any plural term the singular. All pronouns and variations of pronouns will be deemed to refer to the feminine, masculine or neuter, singular or plural, as the identity of the Person referred to may require. Where

a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(c) Whenever the last day for the exercise of any right or the discharge of any duty under this Agreement falls on other than a Business Day, the party hereto having such right or duty shall have until the next Business Day to exercise such right or discharge such duty. Unless otherwise indicated, the word "day" shall be interpreted as a calendar day.

(d) The table of contents and headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement.

(e) References to "party" or "parties" hereto mean Seller and/or Purchaser, unless the context otherwise requires.

(f) References to "dollars" or "$" mean United States dollars, unless otherwise clearly indicated to the contrary.

(g) The parties hereto have participated jointly in the negotiation and drafting of this Agreement; consequently, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party hereto by virtue of the authorship of any provision of this Agreement.

(h) No summary of this Agreement prepared by or on behalf of any party hereto shall affect the meaning or interpretation of this Agreement.

(i) All capitalized terms used without definition in the Exhibits and Schedules (including the Purchaser Disclosure Schedule and the Seller Disclosure Schedule) to this Agreement shall have the meanings ascribed to such terms in this Agreement.

ARTICLE II
PURCHASE AND SALE

Section 2.1 Purchase and Sale

(j) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall sell or cause to be sold to Purchaser, and Purchaser shall purchase from Seller or the appropriate Affiliate of Seller, as the case may be, all of the issued and outstanding shares of capital stock of OneBeacon Insurance and Potomac Insurance (collectively, the "Purchased Shares"), free and clear of all Encumbrances (other than restrictions on transfer imposed by federal and state insurance and securities Laws). As used in this Agreement, "Shares" means all of the issued and outstanding capital stock of the Acquired Companies.

(k) Three (3) Business Days prior to the Closing Date, Seller shall cause to be prepared and delivered to Purchaser the Estimated Closing Date Balance Sheet, and a certificate duly executed by an authorized officer of Seller setting forth the Estimated Target Statutory Capital and the Closing

Purchase Price and certifying on behalf of Seller that such calculations have been determined in good faith in accordance with the terms of this Agreement.

(l) The aggregate purchase price to be paid by Purchaser to Seller at the Closing in consideration of the Purchased Shares shall be an amount in cash equal to:

(i) $61,000,000;

(ii) plus accrued accretion thereon at the Accretion Rate from (and including) December 31, 2011 to the Closing Date;

(iii) plus (if a positive amount) or minus (the absolute value, if a negative amount), the difference of (x) the Estimated Target Statutory Capital minus (y) the Pro Forma Target Statutory Capital;

(iv) minus eighteen million five hundred thousand dollars ($18,500,000)

(subsections (i) through (iv) herein, collectively the "Closing Purchase Price"). Notwithstanding the foregoing, if the sum of subsections (i) through (iv) is a negative number, the Closing Purchase Price shall be $1.00.

Section 2.2 Closing

(a) The Closing shall take place at the offices of Mayer Brown LLP, 1675 Broadway, New York, New York at 10:00 a.m., New York City time, on a Business Day to be specified by the parties hereto, which shall be no later than the seventh (7^{th}) Business Day following the satisfaction or waiver (to the extent permitted by Law) of the conditions set forth in Article VI (other than conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver (to the extent permitted by Law) at or prior to the Closing of all such conditions) in accordance with this Agreement or at such other time, date and place as the parties hereto may mutually agree in writing. The date on which the Closing occurs is referred to herein as the "Closing Date." The parties hereto agree that effectiveness of the Closing shall be as of 12:01 a.m., New York City time, on the Closing Date.

(b) At the Closing, Seller shall deliver or cause to be delivered to Purchaser the following:

(i) the executed certificate(s) described in Sections 6.2(a) and (b);

(ii) original certificates representing the Purchased Shares duly endorsed in blank, or accompanied by stock powers duly executed in blank, in proper form for transfer on the stock transfer books of OneBeacon Insurance Company and Potomac Insurance Company;

(iii) the duly tendered Resignations;

(iv) an executed counterpart of each of the Ancillary Agreements that is to be delivered at the Closing to which Seller or any of its Subsidiaries is a party;

(v) an executed certificate under Section 1445(b)(2) of the Code providing that neither OneBeacon U.S. Holdings, Inc. or, to the extent any Affiliate of Seller is the seller of any of the Purchased Shares pursuant to Section 2.1(a) hereof, such Affiliate is a foreign person;

(vi) the Books and Records of the Acquired Companies to the extent such Books and Records are not already in the possession of the Acquired Companies;

(vii) certified copies of resolutions duly adopted by the Board of Directors of Seller authorizing the execution and performance of this Agreement and the other documents contemplated hereby; and

(viii) all such additional instruments, documents and certificates provided for by this Agreement.

(c) At the Closing, Purchaser shall deliver or cause to be delivered to Seller the following:

(i) the executed certificate(s) described in Sections 6.3(a) and (b);

(ii) the Closing Purchase Price paid at the Closing by Wire Transfer or by such other means as may be agreed upon by Purchaser and Seller;

(iii) an executed cross-receipt for the Purchased Shares delivered at the Closing;

(iv) an executed counterpart of each of the Ancillary Agreements that is to be delivered at the Closing to which Purchaser or any of its Affiliates is a party;

(v) certified copies of resolutions duly adopted by the Board of Directors of Purchaser authorizing the execution and performance of this Agreement and the other documents contemplated hereby; and

(vi) all such additional instruments, documents and certificates provided for by this Agreement.

(d) At the Closing, each party hereto shall deliver to the other party hereto copies (or other evidence) of all of its Required Approvals in satisfaction of Section 6.1(b).

Section 2.3 Post-Closing Adjustment of the Closing Purchase Price.

(a) The Closing Purchase Price will be adjusted after the Closing in accordance with Section 2.3(b). As used in this Agreement, "Final Purchase Price" means the Closing Purchase Price calculated assuming that reference to the Estimated Target Statutory Capital instead is to the Final Target Statutory Capital. For all purposes of this Section 2.3, the Closing Purchase Price shall

refer to the amount determined in accordance with Section 2.1(c), but without regard to the final sentence thereof.

(b) The Final Purchase Price shall be determined and a final payment shall be made by Purchaser to Seller or by Seller to Purchaser, as the case may be, as provided in this Section 2.3(b).

(vii) Not later than 90 days after the Closing Date (the "Post-Closing Delivery Period"), Purchaser shall prepare, or cause to be prepared, and deliver to Seller:

(A) a combined statutory balance sheet of the Acquired Companies as of the Closing Date (including a detailed breakdown of the value of the Acquired Companies' Investment Assets as of the Closing Date as reflected on such combined statutory balance sheet), which will be prepared in accordance with SAP (except with respect to the Pro Forma Adjustments) applied on a basis consistent with the Pro Forma Balance Sheet after giving effect to the Pro Forma Adjustments (the "Proposed Final Closing Date Balance Sheet"); and

(B) a certificate duly executed by an authorized officer of Purchaser setting forth the calculation of the Final Target Statutory Capital (the "Proposed Final Target Statutory Capital" and together with the Proposed Closing Date Balance Sheet, the "Proposed Financial Deliverables") and the Final Purchase Price derived from such and the other statements herein (assuming, for purposes of such certificate, that the Final Closing Date Balance Sheet will be in the form of the Proposed Final Closing Date Balance Sheet) and certifying on behalf of Purchaser that such calculation has been determined in good faith in accordance with the terms set forth in this Section 2.3(b).

If Purchaser shall fail to deliver the Proposed Financial Deliverables pursuant to this Section 2.3(b)(i) within the Post-Closing Delivery Period, Seller may, upon written notice to Purchaser delivered within 10 days after the expiration of the Post-Closing Delivery Period, prepare, or cause to be prepared, and deliver to Purchaser the Proposed Financial Deliverables within 30 days after the expiration of the Post-Closing Delivery Period, in which case, the provisions of this Section 2.3(b) shall be adjusted *mutatis mutandis*. After delivery of the notice referred to in the immediately preceding sentence, Seller and a firm of independent public accountants and independent actuaries designated by Seller will be entitled to reasonable access during normal business hours to the relevant records and working papers of Purchaser and its accountants and actuaries to aid in their preparation of the Proposed Financial Deliverables. If Purchaser shall fail to deliver the Proposed Financial Deliverables pursuant to this Section 2.3(b)(i) within the Post-Closing Delivery Period and Seller shall fail to deliver the notice referred to in the third sentence of this paragraph, the Estimated Target Statutory Capital and the Estimated Closing Date Balance Sheet, as the case may be, shall be deemed to be final, binding and conclusive on the parties.

(viii) After delivery of the Proposed Financial Deliverables to the Seller, Seller and a firm of independent public accountants and independent actuaries designated by Seller will be entitled to reasonable access during normal business hours to the relevant records

and working papers of Purchaser and its accountants and actuaries to aid in their review of the Proposed Financial Deliverables.

(ix) The Proposed Financial Deliverables will be deemed to be accepted by and will be final, binding and conclusive on the parties except to the extent, if any, that Seller has delivered to Purchaser within 45 days after the date on which the Proposed Financial Deliverables are delivered to Seller, a written notice stating that Seller believes that the Proposed Financial Deliverables contain mathematical errors or were not prepared in accordance with the terms of this Agreement. The written notice of objection must specify in reasonable detail (A) each and every item in the Proposed Financial Deliverables to which Seller objects, (B) the nature of any such objection, (C) the amount in question, (D) Seller's proposed change with respect to such items, and (E) the reasons supporting Seller's positions.

(x) If a proposed change by the Seller is disputed by Purchaser, Seller and Purchaser shall negotiate in good faith to resolve such dispute. If Purchaser and Seller reach agreement with respect to any disputed item, Purchaser shall revise the Proposed Financial Deliverables to reflect such agreement, and such revised and agreed Proposed Financial Deliverables will be final, binding and conclusive on the parties.

(xi) If any such proposed change remains disputed after a period of 30 days following the date on which Seller gives Purchaser the written notice of objection, then Purchaser and Seller shall jointly engage (x) KPMG LLP, (y) if KPMG LLP has a conflict of interest with respect to such engagement that is not waived by the parties or is otherwise unable or unwilling to accept such engagement, another nationally recognized "Big Four" independent registered public accounting firm having substantial insurance and reinsurance arbitration expertise that (A) does not have a conflict of interest with respect to such engagement that is not waived by the parties and (B) is mutually acceptable to Purchaser and Seller, or (z) if no such an accounting firm is mutually acceptable to Purchase and Seller, they shall each instruct their respective accountants to select another nationally recognized independent registered public accounting firm having substantial insurance and reinsurance arbitration expertise that does not have a conflict of interest with respect to such engagement that is not waived by the parties in good faith within ten (10) days; provided that if Purchaser's and Seller's accountants shall not have agreed upon such an accounting firm within such ten (10) day period, within an additional five (5) days, they shall each designate such an accounting firm and one accounting firm shall be selected by lot from those two accounting firms; provided further that, if only one of Seller's and Purchaser's accountants shall so designate a name of an accounting firm for selection by lot, such accounting firm so designated shall be deemed selected (KPMG LLP or such other firm, the "Independent Accountant") to resolve any remaining disputes. When acting under this Agreement, the Independent Accountant shall be entitled to the privileges and immunities of an arbitrator. The Independent Accountant will act as an arbitrator to determine only those issues as to which Seller has disagreed in the notice of objection duly delivered pursuant to Section 2.3(b)(iii) that are disputed by Purchaser. Purchaser and Seller shall deliver written briefs in support of their positions to the Independent Accountant, as applicable, and to one another within 20 Business Days after the matter is submitted to the Independent Accountant.

Reasonable discovery will be permitted in any such arbitration proceeding, including the right to depose or obtain interrogatories from officers, employees or other representatives of the other party to the extent such Persons are knowledgeable about, or possess information regarding, matters relevant to any disputed item. In addition, during the review by the Independent Accountant, Purchaser and Seller shall each make available to the Independent Accountant such individuals and such information, books, records and work papers, as may be required by the Independent Accountant to fulfill its obligations under this Section 2.3(b)(v); *provided*, *however*, that the independent accountants of Seller or Purchaser shall not be obligated to make any working papers available to the Independent Accountant unless and until the Independent Accountant has signed a confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent accountants or independent actuaries. Purchaser and Seller shall use their commercially reasonable efforts to cause the Independent Accountant to issue its written determination regarding all disputed items within 30 days (and in any event such determination will be issued not later than 60 days) after such items are submitted for review. In no event may the Independent Accountant's determination of disputed items be for an amount that is outside the range of Purchaser's and Seller's disagreement. The determination of the Independent Accountant will be final, binding and conclusive on Purchaser and Seller, and Purchaser shall revise the Proposed Financial Deliverables to reflect such determination. The fees, costs and expenses of the Independent Accountant will be borne by Purchaser and Seller in a proportion equal to the aggregate amount unsuccessfully disputed by such party over the total amount in dispute and submitted to the Independent Accountant as calculated by the Independent Accountant.

(xii) The Proposed Final Target Statutory Capital and the Proposed Final Closing Date Balance Sheet that become final, binding and conclusive on the parties pursuant to any of clauses (i), (iii), (iv) and (v) of this Section 2.3(b) are respectively referred to herein as the "Final Target Statutory Capital" and "Final Closing Date Balance Sheet."

(A) If the Final Purchase Price is less than the Closing Purchase Price, Seller shall pay to Purchaser an amount equal to such shortfall, within five (5) Business Days following the date on which the Proposed Final Target Statutory Capital and the Proposed Final Closing Date Balance Sheet are finalized in accordance with any of clauses (i), (iii), (iv) and (v) of this Section 2.3(b) ("Post-Closing Adjustment Determination Date"); and

(B) If the Final Purchase Price is more than the Closing Purchase Price, Purchaser shall cause OneBeacon Insurance to pay to Seller an amount equal to such excess, within the later of (x) five (5) Business Days following the Post-Closing Adjustment Determination Date, and (y) five (5) Business Days following the date of receipt of approval from the Pennsylvania Department for such payment, if required.

(xiii) Any payments required to be made by one party to another party pursuant to this Section 2.3(b) shall be offset by any payments required to be made to the first party

by such other party. Any payment required to be made pursuant to this Section 2.3(b) will be made by Wire Transfer. Any adjustment pursuant to this Section 2.3(b) will be treated as an adjustment to the Closing Purchase Price for tax reporting purposes.

(xiv) Purchaser covenants that until the amount that is to be paid to Seller pursuant to clause (vi)(B) of this Section 2.3(b) is paid in full, Purchaser shall (A) ensure that OneBeacon Insurance does not declare or pay any dividend, distribution or other similar payment or transfer to its shareholder(s) and (B) take all reasonable actions and measures to ensure that the Pennsylvania Department approves as promptly as practicable, and does not withdraw any approval granted for, the full payment of such amount, including making all filings required therefor within five (5) Business Days of the Post-Closing Adjustment Determination Date.

(xv) Purchaser's and Seller's rights to indemnification pursuant to Article VII will not be deemed to limit, supersede or otherwise affect, or be limited, superseded or otherwise affected by, Purchaser's and Seller's respective rights under this Section 2.3(b), except to the extent any Loss is reflected, reserved for or accrued on the Final Closing Date Balance Sheet.

Section 2.4 No Set-off. Except as expressly set forth herein, from and after the Closing, neither Seller nor any of its Affiliates, on the one hand, nor Purchaser nor any of their Affiliates, on the other hand, shall have any set-off or other similar rights with respect to (a) any of the funds to be received by such party or its Affiliates pursuant to this Agreement or any Ancillary Agreement or (b) any other amounts claimed to be owed to the other party hereto or its Affiliates arising out of this Agreement or any Ancillary Agreement

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER

Except as set forth in the Seller Disclosure Schedule, Seller represents and warrants to Purchaser as follows; *provided* that no representation or warranty is made under this Agreement with respect to the Retained Business (other than the representations set forth in Section 3.17); *provided, further,* that to the extent Seller sells or transfers the capital stock of any Acquired Company, or merges any Acquired Company into another Person, prior to the Closing as permitted in Section 5.13, no representation or warranty will be deemed to be made under this Agreement with respect to such Acquired Company, as the case may be, from and after the date of such sale, transfer or merger.

Section 3.1 Organization and Authority. Seller is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Delaware. Seller has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and the agreements contemplated to be executed and delivered hereunder to which it is a party.

Section 3.2 Binding Effect. The execution and delivery of this Agreement by Seller, the performance of its obligations hereunder and the consummation of the transactions contemplated

hereby have been duly and validly approved by all requisite corporate action on the part of Seller and no additional corporate proceedings on the part of Seller or any Affiliate thereof or any of their respective securityholders are necessary to approve or authorize, as applicable, this Agreement, the performance of Seller's obligations hereunder or the consummation of the transactions contemplated hereby. Assuming the due authorization, execution and delivery by Purchaser, this Agreement constitutes the valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer, preference and other similar laws affecting creditors' rights generally, and by general principles of equity (regardless of whether enforcement is sought in equity or at law) (the "Bankruptcy and Equity Exceptions").

Section 3.3 Organization, Qualification and Authority of the Acquired Companies

(a) Each of the Acquired Companies is an insurance company duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization. Each of the Acquired Companies (i) has all requisite corporate power and authority to own, lease or otherwise hold and operate its assets and to carry on its business as currently conducted and (ii) is duly qualified to do business and is in good standing (if applicable) as a foreign corporation in each jurisdiction where the ownership or operation of its assets or the conduct of its business requires such qualification, except, in the cases of clauses (i) and (ii) above, where the failure to have such power and authority or to be so qualified would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(b) Seller has made available to Purchaser copies of the Books and Records and organizational documents of each of the Acquired Companies, in each case as amended (such organizational documents, the "Organizational Documents"). The Acquired Companies are not in violation in any material respect of any of the provisions of their Organizational Documents.

Section 3.4 Capital Structure; Ownership of the Acquired Companies

(a) The authorized capital stock, including the number of authorized shares and the number of issued and outstanding shares, of each of the Acquired Companies is set forth on Section 3.4(a) of the Seller Disclosure Schedule. The Shares are the only shares of capital stock of, or other equity or voting interest in, the Acquired Companies that are issued and outstanding and are held by the Seller and the Acquired Companies as set forth in Section 3.4(a) of the Seller Disclosure Schedule. The Shares have been duly authorized and validly issued and are fully paid and non-assessable. Except for this Agreement, there are no preemptive or other outstanding rights, options, warrants, subscriptions, puts, calls, conversion rights or agreements or commitments of any character relating to the authorized and issued, unissued or treasury shares of capital stock, or other equity or voting interests, of any of the Acquired Companies. The Shares have not been issued in violation of any applicable Laws or the Acquired Companies' respective Organizational Documents or in violation of any preemptive rights of the current owners of the Acquired Companies. None of the Acquired Companies has any debt securities outstanding that have voting rights or are exercisable or convertible into, or exchangeable or redeemable for, or that give any Person a right to subscribe for or acquire, capital stock or any other security or any other equity interests of any such Acquired Company. There are no obligations, contingent or otherwise, to repurchase, redeem

(or establish a sinking fund with respect to redemption) or otherwise acquire any Shares. There are no shares of capital stock or other equity or voting interests of any of the Acquired Companies reserved for issuance. Seller owns, directly or indirectly, all of the Shares, in each case of record and beneficially, free and clear of all Encumbrances (other than restrictions on transfer imposed by federal and state insurance and securities Laws).

(b) Except as set forth on Section 3.4(b) of the Seller Disclosure Schedule, none of the Acquired Companies has any Subsidiaries and, except for Investment Assets, none of the Acquired Companies owns, directly or indirectly, any capital stock or other equity or voting interest of any Person, has any direct or indirect equity or ownership interest in any business or is a member of or participant in any partnership, joint venture or other entity, excluding any membership or participation in guaranty funds or similar associations or organizations the Acquired Companies must participate in or by virtue of their status as licensed insurers or the nature of the Run-Off Business. Upon delivery of certificates representing the Shares to be sold by Seller hereunder and payment therefore pursuant to this Agreement, good, valid and marketable title to such Shares, free and clear of all Encumbrances, will be transferred to the Purchaser (other than restrictions on transfer imposed by federal and state insurance and securities Laws).

Section 3.5 Filings and Consents. No consents or approvals of, waivers from or filings or registrations with, any Governmental Authority or any third party pursuant to a Material Contract or Reinsurance Agreement are required to be made or obtained at or prior to the Closing by Seller or any Acquired Company in connection with the execution, delivery or performance by Seller of this Agreement or to consummate the transactions contemplated hereby, except for (a) the notification and report forms required, if any, to be filed under the HSR Act with the Federal Trade Commission and the Antitrust Division of the Department of Justice, (b) the approvals required, if any, under the applicable insurance laws and regulations of the States of Massachusetts, New Jersey, New York, Pennsylvania, Texas and Wisconsin, (c) the expiry of waiting periods required under other applicable insurance Laws, (d) the matters set forth on Section 3.5 of the Seller Disclosure Schedule and (e) consents, approvals, waivers, filings or registrations the failure of which to make with or obtain from the applicable Governmental Authorities or third parties would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

Section 3.6 No Violations. Subject to the making of the filings and registrations and receipt of the consents, approvals and waivers referred to in Section 3.5 and the expiration of related waiting periods, the execution, delivery and performance of this Agreement by Seller and the consummation of the transactions contemplated hereby do not and will not (a) conflict with, constitute a breach or violation of, or a default under, or give rise to any Encumbrance (other than Permitted Encumbrances) or any acceleration of remedies, penalty, increase in benefit payable or right of termination, suspension, revocation or cancellation under, or forfeiture of, as applicable, any applicable Law, Governmental Order or Governmental Authorization or any Contract of Seller or any Acquired Company, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, or (b) constitute a material breach or violation of, or a default under, or conflict with the organizational documents of Seller or any of the Organizational Documents.

Section 3.7 Financial and Statutory Statements; No Undisclosed Liabilities.

(a) Seller has made available to Purchaser prior to the date hereof copies of (i) the annual statutory financial statements of each of the Acquired Companies as of and for the years ended 2011 and 2010 (the "Annual Statutory Financial Statements") and (ii) the quarterly statutory financial statements of each of the Acquired Companies as of and for the quarterly period ended June 30, 2012 as filed with the Departments (the "Interim Statements" and collectively with the Annual Statutory Financial Statements, the "Statutory Financial Statements"). Except as may be indicated in the notes thereto, each of the Statutory Financial Statements (A) were derived from and consistent with the Books and Records, (B) were prepared, in all material respects, in accordance with all applicable Laws and SAP consistently applied during the periods involved and (C) present fairly, in all material respects, the statutory financial position and the statutory results of operations, capital and surplus of the applicable Acquired Company as of the respective dates and for the respective periods referred to in the Statutory Financial Statements.

(b) The Pro Forma Balance Sheet has been prepared in accordance with SAP (except with respect to the Pro Forma Adjustments). The Pro Forma Balance Sheet was prepared from and is consistent with the Books and Records and the Statutory Financial Statements, presents fairly in all material respects the combined pro forma financial position of the Acquired Companies as of December 31, 2011, and was prepared in conformity with SAP (except with respect to the Pro Forma Adjustments) applied on a basis consistent with its application in connection with the preparation of the Statutory Financial Statements.

(c) Except for those Liabilities (i) that are reflected or reserved against in the Annual Statutory Financial Statements, (ii) incurred in the Ordinary Course of Business since December 31, 2011, (iii) incurred in the Ordinary Course of Business in connection with Insurance Contracts, (iv) incurred by or on behalf of an Acquired Company in connection with this Agreement, any Ancillary Agreement or the transactions contemplated hereby or thereby, (v) incurred with the consent of Purchaser or (vi) that would not individually, or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, none of the Acquired Companies has any liabilities that would be required by SAP to be reflected on an unaudited balance sheet of such Acquired Company (or disclosed in the notes thereto) (excluding any Liabilities that are reasonably apparent from the face of the disclosures set forth in the Seller Disclosure Schedule).

(d) The loss and loss adjustment expense reserves (including incurred but not reported loss and loss adjustment expense reserves) of each Acquired Company reflected in its most recent Statutory Financial Statement filed with its domiciliary Department were determined using generally accepted actuarial standards consistently applied.

Section 3.8 Absence of Certain Changes. Except as set forth in Sections 3.8 or 5.13(a) of the Seller Disclosure Schedule and Schedule 1.1(a), as reflected in the Interim Statements, or to the extent arising out of or relating to the transactions contemplated by this Agreement and the Ancillary Agreements, since December 31, 2011, (a) the Run-Off Business of the Acquired Companies has been operated in all material respects in the Ordinary Course of Business, (b) no Company Material Adverse Effect has occurred and (c) the Seller and the Acquired Companies have not made or allowed any action described under Sections 5.2(a) through (o); *provided* that for

this purpose, the actions described under Section 5.2(m) shall be determined as if the word "material" were inserted immediately before the sixth, eleventh, twenty-first and seventy-second words of such Section (before taking into account the additional words added pursuant to this proviso).

Section 3.9 Litigation; Governmental Orders.

(a) Other than as set forth in Section 3.9(a) of the Seller Disclosure Schedule, there is no Action pending or, to the Knowledge of Seller, threatened in writing against (i) any Acquired Company or its business or any of its properties or assets (other than ordinary course litigation in connection with Insurance Contracts) which would, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect or (ii) Seller or any of its Affiliates (other than the Acquired Companies) or any of their respective properties or assets, in each case, solely to the extent related to the business of the Acquired Companies, which would, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(b) None of the Acquired Companies is a party or subject to any Governmental Order applicable to that Acquired Company, its business or any of its properties or assets other than those that would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect and other than any Governmental Order that is generally applicable to all Persons in businesses similar to that of the Acquired Companies.

Section 3.10 Taxes.

(a) All Tax Returns required to be filed by or with respect to the Acquired Companies (including any such Tax Return required to be filed by any Seller Affiliated Group) have been timely filed. All such Tax Returns were true, correct and complete in all material respects and all Taxes owed by the Acquired Companies, whether or not shown on any such Tax Return, have been timely paid. With respect to any taxable period for which Taxes are not yet due and owing, each of the Acquired Companies has made adequate and sufficient accruals for Taxes on the Statutory Financial Statements for such Acquired Company in accordance with SAP. No Acquired Company is currently the beneficiary of or has requested any extension of time within which to file any Tax Return which has not yet been filed. No claim has ever been made by any Governmental Authority in any jurisdiction where any Acquired Company does not file Tax Returns that such Acquired Company is or may be subject to taxation by, or required to file Tax Returns in, such jurisdiction. Each of the Acquired Companies has complied in all material respects with all applicable laws relating to the payment, collection, or withholding of Taxes and the remittance thereof to the relevant Governmental Authority.

(b) Since January 1, 2001, no Acquired Company has ever been (i) a member of any affiliated group filing or required to file a consolidated, combined, unitary, or other similar Tax Return (other than any such group of which CGU Corporation or Fund American Enterprises Holdings, Inc. were or OneBeacon U.S. Financial Services, Inc. is the common parent (a "Seller Affiliated Group")) or (ii) a party to or bound by, nor does it have or has it ever had any obligation under, any Tax sharing or Tax allocation agreement or similar contract or arrangement (other than pursuant to customary commercial contracts not primarily related to Taxes and, in the case of any such contracts that are reasonably expected to give rise to a material amount of shared or allocated

Taxes, as identified in Section 3.10(b) of the Seller Disclosure Schedule). No Acquired Company has any liability for Taxes of any other Person under Treasury Regulations Section 1.1502-6 (or any corresponding or similar provision of state, local, or non-United States law), as a transferee or successor, by contract, or otherwise (other than pursuant to customary commercial contracts not primarily related to Taxes and, in the case of any such contracts that are reasonably expected to give rise to a material liability of an Acquired Company, as identified in Section 3.10(b) of the Seller Disclosure Schedule). Immediately after the Closing Date, no Acquired Company will have any deferred intercompany items within the meaning of Treasury Regulations Section 1.1502-13, and at such time there will not exist any excess loss account within the meaning of Treasury Regulations Section 1.1502-19 with respect to the stock of any Acquired Company. For United States federal income tax purposes, Seller constitutes a "disregarded entity," owned by OneBeacon U.S. Holdings, Inc., within the meaning of Treasury Regulations Section 301.7701-3(b)(1).

(c) Except as set forth in Section 3.10(c) of the Seller Disclosure Schedule: (i) there are no Encumbrances with respect to Taxes upon any of the assets or properties of any of the Acquired Companies, other than Permitted Encumbrances; (ii) there are no audits, examinations, written claims or assessments regarding Taxes in process or pending or proposed against any of the Acquired Companies or any Seller Affiliated Group; (iii) there are no outstanding agreements, waivers, or arrangements extending the statutory period of limitation (or any other period during which any Tax can be assessed) applicable to any claim for, or the period for the collection or assessment of, any Taxes with respect to any Acquired Company or any Seller Affiliated Group, and there are no outstanding requests or demands to extend or waive any such period of limitation and (iv) no power of attorney with respect to Taxes has been executed or filed with any Governmental Authority by or with respect to any Acquired Company that will remain in effect after the Closing.

(d) Section 3.10(d) of the Seller Disclosure Schedule lists all income and premium Tax Returns filed by or with respect to each Acquired Company (including any such Tax Return filed by any Seller Affiliated Group) for all taxable periods ended on or after December 31, 2009, copies of which have been made available to the Purchaser in the Electronic Data Room (which copies, in the case of any Seller Affiliated Group, are in the form of pro-forma returns for the relevant period for the Acquired Company included in such group), and indicates those Tax Returns that have been audited or subject to similar examination by a Taxing authority and those Tax Returns that, to the Knowledge of Seller, currently are the subject of such audit or examination. Seller has delivered to the Purchaser true, correct, and complete copies of all private letter rulings, notices of proposed deficiencies, deficiency notices, closing agreements, settlement agreements, and pending ruling requests, relating to Taxes for all taxable periods ended on or after December 31, 2009 submitted, received, or agreed to by or on behalf of any Acquired Company.

(e) No Acquired Company will be required to include any item of income in, or exclude any item of deduction from, the determination of taxable income for any taxable period (or portion thereof) after the Closing Date as a result of any (i) adjustment under Section 481 of the Code (or any similar provision of applicable state, local, or non-United States law) by reason of a change in accounting method or otherwise; (ii) "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of applicable state, local, or non-United States law) or Tax-related ruling received from any Governmental Authority and executed on or prior to the

Closing Date; (iii) intercompany transaction or excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local, or non-United States law); (iv) installment sale or open transaction made on or prior to the Closing Date; (v) prepaid amount received on or prior to the Closing Date; or (vi) election under Section 108(i) of the Code.

(f) Tax basis, loss and loss adjustment expense reserves, and unearned premium reserves for the Acquired Companies have been computed and maintained in the manner required under Sections 807, 832, and 846 of the Code and any other applicable Tax provision in all material respects. No Acquired Company has a positive policyholder surplus account within the meaning of Section 815 of the Code, or maintains a "special loss discount account" or makes "special estimated tax payments" within the meaning of Section 847 of the Code. No Acquired Company has ever been a life insurance company as defined in Section 816 of the Code, or has ever assumed, exchanged, administered, reinsured, or offered any policies or contracts that would constitute life insurance contracts as defined under Section 7702 of the Code or an annuity subject to Section 72 of the Code. No Acquired Company has ever issued, assumed, reinsured, modified, exchanged, or sold any policies, contracts, or other products to customers that are intended to or have ever been intended to qualify as a "pension plan contract" within the meaning of Section 818(a) of the Code or were otherwise intended to qualify under Sections 401, 403, 408, 412 or 457 of the Code.

(g) No Acquired Company has constituted either a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code in the four (4) years prior to the date of this Agreement.

(h) No Acquired Company has ever had a permanent establishment or other taxable presence in any foreign country, as determined pursuant to applicable foreign law and any applicable Tax treaty or convention between the United States and such foreign country. To the Knowledge of Seller, no Acquired Company directly owns stock in any other corporation which is a passive foreign investment company within the meaning of Section 1297 of the Code or a controlled foreign corporation within the meaning of Section 957 of the Code.

(i) No Acquired Company has participated or engaged in any "reportable transaction" within the meaning of Section 6707A of the Code or Treasury Regulations Section 1.6011-4, but excluding from such definition any transaction identified in Treasury Regulations Section 1.6011-4(b)(5).

(j) No Acquired Company is subject to any current limitation (excluding for this purpose any such limitation arising as a result of the purchase and sale of the Purchased Shares pursuant to this Agreement) under Sections 382, 383, or 384 of the Code (or any corresponding or similar provision of state, local, or non-United States law) on its ability to utilize its net operating losses, built-in losses, credits, or other similar items.

Section 3.11 Employee Benefits.

(a) Section 3.11(a) of the Seller Disclosure Schedule sets forth a list of each material employee benefit plan (as such term is defined in Section 3(3) of ERISA, whether or not such plans

are subject to ERISA) and each other material plan, program or policy providing for equity-based compensation, bonuses, incentive compensation, retention, termination, change in control or fringe benefits, that is sponsored, maintained or contributed to by Seller or any of its ERISA Affiliates as of the date of this Agreement for the benefit of any Employee, or in which any Employee or beneficiary of an Employee otherwise participates as of the date of this Agreement, or with respect to which an Acquired Company has any liability, contingent or otherwise (collectively, the "Benefit Plans"). Section 3.11(a) of the Seller Disclosure Schedule identifies any Benefit Plan, if any, that is maintained by any of the Acquired Companies as of the date of this Agreement. Seller has delivered to Purchaser prior to the date hereof true and complete copies of each Benefit Plan. Seller shall not make any material changes to any Benefit Plans after the date of this Agreement that materially increase the benefits to Employees or beneficiaries thereunder without first obtaining the written consent of Purchaser. Section 3.11(a) of the Seller Disclosure Schedule set forth a list of each Employee.

(b) Each Benefit Plan that is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA (a "Pension Plan") and that is intended to be qualified under Section 401(a) of the Code, has received a favorable determination or opinion letter from the IRS or has applied to the IRS for a favorable determination letter within the applicable remedial amendment period under Section 401(b) of the Code, and there are no circumstances reasonably likely to result in the loss of the qualification of such plan under Section 401(a) of the Code.

(c) The minimum funding standards of Section 412 of the Code have been satisfied, and neither Seller nor any ERISA Affiliate has an outstanding funding waiver. No Acquired Company nor any ERISA Affiliate has incurred any material liability with respect to a Pension Plan under Title IV of ERISA (other than with respect to routine claims for benefits or Pension Benefit Guaranty Corporation premiums paid in the Ordinary Course of Business). No Benefit Plan is a multiemployer plan as defined in Section 3(37) of ERISA.

(d) Each Benefit Plan has been administered in all material respects in accordance with the terms of such plan and the provisions of any and all statutes, orders or governmental rules or regulations, including without limitation ERISA and the Code. All contributions, premiums and other amounts due to or in connection with each Benefit Plan under the terms of the Benefits Plan or applicable law have been timely made. There are no claims pending or, to the Knowledge of Seller, threatened in writing by or on behalf of any Benefit Plan (other than with respect to routine claims for benefits), by any Person covered thereby or otherwise.

(e) Subject to Section 5.5(d), neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby, either alone or together with subsequent events, will (i) entitle any Employee to any payments (including severance pay or any increase in severance pay or other compensation upon any termination of employment after the date hereof) for which any Acquired Company or Purchaser would have any liability, (ii) accelerate the time of payment or vesting or result in any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or result in any other material obligation pursuant to, any of the Benefit Plans for which any Acquired Company or Purchaser

would have any liability or (iii) result in payments under any of the Benefit Plans that would not be deductible under Section 280G of the Code.

Section 3.12 Compliance with Laws; Governmental Authorizations.

(a) Except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, none of the Acquired Companies (i) is in violation of any applicable Law nor (ii) has received, at any time since December 31, 2009, any written notice from any Governmental Authority regarding any actual or alleged violation of, or failure on the part of such Acquired Company to comply with, any applicable Law.

(b) Except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, (i) each Acquired Company holds and maintains in full force and effect all material Governmental Authorizations required to conduct its business in the manner and in all such jurisdictions as it is currently conducted, including the insurance licenses from all insurance Governmental Authorities, which are set forth in Section 3.12 of the Seller Disclosure Schedule and (ii) each Acquired Company is in compliance with all such Governmental Authorizations. None of the Acquired Companies has received, at any time since December 31, 2008, any written notice from any Governmental Authority regarding any actual or alleged violation of, or failure on the part of such Acquired Company to comply with, any term or requirement of any such material Governmental Authorization that has not been remedied.

(c) The Acquired Companies have filed all material reports, statements, documents, registrations, filings and submissions required to be filed with any Governmental Authority, and all such reports, statements, documents, registrations, filings and submissions complied in all material respects with applicable Law in effect when filed and no material deficiencies have been asserted by, nor any material penalties imposed by, any such Governmental Authorities with respect to such reports, statements, documents, registrations, filings or submissions.

Section 3.13 Intellectual Property.

(a) Section 3.13(a) of the Seller Disclosure Schedule (in subsections labeled (i) and (ii) corresponding to the below paragraphs) contains a complete and accurate list of:

(i) the Trademarks, copyrights, and patents owned by an Acquired Company or a Subsidiary of an Acquired Company that is the subject of a registration or pending application for registration and, if applicable, the jurisdictions in which such Registered Intellectual Property has been issued or registered or in which any application for such issuance or registration has been filed, the name of the applicant/registrant, the application or registration number, the filing date and the issuance/registration/grant date; and

(ii) the domain name registrations owned by an Acquired Company or a Subsidiary of an Acquired Company and, for each such domain name, the named owner and the registrar with whom that domain name is registered.

The Acquired Companies and their Subsidiaries own all rights to the registered intellectual property and domain name registrations listed in Section 3.13(a)(i) and (ii) of the Seller Disclosure Schedule (collectively, the "Registered Intellectual Property") free and clear of all Encumbrances other than Permitted Encumbrances. The Acquired Companies and their Subsidiaries have taken reasonable steps to maintain the Registered Intellectual Property. None of the Registered Intellectual Property has been adjudged invalid or unenforceable in whole or part.

(b) As of the date of this Agreement, each Acquired Company owns or has rights or licenses to use, and as of the Closing Date and subject to obtaining all required consents and subject to obtaining all third party licenses and other consents required for Seller to provide or the Acquired Companies to receive services under the Transition Services Agreement, after giving effect to those transfers and assignments of Intellectual Property pursuant to Sections 5.6(a) and (b) and the services and access to and use of software and information systems that Seller is agreeing to provide under the Transition Services Agreement, each Acquired Company will own or have rights or licenses to use, the material Intellectual Property used in the business of such Acquired Company as currently conducted, free and clear of all Encumbrances other than Permitted Encumbrances, except as provided in the Transition Services Agreement.

(c) To the Knowledge of Seller, the conduct of the business of each Acquired Company and their Subsidiaries as currently conducted does not infringe upon, misappropriate, dilute or otherwise violate the Intellectual Property rights of any third party; the Acquired Company and their Subsidiaries have not infringed upon, misappropriated, diluted, or otherwise violated the Intellectual Property rights of any third party and, subject to obtaining all required consents and subject to obtaining all third party licenses and other consents required for Seller to provide or the Acquired Companies to receive services under the Transition Services Agreement, will not infringe upon, misappropriate, or violate the Intellectual Property rights of any third party immediately following the Closing Date to the extent conducted as currently conducted (other than such changes in conduct due to the transactions contemplated herein on the Closing Date); and none of the Acquired Companies nor their Subsidiaries has received any written notice of any alleged breach, infringement, misappropriation or dilution or other violation by any Acquired Company or its Subsidiaries of the Intellectual Property rights of any third party, in each case where such breach, infringement, misappropriation or dilution is pending and not resolved and except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect. To the Knowledge of Seller, as of the date hereof, no third party is breaching, infringing upon, misappropriating or otherwise violating any Acquired Company Owned Intellectual Property and no such claims have been made or threatened in writing by any Acquired Company or Seller or their Affiliates.

(d) After giving effect to those transfers and assignments of Intellectual Property pursuant to Sections 5.6(a) and (b) and the Transition Services Agreement and the activities contemplated by Section 5.13, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, there is no Intellectual Property used in the business of any Acquired Company or its Subsidiaries as currently conducted that is owned by Seller or any of its Affiliates, other than the Seller Marks and software, systems and data used for the Acquired Companies.

(e) The Acquired Companies have implemented policies and procedures reasonably designed to establish and preserve its ownership of the Acquired Company Intellectual Property, including the protection of trade secrets and other confidential information.

(f) Each Acquired Company is in material compliance with any applicable privacy policies it has established. To the Knowledge of Seller, there are no notices, claims, investigations or proceedings pending or threatened by state or federal agencies, or private parties involving notice or information to individuals that Personal Information held or stored by the Acquired Companies has been compromised, lost, taken, accessed or misused. No Acquired Company has received any written notice regarding any violation of any Privacy Law, and, to the Knowledge of the Seller, no Acquired Company has had any data breach involving Personal Information or, if it was made aware of a data breach, has complied with all data breach notification and related obligations and has taken corrective action reasonably designed to prevent recurrence of such a data breach, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect. All websites established or maintained by an Acquired Company that are accessible to the general public contain privacy statements advising them how their Personal Information will be used, collected, stored and protected. "Personal Information" means any information related to an identified or identifiable natural person and does not meet the definition of de-identified as defined by the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") section 164.514 (b)(2). "Privacy Laws" shall mean any laws, statutes, rules, regulations, codes, orders, decrees, and rulings thereunder of any federal, state, regional, county, city, municipal or local government of the United States that relate to privacy, data protection or data transfer issues.

Section 3.14 Material Contracts.

(a) Section 3.14(a) of the Seller Disclosure Schedule lists, as of the date hereof, any Contract to which any Acquired Company is a party and that is (i) used primarily in the Run-Off Business or (ii) is a Contract under which any Acquired Company will have continuing obligations after the Closing that meets any of the following criteria and is not an Insurance Contract, Producer Agreement, reinsurance agreement, reinsurance treaty or Intercompany Agreement (each, a "Material Contract") and that:

(i) requires expenditures by an Acquired Company involving consideration in excess of $50,000 in any twelve (12)-month period;

(ii) provides for payments to be received by an Acquired Company in excess of $50,000 in any twelve (12)-month period;

(iii) relates to the incurrence by an Acquired Company of any indebtedness in an aggregate amount in excess of $50,000 during the term of the Contract;

(iv) relates to the acquisition or disposition (whether by merger, sale or purchase of stock, sale or purchase of assets or otherwise) lease, option to sell or lease by an Acquired Company of any material assets or any material business (except for transactions involving Investment Assets);

(v) restricts or limits an Acquired Company's ability to freely engage in any business, compete with other entities, market any product or solicit employees or customers, or provides for "exclusivity" or any similar requirement;

(vi) contains indemnifications, guarantees or keep-wells or similar undertakings made or supported by any Acquired Company;

(vii) is a collective bargaining agreement or other Contract or arrangement with any labor union or any employee organization;

(viii) relates to the license to an Acquired Company of any material Intellectual Property or the license from an Acquired Company of any material Intellectual Property, other than "shrink wrap" or "click through" licenses or licenses of generally-available "off the shelf" computer software or databases;

(ix) Contract (however named) involving a sharing of profits, losses, costs or liabilities by any Acquired Company with any other Person;

(x) power of attorney of any Acquired Company that is currently effective and outstanding;

(xi) Contract relating to indemnification of any member, stockholder, manager, director or officer of any Acquired Company, other than the Organizational Documents; or

(xii) is an obligation to enter into any of the foregoing.

(b) With respect to each Material Contract, assuming the due authorization, execution and delivery thereof by the other party or parties thereto, (i) each Material Contract is a valid and binding obligation of the applicable Acquired Company and, to the Knowledge of Seller, as of the date hereof, each other party or parties thereto, in accordance with its terms and is in full force and effect, subject to the Bankruptcy and Equity Exceptions, (ii) the applicable Acquired Company is not, and, to the Knowledge of Seller, no other party thereto is in default in the performance, observance or fulfillment of any obligation, covenant or condition contained in each of the Material Contracts and (iii) to the Knowledge of Seller, as of the date hereof, no event has occurred that would constitute a default under any Material Contract, except, with respect to the foregoing clauses (i), (ii) and (iii), where such failures to be valid and binding and in full force and effect and defaults would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(c) Copies of each Material Contract have been made available to Purchaser, except to the extent that any such Material Contract is identified as confidential in Section 3.14(a) of the Seller Disclosure Schedule.

(d) For the avoidance of doubt, Material Contracts shall not include Contracts that will be assigned, following the date hereof but prior to the Closing, to an Affiliate of the relevant Acquired Company that is not an Acquired Company.

Section 3.15 Assets; Real Property.

(a) Each Acquired Company has good and valid title to, or a valid and binding leasehold or other interest in, all material personal property and other assets (other than the Investment Assets) reflected on the balance sheet contained in the Pro Forma Balance Sheet or thereafter acquired by such Acquired Company, except for property or other assets sold or otherwise disposed of since December 31, 2011 in the Ordinary Course of Business, free and clear of all Encumbrances, except Permitted Encumbrances. This Section 3.15(a) does not relate to Intellectual Property, which is solely the subject of Section 3.13.

(b) Section 3.15(b) of the Seller Disclosure Schedule sets forth a complete and accurate list, as of the date hereof, of all real property owned by the Acquired Companies (the "Premises").

(c) Section 3.15(c) of the Seller Disclosure Schedule sets forth a complete and accurate list, as of the date hereof, of any lease, sublease, license or occupancy agreement for real property that is primarily used in the conduct of the Run-Off Business of the Acquired Companies (any such lease, sublease, license or occupancy agreement being hereinafter referred to as a "Lease") and Seller has delivered to Purchaser true and complete copies of each Lease. Except for the Leases and such leases, subleases, licenses or occupancy agreements for real property that are to be assigned or terminated pursuant to Section 5.13, none of the Acquired Companies is a party to any lease, sublease, license or occupancy agreement for real property. Assuming the due authorization, execution and delivery thereof by the other party or parties thereto, each Lease is in all material respects a valid and binding obligation of the applicable Acquired Company and, to the Knowledge of Seller, as of the date hereof, each other party or parties thereto, in accordance with its terms and is in full force and effect in all material respects, subject to the Bankruptcy and Equity Exceptions. None of the Acquired Companies (i) owes any brokerage commissions or finders' fees with respect to any Lease or (ii) has subleased, licensed or otherwise granted any Person the right to use or occupy any Lease or any material portion thereof, except as listed in Section 3.15(c) of the Seller Disclosure Schedule, or (iii) is in arrears in any material respect of any rent or additional rent. All construction to be performed by Seller pursuant to the terms of the Lease have been completed.

Section 3.16 Finders' Fees. Except for Barclays Capital Inc., whose fees will be paid by Seller, there is no investment banker, broker, financial adviser, finder or other intermediary who is or might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, based on arrangements made by or on behalf of Seller, any Acquired Company or any of their respective Affiliates.

Section 3.17 Insurance Contracts.

(a) All material policy and contract forms on which the Acquired Companies have issued Insurance Contracts and which are currently being used by an Acquired Company or were used by an Acquired Company for business which is still in force and all amendments and applications

pertaining thereto and, to the Knowledge of Seller as of the date of this Agreement, all material marketing materials, brochures, illustrations and certificates pertaining thereto have, to the extent required by applicable Law, been approved by all applicable Governmental Authorities or filed with and not objected to by such Governmental Authorities within the period provided by applicable Law for objection and all such policy and contract forms, amendments and applications and, to the Knowledge of Seller as of the date of this Agreement, all such marketing materials, brochures, illustrations and certificates, comply with, and have been administered in all material respects in accordance with, applicable Law. Except as set forth in Section 3.17(a) of the Seller Disclosure Schedule, all premium rates established by the Acquired Companies with respect to the Retained Business and that are required to be filed with or approved by any Governmental Authorities have been so filed or approved and the premiums charged with respect to the Retained Business conform in all material respects to the premiums so filed or approved and comply (or complied at the relevant time) in all material respects with the insurance Laws applicable thereto.

(b) Since December 31, 2009, all insurance claims paid by any Acquired Company have in all material respects been paid in accordance with the terms of the Insurance Contract under which they arose, except for such claims for which the applicable Acquired Company has a reasonable basis to contest payment.

(c) Except as set forth on Section 3.17(c) of the Seller Disclosure Schedule, there are no Insurance Contracts of any Acquired Company under which the holders or owners of such Insurance Contracts have any rights with respect to dividends, surplus, profits, participation or voting rights.

Section 3.18 Reinsurance. Section 3.18 of the Seller Disclosure Schedule sets forth a list, as of the date hereof, of all treaties and agreements of ceded and assumed reinsurance of any of the Acquired Companies (where case reserves exceed $1,000,000) under which there remains any outstanding liability or available ceded reinsurance recoverable of the Acquired Companies (such listed agreements, the "Reinsurance Agreements"). Except as would not, individually or in the aggregate, reasonable be likely to have a Company Material Adverse Effect: (a) the Reinsurance Agreements are in full force and effect in accordance with their terms (except for such agreements terminated and such terms modified as permitted under Section 5.2 hereof); (b) the applicable Acquired Company has not breached any provision of any Reinsurance Agreement or failed to meet the underwriting standards required for any business reinsured thereunder; and (c) to the Knowledge of Seller, (i) no other party to any Reinsurance Agreement is in default thereunder, (ii) no other party to any Reinsurance Agreement is the subject of a rehabilitation, liquidation, conservatorship, receivership, bankruptcy or similar proceeding and (iii) there is no Action pending or threatened under any Reinsurance Agreement.

Section 3.19 Investment Assets. Seller has provided to Purchaser a list of the Investment Assets as of December 31, 2011. The Acquired Companies hold good and valid title to all Investment Assets free and clear of all Encumbrances other than Permitted Encumbrances.

Section 3.20 Labor Matters. None of the Acquired Companies is a party to, or bound by, any agreement with respect to the Employees with any labor union or any other employee organization, group or association organized for purposes of collective bargaining. To the

Knowledge of Seller, there are, and since December 31, 2009 there have been, no activities or proceedings of any labor union to organize any Employees or employees of Seller dedicated to the business of the Acquired Companies.

Section 3.21 Intercompany Agreements. Section 3.21 of the Seller Disclosure Schedule lists all Intercompany Agreements in effect as of the date hereof.

Section 3.22 Environmental Laws. Except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, (i) each Acquired Company is in compliance with all applicable Environmental Laws, and possesses and is in compliance with all permits required under such Environmental Laws for the conduct of its business and operations, (ii) no Acquired Company has received any claims or notices alleging any Liability relating to any Environmental Laws, (iii) there are and have been no conditions at any property currently, and to the Knowledge of Seller formerly, owned, leased, operated or used by any Acquired Company since December 31, 2008 that would give rise to any Liability of any Acquired Company under any Environmental Law and (iv) Seller has provided to Purchaser true and complete copies of all environmental assessments, reports and data concerning any real property currently owned, leased, operated or used by any Acquired Company within the possession or control of Seller or any Acquired Company.

Section 3.23 Insurance. Section 3.23 of the Seller Disclosure Schedule contains a list of all policies of fire, liability, workers' compensation, property, casualty and other forms of insurance owned, or maintained by the Acquired Companies as of the date of this Agreement (collectively, the "Insurance Policies"). All such Insurance Policies are in full force and effect, all premiums with respect thereto covering all periods up to and including the Closing Date will have been paid, and no notice of cancellation or termination has been received by any Acquired Company with respect to any such policy, except for any such Insurance Policy which is replaced or expires in accordance with its terms prior to the Closing Date. No Acquired Company has made any claim under any Insurance Policy during the two (2) year period prior to the date of this Agreement with respect to which an insurer has, in a written notice to an Acquired Company, denied or disputed coverage and no insurer has threatened in writing to cancel any such policy.

Section 3.24 Bank Accounts. Section 3.24 of the Seller Disclosure Schedule sets forth each of the bank accounts of the Acquired Companies and each Person with signing authority for each such account.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Except as set forth in the Purchaser Disclosure Schedule, Purchaser represents and warrants to Seller as follows:

Section 4.1 Organization and Authority. Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. Purchaser has all requisite corporate power and authority to execute and deliver this Agreement and to perform its

obligations hereunder and the agreements contemplated to be executed and delivered hereunder to which it is a party.

Section 4.2 Binding Effect. The execution and delivery of this Agreement by Purchaser, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby have been duly and validly approved by all requisite corporate action on the part of Purchaser and no additional corporate proceedings on the part of Purchaser or any Affiliate thereof or any of their respective securityholders are necessary to approve or authorize, as applicable, this Agreement, the performance of Purchaser's obligations hereunder or the consummation of the transactions contemplated hereby. Assuming the due authorization, execution and delivery by Seller, this Agreement constitutes the valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject to the Bankruptcy and Equity Exceptions.

Section 4.3 Governmental Filings and Consents. No consents or approvals of, waivers from or filings or registrations with, any Governmental Authority are required to be made or obtained at or prior to the Closing by Purchaser or any of its Affiliates in connection with the execution, delivery or performance by Purchaser of this Agreement or to consummate the transactions contemplated hereby, except for the consents, approvals, waivers, filings and registrations referred to in Section 4.3 of the Purchaser Disclosure Schedule, except as would not, individually or in the aggregate, reasonably be likely to have a Purchaser Material Adverse Effect.

Section 4.4 No Violations. Subject to the making of the filings and registrations and receipt of the consents, approvals and waivers referred to in Section 4.3 and the expiration of related waiting periods, the execution, delivery and performance of this Agreement by Purchaser and the consummation of the transactions contemplated by this Agreement do not and will not (a) conflict with, constitute a breach or violation of, or a default under, or give rise to any Encumbrance (other than Permitted Encumbrances) or any acceleration of remedies, penalty, increase in benefit payable or right of termination, suspension, revocation or cancellation under, or forfeiture of, as applicable, any applicable Law, Governmental Order or Governmental Authorization or Contract of Purchaser, except as would not, individually or in the aggregate, reasonably be likely to have a Purchaser Material Adverse Effect or (b) constitute a breach or violation of, or a default under, the organizational documents of Purchaser.

Section 4.5 Compliance with Laws. Except as would not, individually or in the aggregate, reasonably be likely to have a Purchaser Material Adverse Effect, Purchaser (a) is not in violation of any applicable Law and (b) has not received, at any time since December 31, 2009, any written notice from any Governmental Authority regarding any actual or alleged violation of, or failure on the part of Purchaser to comply with, any applicable Law that has not been remedied.

Section 4.6 Purchaser Impediments. As of the date hereof, there is no Action pending or, to the Knowledge of Purchaser, threatened in writing, or any outstanding Governmental Order, against Purchaser or any of its Affiliates which (a) challenges the validity or enforceability of this Agreement, (b) seeks to enjoin or prohibit the consummation of the transactions contemplated hereby or (c) would (i) impair or delay the ability of Purchaser to promptly obtain Required Approvals (as applicable) or (ii) individually or in the aggregate, reasonably be likely to have a Purchaser Material Adverse Effect. As of the date hereof, Purchaser has no reason to believe that

any facts or circumstances related to its identity or regulatory status will impair or delay its ability to promptly obtain the Required Approvals (as applicable). Except as would not, individually or in the aggregate, reasonably be likely to have a Purchaser Material Adverse Effect, (A) Purchaser holds and maintains in full force and effect all Governmental Authorizations required to conduct its business in the manner and in all such jurisdictions as it is currently conducted, (B) Purchaser is in compliance with all such Governmental Authorizations and (C) Purchaser has not received, at any time since December 31, 2009, any written notice from any Governmental Authority regarding any actual or alleged violation of, or failure on the part of Purchaser to comply with, any term or requirement of any such Governmental Authorization that has not been remedied. Since December 31, 2011, no Purchaser Material Adverse Effect has occurred.

Section 4.7 Finders' Fees. There is no investment banker, broker, financial advisor, finder or other intermediary who is or might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, based on arrangements made by or on behalf of Purchaser or its Affiliates.

Section 4.8 Financial Capability. Purchaser, as of the Closing Date, will have sufficient funds to complete the Acquisition on the terms and subject to the conditions set forth in this Agreement and to consummate the other transactions contemplated by this Agreement and the Ancillary Agreements.

Section 4.9 Purchase for Own Account.

(k) Purchaser is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D under the Securities Act.

(l) Purchaser is acquiring the Purchased Shares for investment and not with a view toward, or for sale in connection with, any distribution thereof, nor with any present intention of distributing or selling the Purchased Shares. Purchaser agrees that the Purchased Shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the Securities Act and any applicable state securities laws, except pursuant to an exemption from such registration under such Laws.

(m) Purchaser is able to bear the economic risk of holding the Purchased Shares for an indefinite period, including a complete loss of its investment in the Purchased Shares, and has knowledge and experience in financial and business matters such that it is capable of evaluating the risks of an investment in the Purchased Shares.

ARTICLE V
COVENANTS

Section 5.1 Access; Confidentiality.

(c) Prior to the Closing, Seller shall permit Purchaser and its representatives to have reasonable access, during regular business hours and upon reasonable advance notice to Seller, to the Books and Records to the extent not prohibited by applicable Law, for any reasonable business

purpose relating to this Agreement; *provided* that any Books and Records or other information that is subject to an attorney-client or other legal privilege or obligation of confidentiality or non-disclosure shall not be made so accessible; *provided, further,* that Seller shall, upon the request of Purchaser, use commercially reasonable efforts to obtain the applicable consent for the disclosure of such Books and Records that are subject to such obligation of confidentiality or non-disclosure. Such access shall be at Purchaser's sole cost and expense and may not unreasonably interfere with the conduct of Seller's or its Affiliates' businesses.

(d) Purchaser acknowledges that the information and access provided to it pursuant to Section 5.1(a) shall be subject to the terms and conditions of the Confidentiality Agreements. As of the Closing, Purchaser's obligations under the Confidentiality Agreements related to (i) non-use, non-disclosure and return or destruction of Evaluation Material (as defined in the Confidentiality Agreements) to the extent related to the Acquired Companies shall terminate and (ii) non-solicitation and any applicable non-hire provisions shall terminate with respect to the Employees. All other provisions of the Confidentiality Agreements shall remain in full force and effect in accordance with their terms.

(e) Following the Closing Date, without limiting the obligations of Purchaser to provide access pursuant to Section 2.3(b)(i), to the extent not prohibited by applicable Law, Purchaser shall (i) permit Seller and its representatives, during regular business hours and upon reasonable advance notice to Purchaser, the right to examine and make copies of the Books and Records for any reasonable business purpose relating to this Agreement or any Ancillary Agreement, including the preparing or examination of Seller's and its Affiliates' regulatory and Tax filings and financial statements and the conduct of any third party litigation or dispute resolution (not involving Purchaser or any of its Affiliates), or regulatory dispute, whether pending or threatened, concerning the business of the Acquired Companies prior to the Closing; and (ii) maintain the Books and Records for the foregoing examination and copying for a period of not less than ten (10) years following the Closing Date. Access to the Books and Records shall be at Seller's sole cost and expense and may not unreasonably interfere with the conduct of Purchaser's or its Affiliates' businesses.

(f) From and after the Closing, Seller shall not, and shall cause each of its Affiliates and such Affiliates' officers, directors, employees and professional advisers not to, disclose to any other Person any Business Confidential Information; provided that Seller and such Affiliates may disclose Business Confidential Information (i) to the extent required by law, in any report, statement, testimony or other submission to any Governmental Authority or (ii) in order to comply with any law, or in response to any summons, subpoena or other legal process or formal or informal investigative demand issued to Seller or its Affiliates in the course of any litigation, investigation or administrative proceeding; provided, further, that, if Seller or any of its Affiliates become legally compelled by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar judicial or administrative process to disclose any such Business Confidential Information, Seller shall, to the extent reasonably practicable, provide Purchaser with prompt prior written notice of such requirement and cooperate with Purchaser to obtain a protective order or similar remedy to cause such Business Confidential Information not to be disclosed, including interposing all available objections thereto. In the event that such protective order or other similar remedy is not obtained, Seller and its Affiliates shall furnish only that portion of Business Confidential Information that has

been legally compelled. For purposes of this Section 5.1(d), "Business Confidential Information" means all non-public information disclosed prior to the Closing by Seller to Purchaser that is related to the Run-Off Business.

Section 5.2 Conduct of Business. During the period from the date of this Agreement until the Closing or earlier termination of this Agreement, except as otherwise expressly contemplated or permitted by, or necessary to effectuate the transactions contemplated by, this Agreement (including Sections 5.3, 5.4, 5.6, 5.13 and 5.14) or the Ancillary Agreements, as set forth on Section 5.2 of the Seller Disclosure Schedule, as required by applicable Law, Governmental Order, fiduciary obligations or existing contractual obligations or with the prior written consent of Purchaser (which consent shall not be unreasonably withheld, delayed or conditioned), Seller shall cause the Acquired Companies to conduct their respective businesses in the Ordinary Course of Business and cause each Acquired Company to not:

(c) declare, set aside or pay any dividend or distribution (in cash, stock or otherwise) on any shares of its capital stock or other equity interest or purchase, redeem or repurchase any shares of its capital stock or other equity interest;

(d) issue, sell, pledge, transfer, dispose of or encumber any shares of its capital stock or other equity interest or securities exercisable or convertible into, or exchangeable or redeemable for, any such shares or other equity interest, or any rights, warrants, options, calls or commitments to acquire any such shares or other equity interest;

(e) split, combine, subdivide or reclassify any of its capital stock or other equity interest;

(f) (i) except in the Ordinary Course of Business, incur any indebtedness, except for indebtedness the aggregate amount of which does not exceed the amount set forth in Section 5.2(d)(i) of the Seller Disclosure Schedule or indebtedness incurred under existing Intercompany Agreements or (ii) make any loans, advances or capital contributions to, or investments in, any other Person, other than investments made in the Ordinary Course of Business in accordance with its investment policies;

(g) amend its Organizational Documents;

(h) other than in the Ordinary Course of Business, modify or amend in any material respect or terminate any of the Material Contracts or waive, release or assign any material rights or claims thereunder or enter into any Contract which would, if entered into prior to the date hereof, have been a Material Contract;

(i) either (i) terminate or modify or amend in any material respect any of the Reinsurance Agreements identified in Section 5.2(g) of the Seller Disclosure Schedule, or waive, release or assign any material rights or claims thereunder or enter into any Contract which would, if entered into prior to the date hereof, have been a Reinsurance Agreement or (ii) other than in the Ordinary Course of Business, modify or amend in any material respect or terminate any other treaty or agreement of ceded or assumed reinsurance of any of the Acquired Companies, or waive, release or assign any material rights or claims thereunder, other than in the Ordinary Course of Business;

(j) voluntarily adopt a plan of complete or partial liquidation or rehabilitation or authorize or undertake a dissolution, rehabilitation, consolidation, restructuring, recapitalization or other reorganization;

(k) make any material change in its underwriting, reinsurance, claims administration, pricing, reserving or accounting practices or policies, except as required by GAAP or SAP or changes in the interpretation or enforcement thereof;

(l) acquire or dispose (by merger, consolidation or acquisition or disposition of stock or other equity interest or of assets) of any Person or business or division thereof other than investments made in the Ordinary Course of Business in accordance with its investment policies;

(m) pay, settle, release or forgive any Action or waive any right thereto in excess of the individual and aggregate amounts set forth in Section 5.2(k) of the Seller Disclosure Schedule (in each case with respect to any Action, determined net of any insurance coverage or reserves in respect of such Action), other than the settlement of claims in connection with Insurance Contracts in the Ordinary Course of Business;

(n) except in the Ordinary Course of Business, (i) grant or provide any severance or termination payments or benefits to any Employee, (ii) increase the compensation, bonus opportunity or other benefits of, or make any new equity awards to, any Employee or (iii) adopt or amend any Benefit Plan;

(o) change, revoke or make any Tax election, file any amended Tax Return or claim for refund, adopt or change any method of Tax accounting or accounting period, settle, compromise, or file any appeal with respect to any Tax liability or refund, consent to or file any appeal with respect to any claim or assessment relating to Taxes, or consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment (other than any request in the ordinary course of business to extend the initial due date for any Tax Return not yet filed);

(p) enter into any Intercompany Agreements; or

(q) enter into any Contract with respect to any of the foregoing.

This Section 5.2 shall not apply to, and shall not require any act or omission by Seller in respect of, the Retained Business.

Section 5.3 Commercially Reasonable Efforts; Regulatory Matters; Quarterly Balance Sheets. From the date of this Agreement until Closing, the parties agree as follows:

(a) Subject to the terms and conditions of this Agreement, Purchaser and Seller agree to use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective, as soon as practicable after the date of this Agreement, the transactions contemplated by this Agreement and the Ancillary Agreements, including using commercially reasonable efforts to (i) lift or rescind any injunction or restraining order or other Governmental Order adversely affecting the ability of the

parties hereto to consummate the transactions contemplated hereby and thereby and (ii) defend any litigation or other proceeding seeking to enjoin, prevent or delay the consummation of the transactions contemplated hereby and thereby or seeking material damages. Notwithstanding the foregoing, except as otherwise required by this Agreement, Seller shall not be obligated to take any action, or omit to take any action, that would, individually or in the aggregate, reasonably be expected to impair or interfere with the ability of Seller and its Affiliates (including the Acquired Companies) to conduct their respective businesses substantially in the manner conducted as of the date hereof.

(b) Subject to the terms and conditions of this Agreement, Purchaser and Seller shall, and shall cause their respective Affiliates to, use commercially reasonable efforts to (i) take, or cause to be taken, all actions necessary, proper or advisable to comply promptly with all legal and regulatory requirements which may be imposed on such party or its Affiliates with respect to the transactions contemplated by this Agreement (including those set forth on Section 5.13(a) of the Seller Disclosure Schedule) and the Ancillary Agreements and, subject to the conditions set forth in Article VI, to consummate the transactions contemplated by this Agreement and the Ancillary Agreements and (ii) obtain (and to cooperate with the other party hereto to obtain) any consent, authorization, order or approval of, any exemption by, or any waiver from, any Governmental Authority and any consent or approval of, or waiver from, any third party under any Material Contract that is required to be obtained by Purchaser, Seller or any of their respective Affiliates in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, including the Required Approvals. Seller and Purchaser shall each be solely responsible for their respective costs of making or obtaining any such consents, authorizations, orders, approvals, exemptions or waivers that it is responsible for pursuant to the terms of this Agreement; *provided* that neither Seller nor the Acquired Companies shall be required to make any payment to any Governmental Authority or third party in connection therewith unless such payment is advanced by Purchaser (other than as is required to effect the Restructuring). Neither Purchaser nor Seller shall take or cause to be taken an action that it is aware or reasonably should be aware would have the effect of delaying, impairing or impeding the receipt of any consent, authorization, order or approval of, any exemption by, or any waiver from, any Governmental Authority, including any Required Approvals.

(c) Without limiting the generality of the foregoing, (i) Purchaser will make a “Form A” filing within thirty (30) days from the date hereof with the Commonwealths of Massachusetts and Pennsylvania with respect to the transactions contemplated by this Agreement and the Ancillary Agreements, (ii) Purchaser will make a “Form E” or similar pre-acquisition notice filing within forty-five (45) days from the date hereof in each state requiring such notice with respect to the transactions contemplated by this Agreement and the Ancillary Agreements, (iii) if necessary, the parties hereto shall make the HSR Act filing with the Federal Trade Commission and the Antitrust Division of the Department of Justice within ten (10) Business Days from the date hereof and (iv) the parties hereto shall promptly (but in any event within ten (10) Business Days from the date hereof) make all other filings or submissions required with respect to other Required Approvals. If a filing is required, then Purchaser and Seller will each request early termination of the waiting period with respect to the Acquisition under the HSR Act. Each of Seller and Purchaser shall have responsibility for any filing fees or other costs associated with the filings made by it or its Affiliates.

(d) Purchaser and Seller shall have the right to review in advance, and to the extent practicable each will consult the other on, in each case subject to applicable Law, any material filing made with, or written materials submitted to, any Governmental Authority in connection with the transactions contemplated by this Agreement or any Ancillary Agreement. The parties hereto agree that they will consult with each other with respect to the obtaining of all applications, filings, registrations, notifications, permits, consents, approvals, waivers and authorizations of all Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement or any Ancillary Agreement and each party hereto will keep the other apprised of the status of such matters. The party hereto responsible for any such action shall promptly deliver to the other party hereto evidence of the filing or making of all applications, filings, registrations, notifications, permits, consents, approvals, waivers and authorizations relating thereto, and any supplement, amendment or item of additional information in connection therewith.

(e) Purchaser and Seller shall (i) furnish each other and, upon request, any Governmental Authority, any information or documentation concerning themselves, their Affiliates, directors, officers, securityholders and financing sources and the transactions contemplated hereunder or under the Ancillary Agreements and such other matters as may be requested, and (ii) make available their respective personnel and advisers to each other and, upon request, any Governmental Authority, in connection with (A) the preparation of any statement, filing, notice or application made by or on their behalf to, or (B) any review or approval process by, any Governmental Authority in connection with the transactions contemplated by this Agreement and the Ancillary Agreements.

(f) Purchaser and Seller shall promptly advise each other upon receiving any written communication from any Governmental Authority whose consent or approval is required for consummation of the transactions contemplated by this Agreement and the Ancillary Agreements, including promptly furnishing each other copies thereof, and shall promptly advise each other when any communication from any Governmental Authority, wherever in writing or orally, causes such party hereto to believe that there is a reasonable likelihood that any Required Approval will not be obtained or that the receipt of any such approval will be materially delayed or conditioned or that an application for such approval will have to be refiled or supplemented.

(g) Except with respect to Taxes, none of Purchaser, on the one hand, or Seller or any Acquired Company, on the other hand, shall participate or permit any of their officers or any other representatives or agents to participate in any live or telephonic meeting with any Governmental Authority in respect of any filings, approval process, investigation or other inquiry (other than for routine or ministerial matters) relating to the transactions contemplated by this Agreement or the Ancillary Agreements unless it consults with the other in advance and, to the extent permitted by Law or by such Governmental Authority, gives the other party hereto the opportunity to attend and participate thereat.

(h) Until the Closing Date, not later than 45 days following the end of each calendar quarter ending prior to the Closing Date, Seller shall prepare and deliver to Purchaser a combined statutory balance sheet of the Acquired Companies as of the final day of the immediately preceding calendar quarter (including a detailed breakdown of the value of the Acquired Companies' Investment Assets as of such date as reflected on such combined statutory balance sheet), which

will be prepared in accordance with SAP (except with respect to the Pro Forma Adjustments) applied on a basis consistent with the Pro Forma Balance Sheet after giving effect to the Pro Forma Adjustments.

Section 5.4 Tax Matters.

(a) Transfer Taxes. Except as set forth below for Specified Transfer Taxes, each of Seller and Purchaser shall be liable for and shall hold the other party harmless from and against the timely payment of fifty percent (50%) of all Transfer Taxes, if any, arising out of or in connection with the transactions contemplated by this Agreement and the Ancillary Agreements. Seller shall be liable for and shall hold Purchaser harmless from and against the timely payment of all Transfer Taxes, if any, arising out of or in connection with any Section 338(h)(10) Election or any of the transactions described in Sections 5.6, 5.7, or 5.13 of this Agreement (the "Specified Transfer Taxes"). Each of Seller and Purchaser shall cooperate in preparing and filing when due all necessary documentation and Tax Returns with respect to such Transfer Taxes and shall execute and deliver all instruments and certificates reasonably required to obtain the benefit of any available exemptions from or reductions in any such Transfer Taxes or to enable the other party to comply with any filing requirements relating to any such Transfer Taxes.

(b) Tax Returns. Except as otherwise provided in Section 5.4(a):

(i) Seller shall prepare and timely file, or cause to be prepared and timely filed, (x) all consolidated, unitary, combined, or similar Tax Returns that include any Acquired Company and Seller or any Affiliate of Seller (other than any Acquired Company) (the "Consolidated Tax Returns") for any Taxable period (or portion thereof, determined in accordance with Section 5.4(c)(ii)) ending on or before the Closing Date, and (y) all other Tax Returns for the Acquired Companies that are due (giving effect to any applicable extensions) after the Closing Date for any Taxable period that ends on or before the Closing Date, and shall timely pay all Taxes required to be paid with respect to such Tax Returns. All such Tax Returns shall be prepared in accordance with the past custom and practice of the Acquired Companies (except to the extent otherwise required by applicable Law).

(ii) Purchaser shall prepare and timely file, or cause to be prepared and timely filed, all Tax Returns (other than any Consolidated Tax Returns) that are required to be filed by the Acquired Companies (giving effect to any applicable extensions) after the Closing Date for Taxable periods that begin on or before the Closing Date and end after the Closing Date. Purchaser shall, subject to Section 5.4(c) and the provisions of Article VII, timely pay all Taxes reflected on such Tax Returns. All such Tax Returns shall be prepared in accordance with the past custom and practice of the Acquired Companies (except to the extent otherwise required by applicable Law).

(iii) For each Tax Return to which the provisions of Section 5.4(b)(i) or 5.4(b)(ii) apply, the party responsible for preparing or causing to be prepared such Tax Return (the "Preparing Party") shall provide a copy of such Tax Return (in the case of any Consolidated Tax Return, only pro forma Tax Returns of the Acquired Companies included in such Consolidated Tax Return for the period covered by such Consolidated Tax Return

and used in preparing such Consolidated Tax Return shall be provided) to the other party (the "Reviewing Party") not later than thirty (30) Business Days prior to the due date (including any extension thereof) for the filing of such Tax Return. The Reviewing Party shall have the right to review and comment on such Tax Return prior to the filing of such Tax Return, and shall provide the Preparing Party with written notice of any objections it has with respect to such Tax Returns (a "Tax Dispute") within ten (10) Business Days of the delivery of such Tax Return. In the event that a Tax Dispute notice is not timely delivered by any Reviewing Party, such party shall be deemed to have consented to the filing of the applicable Tax Return in the form provided to such Reviewing Party. In the event of the timely delivery by any Reviewing Party of a Tax Dispute notice, the parties shall in good faith attempt to resolve any such dispute for a period of five (5) Business Days following the date on which the Preparing Party was notified of the Tax Dispute in order to permit the timely filing of such Tax Return. If such dispute is not settled within such time period, the parties shall promptly submit all such remaining disputed matters to the Independent Accountant for resolution in a timely manner so that such Tax Return may be timely filed. If the Independent Accountant is unable to make a determination with respect to any disputed issue within five (5) Business Days before the due date (including extensions) for the filing of the Tax Return in question, then the Preparing Party may file such Tax Return on the due date (including extensions) therefor without such determination having been made and without the consent of the Reviewing Party; provided, however, that such Tax Return shall incorporate such changes as have at the time of such filing been agreed to by the parties pursuant to this Section 5.4(b)(iii). Notwithstanding the filing of such Tax Return, the Independent Accountant shall make a determination with respect to any disputed issue, and the amount of Taxes, if any, with respect to which Seller or Purchaser may be responsible pursuant to this Section 5.4 and Article VII with respect to the filing of such Tax Return shall be calculated consistently with such determination. The decision by the Independent Accountant shall be final and binding on the parties. Notwithstanding anything in this Agreement to the contrary, the fees and expenses relating to the Independent Accountant pursuant to this Section 5.4(b)(iii) shall be borne equally by both parties.

(iv) For purposes of clarity and not to impose any additional obligation on any party, nothing in this Section 5.4(b) shall excuse either party from its responsibility for its share, as determined in accordance with this Section 5.4 and Article VII, of any Taxes if the amount of Taxes as ultimately determined (on audit or otherwise) for the periods covered by any Tax Return to which this Section 5.4(b) applies exceeds the amount initially determined under this Section 5.4(b).

(v) Purchaser shall not withdraw, repudiate, amend, refile or otherwise modify, or cause or permit to be withdrawn, repudiated, amended, refiled or otherwise modified, any Tax Return filed by an Acquired Company for any taxable year or period (or portion thereof, determined in accordance with Section 5.4(c)(ii)) ending on or before the Closing Date without the written consent of Seller, which consent shall not be unreasonably withheld; it being understood that any withholding of consent by Seller due to an effect of such action on a Consolidated Tax Return shall be deemed reasonable hereunder.

(c) Straddle Period Tax Liabilities.

(i) Upon the written request of Purchaser setting forth in detail the computation of the amount owed, Seller shall pay to Purchaser, no later than three (3) Business Days prior to the due date for the applicable Tax Return, the Taxes for which Seller is liable pursuant to Section 5.4(c)(ii) but which are payable with any Tax Return to be filed by Purchaser pursuant to Section 5.4(b)(ii), to the extent such Taxes exceed the liabilities for such Taxes taken into account in the calculation of the Final Target Statutory Capital and the Final Purchase Price, pursuant to Section 2.3.

(ii) Where it is necessary for purposes of this Agreement to apportion between Seller and Purchaser the Taxes of an Acquired Company for a taxable year or period beginning on or before, and ending after, the Closing Date, such liability shall be apportioned between the period deemed to end at the close of the Closing Date and the period deemed to begin at the beginning of the day following the Closing Date on the basis of an interim closing of the books, except that (x) Taxes (such as real or personal property Taxes) imposed on a periodic basis with respect to the assets of the Acquired Companies shall be allocated on a daily basis and (y) Taxes imposed on the basis of gross premiums shall be allocated based upon the amount of premium written as of the Closing Date. Seller shall be liable for the portion of such Taxes apportioned to the period deemed to end at the close of the Closing Date.

(d) Assistance and Cooperation. After the Closing Date, (i) Purchaser shall (and shall cause its Affiliates to) assist Seller in preparing and filing any Tax Returns that Seller is responsible for preparing and filing in accordance with Section 5.4(b)(i), (ii) Seller shall (and shall cause its Affiliates to) assist Purchaser in preparing and filing any Tax Returns that Purchaser is responsible for preparing and filing in accordance with Section 5.4(b)(ii) and (iii) Purchaser and Seller shall (and shall cause their respective Affiliates to) reasonably cooperate in preparing for any audits of, or disputes with any Governmental Authority regarding, any Tax Returns filed by any Acquired Company. Such assistance and cooperation shall include providing copies of relevant Tax Returns or portions thereof, together with accompanying schedules, related work papers and documents relating to rulings or other determinations by any Taxing authority (for the avoidance of doubt, no copies of Consolidated Tax Returns shall be provided). Each party and its Affiliates shall make its employees available on a basis mutually convenient to both parties to provide explanations of any documents or information provided hereunder. Purchaser and Seller shall each retain all Tax Returns, schedules and work papers, records and other documents in its possession relating to Tax matters of the Acquired Companies for taxable periods (or portions thereof, as determined in accordance with Section 5.4(c)(ii)) ending on or before the Closing Date until the later of (i) the expiration of the statute of limitations of the Taxable periods to which such Tax Returns and other documents relate, without regard to extensions except to the extent notified in writing of such extensions for the respective Tax periods, or (ii) three (3) years following the due date (without extension) for such returns. None of the Seller, on the one hand, or Purchaser or the Acquired Companies, on the other hand, shall dispose of any such materials unless it first offers in writing to the other party the right to take possession of such materials at such other party's sole expense and the other party fails to accept such offer within fifteen (15) Business Days of the offer being made. Any information

obtained under this Section 5.4(d) shall be kept confidential except as may be otherwise necessary in connection with the filing of Tax Returns or claims for refund or in conducting a Tax contest or as otherwise may be required by applicable law.

(e) Audits.

(i) After the Closing, Purchaser shall promptly notify Seller in writing of the receipt by Purchaser or any of the Acquired Companies of any written notice from any Governmental Authority of any inquiry, claim, assessment, audit, or similar event with respect to the Taxes of an Acquired Company related to any Taxable period (or portion thereof, determined in accordance with Section 5.4(c)(ii)) ending on or before the Closing Date (a "Tax Contest"); provided that the delay or failure of Purchaser to notify Seller in accordance with the immediately preceding sentence shall not relieve Seller of its obligations under this Section 5.4 or Article VII with respect to any Taxes related to such Tax Contest, except to the extent (and only to the extent) that Seller is materially prejudiced by such delay or failure.

(ii) In the case of any Tax Contest, Seller shall have the right, upon written notice to Purchaser delivered not later than fifteen (15) Business Days following its receipt of notice of such Tax Contest, to participate in or assume the defense of and control the conduct of such Tax Contest at its own expense through counsel of its own choosing (which counsel shall be reasonably satisfactory to Purchaser); provided that Purchaser shall be entitled to participate in any such Tax Contest with respect to which Seller has timely notified it of its intent to control the conduct of such Tax Contest with counsel of its own choice at its own expense. Notwithstanding the foregoing, if Purchaser reasonably concludes that counsel selected by Seller with respect to any such Tax Contest controlled by Seller has a material conflict of interest because of the availability of different or additional defenses to any such Tax Contest to Purchaser or other facts, such that the conflict of interest cannot be resolved to the reasonable satisfaction of Purchaser by the consent of Purchaser and Seller to joint representation, then Purchaser shall have the right to select separate counsel, reasonably satisfactory to Seller, to participate in the defense of such action on its behalf; and the reasonable fees and expenses of Purchaser's counsel shall be at the expense of Seller. If Seller does not assume the defense and control of any such Tax Contest as set forth above, or if Seller fails to take reasonable steps necessary to defend actively and diligently any such Tax Contest after notifying Purchaser of its assumption and control of any such Tax Contest, Purchaser may assume such defense, and the reasonable fees and expenses of its attorneys will be covered by the indemnity provided for in this Section 5.4 and in Article VII upon determination of Seller's indemnity obligations related to such Tax Contest. In the event of a Tax Contest that involves issues relating to a potential adjustment for which Seller has the right to control the conduct of such Tax Contest that also involves separate issues relating to a potential adjustment for which Seller does not have the right to control the conduct of such Tax Contest, Purchaser shall have the right, at its expense, to control the Tax Contest with respect to the latter issues.

(iii) Neither Purchaser nor Seller shall enter into any compromise or agree to settle any claim pursuant to any Tax Contest which would adversely affect the other party for such year or a subsequent or prior year without first obtaining the written consent of the other party, which consent may not be unreasonably withheld or delayed. For the purpose of clarity, this Section 5.4(e), and not Section 7.4, shall control with respect to any Tax Contests.

(f) Carrybacks. Purchaser and Seller agree that the Acquired Companies may not carry back any post-closing net operating loss, post-closing loss from operations, post-closing credit, or any other post-closing Tax attribute of the Acquired Companies to any taxable year or period (or portion thereof, determined in accordance with Section 5.4(c)(ii)) that ends on or before the Closing Date without the written consent of Seller, which consent may not be unreasonably withheld, it being understood that any withholding of consent by Seller due to an effect of such action on a Consolidated Tax Return shall be deemed reasonable hereunder.

(g) Tax Sharing. As of the Closing Date, Seller shall cause the Acquired Companies' participation in all Tax allocation and Tax sharing agreements and arrangements between Seller and its Affiliates (other than the Acquired Companies), on the one hand, and the Acquired Companies, on the other hand, to be terminated as of the Closing Date; and the Acquired Companies shall not be bound thereby or have any further obligations or liabilities thereunder at any time thereafter.

(h) Tax Refunds. Upon receipt, Purchaser shall promptly forward to Seller any refund (whether direct or indirect through a right of set-off or credit) of Taxes of any Acquired Company, and any interest received thereon, with respect to any taxable year or period (or portion thereof, determined in accordance with Section 5.4(c)(ii)) ending on or before the Closing Date, but only to the extent such refund was not taken into account as an asset in the calculation of Final Target Statutory Capital and the Final Purchase Price pursuant to Section 2.3; *provided*, *however*, that any such Tax refund that is attributable to a carryback of any Acquired Company's loss, credit, or other Tax attribute from a taxable period or portion thereof beginning after the Closing Date shall not be required to be paid to the Seller hereunder and shall be and remain the property of the entity receiving the benefit of such refund.

(i) Section 338(h)(10) Election.

(xiii) Election. Purchaser shall join with OneBeacon U.S. Financial Services, Inc.; the common parent of the U.S. Consolidated federal income tax group that includes OneBeacon U.S. Holdings, Inc., Seller, and OneBeacon Insurance, in making an election under Section 338(h)(10) of the Code (and any election corresponding to Section 338(h)(10) of the Code under foreign, state or local laws) (a "Section 338(h)(10) Election") with respect to the purchase and sale of the Shares of OneBeacon Insurance, and each party shall provide to the other party the reasonably necessary information to permit the Section 338(h)(10) Election to be made. Seller shall prepare any United States federal, state, local, or non-U.S. Tax forms (and any required attachments) required to make the Section 338(h)(10) Election (collectively, the "Election Forms") consistently with the Purchase Price Allocation Schedule and the 338 Allocation Schedule (as defined below), and shall submit the Election Forms to Purchaser not later than fifteen (15) days prior to the proposed filing

date of the Section 338(h)(10) Election, for Purchaser's review and comment. Seller shall make such reasonable revisions to the Election Forms as are requested by Purchaser following such review.

(xiv) Allocation of Final Purchase Price. Seller shall allocate the Final Purchase Price between the Purchased Shares of OneBeacon Insurance and Potomac Insurance (the "Share Consideration") and deliver to Purchaser a schedule setting forth the Share Consideration within thirty (30) days after the determination of the Final Purchase Price pursuant to Section 2.3 (the "Purchase Price Allocation Schedule"). If within twenty (20) days of receipt of the Purchase Price Allocation Schedule, Purchaser notifies Seller in writing that Purchaser objects to one or more items reflected on the Purchase Price Allocation Schedule, Seller and Purchaser shall negotiate in good faith to resolve such dispute. If Seller and Purchaser fail to resolve any such dispute within fifteen (15) days of Seller's receipt of Purchaser's notice, the parties shall submit the dispute for resolution to the Independent Accountant, and the Independent Accountant's resolution of the dispute shall be final and binding on both parties and shall be deemed to amend the Purchase Price Allocation Schedule. Notwithstanding the foregoing, the parties agree that in no event shall the Purchase Price Allocation Schedule allocate to either OneBeacon Insurance or Potomac Insurance a Share Consideration of less than zero. The Share Consideration (together with assumed liabilities, if any) will be used in determining the "aggregate deemed sales price" (as defined in Treasury Regulation section 1.338-4) (the "ADSP") and the "adjusted gross-up basis" (as defined in Treasury Regulation section 1.338-5) ("AGUB") for the Section 338(h)(10) Election, which shall be allocated among the assets of OneBeacon Insurance, in accordance with Treasury Regulation section 1.338-6 and section 1.338-7. Seller shall determine the ADSP and AGUB and deliver to Purchaser such calculation and an allocation of the ADSP and AGUB among the assets of OneBeacon Insurance within ninety (90) days after the parties have determined a final Purchase Price Allocation Schedule (the "338 Allocation Schedule"). The 338 Allocation Schedule shall be subject to the dispute resolution mechanics described above with respect to the Purchase Price Allocation Schedule. The allocation of the 338 Allocation Schedule, as agreed upon by Purchaser and Seller or determined by the Independent Accountant shall be final and binding upon the parties. Each of Purchaser and Seller shall bear all fees and costs incurred by it in connection with the determination of the 338 Allocation Schedule, except that the fees of the Independent Accountant shall be borne by the parties in accordance with Section 2.3(b)(v). Seller and Purchaser shall timely file the Election Forms in accordance with the 338 Allocation Schedule as finalized, and, except as set forth below with respect to a revised 338 Allocation Schedule, the parties agree not to take any position inconsistent with the 338 Allocation Schedule for Tax reporting purposes, upon examination of any Tax Return, in any refund claim, or in any litigation, investigation or otherwise, unless otherwise required by a determination (within the meaning of Section 1313(a) of the Code or any similar provision of state, local, or non-U.S. applicable Tax law). In the event that any adjustment to the purchase price for the Shares of OneBeacon Insurance is required to be made as a result of indemnification under Article VII or otherwise, Seller shall prepare or cause to be prepared in a reasonable manner, and shall provide to Purchaser, a revised Purchase Price Allocation Schedule and a revised 338 Allocation Schedule reflecting such adjustment. Such revised schedules shall be subject to review and resolution

of timely raised disputes in the same manner as the initial similar schedules. To the extent required, each of Seller and Purchaser shall file all Tax Returns (including a revised IRS Form 8883) in a manner consistent with such schedules as so revised and finalized and shall not (except pursuant to any further revision to such schedules in accordance with this Section 5.4(i)) take any position inconsistent with such schedules for any Tax reporting purposes, upon examination of any Tax Return, in any refund claim, or in any litigation, investigation or otherwise, unless otherwise required by a determination (within the meaning of Section 1313(a) of the Code or any similar provision of state, local or non-U.S. applicable Tax law).

(j) Except as provided in Section 5.4(i)(i), no election pursuant to Section 338 of the Code (or any corresponding election under foreign, state or local laws) shall be made with respect to the Acquired Companies.

Section 5.5 Employee Matters.

(e) Seller has disclosed in writing to Purchaser in Section 5.5(a) of the Seller Disclosure Schedule prior to the execution of this Agreement the position and salary of each Employee as of the date hereof. On or before the date which is six (6) weeks prior to the Closing Date, Purchaser shall provide Seller with written notice of the name, position and salary of each Employee which Purchaser agrees to, or to cause an Affiliate of Purchaser to, make offers of employment to on an "at-will" basis, such Employees who accept offers of employment with Purchaser or an Affiliate of Purchaser, collectively, the "Continued Employees". Seller shall, and shall cause its Affiliates to, reasonably cooperate with Purchaser to: (i) make the Employees available in connection with Purchaser's hiring process prior to the Closing Date; (ii) two (2) weeks prior to Closing, provide Purchaser with all necessary information, including employment and payroll data, in the format maintained by Seller immediately prior to the Closing, regarding all Continued Employees in order to effect a smooth transition to Purchaser's employment, benefits, payroll and other systems and processes and (iii) send communications to Continued Employees with respect to any transition-related matters, including but not limited to Purchaser's hiring process and employee benefits; such reasonable cooperation to continue for up to twelve (12) months after the Closing Date. Notwithstanding the foregoing, and for the avoidance of doubt, Seller and Purchaser agree that Seller is not obligated to and will not provide any human resources services pursuant to the Transition Services Agreement.

(f) Neither Purchaser nor any of its Affiliates (including the Acquired Companies) shall be obligated to continue to employ any Continued Employee for any specific period of time following the Closing Date, subject to applicable law. Nothing in this Agreement shall prohibit or restrict Seller or its Affiliates from terminating the employment of any Employee for cause prior to the Closing.

(g) Purchaser agrees that it will cause Employees to be provided with compensation and benefits (excluding equity incentive plans and any defined benefit pension plans) that are substantially comparable in the aggregate to those provided to Continued Employees immediately prior to the date of this Agreement. Notwithstanding the generality of the foregoing, Purchaser agrees that for a period of not less than two (2) years following the Closing Date, it will cause the

Continued Employees to be provided with severance benefits that are no less favorable than those provided to the Continued Employees by the Seller immediately prior to the date hereof as set forth in Section 5.5(c) of the Seller Disclosure Schedule. In the event Seller pays any severance benefits to an Employee and Purchaser, any subsidiary of Purchaser or any third party on behalf of Purchaser, including a temporary staffing agency, rehires such Employee within one year following the Closing Date, Purchaser shall promptly reimburse Seller for any severance payments made with respect to such Employee and in any event within thirty (30) days following the date any such Employee is rehired.

(h) After the Closing Date, Seller shall remain responsible for (i) any and all wages, salaries and other cash compensation (including, without limitation, accrued vacation leave and sick leave, bonuses, commissions and other incentive-based cash compensation) payable to the Employees for periods on and prior to the Closing, (ii) any severance, retention bonus or change in control payment, if any, payable to any of the Employees that become due or owed as a result of the consummation of the transactions contemplated by this Agreement, and (iii) any and all Liabilities relating to or arising in connection with the Benefit Plans, including but not limited to any incentive bonuses of Seller. For the avoidance of doubt, Seller shall make payments, if any, to participants in the 2012 Run-Off Operations Incentive Plan and the 2010-2012 Long-Term Incentive Plan awards pursuant to the terms thereof on or before March 31, 2013. Notwithstanding the first sentence of this Section 5.5(d), Purchaser agrees that it will assume Seller's obligations to pay the 2012-2013 retention awards with respect to Continued Employees, as set forth on the schedule of such awards provided by Seller to Purchaser prior to the date hereof. In addition, Seller agrees that it shall adopt a 2013 Run-Off Operations Incentive Plan and grant 2013-2014 retention awards on substantially similar terms to the 2012 Run-Off Operations Incentive Plan and 2012-2013 retention awards, respectively, and will consult with Purchaser on the terms of said plan and awards and Purchaser agrees to assume the obligations of Seller under such plan and awards at the Closing.

(i) Purchaser shall take reasonable efforts to cause any Continued Employees who become participants in any benefit plan or program of Purchaser or any of its Affiliates to be given credit under such plans and programs for purposes of eligibility, vesting and the determination of the level of benefits thereunder (but not for purposes of benefit accrual under defined benefit plans), for all service recognized by Seller or the Acquired Companies under analogous Benefit Plans, except to the extent that such credit would result in a duplication of benefits for the same period of service.

(j) Prior to the Closing Date, Seller shall take and shall cause its Affiliates to take all actions necessary to cause each Acquired Company to cease to be a participating employer in all employee benefit plans and policies sponsored or maintained by Seller and its Affiliates (other than the Acquired Companies) in accordance with the terms of such employee benefit plans and policies, and to transfer sponsorship of each Benefit Plan that is sponsored or maintained by an Acquired Company to an Affiliate of Seller (other than the Acquired Companies) with such actions to be effective as of the Closing Date. As of the Closing Date, all Employees shall cease to accrue further benefits under the Benefit Plans sponsored or maintained by Seller and its Affiliates (other than the Acquired Companies) for which any Acquired Company or Purchaser would reasonably be expected to have any liability and shall commence participation in the employee benefit plans and policies

sponsored and maintained by Purchaser or any of its Affiliates in accordance with the terms and conditions of such employee benefit plans. Purchaser shall, or shall cause the Acquired Companies to, provide the Continued Employees with coverage under a group health plan within the meaning of Section 4980B of the Code, including medical, dental and health coverage, as of the Closing Date. Purchaser shall use commercially reasonable effort, or shall cause its Affiliates to use commercially reasonable effort, as applicable, to (i) waive any preexisting condition limitations otherwise applicable to Employees and their eligible dependents under any plan of Purchaser or any of its Affiliates that provides health benefits in which Continued Employees may be eligible to participate following the Closing, to the extent waived or satisfied with respect to such employees as of the Closing under the analogous Benefit Plan, (ii) grant each of the Continued Employees credit under any plan of Purchaser or any of its Affiliates that provides health benefits, for the year during which the Closing occurs, for any deductibles, co-insurance payments and out-of-pocket expenses already incurred by such Employees for such year under the plans of Seller or its Affiliates and (iii) waive any waiting period limitation or evidence of insurability requirement that would otherwise be applicable to a Employee on or after the Closing, in each case to the extent such Employee had satisfied any similar limitation or requirement under an analogous Benefit Plan prior to the Closing. Purchaser shall take all steps reasonably necessary to permit each Continued Employee who receives an eligible rollover distribution (as defined in Section 402(c)(4) of the Code) from Seller's 401(k) Plan, if any, to roll such eligible rollover distribution, including any associated loans, as part of any lump sum distribution to the extent permitted by Seller's 401(k) Plan into an account under the 401(k) savings plan maintained by Purchaser or its Affiliates.

(k) Purchaser shall indemnify the Seller Indemnified Parties from any Losses incurred by or asserted against any of the Seller Indemnified Parties to the extent, arising or resulting from the actions or omissions of Purchaser or any of its Affiliates in the solicitation, recruitment, failure to hire or hiring of the Continued Employees, or Purchaser's or any of its Affiliates' failure to make an offer of continuing employment to the Continued Employees as contemplated by this Section 5.5; *provided* that with respect to the foregoing sentence, Purchaser shall not be liable for any Losses resulting from the actions or omissions of Seller or any of its Affiliates except to the extent taken on behalf of Purchaser or its Affiliates.

(l) Seller shall indemnify the Purchaser Indemnified Parties from any Losses incurred by or asserted against any of the Purchaser Indemnified Parties arising or resulting from the Benefit Plans sponsored by Seller and its Affiliates.

(m) Nothing in this Agreement shall be construed to confer on any Person, other than the parties hereto, their successors and permitted assigns, any right to enforce the provisions of this Section 5.5 or be construed as an amendment of any Benefit Plan or any employee benefit plan maintained by Purchaser or its Affiliates.

Section 5.6 Transfers of Intellectual Property; Use of Names and Marks

(a) All Intellectual Property designated on Section 5.6(a) of the Seller Disclosure Schedule shall be assigned by the applicable Acquired Company to Seller or one of its Affiliates, with such assignee assuming all obligations thereunder, prior to the Closing in a form reasonably acceptable to Seller and Purchaser.

(b) All Intellectual Property designated on Section 5.6(b) of the Seller Disclosure Schedule shall be assigned by Seller or one of its Affiliates (other than the Acquired Companies) to an Acquired Company, with such Acquired Company assuming all future obligations thereunder, prior to the Closing in a form reasonably acceptable to Seller and Purchaser.

(c) From the Closing Date through the date of expiration of the Licensing Period, as such period may be extended pursuant to Section 5.23(a) (such date, the "Fronting Completion Date"), Purchaser shall cause each Acquired Company not to make any change in its corporate name to the extent that, under applicable Law, such change would require any policy or contract form on which such Acquired Company issues Insurance Contracts and which is currently being used by such Acquired Company (including all amendments and applications pertaining thereto) or any marketing materials, brochures, illustrations and certificates pertaining thereto to be approved by any Governmental Authority or filed with and not objected to by any Governmental Authority within the period provided by applicable Law for objection. Except as set forth in this Section 5.6(c), no later than the sixtieth day following the Fronting Completion Date, Purchaser shall cause each Acquired Company to cease use in all respects (including replacing or removing from signage, advertising materials and other materials) of the Trademarks owned by Seller or its Affiliates set forth in Section 5.6(c) of the Seller Disclosure Schedule, or any Trademarks derivative thereof or confusingly similar thereto (collectively, the "Seller Marks"). Notwithstanding the foregoing, neither Purchaser nor the Acquired Companies shall develop new materials bearing the Seller Marks. Notwithstanding anything to the contrary in the foregoing, Purchaser and the Acquired Companies shall also be entitled to refer to the name of Seller or its Affiliates indefinitely as required by applicable Law, or as reasonably necessary in regulatory filings, or otherwise in a non-promotional manner solely for purposes of historical reference.

Section 5.7 Intercompany Agreements and Accounts. Except as otherwise provided in this Agreement or set forth in Section 5.7 of the Seller Disclosure Schedule, and excluding the Ancillary Agreements:

(c) all Intercompany Agreements shall be terminated and discharged without any further liability or obligation thereunder and deemed to be void and of no further force and effect, effective immediately prior to the Closing; and

(d) Seller shall, and shall cause its Affiliates to, take such action and make such payments as may be necessary so that as of immediately prior to the Closing, the Acquired Companies, on the one hand, and Seller and its Affiliates (other than the Acquired Companies), on the other hand, settle, discharge, offset, pay, repay, terminate or extinguish in full all Intercompany Accounts. For purposes of this Section 5.7, Intercompany Agreements shall mean any intercompany Contracts between (a) any of the Acquired Companies, on the one hand, and (b) Seller, any of its Affiliates, White Mountains Insurance Group, Ltd., any Affiliate of White Mountains Insurance Group, Ltd. (in each case, other than the Acquired Companies), or any of their respective officers or employees, on the other hand.

Section 5.8 Further Assurances. At any time from and after the Closing Date, Seller and Purchaser shall, and Purchaser shall cause the Acquired Companies (or their successors) to, promptly execute, acknowledge and deliver any additional documents, instruments or conveyances

reasonably requested by Seller or Purchaser, as the case may be, and necessary for Seller or Purchaser, as the case may be, to satisfy their respective obligations hereunder.

Section 5.9 Resignations. Seller shall cause the officers and directors of each of the Acquired Companies, to the extent specified in writing by Purchaser at least three (3) Business Days prior to the Closing Date, to resign such position or positions, and to relinquish any authority with respect to bank accounts described in Section 3.24 of this Agreement, effective as of the Closing (the "Resignations").

Section 5.10 Insurance. Purchaser acknowledges and agrees that all Insurance Policies for the Acquired Companies under policies of Seller and its Affiliates shall terminate as of the Closing and following the Closing, no claims may be brought or maintained against any policy of Seller or its Affiliates in respect of the Acquired Companies regardless of whether the events underlying such claim arose or were first discovered prior to or following the Closing.

Section 5.11 Release of Guarantees. Prior to the Closing, Seller and Purchaser shall cooperate and shall use their respective commercially reasonable efforts to, effective as of the Closing, (a) terminate or cause to be terminated, or cause Purchaser or one of its Affiliates to be substituted in all respects for Seller and any of its Affiliates (other than the Acquired Companies) (collectively, the "Released Parties") in respect of all liabilities and obligations of the Released Parties under any guarantee of or relating to liabilities or obligations (including under any Material Contract, Contract or letter of credit) of the Acquired Companies and listed in Section 5.11 of the Seller Disclosure Schedule (collectively, the "Guarantees"), and (b) cause Purchaser or one of its Affiliates to have surety bonds (and any necessary collateral, indemnity or other agreements associated therewith) issued on behalf of Purchaser or one of its Affiliates in replacement of all surety bonds (and all collateral, indemnity and other agreements associated therewith) issued on behalf of the Released Parties for the benefit of the Acquired Companies and listed in Section 5.11 of the Disclosure Schedule (collectively, the "Surety Bonds"). In the case of the failure to do so by the Closing, then, Seller and Purchaser shall continue to cooperate and use their respective commercially reasonable efforts as described in the preceding sentence, and Purchaser shall (i) indemnify the Released Parties for any and all liabilities or obligations arising from such Guarantees and Surety Bonds and (ii) not permit the Acquired Companies or their Affiliates to (A) renew or extend the term of or (B) increase its obligations under, or transfer to another third party, any Material Contract, Contract or letter of credit or other liability or obligation for which any Released Party is or would reasonably be expected to be liable under such Guarantee or Surety Bond. To the extent that any Released Party has performance obligations under any such Guarantee or Surety Bond, Purchaser shall use its commercially reasonable efforts to (I) fully perform or cause to be fully performed such obligations on behalf of such Released Party or (II) otherwise take such action as reasonably requested by Seller so as to place such Released Party in the same position as if Purchaser, and not such Released Party, had performed or were performing such obligations.

Section 5.12 Notification of Certain Matters. Seller, on the one hand, and Purchaser, on the other hand, shall give prompt notice to the other of the occurrence, or failure to occur, of any event or the existence of any condition that has resulted in or would reasonably be expected to result in the failure of any of the conditions set forth in Sections 6.2(a) and 6.2(b) or Sections 6.3(a) and

6.3(b), respectively; *provided, however*, that the delivery of notice pursuant to this Section 5.12 shall not be deemed to amend or modify this Agreement or any Schedule hereto or limit or otherwise affect the remedies available hereunder to the other Party.

Section 5.13 Restructuring.

(d) Seller shall, and shall cause its Affiliates (including the Acquired Companies) to use commercially reasonable efforts to, prior to the Closing Date, take any and all actions necessary or incidental to effect the Restructuring described in Section 5.13(a) of the Seller Disclosure Schedule.

(e) Following the Closing Date, Purchaser and Seller shall cooperate with each other (and Purchaser shall cause its Subsidiaries to cooperate) in order to fully effectuate any part of the Restructuring not previously completed. Neither party shall be required by this Section 5.13 to take any action that would unreasonably interfere with the conduct of its business or unreasonably disrupt its normal operations (or, in the case of Purchaser, including those of the Acquired Companies).

Section 5.14 Run-Off Business Consulting Engagement Agreement. As of the date of this Agreement, Purchaser and Seller shall, subject to applicable Law, execute and deliver the Run-Off Business Consulting Engagement Agreement.

Section 5.15 Investment Assets.

(d) Prior to the Closing, Seller shall use commercially reasonable efforts to cause each of the Acquired Companies (other than OneBeacon Insurance) to sell, transfer or exchange all of their investment assets, other than those on deposit with Governmental Authorities, for Cash Equivalents, it being agreed that Seller shall have no obligation to cause any of the Acquired Companies to sell investment assets pursuant to this Section 5.15 at a price below the price that an unaffiliated and willing purchaser would pay and an unaffiliated and willing seller would accept, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. Prior to the Closing and subject to Section 5.15, Seller shall use commercially reasonable efforts to cause OneBeacon Insurance's investment assets to consist of Acceptable Investments, other than those on deposit with Governmental Authorities; *provided, however*, that Purchaser may, upon written notice (the "Investment Notice") (which notice may be in the form of electronic mail or facsimile) delivered to Seller no later than 9:00 a.m., NYCT, six (6) Business Days prior to the Closing Date (the "Notification Date"), request that Seller cause OneBeacon Insurance to hold at the Closing a portfolio consisting of Cash Equivalents and up to $100 million fair market value (based on then current market price) of other Acceptable Investments (the "Maximum Investment Notice Amount") as specified in the Investment Notice; *provided further* that any such Investment Notice shall include the specific name, requested par amount, CUSIP and stated final maturity date of each of such non-cash Acceptable Investments requested by Purchaser, the aggregate par amount of all such non-cash Acceptable Investments (not to exceed the Maximum Investment Notice Amount) and Purchaser's preferred order of priority of purchase of such Acceptable Investments. The failure by Purchaser to deliver the Investment Notice by the applicable time set forth in this Section 5.15(a) shall be deemed to be a waiver of the right of Purchaser to deliver such notice.

(e) After the execution of this Agreement and prior to Closing, to the extent that any investment asset of an Acquired Company (other than OneBeacon Insurance) on deposit with a Governmental Authority shall mature, be prepaid or redeemed or otherwise converted to cash, Seller shall cause such Acquired Company following delivery of cash payable on or with respect to such maturity, purchase, redemption or conversion to cause such cash to remain on deposit with the applicable Governmental Authority or, if required by applicable Law, to invest such cash in investment assets with maturities of the greater of (i) thirty (30) days or less and (ii) the minimum tenor required by the applicable Governmental Authority; provided, that such investments comply with applicable Law. If Purchaser delivers to Seller a written notice as to investment of maturing deposited investment assets of OneBeacon Insurance (the "Deposited Investments Notice"), then, to the extent that any investment asset of OneBeacon Insurance on deposit with a Governmental Authority shall mature, be prepaid or redeemed or otherwise converted to cash on or after the date that is ten (10) Business Days following receipt of such Deposited Investments Notice, Seller shall cause OneBeacon Insurance, following delivery of cash payable on or with respect to such maturity, purchase, redemption or conversion, to cause an amount of such cash specified in the Deposited Investment Notice, up to a maximum of $25,000,000, to remain on deposit with the applicable Governmental Authority or, if required by applicable Law, to invest such cash in investment assets with maturities of the greater of (i) thirty (30) days or less and (ii) the minimum tenor required by the applicable Governmental Authority; provided, that such investments comply with applicable Law.

(f) In the event Purchaser shall have delivered an Investment Notice in accordance with the terms of Section 5.15(a), then, on the first Business Day immediately following the Notification Date (the "Investment Purchase Date"), Seller shall use commercially reasonable efforts to cause the investment portfolio of OneBeacon Insurance as of the close of business on the Investment Purchase Date and subject to the settlement of all unsettled trades to consist of Cash Equivalents and Acceptable Investments as designated in the Investment Notice; *provided* that (i) Seller shall have no obligation to cause any of the Acquired Companies to sell investment assets pursuant to this Section 5.15 at a price below the price that an unaffiliated and willing purchaser would pay and an unaffiliated and willing seller would accept, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts; (ii) Seller shall have no obligation to cause any of the Acquired Companies to sell assets on deposit with Governmental Authorities; and (iii) Seller shall have no obligation to cause OneBeacon Insurance to purchase Acceptable Investments pursuant to this Section 5.15 at a price in excess of the price that an unaffiliated and willing purchaser would pay and an unaffiliated and willing seller would accept, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. Furthermore, purchases of each Acceptable Investment pursuant to the Investment Notice will be made in lots of $3 million par value, with any residual cash amount below the Maximum Investment Notice Amount to remain in Cash Equivalents. To the extent that on the Investment Purchase Date, Seller is unable to cause OneBeacon Insurance to purchase any of the specified securities in the amount and of the type specified in the Investment Notice, in each case, subject to any applicable limitations set forth in this Section 5.15, then the Seller will instead cause OneBeacon Insurance to deliver Cash Equivalents in the same amount, again subject to any applicable limitations set forth in this Section 5.15.

(g) Purchaser acknowledges and agrees that (i) Seller shall not be required to cause any of the Acquired Companies to purchase, nor shall Seller be liable for not causing any Acquired Companies to purchase, any security that any such Acquired Company is not permitted to hold pursuant to applicable Law, and (ii) the purchase of any security by any of the Acquired Companies as contemplated by this Section 5.15 shall be subject to the availability of such security in an open market.

(h) By no later than 3:00 p.m., NYCT, on the Business Day immediately following the Investment Purchase Date, Seller shall deliver a certificate (the "Portfolio Notice") (which notice may be in the form of electronic mail or facsimile) to Purchaser setting forth the investment assets in the investment portfolio of OneBeacon Insurance and the amount of such assets in such portfolio after giving effect to the trades executed on the Investment Purchase Date pursuant to this Section 5.15, which portfolios shall be held by OneBeacon Insurance as of the Closing (subject to any market fluctuations of the investment assets contained in such portfolio that may occur prior to the Closing and the settlement of all unsettled trades).

(i) No later than 9:00 a.m., NYCT, on the Business Day immediately preceding the Closing Date Seller shall deliver a certificate (the "Trade Completion Certificate") (which notice may be in the form of electronic mail or facsimile) to Purchaser (i) confirming that the last of the purchases or sales that Seller shall have caused to be made as contemplated by Section 5.15(c) shall have been finally settled (or failed to be settled) in accordance with applicable marketplace rules, (ii) certifying that Seller has complied with its obligations under this Section 5.15 in all material respects.

(j) Seller shall be responsible for any Taxes owed in respect of gains realized on the sale of assets pursuant to this Section 5.15.

Section 5.16 Business Activities. From the Closing Date through the date that is the later of (i) ninety (90) days after the Fronting Completion Date and (ii) the date on which the Surplus Notes issued pursuant to Section 5.19 are repaid in full, Purchaser shall not, and shall cause each of the Acquired Companies to not, market, issue or agree to issue any new Insurance Contracts other than pursuant to the Retained Business Reinsurance Agreement and the Retained Business Administrative Services Agreement.

Section 5.17 Available Ceded Reinsurance

(a) Following the Closing, all reinsurance treaties and agreements with respect to treaty years 2001 and prior and the Gen Re and NICO Agreements shall be for the sole and exclusive benefit of the Acquired Companies, and the reinsurance treaties and agreements with respect to treaty years 2002 through 2010 set forth on Schedule 5.17(a) ("Shared Reinsurance") shall be shared as between the Seller and its Subsidiaries, on the one hand, and the Acquired Companies, on the other hand, as set forth in this Section 5.17; provided, however, that any facultative reinsurance agreements shall continue to be available solely for the risks covered thereunder and shall be for the sole and exclusive benefit of the parties holding such risks. As used in this Section 5.17, the "Seller SR Parties" refers to the Seller and/or one of its Subsidiaries that have a claim under the

Shared Reinsurance, and the "AC SR Parties" refers to one or more Acquired Companies that have a claim under the Shared Reinsurance.

(b) For any Shared Reinsurance with free and unlimited reinstatement layers, (i) if only one or more Seller SR Parties *or* one or more AC SR Parties have losses arising out of an occurrence, then such claimant(s) shall submit the proofs or payment of loss and shall recover under the Shared Reinsurance; and (ii) if both Seller SR Parties *and* AC SR Parties have losses arising out of an occurrence, then the Seller SR Parties and the AC SR Parties shall share proportionally in the retention and the limit of liability under the Shared Reinsurance based on the percentage that each Seller SR Party's or AC SR Party's loss bears to the combined losses of the Seller SR Parties and AC SR Parties under the relevant occurrence. The parties acknowledge and agree that sharing of the retention and limit of liability under the Shared Reinsurance as set forth herein might result in a party not collecting the entire amount of the losses that it might otherwise have been able to collect if it were a sole claimant under the Shared Reinsurance.

(c) For any Shared Reinsurance that does not have free and unlimited reinstatement layers, (i) the retention and limit of liability shall be allocated between the Seller SR Parties and the AC SR Parties based on the chronological timing of submission of a proof of payment of loss covered under the Shared Reinsurance, such that the Seller SR Parties and AC SR Parties may continue to submit proofs of payment of loss but shall be responsible for any reinstatements until the relevant Shared Reinsurance has been exhausted; (ii) in the event that (x) proofs of payment of loss are submitted simultaneously by one or more Seller SR Parties *and* one or more AC SR Parties or (y) both Seller SR Parties *and* AC SR Parties have losses arising out of an occurrence, the Seller SR Parties and the AC SR Parties shall share proportionally in the retention, the limit of liability and the payment for reinstatements under the Shared Reinsurance in accordance with clause (ii) of Section 5.17(b).

(d) Following the Closing, the Seller SR Parties and the AC SR Parties shall be responsible for the submission of their own respective notices, requests, claims, demands or other communications for losses covered under the Shared Reinsurance and for their own respective billing and collection for any recoverable amounts under the Shared Reinsurance; provided, however, that each party shall provide to the other party copies of any notices, requests, claims, demands or other communications sent or received with respect to the Shared Reinsurance (including, but not limited to, claims submissions and settlement documents), concurrently if sent by a party or promptly after receipt. The parties shall cooperate with and shall promptly execute, acknowledge and deliver any additional documents, instruments or conveyances reasonably requested by the other party in order to share in the Shared Reinsurance as provided in this Section 5.17. The parties acknowledge and agree that their ability to recover under the Shared Reinsurance shall be subject to the terms and conditions of such Shared Reinsurance.

Section 5.18 Closing Date Capital Contribution. On the Closing Date, but prior to Closing, if the Closing Purchase Price, as calculated pursuant to Section 2.1(c) and disregarding any adjustment to the Closing Purchase Price pursuant to the final sentence of Section 2.1(c), is a negative number, Seller shall contribute an amount of Cash Equivalents equal to the absolute value of such negative amount to OneBeacon Insurance (the "Pre-Closing Seller Contribution").

Section 5.19 Additional Required Capital. In the event that the Pennsylvania Department requires that capital contributions be made into OneBeacon Insurance (either by virtue of a requirement to increase reserves or a requirement to increase surplus, or both), such that the aggregate amount of Cash Equivalents and Investment Assets of OneBeacon Insurance, on a consolidated basis with its Subsidiaries, after giving effect to such capital contributions, shall exceed, as of Closing, the aggregate amount of Cash Equivalents and Investment Assets of OneBeacon Insurance, on a consolidated basis with its Subsidiaries, contemplated by the Estimated Closing Date Balance Sheet (such excess amount referred to herein as the "Required Additional Capital Amount"), then the provisions of this Section 5.19 shall apply. Seller shall contribute to OneBeacon Insurance (i) an amount of Cash Equivalents (the "Seller Pari Passu Amount") equal to the lesser of (x) fifty percent (50%) of the Required Additional Capital Amount or (y) the Pre-Closing Seller Contribution; and (ii) if the Required Additional Capital Amount exceeds two times the Seller Pari Passu Amount, an amount of Cash Equivalents of such excess, up to a maximum of $30 Million (the "Seller Priority Amount"). Notwithstanding the foregoing, in no event shall the aggregate amount that Seller is obligated to contribute to OneBeacon Insurance pursuant to this Section 5.19 exceed an amount equal to 45% of the combined statutory surplus of the Acquired Companies as of Closing, after giving effect to the contributions contemplated by this Section 5.19 (such amount, the "Aggregate Contribution Cap"), it being agreed that in the event the Aggregate Contribution Cap would be exceeded, the Seller Priority Amount shall be reduced first, followed (if necessary) by the Seller Pari Passu Amount, as necessary to reduce Sellers aggregate required contribution pursuant to this Section 5.19 to the Aggregate Contribution Cap. In consideration of each amount, if any, contributed by Seller pursuant to this Section 5.19, OneBeacon Insurance will issue a surplus note to Seller, which surplus note(s) shall be substantially in the applicable form attached hereto as Exhibit 8 (each, a "Surplus Note"). The Surplus Note, if any, issued in consideration of the Seller Pari Passu Amount (the "Seller Pari Passu Note"), will be subordinated to the Surplus Note, if any, issued in consideration of the Seller Priority Amount (the "Seller Priority Note").

Section 5.20 Certain Restrictions

(a) Without limiting Section 2.3(b)(viii), Purchaser covenants that (i) for so long as the Seller Priority Note is outstanding, it will ensure that OneBeacon Insurance does not declare or make any dividends, distributions or other similar payments or transfers to its shareholder(s) and (ii) for so long as the Seller Pari Passu Note is outstanding, it will ensure that OneBeacon Insurance does not declare or make any dividends, distributions or other similar payments or transfers to its shareholder(s) except to the extent that such payments are made on a *pari passu* basis with payments of principal and interest on the Seller Pari Passu Note, as provided therein.

(b) The following shall apply in relation to any intercompany agreement entered into at or following Closing between any of the Acquired Companies and any of Purchaser or Purchaser's Affiliates that contemplates payments being made by any Acquired Company to Purchaser or Purchaser's Affiliate (such agreement or agreements, collectively, the "Purchaser Intercompany Agreement") for so long as any Surplus Note remains outstanding:

(i) Such Purchaser Intercompany Agreement shall provide that such payments thereunder are to be determined based upon the actual cost of the services provided

(excluding board and bureau expenses), plus 15%. Purchaser shall obtain Seller's prior written consent to any proposed modification of such 15% margin.

(ii) The services to be provided pursuant to such Purchaser Intercompany Agreement shall be consistent with those set forth on Schedule 5.20 hereto.

(iii) Schedule 5.20 hereto sets forth Purchaser's current forecast of the amounts to be charged pursuant to the Purchaser Intercompany Agreement (the "Management Fees") during the periods set forth therein (the "Initial Forecast"). Beginning with September 30, 2017, not later than September 30 of each calendar year, Purchaser will provide Seller with an updated forecast of the Management Fees to be charged pursuant to the Purchaser Intercompany Agreement during the next subsequent calendar year (each, an "Updated Forecast"). Each such Updated Forecast shall be prepared by Purchaser in good faith using reasonable assumptions. In no event shall any such Updated Forecast contemplate an increase in the Management Fees associated with any of the categories of services and expenses contemplated on Schedule 5.20 above the actual Management Fees associated with such category charged during the prior calendar year, unless such increase beyond actual Management Fees is attributable to regulatory requirements, accounting changes or other events outside Purchaser's control.

(iv) In no event shall the Management Fees charged by Purchaser pursuant to the Purchaser Intercompany Agreement exceed (A) during any period contemplated in Schedule 5.20, the forecasted Management Fees contemplated for such period therein, plus the acceptable variance specified for such period therein, or (B) for any calendar year covered by any Updated Forecast, the total Management Fees forecasted therein, plus thirty percent (30%).

(v) Purchaser shall, and shall cause its Affiliates to, maintain complete and accurate books and records of the services provided pursuant to any such Purchaser Intercompany Agreement, the costs of such services and the amounts charged to the Acquired Companies in respect of such services, in order to permit Seller to verify Purchaser's and its Affiliates adherence to the cost structure contemplated by this Section 5.20(b). Purchaser shall permit, and shall cause its applicable Affiliates to permit, Seller to audit such books and records not more than twice per calendar year upon reasonable prior written notice from Seller and shall make such books and records available to Seller for such purpose in electronic format to the extent reasonably practicable.

(vi) In the event that any such audit reveals that the Acquired Companies have, pursuant to any such Purchaser Intercompany Agreement, been charged Management Fees that, in the aggregate, exceed the amounts contemplated by clause (iv) of this Section 5.20(b), then (i) Purchaser and its Affiliate(s) shall refund the amount in excess of such permissible amount to the applicable Acquired Compan(ies) as soon as practicable and (ii) until the full amount to be so refunded is refunded to the Acquired Compan(ies), any Management Fees owing by the Acquired Companies pursuant to any such Purchaser Intercompany Agreements shall be offset against, and reduced by, the remaining amount to be so refunded.

Section 5.21 Non-Solicitation. As an inducement to Purchaser to enter into this Agreement, and in consideration of the time and expense which it has devoted and will devote to the transactions contemplated hereby, prior to the Closing or the earlier termination of this Agreement, neither the Seller, any Affiliate of Seller nor any of their respective officers, directors, members, managers, representatives, agents, advisors or personnel shall directly or indirectly initiate, solicit, encourage, entertain, negotiate, accept or discuss any proposal, inquiry, indication of interest or offer (an "Acquisition Proposal") to acquire all or any portion of any Acquired Company, whether by merger, consolidation, purchase of stock, share exchange, purchase of assets (including purchase of any of the Runoff Business), tender offer or otherwise (a "Third Party Acquisition"), or provide any nonpublic information to any third party in connection with an Acquisition Proposal or proposed Third Party Acquisition, or enter into any Contract or understanding requiring Seller to abandon, terminate or fail to consummate the transactions contemplated under this Agreement. Seller shall notify Purchaser promptly after receipt of any Acquisition Proposal.

Section 5.22 Actuarial Fees. Seller shall be solely responsible for the fees of the actuarial firm hired by Seller in connection with the "Form A" application submitted to the Commonwealth of Pennsylvania in connection with the Acquisition.

Section 5.23 Fronting Matters.

(a) Licensing Period. To the extent that ASIC or one of its Affiliates does not have Policy Issuance Authority to write some or all of the Retained Policies in one or more jurisdictions, ASIC or one of its Affiliates shall use its commercially reasonable efforts to obtain such Policy Issuance Authority as promptly as possible and in any event no later than one year following the Closing Date (the "Licensing Period"); *provided*, *however*, that as to any jurisdictions with respect to which ASIC and/or its Affiliates shall have submitted to the applicable Governmental Authorities, before the end of the Licensing Period, all filings, notices or other submissions necessary to obtain Policy Issuance Authority, the Licensing Period shall be extended as to such jurisdictions until the earlier of (i) 180 days or (ii) 90 days following the date on which ASIC or one of its Affiliates acquire Policy Issuance Authority in such jurisdictions.

(b) Fronting Obligation.

(i) During the Licensing Period, to the extent that ASIC or one of its Affiliates does not have Policy Issuance Authority to write any Retained Policy directly in one or more jurisdictions (including any existing policies that are subject to renewals during the Licensing Period), Purchaser shall cause the applicable Acquired Companies to write the Retained Policies on behalf of ASIC or one of its Affiliates in such jurisdictions ("Fronted Policies"). The applicable Acquired Companies' obligation to write such Fronted Policies (the "Fronting Obligation") in any particular jurisdiction and for any particular product or line of business shall terminate at the earlier of (i) the date on which ASIC or one of its Affiliates acquires Policy Issuance Authority in such jurisdictions for such product or line of business or (ii) the end of the Licensing Period. The Fronting Obligation shall only apply during the Licensing Period and only to Retained Policies that are reinsured and administered under, and subject to, the terms and conditions of the Retained Business Reinsurance Agreement.

The Administrator (as defined in the Retained Business Administrative Services Agreement) shall be responsible for the administration of all aspects of the Fronted Policies subject to, and in accordance with, the terms and conditions of the Retained Business Administrative Services Agreement.

(ii) To the extent that, on and after the Closing Date, ASIC or one of its Affiliates has Policy Issuance Authority in any jurisdictions where the applicable Acquired Companies have not yet obtained approval from the Governmental Authorities to withdraw from writing or renewing the Retained Business and such approval is required under applicable Law in order to effectuate such withdrawal, the applicable Acquired Companies' Fronting Obligation shall also include the obligation, as requested by ASIC or one of its Affiliates, to write Retained Policies in any such jurisdictions until the applicable Acquired Companies obtain the requisite approval to withdraw from such jurisdictions. Seller shall be responsible for all reasonable out of pocket costs and expenses for obtaining the requisite approval to withdraw for the applicable Acquired Companies and shall undertake and assist with all filings and other actions necessary with respect thereto.

(c) Licensing Efforts. ASIC and its Affiliates have filed applications and related filings in various jurisdictions seeking Policy Issuance Authority for the Retained Business in those jurisdictions, as set forth and described in Schedule 5.23(c), and ASIC and its Affiliates will continue to use their commercially reasonable efforts between the date of this Agreement and the Closing Date to complete those filings and obtain the requested Policy Issuance Authority; *provided*, *however*, that the parties agree to cooperate with each other in good faith to provide additional information regarding the status of any rate and form filings related to ASIC or one of its Affiliates' Policy Issuance Authority.

Section 5.24 Gen Re Cessions. Following the date hereof until the Closing, Seller shall cause Potomac Insurance not to cede any Run-Off Business under the Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance and General Reinsurance Company dated as of April 13, 2001, unless Seller has obtained Purchaser's prior consent therefor (which consent shall not be unreasonably withheld, delayed or conditioned).

Section 5.25 Collection and Sharing of Allocated Balances.

(a) Following the Closing Date, unless the parties mutually agree to do otherwise based on operational implications identified prior to Closing, the account or receivable underlying each Allocated Balance (as described in Schedule 1.1(a)), a portion of which is reflected on the Final Closing Date Balance Sheet, shall be collected (or caused to be collected by one of its Affiliates) by (i) Seller, if the majority of the Underlying Allocated Account (as defined below) with respect to such Allocated Balance shall be allocated to Seller and its Affiliates, or (ii) Purchaser, if the majority of such Underlying Allocated Account shall be allocated to the Acquired Companies, in each case based upon the allocation methodology set forth in Schedule 1.1(a). The party who is responsible for collecting the account or receivable underlying an Allocated Balance (an "Underlying Allocated Account") pursuant to the preceding sentence is herein referred to as the "Collection Agent" with respect to such Underlying Allocated Account.

(b) Upon receipt of any amount on account of an Underlying Allocated Account by any party hereto or one of its Affiliates, the recipient thereof shall pay a portion of such amount received to Seller, if the recipient is the Purchaser or one of its Affiliates, or to OneBeacon Insurance, if the recipient is Seller or one of its Affiliates. In each case the amount payable to Seller or OneBeacon Insurance shall be based upon the proportional share of the Underlying Allocated Account that shall have been allocated to Seller and its Affiliates or the Acquired Companies, as applicable, in connection with the determination of the Final Closing Date Balance Sheet.

(c) Each party hereto shall use commercially reasonable efforts to collect all Underlying Allocated Accounts as to which it shall be the Collection Agent.

ARTICLE VI
CONDITIONS TO CLOSING

Section 6.1 Conditions to the Obligations of Purchaser and Seller. The obligations of the parties hereto to effect the Closing are subject to the satisfaction (or waiver by each party hereto) as of the Closing of the following conditions:

(r) No Injunction or Prohibition. No Governmental Authority of competent jurisdiction shall have enacted, enforced or entered any Law or final and non-appealable Governmental Order that is in effect on the Closing Date and prohibits the consummation of the Closing.

(s) Required Approvals. The approvals and consents of Governmental Authorities set forth on Schedule 6.1(b) (the "Required Approvals") shall have been obtained and any waiting period applicable thereto shall have terminated or otherwise expired.

(t) Restructuring. Those Restructuring actions identified on Section 5.13 of the Seller Disclosure Schedule as being conditions to Closing shall have completed, or completed in all material respects, as indicated on such Section 5.13 of the Seller Disclosure Schedule.

Section 6.2 Conditions to the Obligations of Purchaser. The obligation of Purchaser to effect the Closing is subject to the satisfaction (or waiver by Purchaser) as of the Closing of the following conditions:

(i) Representations and Warranties. The representations and warranties of Seller set forth in Article III shall be true and correct in all respects as of the date hereof and as of the Closing Date as though made on and as of the Closing Date (except to the extent they expressly refer to a specified date, in which case they shall be true and correct as though made on and as of such specified date), except where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, have a Company Material Adverse Effect; *provided*, *that*, those representations and warranties that are qualified by references to "material," "materiality" or "Company Material Adverse Effect" shall be deemed to not include such qualifications, *provided*, *further*, *that*, notwithstanding any of the foregoing, the representations and warranties set forth in each of Sections 3.1, 3.2, 3.3(a), 3.4(a) and 3.16 shall be true and correct in all material respects as of the date hereof and as of the Closing Date as though made on and as of the Closing Date (except to the extent they expressly refer to a specified date, in which case they shall be true and correct as

though made on and as of such specified date). Purchaser shall have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Seller.

(j) Covenants. The covenants and agreements of Seller set forth in this Agreement to be performed or complied with at or prior to the Closing shall have been duly performed or complied with in all material respects. Purchaser shall have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Seller.

(k) Endorsement No. 1 effective October 12, 2012 to the Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance and General Reinsurance Company dated as of April 13, 2001 shall be in full force and effect.

(l) Seller shall have made the Pre-Closing Seller Contribution, if required pursuant to Section 5.18.

Section 6.3 Conditions to the Obligations of Seller. The obligations of Seller to effect the Closing are subject to the satisfaction (or waiver by Seller) as of the Closing of the following conditions:

(k) Representations and Warranties. The representations and warranties of Purchaser set forth in Article IV shall be true and correct in all respects as of the date hereof and as of the Closing Date as though made on and as of the Closing Date (except to the extent they expressly refer to a specified date, in which case they shall be true and correct as though made on and as of such specified date), except where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, have a Purchaser Material Adverse Effect; *provided, that*, those representations and warranties that are qualified by references to "material," "materiality" or "Purchaser Material Adverse Effect" shall be deemed to not include such qualifications, *provided, further, that*, notwithstanding any of the foregoing, the representations and warranties set forth in each of Sections 4.1, 4.2 and 4.7 shall be true and correct in all material respects as of the date hereof and as of the Closing Date as though made on and as of the Closing Date (except to the extent they expressly refer to a specified date, in which case they shall be true and correct as though made on and as of such specified date). Seller shall have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Purchaser.

(l) Covenants. The covenants and agreements of Purchaser set forth in this Agreement to be performed or complied with at or prior to the Closing shall have been duly performed or complied with in all material respects. Seller shall have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Purchaser.

ARTICLE VII
SURVIVAL; INDEMNIFICATION

Section 7.1 Survival. All of the representations and warranties of Seller and Purchaser contained in this Agreement and all claims and causes of action with respect thereto shall terminate on the date that is fifteen (15) months from the Closing Date (the "Expiration Date"), except that the representations and warranties contained in (a) Sections 3.1 (Organization and Authority), 3.2

(Binding Effect), 3.3(a) (Organization, Qualification and Authority of the Acquired Companies), 3.4 (Capital Structure; Ownership of the Acquired Companies), 3.16 (Finders' Fees), 4.1 (Organization and Authority), 4.2 (Binding Effect) and 4.7 (Finders' Fees) shall survive indefinitely or until the latest date permitted by applicable Law and (b) Sections 3.10 (Taxes), 3.22 (Environmental) shall survive the Closing until sixty (60) days after the expiration of the applicable statute of limitations (the representations, warranties and covenants set forth in clauses (a) and (b) hereof, the "Fundamental Claims"). All of the covenants and agreements of Seller and Purchaser contained in this Agreement which, by their terms, are to be performed or complied with in their entirety at or prior to the Closing, and all claims and causes of action with respect thereto, shall terminate immediately following the Closing. All of the covenants and agreements of Seller and Purchaser contained in this Agreement which, by their terms, are to be performed or complied with in whole or in part following the Closing, and all claims and causes of action with respect thereto, shall survive for the period provided in such covenants and agreements, if any, or until performed in accordance with their terms. If a Claim Notice shall have been given pursuant to and in accordance with the terms of this Agreement within the applicable survival period, the representations, warranties, covenants and agreements that are the subject of such indemnification claim shall survive with respect to such indemnification claims until such claim has been finally and fully resolved (but solely for purposes of the resolution of such particular claim) in accordance with the terms of this Agreement.

Section 7.2 Indemnification by Purchaser.

(m) Subject to Sections 7.2(b) and 7.6, from and after the Closing, Purchaser shall and shall cause the Acquired Companies to defend, indemnify, reimburse and hold harmless Seller, its Affiliates, and, if applicable, their respective directors, officers, employees, agents, representatives and successors in interest (the "Seller Indemnified Parties") from any damages, claims, losses, liabilities, judgments, settlements, assessments, demands, awards and expenses (including reasonable attorneys' fees and expenses) (collectively, "Losses") incurred or suffered by or asserted against any of the Seller Indemnified Parties, to the extent arising out of or resulting from (i) any breach of any representation or warranty made by Purchaser contained in Article IV, (ii) any breach of any covenant or agreement of Purchaser contained in this Agreement which, by its terms, is to be performed or complied with in whole or in part following the Closing, (iii) any liability for the Purchaser's share of Transfer Taxes, if any, to which the provisions of Section 5.4(a) apply, and (iv) any ECO Claim or XPL Claim related to any action taken or any action not taken by Purchaser under Section 5.14, or by Seller and its Affiliates (including the Acquired Companies) at the direction of Purchaser, under Section 5.14, or any claim related to any action taken or not taken under Purchaser's assumed control in bad faith or in violation of Section 5.14.

(n) No Claim Notice may be submitted by any Seller Indemnified Party with respect to any Losses arising out of or resulting from Section 7.2(a)(i), nor shall Purchaser be required to indemnify any Seller Indemnified Party against any such Loss in respect of such Claim Notice, unless the aggregate amount to be paid out in respect of any such Claim Notice exceeds $25,000 (the "Initial Deductible"); *provided*, *however*, that any series of Losses relating to the same facts and circumstances will be aggregated for purposes of determining whether such Losses exceed the Initial Deductible. Purchaser shall be liable to the Seller Indemnified Parties for any Losses arising

out of or resulting from Section 7.2(a)(i) that exceed the Initial Deductible solely to the extent such Losses, in the aggregate, would exceed $200,000 (the "Deductible"), and then only for the amount of such excess, up to an aggregate maximum amount equal to $10,000,000 (the "Indemnity Cap"). Notwithstanding the foregoing, Losses arising out of or resulting from the Fundamental Claims and fraud shall not be subject to the Deductible or the Indemnity Cap.

Section 7.3 Indemnification by Seller.

(n) Subject to Sections 7.3(b) and 7.6, from and after the Closing, Seller shall defend, indemnify, reimburse and hold harmless Purchaser, the Acquired Companies, their respective Affiliates and, if applicable, their respective directors, officers, employees, agents, representatives and successors in interest (the "Purchaser Indemnified Parties" and, collectively with the Seller Indemnified Parties, the "Indemnified Parties") from any Losses incurred or suffered by or asserted against any of the Purchaser Indemnified Parties, to the extent arising out of or resulting from (i) any breach of any representation or warranty made by Seller contained in Article III, (ii) any breach of any covenant or agreement of Seller contained in this Agreement which, by its terms, is to be performed or complied with in whole or in part following the Closing, (iii) any liability for (w) Taxes of any Acquired Company for any taxable year or period (or portion thereof, determined in accordance with Section 5.4(c)(ii)) that ends on or before the Closing Date (other than Transfer Taxes, if any, to which the provisions of Section 5.4(a) apply), except (A) to the extent a liability for such Taxes was taken into account in the calculation of the Final Target Statutory Capital and the Final Purchase Price pursuant to Section 2.3, and (B) for the avoidance of doubt, to the extent such Taxes were already paid by Seller pursuant to Section 5.4(b)(i) or Section 5.4(c)(i), (x) the Seller's share of Transfer Taxes, if any, to which the provisions of Section 5.4(a) apply, (y) any Taxes resulting from the making of any Section 338(h)(10) Election or any of the actions described in Sections 5.6, 5.7, or 5.13 of this Agreement, and (z) any Taxes of any other Person imposed on any of the Acquired Companies by reason of Treasury Regulations Section 1.1502-6 (or any corresponding or similar provision of federal, state, local, or non-United States law), as a transferee or successor, by contract, or otherwise which Taxes relate to an event or transaction occurring before the Closing (iv) Retained Liabilities, (v) Retained Policies and (vi) any and all items set forth on Schedule 7.3(a) hereto.

(o) No Claim Notice may be submitted by any Purchaser Indemnified Party with respect to any Losses arising out of or resulting from Section 7.3(a)(i), nor shall Seller be required to indemnify any Purchaser Indemnified Party against any such Loss in respect of any such Claim Notice, unless the aggregate amount to be paid out in respect of such Claim Notice exceeds the Initial Deductible; *provided*, *however*, that any series of Losses relating to the same facts and circumstances will be aggregated for purposes of determining whether such Losses exceed the Initial Deductible. Seller shall be liable to the Purchaser Indemnified Parties for any Losses arising out of or resulting from Section 7.3(a)(i) that exceed the Initial Deductible solely to the extent such Losses, in the aggregate, would exceed the Deductible, and then only for the amount of such excess, up to an aggregate maximum amount equal to the Indemnity Cap. Notwithstanding the foregoing, Losses arising out of or resulting from the Fundamental Claims or fraud shall not be subject to the Deductible or the Indemnity Cap.

Section 7.4 Claims

(d) An Indemnified Party shall give to the party from whom indemnification is sought (the "Indemnifying Party") written notice of any matter that such Indemnified Party has determined has given or could give rise to a right of indemnification hereunder (a "Claim Notice"). The Claim Notice shall be given within thirty (30) days after the Indemnified Party becomes aware of the facts indicating that a claim for indemnification may be warranted and (i) shall state in reasonable detail the nature of the claim, (ii) identify all sections of this Agreement which form the basis for such claim, (iii) with respect to Third Party Claims, attach copies of all material written evidence thereof to the date of such notice, and (iv) set forth the estimated amount of the Losses, if known, that have been or may be sustained by an Indemnified Party relating to such claim. Notwithstanding the foregoing, the delay or failure of any Indemnified Party to give a Claim Notice shall not relieve the Indemnifying Party of its obligations under this Article VII, except to the extent (and only to the extent) that the Indemnifying Party is materially prejudiced by the delay or failure to give such Claim Notice.

(e) If a Claim Notice relates to a claim, action, suit, proceeding or demand asserted by a Person who is not a party hereto or its Affiliate (or a successor thereof), including a claim, action, suit, proceeding or demand asserted by a Governmental Authority which could give rise to a right of indemnification hereunder (a "Third Party Claim"), the Indemnifying Party may at its own expense, through counsel of its own choosing (which counsel shall be reasonably satisfactory to the Indemnified Party), assume the defense and investigation of such Third Party Claim; *provided* that any Indemnified Party shall be entitled to participate in any such defense with counsel of its own choice at its own expense. If the Indemnifying Party elects to assume the defense and investigation of such Third Party Claim, it shall, no later than thirty (30) days following its receipt of the Claim Notice notify the Indemnified Party in writing of its assumption of the defense and investigation of such Third Party Claim. Notwithstanding any of the foregoing, if the Indemnified Party shall have reasonably concluded that counsel selected by the Indemnifying Party has a material conflict of interest because of the availability of different or additional defenses to such Indemnified Party or other facts that the conflict of interest cannot be resolved to the reasonable satisfaction of the Indemnified Party by the consent of the Indemnifying Party and the Indemnified Party to the joint representation, then such Indemnified Party shall have the right to select separate counsel, reasonably satisfactory to the Indemnifying Party, to participate in the defense of such action on its behalf; and the reasonable fees and expenses of the Indemnified Party's counsel shall be at the expense of the Indemnifying Party. If the Indemnifying Party fails to take reasonable steps necessary to defend actively and diligently the action or proceeding after notifying the Indemnified Party of its assumption of the defense and investigation of such Third Party Claim, the Indemnified Party may assume such defense, and the reasonable fees and expenses of its attorneys will be covered by the indemnity provided for in this Article VII upon determination of the Indemnifying Party's indemnity obligations. The Indemnifying Party shall not, without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld, delayed or conditioned, settle or compromise any pending or threatened Third Party Claim (whether or not the Indemnified Party is an actual or potential party to such action or claim) or consent to the entry of any judgment (A) which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnified Party of a written unconditional release from all Liability in respect of such Third

Party Claim or (B) which involves any injunctive relief (or any other relief) against the Indemnified Party with respect to such action or claim other than the payment of monetary damages. If the Indemnifying Party does not notify the Indemnified Party within thirty (30) days following its receipt of the Claim Notice that it will assume the defense and investigation of such Third Party Claim, then the Indemnifying Party shall have the right to participate in any such defense at its sole cost and expense. The Indemnified Party may not compromise or settle any Third Party Claim without the prior written consent of the Indemnifying Party, unless the sole relief granted is equitable relief for which the Indemnifying Party would have no liability or to which the Indemnifying Party would not be subject. The Indemnified Party and the Indemnifying Party shall make reasonably available to each other and their respective agents and representatives all relevant business records and other documents available to them that are necessary or appropriate for the defense of any Third Party Claim, subject to any *bona fide* claims of attorney-client privilege, and each of the Indemnifying Party and the Indemnified Party shall use its commercially reasonable efforts to assist, and to cause the employees and counsel of such party to assist, in the defense of such Third Party Claim.

Section 7.5 Characterization of Indemnification Payments. Unless otherwise required by applicable Law, all indemnification payments made by Seller or Purchaser under this Article VII shall be treated for all Tax purposes as adjustments to the Final Purchase Price.

Section 7.6 Certain Indemnification Matters

(n) Purchaser and Seller agree that Losses hereunder shall be limited to actual monetary damages only and shall not include punitive, incidental, consequential, special, indirect or treble damages or damages based on loss of future revenue, profits or income, loss of business reputation or opportunity, diminution of value or on any type of multiple (other than any Losses of Indemnified Party with respect thereto arising from any Third Party Claim).

(o) Any Indemnified Party shall use commercially reasonable efforts to mitigate the amount of its Losses upon and after becoming aware of any facts or circumstances that would reasonably be expected to result in any Losses that are indemnifiable hereunder. In the event an Indemnified Party fails to take such commercially reasonable efforts, then notwithstanding anything to the contrary in this Agreement, the Indemnifying Party shall not be required to indemnify the Indemnified Party for such portion of Losses that would reasonably have been avoided if the Indemnified Party had taken such commercially reasonable efforts.

(p) Any liability for indemnification under this Agreement shall be determined without duplication of recovery by reason of the state of facts giving rise to such liability constituting a breach of more than one representation, warranty, covenant or agreement.

(q) The amount of any Losses incurred or sustained by an Indemnified Party shall be reduced (i) by any amount received by such Indemnified Party or its Affiliates with respect thereto under any insurance coverage relating thereto (other than insurance coverage provided by an Affiliate of such Indemnified Party), (ii) by any amount received by such Indemnified Party or its Affiliates with respect thereto from any non-Affiliated Person alleged to be responsible for any Losses or (iii) by the amount of any currently available Tax benefit realized by the Indemnified

Party (or any Affiliate thereof) arising from the incurrence or payment of such Loss; provided, however, that this clause (iii) shall not apply to any Losses incurred or sustained by or with respect to any Acquired Company with respect to which a Section 338(h)(10) Election is made or any Subsidiary thereof. For the purposes of this Section 7.6(d), a Tax benefit shall be currently available to the extent that it results in a refund of or actual reduction in Tax with respect to the taxable period in which the Loss is incurred or indemnification is paid, or in any prior taxable period, or on any Tax Return with respect thereto. The Indemnified Parties shall use commercially reasonable efforts to collect any amounts available under third party insurance policies or recoverable from non-Affiliated Persons with respect to Losses sustained by such Indemnified Party, *provided* that the pursuit of any such recovery shall not be a precondition to payment by the Indemnifying Party. If the Indemnified Party or its Affiliates receive any amounts under applicable third party insurance policies, or from any non-Affiliated Person alleged to be responsible for any Losses, in each case in connection with a matter giving rise to an indemnification payment, but subsequent to such indemnification payment by the Indemnifying Party, then such Indemnified Party shall promptly reimburse the Indemnifying Party an amount equal to such recovered amount (less any expense incurred by such Indemnified Party in connection with obtaining such recovery) up to the amount received by the Indemnified Party or its Affiliates from the Indemnifying Party.

(r) In determining whether a representation, warranty (other than those representations and warranties set forth in Sections 3.7(a) and 3.7(b)), covenant or agreement has been breached for purposes of the Seller Indemnifying Parties' obligations to indemnify the Purchaser Indemnified Parties under Section 7.3 and the Purchaser's obligations to indemnify the Seller Indemnified Parties under Section 7.2 and determining the amount of any Losses, "materiality", "Purchaser Material Adverse Effect", "Company Material Adverse Effect" and other similar materiality qualifiers contained in any such representation, warranty, covenant or agreement shall be disregarded. The right to indemnification, payment of Losses or any other remedy based on the breach of any representations, warranties, covenants or agreements will not be affected by any investigation conducted with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or agreement; *provided* that the party claiming such right to indemnification, payment or remedy, did not have knowledge (or should have known) of such breach on the date hereof. Notwithstanding the foregoing, the express waiver of any condition based upon the accuracy of any representation or warranty set forth in Section 6.2 or Section 6.3 or the performance of or compliance with any covenant will not affect the right of Purchaser or Seller, as the case may be, to indemnification, payment of Losses or other remedy based upon such waiver.

(s) No Losses may be claimed hereunder by an Indemnified Party to the extent that such Losses have been taken into account in the calculation of the Final Target Statutory Capital and the Final Purchase Price pursuant to Section 2.3.

(t) Except with respect to Taxes, in the event of payment by or on behalf of any Indemnifying Party to any Indemnified Party pursuant to a claim or demand in a Claim Notice, such Indemnifying Party shall be subrogated to all rights of the Indemnified Party with respect to the claim to which such indemnification relates, *provided*, *however*, that the Indemnifying Party shall only be subrogated to the extent of any amount paid by it pursuant to this Article VII in connection with such claim. Such Indemnified Party shall cooperate with such Indemnifying Party in a

reasonable manner, and at the cost of such Indemnifying Party, in presenting any subrogated right, defense or claim.

(u) The Indemnified Parties are intended third party beneficiaries of this Article VII and may specifically enforce its terms.

(v) In the event any Action for indemnification under this Article VII has been finally determined, the amount of such final determination shall be paid if the Indemnified Party is a (i) Seller Indemnified Party, by Purchaser and the Acquired Companies to the Seller Indemnified Party, and (ii) Purchaser Indemnified Party, by Seller to the Purchaser Indemnified Party, in each case upon demand by Wire Transfer. An Action, and the liability for and amount of damages therefor, shall be deemed to be "finally determined" for purposes of this Article VII when the parties hereto have so determined by mutual agreement or, if disputed, when a final and non-appealable Governmental Order has been entered with respect to such Action.

Section 7.7 Exclusive Remedy. From and after the Closing, the indemnification provisions in this Article VII shall be, in the absence of fraud, the sole and exclusive remedy for any breach of any representation or warranty or any covenant or agreement contained in this Agreement or in any certificate or instrument delivered pursuant to this Agreement, other than breaches of Sections 5.1(b) and (c), Sections 5.6(c) and (d), Section 5.12 and this Article VII, for which the remedy of specific performance is preserved pursuant to Section 9.15.

Section 7.8 Reserves. Notwithstanding anything to the contrary in this Agreement or the Ancillary Agreements, Purchaser acknowledges and agrees that neither Seller nor any of its Affiliates makes any representation or warranty (express or implied), and nothing contained in this Agreement, any Ancillary Agreement or any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby or thereby is intended or shall be construed to be a representation or warranty (express or implied) of Seller or any of its Affiliates, with respect to: (a) the adequacy or sufficiency of the reserves or reinsurance of any Acquired Company; (b) the effect of the adequacy or sufficiency of the reserves or reinsurance of any Acquired Company on any "line item" or asset, liability or equity amount; (c) the future experience or profitability arising from the business of the Acquired Companies or that the reserves of any Acquired Company have been or will be adequate or sufficient for the purposes for which they were established or that the reinsurance recoverables taken into account in determining the amount of such reserves will be collectible.

ARTICLE VIII
TERMINATION

Section 8.1 Termination. This Agreement may be terminated, and the transactions contemplated hereby abandoned, at any time prior to the Closing:

(o) by written agreement of Purchaser and Seller;

(p) by Purchaser if (i) any of the conditions set forth in Sections 6.1 or 6.2 shall have become incapable of fulfillment and shall not have been waived by Purchaser or (ii) if Seller breaches

or fails to perform in any material respect its agreements or covenants contained in this Agreement, which breach or failure to perform (A) would give rise to the failure of a condition set forth in Sections 6.1 or 6.2 and (B) cannot be or has not been cured by the earlier of (x) thirty (30) days after the giving of written notice to the Seller of such breach and (y) the Termination Date;

(q) by the Seller if (i) any of the conditions set forth in Sections 6.1 or 6.3 shall have become incapable of fulfillment and shall not have been waived by the Seller or (ii) if Purchaser breaches or fails to perform in any material respect its agreements or covenants contained in this Agreement, which breach or failure to perform (A) would give rise to the failure of a condition set forth in Sections 6.1 or 6.3 and (B) cannot be or has not been cured by the earlier of (x) thirty (30) days after the giving of written notice to Purchaser of such breach and (y) the Termination Date;

(r) by Purchaser or Seller, by giving written notice of such termination to the other, if the Closing shall not have occurred on or prior to December 31, 2013 unless the failure of the Closing to occur results from the failure of the party hereto seeking to terminate this Agreement to materially perform any of its obligations under this Agreement required to be performed by it at or prior to the Closing; *provided* that such date may be extended by no more than ninety (90) days by either Seller or Purchaser upon delivery of written notice to the other, if the Closing shall not have occurred as a result of the conditions set forth in Section 6.1(b) having failed to be satisfied; *provided, however,* that such extension right will not be available to any party whose failure to fulfill any obligation hereunder has been the cause of, or resulted in, the failure of the Closing to occur on or before such date (the "Termination Date"); or

(s) by Purchaser or Seller, by giving written notice of such termination to the other, if a Governmental Authority of competent jurisdiction shall have enacted, enforced or entered any Law or a final and non-appealable Governmental Order shall be in effect that prohibits the consummation of the Closing; *provided*, *however*, that the party hereto seeking to terminate this Agreement shall have used commercially reasonable efforts to have any such Law declared invalid or inapplicable or Governmental Order vacated.

Notwithstanding the foregoing, the right to terminate this Agreement pursuant to this Section 8.1 shall not be available to any party that has breached in any material respect its obligations under this Agreement in any manner or whose failure to fulfill its obligations shall have proximately caused the occurrence of the failure of the transactions contemplated hereby to be consummated.

Section 8.2 Effect of Termination. If this Agreement is terminated in accordance with Section 8.1, this Agreement shall thereafter become void and have no effect, and neither party hereto shall have any liability to the other party hereto or such other party's Affiliates, directors, officers, shareholders, partners, agents or employees in connection with this Agreement, except that (a) the obligations of the parties hereto contained in the Confidentiality Agreements and in this Section 8.2 and in Article IX shall survive and (b) termination will not relieve either party hereto from liability for a breach of this Agreement or fraud prior to such termination or impair the right of any party to compel specific performance by any other party of its obligations under this Agreement.

ARTICLE IX
MISCELLANEOUS

Section 9.1 Notices. All notices, requests, claims, demands or other communications hereunder shall be deemed to have been duly given and made if in writing and (a) at the time personally delivered if served by personal delivery upon the party for whom it is intended, (b) at the time received if delivered by registered or certified mail (postage prepaid, return receipt requested) or by a national courier service (delivery of which is confirmed), or (c) upon confirmation if sent by facsimile; in each case to the Person at the address set forth below, or such other address as may be designated in writing hereafter, in the same manner, by such Person:

to Seller:

OneBeacon Insurance Group LLC
601 Carlson Parkway
Minnetonka, MN 55305
Telephone: (952) 852-6731
(952) 852-6024
Facsimile: (888) 353-6247
(888) 862-8724
Attention: Maureen A. Phillips
Senior Vice President and General Counsel

with a copy (which shall not constitute notice to Seller for the purposes of this Section 9.1) to:

Mayer Brown LLP
71 South Wacker Drive
Chicago, Illinois 60606
Telephone: (312) 782-0600
Facsimile: (312) 701-7711
Attention: Edward S. Best

to Purchaser:

Armour Group Holdings Limited
Chevron House, Ground Floor
11 Church Street
Hamilton HM 11
Bermuda
P.O. Box HM 66, Hamilton HM AX
Telephone: (441) 292-9774
Facsimile: (441) 292-9711
Attention: Pauline Richards
Chief Operating Officer

with a copy (which shall not constitute notice to Purchaser for the purposes of this Section 9.1) to:

Edwards Wildman Palmer LLP
20 Church Street
Hartford, CT 06103
Telephone: (860) 541-7762
Facsimile: (888) 325-9468
Attention: Charles R. Welsh

Section 9.2 Amendment; Modification and Waiver. Any provision of this Agreement may be amended, modified or waived if, and only if, such amendment, modification or waiver is in writing and signed, in the case of an amendment, by the parties hereto, or in the case of a waiver, by the party hereto against whom the waiver is to be effective. No failure or delay by any party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

Section 9.3 Assignment. Neither this Agreement nor any of the rights, interests or obligations under it may be directly or indirectly assigned, delegated, sublicensed or transferred by either of the parties hereto, in whole or in part, to any other Person (including any bankruptcy trustee) by operation of law or otherwise, whether voluntarily or involuntarily, without the prior written consent of the other party, and any attempted or purported assignment in violation of this Section 9.3 will be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by the parties hereto and their respective heirs, executors, administrators, successors, legal representatives and permitted assigns.

Section 9.4 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with respect to such matters, except for the Confidentiality Agreements which will remain in full force and effect until the Closing and which, from and after the Closing, shall remain in full force and effect except to the extent otherwise provided in Section 5.1(b).

Section 9.5 No Third Party Beneficiaries. Except as provided in Section 7.6(h), nothing expressed or implied in this Agreement is intended to confer any rights, benefits, remedies, obligations or liabilities upon any Person other than the parties hereto and their respective heirs, executors, administrators, successors, legal representatives and permitted assigns.

Section 9.6 Public Disclosure. The parties hereto shall agree on the form and content of any initial press release and, except with the prior written consent of the other party hereto (which consent shall not be unreasonably withheld, delayed or conditioned), shall not issue any other press release or other public statement or communication with respect to this Agreement, the Ancillary Agreements or the transactions contemplated hereby and thereby; *provided* that the parties hereto may, without the prior written consent of the other party hereto, issue such communication or make such public statement (a) as may be required by applicable Law or stock exchange rules and, if practicable under the circumstances, after reasonable prior consultation with the other party hereto, or (b) to enforce its rights under this Agreement or any Ancillary Agreement.

Section 9.7 No Other Representations and Warranties; Due Investigation

(g) Except for the representations and warranties contained in this Agreement, none of Seller and its Affiliates, nor any of their respective directors, officers, employees, agents or representatives, makes or has made any other representation or warranty on behalf of Seller or otherwise in respect of the Acquired Companies, including as to the accuracy or completeness of any of information (including any projections, estimates or other forward-looking information) provided (including set forth in the Electronic Data Room, or provided in any management presentations, information memoranda, supplemental information or other materials) or otherwise made available by or on behalf of Seller or as to the probable success or profitability of the Acquired Companies. Seller expressly disclaims any and all other representations and warranties, whether express or implied.

(h) Except for the representations and warranties contained in Article IV, neither Purchaser or its Affiliates, nor any of their respective directors, officers, employees, agents or representatives, makes or has made any other representation or warranty on behalf of Purchaser. Purchaser expressly disclaims any and all other representations and warranties, whether express or implied.

(i) Purchaser has conducted its own independent review and analysis of the business, operations, technology, assets, liabilities, results of operations, financial condition and prospects of the Acquired Companies and Purchaser believes that it has had reasonable and sufficient access to the personnel, properties, premises and Books and Records related thereto for this purpose.

Section 9.8 Expenses. Except as otherwise expressly provided in this Agreement or in any Ancillary Agreement, whether or not the transactions contemplated by this Agreement are consummated, all direct and indirect costs and expenses incurred in connection with this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby shall be borne by the party incurring such expenses; *provided*, *however*, that Purchaser shall bear the HSR Act filing fee, if any; *provided*, *further*, that in the event that (a) the Closing does not occur as a result of the parties' failure to obtain the Required Approvals as they relate to the applicable change of

control or "Form A" filings contemplated by Section 6.1(b) (subject to Purchaser's compliance with Sections 5.3(b) and (c)(i)) and (b) this Agreement is terminated by Purchaser as a consequence thereof in compliance with Section 8.1(c), Seller shall reimburse Purchaser for seventy-five percent (75%) of Purchaser's reasonable fees and expenses for third party actuaries, attorneys, accountants and tax consultants documented in reasonable detail and incurred by Purchaser in connection with this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby between September 17, 2012 through the date of termination of this Agreement (the "Due Diligence Costs") in an aggregate amount not to exceed $750,000 *less* any amount paid by Seller or its Affiliate pursuant to or in relation to that certain letter agreement, dated June 22, 2012, among Seller, Purchaser Parent and the other party thereto (it being understood that this proviso shall have no further effect following the Closing). To the extent that Seller terminates this Agreement in violation of Section 8.1, the conditions to Closing set forth in Article VI can be satisfied and Purchaser remains willing and able to consummate the transactions contemplated by this Agreement, Seller shall reimburse Purchaser for one hundred percent (100%) of the Due Diligence Costs. To the extent that Purchaser terminates this Agreement in violation of Section 8.1, the conditions to Closing can be satisfied and Seller remains willing and able to consummate the transactions contemplated by this Agreement, Purchaser shall remain liable for and pay one hundred percent (100%) of the Due Diligence Costs. The allocation of the Due Diligence Costs set forth herein shall be in addition to any other reimbursement or remedy that may be available at law or in equity as a consequence of a party's wrongful termination of this Agreement. At the option of Seller, any Due Diligence Costs owing by Seller to Purchaser pursuant to this Section 9.8 may be netted against any amount owing by Purchaser to Seller pursuant to the Run-Off Business Consulting Engagement Agreement.

Section 9.9 Disclosure Schedules. Disclosures on the Purchaser Disclosure Schedule or the Seller Disclosure Schedule (each, a "Disclosure Schedule") shall be arranged in sections corresponding to the numbered and lettered sections of this Agreement, and any disclosure set forth on any section of a Disclosure Schedule shall be deemed to be disclosed by the party hereto delivering such Disclosure Schedule for all sections of this Agreement and all other sections of such Disclosure Schedule to the extent that it is reasonably apparent on its face from a reading of such disclosure that such disclosure is applicable to such other sections of this Agreement or such other sections of such Disclosure Schedule. The headings contained in a Disclosure Schedule are for convenience of reference only and shall not be deemed to modify or influence the interpretation of the information contained in such Disclosure Schedule or this Agreement. Except as otherwise expressly required by this Agreement, the inclusion of any information in any section of a Disclosure Schedule shall not be deemed to be an admission or acknowledgment by the party hereto delivering such Disclosure Schedule or otherwise imply that such information is required to be listed in any section of such Disclosure Schedule or that any such matter rises to a Purchaser Material Adverse Effect or Company Material Adverse Effect, as applicable, or is material to or outside the Ordinary Course of Business. Matters reflected in a Disclosure Schedule are not necessarily limited to matters required by this Agreement to be reflected in such Disclosure Schedule. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. All references in a Disclosure Schedule to the enforceability of agreements with third parties, the existence or non-existence of third-party rights, the absence of breaches or defaults by third parties, or similar matters or statements, are intended only to allocate rights and risks between Purchaser and Seller and were not intended to be admissions against interests (with respect to third parties),

give rise to any inference or proof of accuracy, be admissible against any party to this Agreement by any Person who is not a party to this Agreement, or give rise to any claim or benefit to any Person who is not a party to this Agreement. The disclosure in a Disclosure Schedule of any allegation, threat, notice or other communication shall not be deemed to include disclosure of the truth of the matter communicated. In addition, with respect to third parties, the disclosure of any matter in a Disclosure Schedule is not to be deemed an admission that such matter actually constitutes noncompliance with, or a violation of applicable Law, any Governmental Order or Governmental Authorization or Contract or other topic to which such disclosure is applicable. In no event shall the disclosure of matters disclosed in a Disclosure Schedule be deemed or interpreted to broaden a representation, warranty, obligation, covenant, condition or agreement of the party hereto delivering such Disclosure Schedule except to the extent provided in this Agreement. No reference in a Disclosure Schedule shall by itself be construed as an admission or indication that a Contract or other document is enforceable or currently in effect except to the extent provided in this Agreement. Where a Contract or other document is referenced, summarized or described in a Disclosure Schedule, such reference, summary or description does not purport to be a complete statement of the terms or conditions of such Contract or other document and such reference, summary or description is qualified in its entirety by the specific terms and conditions of such Contract or other document.

Section 9.10 Governing Law. This Agreement and its enforcement will be governed by, and interpreted in accordance with, the laws of the State of New York applicable to agreements made and to be performed entirely within such state without regard to the conflicts of law provisions thereof.

Section 9.11 Submission to Jurisdiction. Subject to Section 2.3, each party to this Agreement hereby submits to the exclusive jurisdiction of (a) the United States District Court for the Southern District of New York sitting in the Borough of Manhattan or (b) if such court does not have jurisdiction, any state court located in the Borough of Manhattan, including in the case of subclauses (a) and (b) above, any appellate courts therefrom (the "New York Courts") for any dispute arising out of or relating to this Agreement or the breach, termination or validity thereof or any transactions contemplated by this Agreement. Each party to this Agreement hereby irrevocably and unconditionally waives, to the fullest extent permitted by Law, any objection that it may now or hereafter have to the laying of the venue of any such proceedings brought in such court. Each of the parties hereto irrevocably and unconditionally waives and agrees not to plead or claim in any such court (i) that it is not personally subject to the jurisdiction of the New York Courts for any reason other than the failure to serve process in accordance with applicable Law, (ii) that it or its property is exempt or immune from jurisdiction of the New York Courts or from any legal process commenced in the New York Courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (iii) to the fullest extent permitted by applicable Law that (A) the suit, action or proceeding in the New York Courts is brought in an inconvenient forum, (B) the venue of such suit, action or proceeding is improper and (C) this Agreement, or the subject matter hereof, may not be enforced in or by the New York Courts.

Section 9.12 WAIVER OF JURY TRIAL. EACH PARTY HERETO ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY FOR ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE BREACH, TERMINATION OR VALIDITY THEREOF OR ANY TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY HERETO CERTIFIES AND ACKNOWLEDGES THAT (A) NEITHER THE OTHER PARTY HERETO NOR ITS REPRESENTATIVES, AGENTS OR ATTORNEYS HAVE REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (B) EACH PARTY HERETO UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (C) EACH PARTY HERETO MAKES THIS WAIVER VOLUNTARILY AND (D) EACH PARTY HERETO HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS OF THIS SECTION 9.12. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

Section 9.13 Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to constitute an original, but all of which shall constitute one and the same agreement, and may be delivered by facsimile or other electronic means intended to preserve the original graphic or pictorial appearance of a document.

Section 9.14 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is found by a court or other Governmental Authority of competent jurisdiction to be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as would be enforceable.

Section 9.15 Specific Performance. Subject to Section 7.7, the parties hereto agree that irreparable harm would occur if any of the provisions of this Agreement were not performed in accordance with their specific terms on a timely basis or were otherwise breached. It is accordingly agreed that, subject to Section 7.7, without posting bond or other undertaking, the parties hereto shall be entitled to injunctive or other equitable relief to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity. In the event that any such action is brought in equity to enforce the provisions of this Agreement, no party hereto will allege, and each party hereto hereby waives the defense or counterclaim, that

there is an adequate remedy at law. The parties hereto further agree that (a) by seeking any remedy provided for in this Section 9.15, a party hereto shall not in any respect waive its right to seek any other form of relief that may be available to such party hereto under this Agreement and (b) nothing contained in this Section 9.15 shall require any party hereto to institute any action for (or limit such party's right to institute any action for) specific performance under this Section 9.15 before exercising any other right under this Agreement.

Section 9.16 Seller Parent Guaranty. From and after the Closing Date, Seller Parent irrevocably guarantees the full and punctual performance by Seller of its obligations pursuant to Section 7.3; *provided*, *however*, that Seller Parent's maximum aggregate liability under this Section 9.16 shall under no circumstance exceed the maximum aggregate amount for which Seller is liable to Purchaser and its Affiliates (reduced by any amount already paid by Seller). Seller Parent agrees that its obligations hereunder shall be unconditional irrespective of any circumstances which might otherwise constitute a legal or equitable discharge of a surety or a guarantor, and further agrees that it shall not be necessary to institute or exhaust remedies or causes of action against Seller as a condition of the obligations of Seller Parent hereunder.

Section 9.17 Purchaser Parent Guaranty. From and after the date hereof, Purchaser Parent irrevocably guarantees the full and punctual performance by Purchaser of its obligations to consummate the transactions contemplated hereby and pay the purchase price as set forth in Article II; *provided*, *however*, that Purchaser Parent's maximum aggregate liability under this Section 9.17 shall under no circumstance exceed the maximum aggregate amount for which Purchaser is liable to Seller and its Affiliates (reduced by any amount already paid by Purchaser). Purchaser Parent agrees that its obligations hereunder shall be unconditional irrespective of any circumstances which might otherwise constitute a legal or equitable discharge of a surety or a guarantor, and further agrees that it shall not be necessary to institute or exhaust remedies or causes of action against Purchaser as a condition of the obligations of Purchaser Parent hereunder.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

ONEBEACON INSURANCE GROUP LLC

By: _____

Name:

Title:

TREBUCHET US HOLDINGS, INC.

By: _____

Name:

Title:

Solely for purposes of Section 7.3 and Article IX,

ONEBEACON INSURANCE GROUP, LTD.

By: _____

Name:

Title:

Solely for purposes of Article II and Article IX,

ARMOUR GROUP HOLDINGS LIMITED

By: _____

Name:

Title:

703550379

EXHIBIT 1

FORM OF RELEASE

Please see attached

703550379

EXHIBIT 2

FORM OF RETAINED BUSINESS ADMINISTRATIVE SERVICES AGREEMENT

Please see attached

703550379

EXHIBIT 3

FORM OF RETAINED BUSINESS REINSURANCE AGREEMENT

Please see attached

703550379

EXHIBIT 4

FORM OF RUN-OFF BUSINESS ADMINISTRATIVE SERVICES AGREEMENT

Please see attached

703550379

EXHIBIT 5

FORM OF RUN-OFF BUSINESS CONSULTING ENGAGEMENT AGREEMENT

Please see attached

703550379

EXHIBIT 6

FORM OF RUN-OFF REINSURANCE AGREEMENT

Please see attached

703550379

EXHIBIT 7

FORM OF TRANSITION SERVICES AGREEMENT

Please see attached

703550379

EXHIBIT 8

FORMS OF SURPLUS NOTE

Please see attached

703550379

REGULATION 114 TRUST AGREEMENT

This Regulation 114 Trust Agreement, dated as of July 20, 2012 (this "Trust Agreement"), is entered into by and among **BUILD AMERICA MUTUAL ASSURANCE COMPANY**, a corporation organized and existing under the laws of New York (the "Beneficiary"), **HG RE LTD.**, an exempted Bermuda limited company (the "Grantor"), and **THE BANK OF NEW YORK MELLON**, a banking corporation organized and existing under the laws of the State of New York (the "Trustee"), (the Grantor, the Beneficiary and the Trustee are hereinafter each sometimes referred to individually as a "Party" and collectively as the "Parties").

RECITALS:

WHEREAS, the Grantor and the Beneficiary have entered into that certain First Loss Reinsurance Treaty Agreement, dated as of July 20, 2012 (as it may be amended or restated in accordance with its terms, the "Reinsurance Agreement"); and

WHEREAS, the Grantor desire to create a trust account with the Trustee (the "Regulation 114 Trust Account") for the sole use and benefit of the Beneficiary; and

WHEREAS, on the date hereof, the Parties have entered into that certain Supplemental Trust Agreement, dated the date hereof (as it may be amended or restated in accordance with its terms, the "Supplemental Trust Agreement"), pursuant to which the Grantor has established the Supplemental Trust Account (as defined therein); and

WHEREAS, the Trustee has agreed to act as trustee hereunder, and to hold Assets in the Regulation 114 Trust Account for the sole use and benefit of the Beneficiary in accordance with the terms and conditions of this Trust Agreement;

NOW, THEREFORE, for and in consideration of the premises and the promises and the mutual agreements hereinafter set forth, the Parties, intending to be legally bound, covenant and agree as follows:

SECTION 1. <u>Deposit of Assets into the Regulation 114 Trust Account</u>.

(a) The Grantor hereby establishes the Regulation 114 Trust Account with the Trustee for the sole use and benefit of the Beneficiary, under the terms set forth herein, in order to secure payment of amounts owed by the Grantor to the Beneficiary under the Reinsurance Agreement. The Trustee shall administer the Regulation 114 Trust Account in its name as Trustee for the sole use and benefit of the Beneficiary. The Regulation 114 Trust Account shall be subject to withdrawal by the Beneficiary solely as provided herein. The Trustee hereby accepts the Regulation 114 Trust Account upon the terms set forth in this Trust Agreement.

(b) The Trustee will accept and credit to the Regulation 114 Trust Account all assets which from time to time are delivered to it for deposit in the Regulation 114 Trust Account by or on behalf of the Grantor or the Beneficiary (all such assets actually received in the Regulation

114 Trust Account are herein referred to individually as an “Asset” and collectively as the “Assets”). The Trustee is authorized and shall have the power to receive such Assets and to hold, invest, reinvest and dispose of the same for the uses and purposes of and according to the provisions herein set forth. All Assets shall be maintained by the Trustee in the Regulation 114 Trust Account separate and distinct from all other assets under the control of or on the books of the Trustee and shall be received and continuously kept in a safe place at the Trustee’s office within the United States of America.

(c) The Grantor shall ensure that (i) any Assets transferred to the Trustee for deposit in the Regulation 114 Trust Account will be in such form that the Beneficiary, or the Trustee upon direction by the Beneficiary, may whenever necessary negotiate any such Assets, without consent or signature from the Grantor or any other person or entity in accordance with the terms of this Trust Agreement, (ii) all Assets transferred to the Trustee for deposit in the Regulation 114 Trust Account will consist only of Eligible Assets, and (iii) each such Asset shall be at the time of transfer free and clear of all claims, liens, interests and encumbrances whatsoever (other than those arising under this Trust Agreement).

(d) Prior to depositing the Assets in the Regulation 114 Trust Account, and from time to time thereafter as required, the Grantor shall execute or cause the execution of assignments, endorsement in blank, or transfer legal title to the Trustee of all shares, obligations or other Assets requiring assignments, so that the Beneficiary, or the Trustee upon direction by the Beneficiary, may whenever necessary negotiate any such Assets, without the consent or signature from the Grantor or any other person or entity. Any Assets received by the Trustee which are not in such proper negotiable form shall not be accepted by the Trustee and shall be returned to the Grantor as unacceptable. The Trustee may hold Assets of the Regulation 114 Trust Account in bearer form or in its own name or that of a nominee.

(e) The Trustee shall have no responsibility to determine whether the Assets in the Regulation 114 Trust Account are sufficient to secure the Grantor's obligations to the Beneficiary. Furthermore, the Trustee shall have no responsibility whatsoever to determine whether Assets transferred to the Regulation 114 Trust Account constitute Eligible Assets.

SECTION 2. <u>Withdrawal or Transfer of Assets from the Regulation 114 Trust Account</u>.

(a) Without notice to the Grantor, the Beneficiary shall have the right, at any time and from time to time, to withdraw from the Regulation 114 Trust Account, subject only to written notice from the Beneficiary to the Trustee (the “Withdrawal Notice”), such Assets as are specified in such Withdrawal Notice. The Withdrawal Notice shall also specify instruction to the Trustee as to how such specified Assets shall be delivered. The Beneficiary may from time to time designate a third party (the “Beneficiary Designee”) in a Withdrawal Notice to whom all or part of the Assets specified therein shall be delivered. The Beneficiary shall not be required to present any other statement or document in addition to a Withdrawal Notice in order to withdraw any Assets, except that the Beneficiary shall acknowledge receipt of any such Assets withdrawn upon request by the Trustee; nor is said right of withdrawal or any other provision of this Trust Agreement subject to any conditions or qualifications not contained in this Trust Agreement.

(b) Upon receipt of a Withdrawal Notice, the Trustee shall immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the Assets specified in such Withdrawal Notice and shall deliver physical custody (or such other form as is necessary to complete the transfer) of such Assets to or for the account of the Beneficiary or the Beneficiary Designee, as applicable, as specified in such Withdrawal Notice. The Trustee shall notify the Grantor and the Beneficiary within five (5) Business Days following each withdrawal from the Regulation 114 Trust Account. The Trustee may rely on any Withdrawal Notice delivered by the Beneficiary without making any investigation of the Beneficiary's authority to deliver it.

(c) Subject to Section 3 of this Trust Agreement and subsection (d) below, the Trustee shall allow no substitution or withdrawal of any Asset from the Regulation 114 Trust Account in the absence of a Withdrawal Notice.

(d) Upon written notice to the Trustee from the Beneficiary, the Trustee shall transfer amounts held in the Regulation 114 Trust Account to the Supplemental Trust Account (the "Transfer Notice").

SECTION 3. Redemption, Investment and Substitution of Assets.

(a) The Trustee shall surrender for payment all maturing Assets and all Assets called for redemption, deposit the principal amount of the proceeds of any such payment to the Regulation 114 Trust Account and give written notice to the Beneficiary and the Grantor of such action.

(b) The Grantor may appoint an investment manager (in such capacity, the "Asset Manager"), to make investment decisions with regard to the Assets held by the Trustee in the Regulation 114 Trust Account. The Grantor shall promptly notify the Trustee in writing of the termination of the appointment of any Asset Manager. From time to time, the Grantor, or the Asset Manager, acting on behalf of Grantor, may instruct the Trustee to invest Assets in the Regulation 114 Trust Account in Eligible Assets. The Trustee agrees to follow any investment instructions from the Asset Manager and to execute and settle all such trades in the ordinary course. The Grantor shall be responsible to ascertain whether investments are "Eligible Assets".

(c) The Grantor shall have the right, with the prior written consent of the Beneficiary, which consent shall not be unreasonably withheld or delayed, to withdraw from the Account and transfer to the Grantor all or any part of the Assets in the Account, provided, that the Grantor shall, at the time of such withdrawal, replace the withdrawn Assets with other Eligible Assets having a fair market value equal to the value of the Assets withdrawn. Prior to any such substitution, the Grantor shall deliver to the Beneficiary and the Trustee a detailed written description of the proposed substitution and the character and amount of the Assets proposed to be withdrawn and the Eligible Assets proposed to be used to replace such withdrawn Assets.

(d) When the Trustee is directed to deliver or receive Assets against payment, delivery will be made in accordance with generally accepted market practice.

SECTION 4. Trust Income.

All payments of interest, dividends and other income in respect to the Assets in the Regulation 114 Trust Account shall be promptly deposited into the Regulation 114 Trust Account.

SECTION 5. **Right to Vote Assets.**

The Trustee shall forward all annual and interim stockholder and other financial reports and all proxies and proxy materials relating to the Assets in the Regulation 114 Trust Account to the Grantor within a reasonable period of time following the Trustee's receipt thereof. The Grantor shall have the full and unqualified right to vote any shares of stock or other securities in the Regulation 114 Trust Account.

SECTION 6. Additional Rights and Duties of the Trustee.

(a) The Trustee shall be a bank which is a member of the Federal Reserve System of the United States of America or a New York State chartered bank or trust company and shall not be a parent, subsidiary or affiliate of the Grantor or the Beneficiary.

(b) The Trustee shall be liable for its own negligence, willful misconduct or lack of good faith arising out of or in connection with the performance of its obligations in accordance with this Trust Agreement.

(c) The Trustee shall notify the Grantor and the Beneficiary in writing promptly, but in no event more than ten (10) calendar days, following each deposit into, or withdrawal from, the Regulation 114 Trust Account and shall notify the Grantor promptly of the receipt by the Trustee of any Withdrawal Notice or Transfer Notice.

(d) The Trustee shall be under no obligation to determine whether or not any instructions given by the Grantor or the Beneficiary are contrary to any provision of law. It is understood and agreed that the Trustee's duties are solely those set forth herein and that the Trustee shall have no duty to take any other action unless specifically agreed to by the Trustee in writing. Without limiting the generality of the foregoing, the Trustee shall not have any duty to advise, manage, supervise or make recommendations with respect to the purchase, retention or sale of any Assets in the Regulation 114 Trust Account as to which a default in the payment of principal or interest has occurred or to be responsible for the consequences of insolvency or the legal inability of any broker, dealer, bank or other agent employed by the Grantor or Trustee with respect to the Assets except to the extent that the Trustee was negligent, engaged in willful misconduct or acted with a lack of good faith in the selection of any such person or entity.

(e) The Trustee shall accept and open all mail directed to the Grantor or the Beneficiary in care of the Trustee.

(f) The Trustee shall furnish to the Grantor and the Beneficiary a statement of all Assets in the Regulation 114 Trust Account upon the inception of the Regulation 114 Trust Account and at regular intervals no less frequently than at the end of each quarter thereafter.

(g) The Trustee shall keep full and complete records of the administration of the Regulation 114 Trust Account in accordance with all applicable law. Upon the request of the Grantor or the Beneficiary, the Trustee shall promptly permit the Grantor or the Beneficiary, their respective agents, employees, independent auditors and regulatory authorities to examine, audit, excerpt, transcribe and copy, during the Trustee's normal business hours, any books, documents, papers and records relating to the Regulation 114 Trust Account or the Assets. Any out-of-pocket expenses incurred by the Trustee in relation to any such audit shall be reimbursed by the Grantor and/or the Beneficiary, as the case may be.

(h) Unless otherwise provided in this Trust Agreement, the Trustee is authorized to follow and rely upon all instructions given by officers of the Grantor or the Beneficiary and by attorneys-in-fact acting under written authority furnished to the Trustee by the Grantor or the Beneficiary, including, without limitation, instructions given by letter, facsimile transmission or electronic media, if the Trustee believes such instructions to be genuine and to have been signed, sent or presented by the proper party or parties. In the absence of negligence, the Trustee shall not incur any liability to anyone resulting from actions taken by the Trustee in reliance in good faith on such instructions. The Trustee shall not incur any liability in executing instructions (i) from any attorney-in-fact prior to receipt by it of notice of the revocation of the written authority of the attorney-in-fact or (ii) from any officer of the Grantor or the Beneficiary.

(i) The duties and obligations of the Trustee shall only be such as are specifically set forth in this Trust Agreement, as it may from time to time be amended, and no implied duties or obligations shall be read into this Trust Agreement against the Trustee.

(j) No provision of this Trust Agreement shall require the Trustee to take any action which, in the Trustee's reasonable judgment, would result in any violation of this Trust Agreement or any provision of law.

(k) The Trustee may confer with counsel of its own choice in relation to matters arising under this Trust Agreement. The opinion of said counsel shall be full and complete authority and protection for the Trustee with respect to any action taken, suffered or omitted by it in good faith and in accordance with the opinion of said counsel, other than with respect to the withdrawal of Assets by the Beneficiary.

(l) The Trustee may maintain the Assets in book-entry form with, and utilize the services of, any Federal Reserve Bank, The Depository Trust Company or similar such depositories ("Central Depositories") as appropriate. Assets may be held in the name of a nominee maintained by the Trustee or any Central Depository.

(m) The Trustee shall be liable for (i) the safekeeping of the Assets and administering the Regulation 114 Trust Account in accordance with the provisions of this Trust Agreement and (ii) its own negligence, willful misconduct or lack of good faith in performing its duties under

this Trust Agreement. The Trustee shall exercise the standard of care with respect to the Assets that a professional trustee, engaged in the banking or trust company industry, having professional expertise in financial and securities processing transactions and custody would observe in such affairs. The Trustee shall be liable for physical loss of or damage to Assets under its care, custody, possession or control or the care, custody, possession or control of its subcustodians, other agents or nominee(s) selected by it, including but not limited to loss due to fire, burglary, robbery, theft or mysterious disappearance. Notwithstanding the foregoing, the Trustee shall not be responsible for loss of or damage to Assets held in Central Depositories, including but not limited to loss due to fire, burglary, robbery, theft or mysterious disappearance.

(n) Whenever in the administration of the Regulation 114 Trust Account created by this Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action thereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a statement or certificate signed by or on behalf of Grantor and/or Beneficiary, as appropriate, and delivered to the Trustee and said statement or certificate shall be full warrant to the Trustee for any action taken, suffered or omitted by it on the faith thereof.

(o) The Trustee shall execute and settle securities transactions by itself or by means of an agent or broker. The Trustee shall not be responsible for any act or omission, or for the solvency, of any such agent or broker, unless in the case of agent(s), such agent(s) is selected by the Trustee, or in the case of brokers, such broker is negligently selected by the Trustee.

(p) The Trustee is not required to make advances of cash, securities or any other property on behalf of the Regulation 114 Trust Account, or permit overdrafts in the Regulation 114 Trust Account in connection with the acquisition or disposition of Assets in the Regulation 114 Trust Account; provided, however, that if the Trustee is required by industry practice to make such advance or permit such an overdraft, such advance or overdraft shall be deemed a loan by the Trustee to the Grantor, which loan shall be payable on demand and shall bear interest at the Trustee's customary rate for similar loans. The Grantor shall be solely responsible for repayment of such loan and any interest thereon.

SECTION 7. The Trustee's Compensation; Expenses.

(a) The Grantor shall pay the Trustee, as compensation for its services under this Trust Agreement, a fee computed at rates determined by the Trustee from time to time and agreed to in writing to the Grantor. The Grantor shall pay or reimburse the Trustee for all of the Trustee's expenses and disbursements in connection with its duties under this Trust Agreement (including reasonable attorneys' fees and expenses), except any such expense or disbursement as may arise from the Trustee's negligence, willful misconduct, lack of good faith or failure to administer the Regulation 114 Trust Account in accordance with the terms of this Trust Agreement. The Grantor also hereby indemnifies the Trustee for, and holds it harmless against, any loss, liability, costs or expenses (including reasonable attorney's fees and expenses) incurred or made without negligence, willful misconduct or lack of good faith on the part of the Trustee, arising out of or in connection with the performance of its obligations in accordance with the provisions of this Trust Agreement (which shall be the sole obligation of the Trustee), including

any loss, liability, costs or expenses arising out of or in connection with the status of the Trustee and its nominee as the holder of record of the Assets. The Grantor hereby acknowledges that the foregoing indemnities shall survive the resignation of the Trustee or the termination of this Trust Agreement.

(b) No Assets shall be withdrawn from the Regulation 114 Trust Account or used in any manner for paying compensation to, or reimbursement of expenses or indemnification of, the Trustee.

SECTION 8. Resignation or Removal of the Trustee.

(a) The Trustee may resign at any time upon delivery of a written notice thereof to the Beneficiary and the Grantor effective not less than ninety (90) calendar days after receipt by the Beneficiary and the Grantor of such notice. The Trustee may be removed by the Grantor's delivery to the Trustee and the Beneficiary of a written notice of removal, effective not less than ninety (90) calendar days after receipt by the Trustee and the Beneficiary of such notice. No such resignation or removal shall become effective until a successor trustee has been appointed and approved by the Beneficiary and the Grantor and all Assets in the Regulation 114 Trust Account have been duly transferred to the successor trustee in accordance with paragraph (b) of this Section 8.

(b) Upon receipt by the proper Parties of the Trustee's notice of resignation or the Grantor's notice of removal, as applicable, the Grantor and the Beneficiary shall appoint a successor trustee. Any successor trustee shall be a bank or trust company specified in Section 6(a) of this Trust Agreement. Upon the acceptance of the appointment as trustee hereunder by a successor trustee and the transfer to such successor trustee of all Assets in the Regulation 114 Trust Account, the resignation or removal of the trustee shall become effective. Thereupon, such successor trustee shall succeed to and become vested with all the rights, powers, privileges and duties of the resigning or removed trustee, and the resigning or removed trustee shall be discharged from any future duties and obligations under this Trust Agreement, but the resigning or removed trustee shall continue after such resignation or removal to be entitled to the benefits of the indemnities provided herein for the Trustee.

SECTION 9. Termination of the Regulation 114 Trust Account.

The Regulation 114 Trust Account and this Trust Agreement shall be effective until terminated by the provision of sixty (60) calendar days' advance written notice sent to the Trustee jointly by the Grantor and the Beneficiary. Upon the termination of the Regulation 114 Trust Account, the Trustee shall, with the Beneficiary's prior written consent, such consent not to be unreasonably withheld or delayed, transfer to the Grantor all of the Assets of the Regulation 114 Trust Account not previously withdrawn by the Beneficiary.

SECTION 10. Definitions.

Except as the context shall otherwise require, the following terms shall have the following meanings for purposes of this Trust Agreement (the definitions to be applicable to both

the singular and the plural forms of each term defined if both forms of such term are used in this Trust Agreement):

"Beneficiary" shall include any successor of the Beneficiary by operation of law, including, without limitation, any liquidator, rehabilitator, receiver or conservator.

"Business Day" means any day other than a day on which banks in the State of New York or the Islands of Bermuda are permitted or required to be closed.

"Eligible Assets" means cash (United States legal tender), certificates of deposit (issued by a United States bank and payable in United States legal tender), and investments of the type specified in Paragraphs (1), (2), (3), (8) and (10) of Subsection (a) of Section 1404 of the New York Insurance Law; provided, however, that such investments are issued by an institution that is not the parent, a subsidiary or an affiliate of either the Grantor or the Beneficiary and, provided further, that the investments comply with the investment guidelines attached hereto as Exhibit A, as the same may be amended from time to time upon written notice by the Beneficiary and the Grantor to the Trustee.

"Person" means an individual, corporation, limited liability company, association, joint-stock company, business trust or other similar organization, partnership, joint venture, trust, unincorporated organization or government or any agency, instrumentality or political subdivision thereof.

SECTION 11. Governing Law.

This Trust Agreement shall be subject to and governed by the laws of the State of New York, without regard to its conflict of laws provision and the Regulation 114 Trust Account created hereunder shall be administered in accordance with the laws of said state.

SECTION 12. Successors and Assigns.

This Trust Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, permitted assigns and legal representatives. Neither this Trust Agreement, nor any right or obligation hereunder, may be assigned by any Party without the prior written consent of the other Parties hereto. Any assignment in violation of this Section 12 shall be void and shall have no force and effect.

SECTION 13. Severability.

All rights and restrictions contained herein may be exercised and shall be applicable and binding only to the extent that they do not violate any applicable laws and are intended to be limited to the extent necessary to render this Trust Agreement legal, valid and enforceable. If any term of this Trust Agreement, or part thereof, shall be held to be illegal, invalid or unenforceable by a court of competent jurisdiction, it is the intention of the Parties that the remaining terms hereof, or part thereof, shall constitute their agreement with respect to the subject matter hereof and all such remaining terms, or parts thereof, shall remain in full force and effect. To the extent

legally permissible, any illegal, invalid or unenforceable provision of this Trust Agreement shall be replaced by a valid provision which will implement the purpose of the illegal, invalid or unenforceable provision.

SECTION 14. Entire Agreement.

This Trust Agreement constitutes the entire agreement among the Parties with respect to the subject matter hereof, and there are no understandings or agreements, conditions or qualifications relative to this Trust Agreement which are not fully expressed in this Trust Agreement.

SECTION 15. Amendments.

This Trust Agreement may be modified or otherwise amended, and the observance of any term of this Trust Agreement may be waived, only if such modification, amendment or waiver is in writing and signed by the Parties.

SECTION 16. Notices.

Unless otherwise specifically provided for in this Agreement, all notices, requests, demands and other communications under this Trust Agreement must be in writing and will be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (b) if sent by reputable overnight air courier, two Business Days after mailing; (c) if sent by facsimile transmission, with a copy mailed on the same day in the manner provided in (a) or (b) above, when transmitted and receipt is confirmed by telephone; or (d) if otherwise actually personally delivered, when delivered, and shall be delivered as follows:

If to the Grantor:

HG Re Ltd.
ATTN: President
14 Wesley Street, Fifth Floor
Hamilton HM 11
Bermuda
Telephone: (441) 278-3148
Fax: (441) 278-3145
Email: sheila.nicoll@siriusgroup.com

With a copy to:

White Mountains Insurance Group, Ltd.
ATTN: General Counsel
80 South Main Street
Hanover, NH 03755
Telephone: (603) 640-2202

Fax: (603) 643-4592
Email: rseelig@whitemountains.com

If to the Beneficiary:

Build America Mutual Assurance Company
ATTN: General Counsel
1345 Avenue of the Americas, 29th Floor
New York, NY 10105
Telephone: 212-365-7561
Email: amakowski@buildamerica.com

If to the Trustee:

The Bank of New York Mellon
Mark Duncan
BNY Mellon Center, Room 151-1035
500 Grant Street
Pittsburgh, PA 15258

or to such other address or to such other Person as a Party may have last designated by notice to the other Parties.

SECTION 17. Headings.

The headings of the Sections have been inserted for convenience of reference only and shall not be deemed to constitute a part of this Trust Agreement.

SECTION 18. Counterparts.

This Trust Agreement may be executed in any number of counterparts, and all of such counterparts, taken together, shall evidence one and the same agreement. Delivery of a copy of this Trust Agreement bearing an original signature by facsimile transmission or by electronic mail in "portable document format" form shall have the same effect as physical delivery of the paper document bearing the original signature.

SECTION 19. No Third Party Beneficiaries.

Except as otherwise expressly set forth in any provision of this Trust Agreement, nothing in this Trust Agreement is intended or shall be construed to give any Person, other than the Parties, any legal or equitable right, remedy or claim under or in respect of this Trust Agreement or any provision contained herein.

[Remainder of page left intentionally blank]

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

HG RE LTD., as Grantor

By: __
Name: __
Title: __

BUILD AMERICA MUTUAL ASSURANCE COMPANY, as Beneficiary

By: __
Name: __
Title: __

THE BANK OF NEW YORK MELLON, as Trustee

By: __
Name: __
Title: __

Investment Guidelines

SUPPLEMENTAL TRUST AGREEMENT

This Supplemental Trust Agreement, dated as of July 20, 2012 (this "Supplemental Trust Agreement"), is entered into by and among **BUILD AMERICA MUTUAL ASSURANCE COMPANY**, a corporation organized and existing under the laws of New York (the "Beneficiary"), **HGR PATTON (LUXEMBOURG) S.à r.l., United States of America Branch**, the United States branch of a Luxembourg limited liability company (the "Grantor"), and **THE BANK OF NEW YORK MELLON**, a banking corporation organized and existing under the laws of the State of New York (the "Trustee"), (the Grantor, the Beneficiary and the Trustee are hereinafter each sometimes referred to individually as a "Party" and collectively as the "Parties").

RECITALS:

WHEREAS, HG Re Ltd. ("HG Re"), an affiliate of the Grantor, and the Beneficiary have entered into that certain First Loss Reinsurance Treaty Agreement, dated as of July 20, 2012 (as it may be amended or restated in accordance with its terms, the "Reinsurance Agreement"); and

WHEREAS, the Grantor desires to create a trust account with the Trustee (the "Supplemental Trust Account") for the purposes set forth in the Reinsurance Agreement and herein; and

WHEREAS, on the date hereof, HG Re, the Beneficiary and the Trustee have entered into that certain Regulation 114 Trust Agreement, dated the date hereof (as it may be amended or restated in accordance with its terms, the "Regulation 114 Trust Agreement"), pursuant to which HG Re has established the Regulation 114 Trust Account (as defined therein); and

WHEREAS, the Trustee has agreed to act as trustee hereunder, and to hold Assets in the Supplemental Trust Account in accordance with the terms and conditions of this Supplemental Trust Agreement;

NOW, THEREFORE, for and in consideration of the premises and the promises and the mutual agreements hereinafter set forth, the Parties, intending to be legally bound, covenant and agree as follows:

SECTION 1. Deposit of Assets into the Supplemental Trust Account.

(a) The Grantor hereby establishes the Supplemental Trust Account with the Trustee for the sole use and befit of the Beneficiary, under the terms set forth herein, in order to secure payment of amounts owed by HG Re to the Beneficiary under the Reinsurance Agreement. The Trustee shall administer the Supplemental Trust Account in its name as Trustee for the sole use and befit of the Beneficiary. The Supplemental Trust Account shall be subject to withdrawal by the Beneficiary and the Grantor, respectively, solely as provided herein. The Trustee hereby accepts the Supplemental Trust Account upon the terms set forth in this Supplemental Trust Agreement.

(b) The Trustee will accept and credit to the Supplemental Trust Account all assets which from time to time are delivered to it for deposit in the Supplemental Trust Account by or on behalf of the Grantor or the Beneficiary (all such assets actually received in the Supplemental Trust Account are herein referred to individually as an "Asset" and collectively as the "Assets"). The Trustee is authorized and shall have the power to receive such Assets and to hold, invest, reinvest and dispose of the same for the uses and purposes of and according to the provisions herein set forth. All Assets shall be maintained by the Trustee in the Supplemental Trust Account separate and distinct from all other assets under the control of or on the books of the Trustee and shall be received and continuously kept in a safe place at the Trustee's office within the United States of America.

(c) The Grantor shall ensure that (i) any Assets transferred to the Trustee for deposit in the Supplemental Trust Account will be in such form that the Beneficiary, or the Trustee upon direction by the Beneficiary, may whenever necessary negotiate any such Assets, without consent or signature from the Grantor or any other person or entity in accordance with the terms of this Supplemental Trust Agreement, (ii) all Assets transferred to the Trustee for deposit in the Supplemental Trust Account will consist only of Eligible Assets and Surplus Notes, and (iii) each such Asset shall be at the time of transfer free and clear of all claims, liens, interests and encumbrances whatsoever (other than those arising under this Supplemental Trust Agreement).

(d) Prior to depositing the Assets in the Supplemental Trust Account, and from time to time thereafter as required, the Grantor shall execute or cause the execution of assignments, endorsement in blank, or transfer legal title to the Trustee of all shares, obligations or other Assets requiring assignments, so that the Beneficiary, or the Trustee upon direction by the Beneficiary, may whenever necessary negotiate any such Assets, without the consent or signature from the Grantor or any other person or entity. Any Assets received by the Trustee which are not in such proper negotiable form shall not be accepted by the Trustee and shall be returned to the Grantor as unacceptable. The Trustee may hold Assets of the Supplemental Trust Account in bearer form or in its own name or that of a nominee.

(e) The Trustee shall have no responsibility to determine whether the Assets in the Supplemental Trust Account are sufficient to secure the Grantor's obligations to the Beneficiary. Furthermore, the Trustee shall have no responsibility whatsoever to determine whether Assets transferred to the Supplemental Trust Account constitute Eligible Assets.

SECTION 2. <u>Withdrawal or Transfer of Assets from the Supplemental Trust Account</u>.

(a) Without notice to the Grantor, the Beneficiary shall have the right, at any time and from time to time, to withdraw from the Supplemental Trust Account, subject only to written notice from the Beneficiary to the Trustee (the "Withdrawal Notice"), such Assets as are specified in such Withdrawal Notice. The Withdrawal Notice shall also specify instruction to the Trustee as to how such specified Assets shall be delivered. The Beneficiary may from time to time designate a third party (the "Beneficiary Designee") in a Withdrawal Notice to whom all or part of the Assets specified therein shall be delivered. The Beneficiary shall not be required to present any other statement or document in addition to a Withdrawal Notice in order to withdraw any Assets, except that the Beneficiary shall acknowledge receipt of any such Assets withdrawn

upon request by the Trustee; nor is said right of withdrawal or any other provision of this Supplemental Trust Agreement subject to any conditions or qualifications not contained in this Supplemental Trust Agreement.

(b) Upon receipt of a Withdrawal Notice, the Trustee shall immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the Assets specified in such Withdrawal Notice and shall deliver physical custody (or such other form as is necessary to complete the transfer) of such Assets to or for the account of the Beneficiary or the Beneficiary Designee, as applicable, as specified in such Withdrawal Notice. The Trustee shall notify the Grantor and the Beneficiary within five (5) Business Days following each withdrawal from the Supplemental Trust Account. The Trustee may rely on any Withdrawal Notice delivered by the Beneficiary without making any investigation of the Beneficiary's authority to deliver it.

(c) Without limitation of the foregoing provisions of this Section 2, the Grantor shall be permitted to withdraw Assets from the Supplemental Trust Account from time to time, subject only to written notice from the Grantor to the Trustee, provided that such written notice shall have been countersigned by the Beneficiary (the "Grantor Withdrawal Notice"), such Assets as are specified in such Grantor Withdrawal Notice. The Grantor Withdrawal Notice shall also specify instruction to the Trustee as to how such specified Assets shall be delivered. The Grantor may from time to time designate a third party (the "Grantor Designee") in a Grantor Withdrawal Notice to whom all or part of the Assets specified therein shall be delivered. The Grantor shall not be required to present any other statement or document in addition to a Grantor Withdrawal Notice in order to withdraw any Assets, except that the Grantor shall acknowledge receipt of any such Assets withdrawn upon request by the Trustee.

(d) Subject to Sections 2 and 3 of this Supplemental Trust Agreement and subsection (e) below, the Trustee shall allow no substitution or withdrawal of any Asset from the Supplemental Trust Account in the absence of a Withdrawal Notice or a Grantor Withdrawal Notice.

(e) Upon written notice to the Trustee from the Beneficiary, the Trustee shall transfer amounts held in the Supplemental Trust Account to the Regulation 114 Trust Account (the "Transfer Notice").

SECTION 3. <u>Redemption, Investment and Substitution of Assets</u>.

(a) The Trustee shall surrender for payment all maturing Assets and all Assets called for redemption, deposit the principal amount of the proceeds of any such payment to the Supplemental Trust Account and give written notice to the Beneficiary and the Grantor of such action.

(b) The Grantor may appoint an investment manager (in such capacity, the "Asset Manager"), to make investment decisions with regard to the Assets held by the Trustee in the Supplemental Trust Account. The Grantor shall promptly notify the Trustee in writing of the termination of the appointment of the Asset Manager. From time to time, the Grantor, or the

Asset Manager, acting on behalf of Grantor, may instruct the Trustee to invest Assets in the Supplemental Trust Account (other than the Surplus Notes held therein) in Eligible Assets. The Trustee agrees to follow any investment instructions from the Asset Manager and to execute and settle all such trades in the ordinary course. The Grantor shall be responsible to ascertain whether investments are "Eligible Assets".

(c) From time to time, the Grantor may provide written instructions to the Trustee to direct the Trustee to substitute other Eligible Assets for Assets presently held in the Supplemental Trust Account; provided, however, that (i) such written instructions (A) certify that the fair market values of the assets being substituted equals or exceeds the fair market value of the assets being withdrawn and (B) reference current information from an independent third-party pricing source that customarily values such assets, and (ii) the Beneficiary is promptly notified of said substitution and given a copy of said written instructions. In the case of a substitution of Eligible Assets for Surplus Notes, the fair market value of the assets to be so transferred into the Supplemental Trust Account must be at least equal to the par value of the Surplus Notes to be removed, plus any accrued but unpaid interest thereon through the date of such removal, minus any such accrued but unpaid interest that was previously assigned pursuant to Section 14(g)(iii) of the Reinsurance Agreement. The Trustee shall also follow any instructions regarding substitution of assets that are signed by both the Grantor and the Beneficiary.

(d) When the Trustee is directed to deliver or receive Assets against payment, delivery will be made in accordance with generally accepted market practice.

SECTION 4. Trust Income.

All payments of interest, dividends and other income in respect to the Assets in the Supplemental Trust Account shall be promptly deposited into the Supplemental Trust Account.

SECTION 5. **Right to Vote Assets.**

The Trustee shall forward all annual and interim stockholder and other financial reports and all proxies and proxy materials relating to the Assets in the Supplemental Trust Account to the Grantor within a reasonable period of time following the Trustee's receipt thereof. The Grantor shall have the full and unqualified right to vote any shares of stock or other securities in the Supplemental Trust Account.

SECTION 6. Additional Rights and Duties of the Trustee.

(a) The Trustee shall be a bank which is a member of the Federal Reserve System of the United States of America or a New York State chartered bank or trust company and shall not be a parent, subsidiary or affiliate of the Grantor or the Beneficiary.

(b) The Trustee shall be liable for its own negligence, willful misconduct or lack of good faith arising out of or in connection with the performance of its obligations in accordance with this Supplemental Trust Agreement.

(c) The Trustee shall notify the Grantor and the Beneficiary in writing promptly, but in no event more than ten (10) calendar days, following each deposit into, or withdrawal from, the Supplemental Trust Account and shall notify the Grantor promptly of the receipt by the Trustee of any Withdrawal Notice or Transfer Notice.

(d) The Trustee shall be under no obligation to determine whether or not any instructions given by the Grantor or the Beneficiary are contrary to any provision of law. It is understood and agreed that the Trustee's duties are solely those set forth herein and that the Trustee shall have no duty to take any other action unless specifically agreed to by the Trustee in writing. Without limiting the generality of the foregoing, the Trustee shall not have any duty to advise, manage, supervise or make recommendations with respect to the purchase, retention or sale of any Assets in the Supplemental Trust Account as to which a default in the payment of principal or interest has occurred or to be responsible for the consequences of insolvency or the legal inability of any broker, dealer, bank or other agent employed by the Grantor or Trustee with respect to the Assets except to the extent that the Trustee was negligent, engaged in willful misconduct or acted with a lack of good faith in the selection of any such person or entity.

(e) The Trustee shall accept and open all mail directed to the Grantor or the Beneficiary in care of the Trustee.

(f) The Trustee shall furnish to the Grantor and the Beneficiary a statement of all Assets in the Supplemental Trust Account upon the inception of the Supplemental Trust Account and at regular intervals no less frequently than at the end of each quarter thereafter.

(g) The Trustee shall keep full and complete records of the administration of the Supplemental Trust Account in accordance with all applicable law. Upon the request of the Grantor or the Beneficiary, the Trustee shall promptly permit the Grantor or the Beneficiary, their respective agents, employees, independent auditors and regulatory authorities to examine, audit, excerpt, transcribe and copy, during the Trustee's normal business hours, any books, documents, papers and records relating to the Supplemental Trust Account or the Assets. Any out-of-pocket expenses incurred by the Trustee in relation to any such audit shall be reimbursed by the Grantor and/or the Beneficiary, as the case may be.

(h) Unless otherwise provided in this Supplemental Trust Agreement, the Trustee is authorized to follow and rely upon all instructions given by officers of the Grantor or the Beneficiary and by attorneys-in-fact acting under written authority furnished to the Trustee by the Grantor or the Beneficiary, including, without limitation, instructions given by letter, facsimile transmission or electronic media, if the Trustee believes such instructions to be genuine and to have been signed, sent or presented by the proper party or parties. In the absence of negligence, the Trustee shall not incur any liability to anyone resulting from actions taken by the Trustee in reliance in good faith on such instructions. The Trustee shall not incur any liability in executing instructions (i) from any attorney-in-fact prior to receipt by it of notice of the revocation of the written authority of the attorney-in-fact or (ii) from any officer of the Grantor or the Beneficiary.

(i) The duties and obligations of the Trustee shall only be such as are specifically set forth in this Supplemental Trust Agreement, as it may from time to time be amended, and no implied duties or obligations shall be read into this Supplemental Trust Agreement against the Trustee.

(j) No provision of this Supplemental Trust Agreement shall require the Trustee to take any action which, in the Trustee's reasonable judgment, would result in any violation of this Supplemental Trust Agreement or any provision of law.

(k) The Trustee may confer with counsel of its own choice in relation to matters arising under this Supplemental Trust Agreement. The opinion of said counsel shall be full and complete authority and protection for the Trustee with respect to any action taken, suffered or omitted by it in good faith and in accordance with the opinion of said counsel, other than with respect to the withdrawal of Assets by the Beneficiary.

(l) Except in the case of the Surplus Notes (which shall be maintained by the Trustee in certificated form), the Trustee may maintain the Assets in book-entry form with, and utilize the services of, any Federal Reserve Bank, The Depository Trust Company or similar such depositories ("Central Depositories") as appropriate. Assets may be held in the name of a nominee maintained by the Trustee or any Central Depository.

(m) The Trustee shall be liable for (i) the safekeeping of the Assets and administering the Supplemental Trust Account in accordance with the provisions of this Supplemental Trust Agreement and (ii) its own negligence, willful misconduct or lack of good faith in performing its duties under this Supplemental Trust Agreement. The Trustee shall exercise the standard of care with respect to the Assets that a professional trustee, engaged in the banking or trust company industry, having professional expertise in financial and securities processing transactions and custody would observe in such affairs. The Trustee shall be liable for physical loss of or damage to Assets under its care, custody, possession or control or the care, custody, possession or control of its subcustodians, other agents or nominee(s) selected by it, including but not limited to loss due to fire, burglary, robbery, theft or mysterious disappearance. Notwithstanding the foregoing, the Trustee shall not be responsible for loss of or damage to Assets held in Central Depositories, including but not limited to loss due to fire, burglary, robbery, theft or mysterious disappearance.

(n) Whenever in the administration of the Supplemental Trust Account created by this Supplemental Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action thereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a statement or certificate signed by or on behalf of Grantor and/or Beneficiary, as appropriate, and delivered to the Trustee and said statement or certificate shall be full warrant to the Trustee for any action taken, suffered or omitted by it on the faith thereof.

(o) The Trustee shall execute and settle securities transactions by itself or by means of an agent or broker. The Trustee shall not be responsible for any act or omission, or for the

solvency, of any such agent or broker, unless in the case of agent(s), such agent(s) is selected by the Trustee, or in the case of brokers, such broker is negligently selected by the Trustee.

(p) The Trustee is not required to make advances of cash, securities or any other property on behalf of the Supplemental Trust Account, or permit overdrafts in the Supplemental Trust Account in connection with the acquisition or disposition of Assets in the Supplemental Trust Account; provided, however, that if the Trustee is required by industry practice to make such advance or permit such an overdraft, such advance or overdraft shall be deemed a loan by the Trustee to the Grantor, which loan shall be payable on demand and shall bear interest at the Trustee's customary rate for similar loans. The Grantor shall be solely responsible for repayment of such loan and any interest thereon.

SECTION 7. The Trustee's Compensation; Expenses.

(a) The Grantor shall pay the Trustee, as compensation for its services under this Supplemental Trust Agreement, a fee computed at rates determined by the Trustee from time to time and agreed to in writing to the Grantor. The Grantor shall pay or reimburse the Trustee for all of the Trustee's expenses and disbursements in connection with its duties under this Supplemental Trust Agreement (including reasonable attorneys' fees and expenses), except any such expense or disbursement as may arise from the Trustee's negligence, willful misconduct, lack of good faith or failure to administer the Supplemental Trust Account in accordance with the terms of this Supplemental Trust Agreement. The Grantor also hereby indemnifies the Trustee for, and holds it harmless against, any loss, liability, costs or expenses (including reasonable attorney's fees and expenses) incurred or made without negligence, willful misconduct or lack of good faith on the part of the Trustee, arising out of or in connection with the performance of its obligations in accordance with the provisions of this Supplemental Trust Agreement (which shall be the sole obligation of the Trustee), including any loss, liability, costs or expenses arising out of or in connection with the status of the Trustee and its nominee as the holder of record of the Assets. The Grantor hereby acknowledges that the foregoing indemnities shall survive the resignation of the Trustee or the termination of this Supplemental Trust Agreement.

(b) No Assets shall be withdrawn from the Supplemental Trust Account or used in any manner for paying compensation to, or reimbursement of expenses or indemnification of, the Trustee.

SECTION 8. <u>Resignation or Removal of the Trustee</u>.

(a) The Trustee may resign at any time upon delivery of a written notice thereof to the Beneficiary and the Grantor effective not less than ninety (90) calendar days after receipt by the Beneficiary and the Grantor of such notice. The Trustee may be removed by the Grantor's delivery to the Trustee and the Beneficiary of a written notice of removal, effective not less than ninety (90) calendar days after receipt by the Trustee and the Beneficiary of such notice. No such resignation or removal shall become effective until a successor trustee has been appointed and approved by the Beneficiary and the Grantor and all Assets in the Supplemental Trust Account have been duly transferred to the successor trustee in accordance with paragraph (b) of this Section 8.

(b) Upon receipt by the proper Parties of the Trustee's notice of resignation or the Grantor's notice of removal, as applicable, the Grantor and the Beneficiary shall appoint a successor trustee. Any successor trustee shall be a bank or trust company specified in Section 6(a) of this Supplemental Trust Agreement. Upon the acceptance of the appointment as trustee hereunder by a successor trustee and the transfer to such successor trustee of all Assets in the Supplemental Trust Account, the resignation or removal of the trustee shall become effective. Thereupon, such successor trustee shall succeed to and become vested with all the rights, powers, privileges and duties of the resigning or removed trustee, and the resigning or removed trustee shall be discharged from any future duties and obligations under this Supplemental Trust Agreement, but the resigning or removed trustee shall continue after such resignation or removal to be entitled to the benefits of the indemnities provided herein for the Trustee.

SECTION 9. Termination of the Supplemental Trust Account.

The Supplemental Trust Account and this Supplemental Trust Agreement shall be effective until terminated by the provision of sixty (60) calendar days' advance written notice sent to the Trustee jointly by the Grantor and the Beneficiary. Upon the termination of the Supplemental Trust Account, the Trustee shall, with the Beneficiary's prior written consent, such consent not to be unreasonably withheld or delayed, transfer to the Grantor all of the Assets of the Supplemental Trust Account not previously withdrawn by the Beneficiary.

SECTION 10. Definitions.

Except as the context shall otherwise require, the following terms shall have the following meanings for purposes of this Supplemental Trust Agreement (the definitions to be applicable to both the singular and the plural forms of each term defined if both forms of such term are used in this Supplemental Trust Agreement):

"Beneficiary" shall include any successor of the Beneficiary by operation of law, including, without limitation, any liquidator, rehabilitator, receiver or conservator.

"Business Day" means any day other than a day on which banks in the State of New York or the Islands of Bermuda are permitted or required to be closed.

"Eligible Assets" means cash (United States legal tender), certificates of deposit (issued by a United States bank and payable in United States legal tender), and investments of the type specified in Paragraphs (1), (2), (3), (8) and (10) of Subsection (a) of Section 1404 of the New York Insurance Law; provided, however, that such investments are issued by an institution that is not the parent, a subsidiary or an affiliate of either the Grantor or the Beneficiary and, provided further, that the investments comply with the investment guidelines attached hereto as Exhibit A, as the same may be amended from time to time upon written notice by the Beneficiary and the Grantor to the Trustee.

"Person" means an individual, corporation, limited liability company, association, joint-stock company, business trust or other similar organization, partnership, joint venture, trust,

unincorporated organization or government or any agency, instrumentality or political subdivision thereof.

"Surplus Notes" means the Beneficiary's $300 million 8% Series B Surplus Notes due April 1, 2042.

SECTION 11. Governing Law.

This Supplemental Trust Agreement shall be subject to and governed by the laws of the State of New York, without regard to its conflict of laws provision and the Supplemental Trust Account created hereunder shall be administered in accordance with the laws of said state.

SECTION 12. Successors and Assigns.

This Supplemental Trust Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, permitted assigns and legal representatives. Neither this Supplemental Trust Agreement, nor any right or obligation hereunder, may be assigned by any Party without the prior written consent of the other Parties hereto. Any assignment in violation of this Section 12 shall be void and shall have no force and effect.

SECTION 13. Severability.

All rights and restrictions contained herein may be exercised and shall be applicable and binding only to the extent that they do not violate any applicable laws and are intended to be limited to the extent necessary to render this Supplemental Trust Agreement legal, valid and enforceable. If any term of this Supplemental Trust Agreement, or part thereof, shall be held to be illegal, invalid or unenforceable by a court of competent jurisdiction, it is the intention of the Parties that the remaining terms hereof, or part thereof, shall constitute their agreement with respect to the subject matter hereof and all such remaining terms, or parts thereof, shall remain in full force and effect. To the extent legally permissible, any illegal, invalid or unenforceable provision of this Supplemental Trust Agreement shall be replaced by a valid provision which will implement the purpose of the illegal, invalid or unenforceable provision.

SECTION 14. Entire Agreement.

This Supplemental Trust Agreement constitutes the entire agreement among the Parties with respect to the subject matter hereof, and there are no understandings or agreements, conditions or qualifications relative to this Supplemental Trust Agreement which are not fully expressed in this Supplemental Trust Agreement.

SECTION 15. Amendments.

This Supplemental Trust Agreement may be modified or otherwise amended, and the observance of any term of this Supplemental Trust Agreement may be waived, only if such modification, amendment or waiver is in writing and signed by the Parties.

SECTION 16. Notices.

Unless otherwise specifically provided for in this Agreement, all notices, requests, demands and other communications under this Supplemental Trust Agreement must be in writing and will be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (b) if sent by reputable overnight air courier, two Business Days after mailing; (c) if sent by facsimile transmission, with a copy mailed on the same day in the manner provided in (a) or (b) above, when transmitted and receipt is confirmed by telephone; or (d) if otherwise actually personally delivered, when delivered, and shall be delivered as follows:

If to the Grantor:

HGR Patton (Luxembourg) S.à r.l., United States of America Branch
ATTN: Brian Kensil, Branch Manager
1300 N. Semoran Boulevard, Suite 130
Orlando, FL 32807

With a copy to:

HG Re Ltd.
ATTN: President
14 Wesley Street, Fifth Floor
Hamilton HM 11
Bermuda
Telephone: (441) 278-3148
Fax: (441) 278-3145
Email: sheila.nicoll@siriusgroup.com

and

White Mountains Insurance Group, Ltd.
ATTN: General Counsel
80 South Main Street
Hanover, NH 03755
Telephone: (603) 640-2202
Fax: (603) 643-4592
Email: rseelig@whitemountains.com

If to the Beneficiary:

Build America Mutual Assurance Company
ATTN: General Counsel
1345 Avenue of the Americas, 29th Floor
New York, NY 10105
Telephone: 212-365-7561
Email: amakowski@buildamerica.com

If to the Trustee:

The Bank of New York Mellon
Mark Duncan
BNY Mellon Center, Room 151-1035
500 Grant Street
Pittsburgh, PA 15258

or to such other address or to such other Person as a Party may have last designated by notice to the other Parties.

SECTION 17. Headings.

The headings of the Sections have been inserted for convenience of reference only and shall not be deemed to constitute a part of this Supplemental Trust Agreement.

SECTION 18. Counterparts.

This Supplemental Trust Agreement may be executed in any number of counterparts, and all of such counterparts, taken together, shall evidence one and the same agreement. Delivery of a copy of this Supplemental Trust Agreement bearing an original signature by facsimile transmission or by electronic mail in "portable document format" form shall have the same effect as physical delivery of the paper document bearing the original signature.

SECTION 19. No Third Party Beneficiaries.

Except as otherwise expressly set forth in any provision of this Supplemental Trust Agreement, nothing in this Supplemental Trust Agreement is intended or shall be construed to give any Person, other than the Parties, any legal or equitable right, remedy or claim under or in respect of this Supplemental Trust Agreement or any provision contained herein.

[Remainder of page left intentionally blank]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Trust Agreement to be executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

HGR PATTON (LUXEMBOURG) S.à r.l., United States of America Branch, as Grantor

By: __
Name: __
Title: __

BUILD AMERICA MUTUAL ASSURANCE COMPANY, as Beneficiary

By: __
Name: __
Title: __

THE BANK OF NEW YORK MELLON, as Trustee

By: __
Name: __
Title: __

EXHIBIT A

Investment Guidelines

NY01/ 7269182.9

SURPLUS NOTE PURCHASE AGREEMENT

Between

BUILD AMERICA MUTUAL ASSURANCE COMPANY,
as Issuer

and

HG HOLDINGS LTD.

and

HG RE LTD.
as Purchasers

Dated as of July 17, 2012

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SCHEDULES AND EXHIBITS

This SURPLUS NOTE PURCHASE AGREEMENT, dated as of July 17, 2012, is made by and between Build America Mutual Assurance Company, a New York mutual insurance company (together with its successors and assigns, the "Company" or the "Issuer"), HG Holdings Ltd., an exempted Bermuda limited company (together with its successors and assigns, the "Series 2012-A Purchaser"), and HG Re Ltd., an exempted Bermuda limited company (together with its successors and assigns, the "Series 2012-B Purchaser" and, together with the Series 2012-A Purchaser, the "Purchasers" and each a "Purchaser").

RECITALS

WHEREAS, the Issuer was formed as a mutual property and casualty insurance company to issue surety and financial guaranty insurance coverages; and

WHEREAS, in order to provide the Issuer with sufficient capital support to conduct its insurance business, upon the terms and subject to the conditions of this Agreement, (i) the Issuer desires to issue and sell to the Series 2012-A Purchaser, and the Series 2012-A Purchaser desires to purchase from the Issuer, surplus notes (the "Series 2012-A Notes") in an aggregate principal amount of U.S.$203,000,000, and (ii) the Issuer desires to issue and sell to the Series 2012-B Purchaser, and the Series 2012-B Purchaser desires to purchase from the Issuer, surplus notes (the “Series 2012-B Notes” and, together with the Series 2012-A Notes, the "Surplus Notes") in an aggregate principal amount of U.S.$300,000,000.

NOW, THEREFORE, for full and fair consideration, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions. The following capitalized terms shall have the following meanings:

"Agreement" means this Surplus Note Purchase Agreement, as the same may from time to time be amended, supplemented or otherwise modified in accordance with the terms hereof.

"Business Day" means any day other than a Saturday or a Sunday or any day on which banking institutions, in New York, New York, or the Islands of Bermuda, are authorized or obligated by law, regulation or executive order to be closed.

"Dollar" or "U.S.$" means a dollar or other equivalent unit in such coin or currency of the United States as at the time shall be legal tender for all debts, public and private.

"Event of Default" has the meaning specified in Section 6.01 hereof.

"Holder" means, with respect to any Surplus Note, the Person in whose name such Surplus Note is registered in the Surplus Note Register.

"Insolvency Event" means that (x) an involuntary bankruptcy, insolvency or similar proceeding shall be commenced or an involuntary petition shall be filed in a court of competent

jurisdiction seeking (i) relief in respect of the Issuer or of all or substantially all of its property or assets under any applicable bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator, rehabilitator, liquidator or similar official with respect to the Issuer or all or substantially all of its property or assets, or (iii) the winding-up, liquidation or dissolution of the Issuer, and any such proceeding or petition shall continue undismissed for a period of thirty (30) or more consecutive calendar days or an order or decree approving or ordering any of the foregoing shall be entered, or (y) the Issuer shall (i) voluntarily commence any proceeding or file any petition seeking relief (or take any similar or analogous action) under any applicable bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner to, any proceeding or the filing of any petition described in clause (x) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator, rehabilitator, liquidator or similar official with respect to the Issuer or all or substantially all of its property or assets, (iv) file an answer admitting the material allegations of a petition filed against it in any proceeding or petition described in clause (x) above, (v) make a general assignment for the benefit of its creditors, or (vi) become unable, admit in writing its inability, or fail generally to pay its debts or contractual obligations as they become due.

"Interest Payment Date" means each March 1, June 1, September 1 and December 1, commencing December 1, 2012, provided that if such day is not a Business Day, the next succeeding Business Day.

"Interest Period" means, with respect to any Surplus Note, (a) in the case of the initial interest period with respect to such Surplus Note, the period from, and including, the date such Surplus Note was issued to the Purchaser to, but excluding, the immediately following Payment Date, (b) thereafter, the period from, and including, the preceding Payment Date to, but excluding, the next succeeding Payment Date, and (c) in the case of the final interest period with respect to such Surplus Note, the period from, and including, the preceding Payment Date to, but excluding, the Maturity Date.

"Interest Rate" means a per annum interest rate of 8.0%.

"Issue Date" means, with respect to any Surplus Note, the date on which the Issuer issues such Surplus Note.

"Maturity Date" means, with respect to any Surplus Notes, the date on which all outstanding unpaid principal on such Surplus Note becomes due and payable as therein or herein provided, whether at the Stated Maturity Date or by declaration of acceleration.

"Payment Date" means any Interest Payment Date or the Maturity Date.

"Person" means an individual, corporation (including a business trust), partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated association or government or any agency or political subdivision thereof.

"Purchasers" has the meaning specified in the introduction to this Agreement.

"Record Date" means the date on which the Holders of any Surplus Note entitled to receive a payment with respect to principal or interest on the next succeeding Payment Date are determined, such date as to any Payment Date being five (5) Business Days prior to such Payment Date.

"Redemption Date" has the meaning specified in Section 10.01(b) hereof.

"Redemption Notice" has the meaning specified in Section 10.01(b) hereof.

"Redemption Price" has the meaning specified in Section 10.01(a) hereof.

"Regulatory Authority" means, with respect to the Issuer, the Superintendent of the New York State Department of Financial Services.

"Regulatory Approval" means, with respect to any action by the Issuer, approval of the Superintendent of the New York State Department of Financial Services.

"Series 2012-A Notes" means Surplus Notes of the Issuer denominated as Series 2012-A Notes in an aggregate principal amount of U.S.$203,000,000 and issued in denominations of U.S.$1,000,000.

"Series 2012-B Notes" means Surplus Notes of the Issuer denominated as Series 2012-B Notes in an aggregate principal amount of U.S.$300,000,000 and issued in denominations of U.S.$1,000,000.

"Series 2012-A Purchaser" has the meaning specified in the introduction to this Agreement.

"Series 2012-B Purchaser" has the meaning specified in the introduction to this Agreement.

"Stated Maturity Date" means April 1, 2042.

"Superintendent" means the Superintendent of the New York State Department of Financial Services.

"Surplus Note Register" has the meaning specified in Section 4.01 hereof.

"Surplus Notes" has the meaning specified in the recitals hereof.

"Wire Transfer" means the payment instructions given by the Purchaser or the Issuer, respectively, in connection with the payment of the purchase price or the Redemption Price of the Surplus Notes, as the case may be.

Section 1.02 Other Definitional Provisions.

(a) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular

provision of this Agreement; and Section and subsection references contained in this Agreement are references to Sections or subsections in or to this Agreement unless otherwise specified.

ARTICLE II
PURCHASE AND SALE OF SURPLUS NOTES

Section 2.01 Purchase and Sale of Surplus Notes. Upon the terms and subject to the conditions set forth in this Agreement, and in reliance on the covenants and agreements herein set forth,

(c) on July 17, 2012, the Issuer shall issue and the Series 2012-A Purchaser shall purchase all of the Series 2012-A Notes; and

(d) on July 17, 2012, the Issuer shall issue and the Series 2012-B Purchaser shall purchase all of the Series 2012-B Notes.

Section 2.02 Delivery and Payment. The Issuer shall duly execute and deliver the Series 2012-A Surplus Notes and the Series 2012-B Notes to the respective Purchaser on the dates specified in Section 2.01 hereof, in a combined aggregate principal amount of U.S.$503,000,000. Against such delivery,

(a) the Series 2012-A Purchaser shall pay and/or transfer to the Issuer, immediately available funds by Wire Transfer to such account of the Issuer as has been previously specified to the Purchasers, in the amount of U.S.$203,000,000, on the date that Surplus Notes are executed and delivered to Series 2012-A Purchaser pursuant to Section 2.01(a) hereof; and

(b) the Series 2012-B Purchaser shall pay and/or transfer to the Issuer, immediately available funds by Wire Transfer to such account of the Issuer as has been previously specified to the Purchasers, in the amount of U.S.$300,000,000, on the date that Surplus Notes are executed and delivered to Series 2012-B Purchaser pursuant to Section 2.01(b) hereof.

Section 2.03 Forms of Surplus Notes. The Surplus Notes shall be issued substantially in the form of the Surplus Notes attached as Exhibit A-1 and Exhibit A-2 hereto and shall be duly executed and delivered by the Issuer as hereinafter provided.

ARTICLE III
TERMS AND CONDITIONS OF REPAYMENT; MATURITY

Section 3.01 Interest. The Surplus Notes shall bear interest during each Interest Period at the Interest Rate on the outstanding principal amount of the Surplus Notes. Interest shall be due and payable on each Interest Payment Date, subject to the receipt of Regulatory Approval and the priority of payments set forth in Section 3.04.

Interest shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

Section 3.02 Principal. Subject to the receipt of Regulatory Approval and the priority of payments set forth in Section 3.04, the principal of the Surplus Notes shall be due and payable on the Stated Maturity Date.

Section 3.03 Payments by the Issuer.

(a) Unless Regulatory Approval has previously been obtained, not later than fifteen (15) calendar days prior to any Interest Payment Date or Stated Maturity Date, the Issuer shall request Regulatory Approval for (i) the payment of the interest scheduled to be paid on such Interest Payment Date and (ii) the payment of principal of the Surplus Notes on the Stated Maturity Date, as applicable, and use its reasonable best efforts to obtain such approval. If Regulatory Approval is granted for the payment of interest on any Interest Payment Date, the Issuer shall pay interest on the Surplus Notes in accordance with the terms of this Agreement; otherwise, such interest payment shall be deferred until the granting of Regulatory Approval for the payment of such interest, and no interest shall accrue on any such deferred interest. If Regulatory Approval is granted for the payment of principal on the Surplus Notes, the Issuer shall pay the amount due on the Stated Maturity Date; otherwise, the amount of principal otherwise payable shall be deferred until Regulatory Approval shall have been obtained for such payment. Pursuant to Section 1307(b) of the New York Insurance Law, interest and principal shall be repaid only out of free and divisible surplus of the Issuer with the approval of the Superintendent whenever, in his judgment, the financial condition of the Issuer warrants. In the event of insolvency of the Issuer, unearned premiums shall be deemed to be part of its free and divisible surplus.

(b) Principal that has not been paid on the Stated Maturity Date shall continue to accrue interest at a rate per annum equal to the Interest Rate from and including the Payment Date therefore, up to but excluding the date on which such amount is actually paid.

(c) All payments required to be made by the Issuer with respect to this Article III shall be made: (i) by Wire Transfer of immediately available funds not later than 1:00 p.m., New York City time, and (ii) to the account of the applicable Holders, or to such other account as such Holders may have most recently designated in writing for such purpose by notice to the Issuer.

(d) The Issuer and any agent of the Issuer may treat the Person in whose name any Surplus Note is registered on the Surplus Note Register as the owner of such Surplus Note on the applicable Record Date for the purpose of receiving payments of principal and interest on such Surplus Note and on any other date for all other purposes whatsoever (whether or not such payment is overdue), and neither the Issuer nor any agent of the Issuer shall be affected by notice to the contrary.

Section 3.04 Priority of Payment. As funds become available, they will be used on each Payment Date to make payments in the following order, satisfying each

category of payment in full before beginning payments on the subsequent category: (i) the interest due and payable on Series 2012-A Notes and Series 2012-B Notes in *pari passu*, (ii) the outstanding principal of Series 2012-A Notes, and (iii) the outstanding principal of Series 2012-B Notes. The Issuer shall not make any payment of principal on Series 2012-B Notes, or on any other debt subordinated to the Surplus Notes, until all interest due and all outstanding principal on Series 2012-A Notes has been paid. The Issuer shall not make any payment of principal on any debt subordinated to the Surplus Notes until all interest due and all outstanding principal on all of the Surplus Notes has been paid.

Section 3.05 Pre-Payment. Subject to the receipt of Regulatory Approval and the priority of payments set forth in Section 3.04, the Issuer may, at its sole option, pre-pay the principal on the Surplus Notes on any Interest Payment Date, upon fifteen (15) calendar days' prior written notice to the Holders in accordance with Section 11.01.

ARTICLE IV
REGISTRATION OF SURPLUS NOTES; TRANSFER AND EXCHANGE

Section 4.01 Surplus Note Register. The Issuer shall keep a register (the "Surplus Note Register") at its office in New York, New York, in which it shall provide for the registration of the Surplus Notes and the registration of transfers of the Surplus Notes. Such Surplus Note Register shall be in written form or in any other form capable of being converted into written form within a reasonable time. Upon surrender for registration of transfer of any Surplus Note at the office of the Issuer and in compliance with the restrictions set forth in any legend appearing on any Surplus Note, the Issuer shall execute and deliver, in the name of the designated transferee or transferees, one or more new Surplus Notes of like terms.

Section 4.02 Exchanges and Transfers. At the option of any Holder, Surplus Notes may be exchanged for one or more Surplus Notes to effectuate the division of any Surplus Notes held by the Holder into paid and unpaid portions and the surrender of the paid portion, upon surrender of the Surplus Notes to be exchanged at the office of the Issuer or such other office as the Issuer may designate for such purposes. Whenever any Surplus Note is surrendered for exchange, the Issuer shall execute and deliver the Surplus Note that the Holder making the exchange is entitled to receive. Any Surplus Notes issued upon any registration of transfer or exchange of a Surplus Note shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Agreement, as the Surplus Note surrendered upon such registration of transfer or exchange. Every Surplus Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer duly executed by the Holder thereof or its attorney duly authorized in writing. No service charge shall be made to a purchaser for any registration of transfer or exchange of a Surplus Note, but the Issuer may require payment of a sum sufficient to cover the

expenses of delivery (if any) not made by regular mail or any tax or other governmental charge payable in connection therewith.

ARTICLE V
PURCHASERS' REPRESENTATIONS

Section 5.01 Investment Intent. Each Purchaser represents that it is purchasing the Surplus Notes for its own account for investment and not with a view to the distribution thereof and has no present intention of selling, negotiating or otherwise disposing of the Surplus Notes, except for contributions to direct or indirect wholly-owned subsidiaries.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.01 Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" hereunder:

(a) default is made in the payment of any installment of interest on the Surplus Notes when such interest becomes due and payable and such default continues for a period of 30 calendar days, provided that the Issuer has obtained Regulatory Approval for such interest payment in accordance with Section 3.03(a) hereof; or

(b) default is made in the payment of the principal of the Surplus Notes when such principal becomes due and payable, provided that the Issuer has obtained Regulatory Approval for such principal payment in accordance with Section 3.03(a) hereof; or

(c) an Insolvency Event; or

(d) the Issuer fails to comply with the covenants set forth in Sections 8.01(b) or 8.01(c) within thirty (30) calendar days following receipt of written notice from a Holder of a breach of the applicable covenant; or

(e) the Issuer violates the covenant set forth in Section 8.01(d).

Section 6.02 Remedies Upon an Event of Default. Upon the occurrence of an Event of Default, to the extent provided in any Regulatory Approval, and subject to the priority of payments set forth in Section 3.04, each Holder of a Surplus Note may give notice of such Event of Default to the Issuer, and demand payment of the entire outstanding principal amount of such Surplus Note, plus accrued interest, plus interest on such overdue principal at the Interest Rate, plus such further amounts as shall be necessary to cover the Holder's costs and expenses of collection, including reasonable attorneys' fees.

ARTICLE VII
REPRESENTATIONS AND WARRANTIES

Section 7.01 Representations and Warranties. The Company hereby represents and warrants to the Purchasers:

(a) The Company has been duly incorporated and is validly existing in good standing under the laws of the State of New York, and has the necessary power, capacity and authority to conduct its business as described in its Charter;

(b) The Company has full power and authority to execute and deliver this Agreement and the certificates representing the Surplus Notes and to consummate the transactions contemplated hereby and thereby and has taken all necessary corporate or other action to approve and authorize the same;

(c) The Company expects to be licensed as an insurance company in the State of New York;

(d) The issuance of the Surplus Notes and compliance by the Company with all of the provisions of the Surplus Notes and this Agreement, and the consummation of the transactions herein and therein contemplated, will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject, or which affects the validity, performance or consummation of the transactions contemplated by this Agreement, nor will such action result in any violation of any statute or any order, rule or regulation of any court or insurance regulatory authority or other governmental agency or body having jurisdiction over the Company or any of its properties; and

(e) This Agreement has been duly authorized, executed and delivered by the Company.

ARTICLE VIII
COVENANTS OF THE ISSUER

Section 8.01 Covenants. So long as any amount shall remain owing by the Issuer under this Agreement or the Surplus Notes, the Issuer shall take the following actions:

(a) Payment of Interest and Principal. Subject to the receipt of Regulatory Approval, the Issuer shall duly and punctually pay the interest and principal on the Surplus Notes, in accordance with the terms hereof.

(b) Reporting Requirements.

(i) The Issuer shall publish and shall provide to the Holders annual audited statutory financial statements promptly after it has filed the same with the Regulatory Authority; and

(ii) The Issuer shall provide to the Holders quarterly and annual unaudited statutory financial statements promptly after they have filed the same with the Regulatory Authority.

(c) Limitation on Payments. The Issuer shall request Regulatory Approval, and use reasonable best efforts to obtain such approval, as provided in Section 3.03(a) to make any payment of interest or principal on the Surplus Notes.

(d) Limitation on Additional Debt. Until the full principal amount of the Surplus Notes and any interest incurred thereon has been paid to the Holders, the Issuer shall not issue any debt obligations (i) to which the Surplus Notes would be subordinated or with which they would rank *pari passu* or (ii) the principal of which is payable, in whole or in part, prior to the payment in full of the principal of the Surplus Notes and interest incurred thereon.

ARTICLE IX
SUBORDINATION

Section 9.01 Subordination. The Issuer covenants and agrees, and the Holders by their acceptance of the Surplus Notes, likewise covenant and agree, that in the event of the liquidation of the Issuer pursuant to the New York Insurance Code, the payment of the principal and interest on the Surplus Notes shall be expressly subordinate and junior in right of payment to the prior payment in full of all policy obligations and all other liabilities of the Issuer other than any indebtedness that is expressly subordinate to the Surplus Notes, but prior to the distribution of assets to members. Amounts distributable to the holders of the Surplus Notes shall nevertheless be distributed in accordance with the priority of payments set forth in Section 3.04.

ARTICLE X
REDEMPTION

Section 10.01 Redemption of Surplus Notes.

(a) Subject to the receipt of Regulatory Approval and the priority of payments set forth in Section 3.04, the Issuer may at its option, subject to Section 10.01(b), redeem any or all of the Surplus Notes on any Interest Payment Date at a purchase price equal to (i) such portion of the outstanding principal amount of such Surplus Notes to be redeemed plus (ii) all accrued but unpaid interest up to but not including the date of redemption (collectively, the "Redemption Price"), subject to the satisfaction by or on behalf of the Holders of the requirements set forth in this Article X.

(b) Not later than fifteen (15) calendar days prior to the proposed date on which the Issuer desires to effect the redemption (the "Redemption Date"), the Issuer shall mail a written notice the ("Redemption Notice") to the Holders which shall state:

(1) the Redemption Date, which shall be a Business Day;

(2) that Surplus Notes must be surrendered to the Issuer to collect payment of the Redemption Price;

(3) that the Redemption Price for the Surplus Notes as to which a Redemption Notice has been duly given, as set forth in such Redemption Notice, will be paid promptly following the later of the Redemption Date and the time of surrender of Surplus Notes as described in clause (2); and

(4) that, unless the Issuer defaults in making payment of such Redemption Price on the Surplus Notes surrendered for purchase, interest on the Surplus Notes surrendered for purchase will cease to accrue on and after the Redemption Date.

Any redemption by the Issuer contemplated pursuant to the provisions of this Section 10.01 shall be consummated by the delivery to the Holder by Wire Transfer of immediately available funds in an amount equal to Redemption Price promptly following the later of (x) the Redemption Date and (y) the time of delivery of the Surplus Notes to the Issuer.

Section 10.02 Effect of Redemption Notice. Upon receipt by the Holder of the Redemption Notice, the Holder shall thereafter be entitled to receive solely the Redemption Price with respect to the Surplus Notes. Such Redemption Price shall be paid to the Holder promptly following the later of (x) the Redemption Date and (y) the time of delivery of the Surplus Notes to the Issuer.

Section 10.03 No Other Redemption. Except as provided in Sections 3.05, 10.01 and 10.02, the Holders shall not have the right to require the redemption or repurchase of the Surplus Notes prior to the Stated Maturity Date.

ARTICLE XI
MISCELLANEOUS

Section 11.01 Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be delivered by the following means: (i) hand delivery, (ii) overnight courier service (e.g., FedEx or DHL); (iii) registered or certified U.S. mail, postage prepaid and return receipt requested; or (iv) facsimile transmission. If any notice or other communication provided for herein is sent by any party by electronic e-mail it shall not be deemed to have been delivered to the addressee if the party sending such notice or communication receives a response from the intended addressee that he or she will not be able to retrieve e-mail due to vacation, other absence from the office, system failure or other reason. All such notices shall be delivered to the parties as set forth on Schedule I hereof. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 11.02 IRS Forms. Each Holder, by its acceptance of a Surplus Note, agrees to provide a completed Form W-8 BEN, or other similar form required by the Internal Revenue Service, if requested by the Company, establishing that the interest paid on the Surplus Note is not subject to U.S. withholding tax.

Section 11.03 Amendments, Waivers.

(a) Except as otherwise expressly provided herein, no amendment or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

(b) Each such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. A failure or delay in exercising any right, power or privilege with respect to this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise of that right, power or privilege or the exercise of any other right, power or privilege.

Section 11.04 Successors and Assigns; Third Party Beneficiaries. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors. This Agreement shall not be transferred or assigned except as mutually agreed by the parties in writing. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto and their respective successors and permitted transferees) any legal or equitable right, remedy or claim under or by reason of this Agreement. In the event the Issuer consolidates or merges into another entity or transfers substantially all of its assets to another entity, the entity into which the Company consolidates or merges or to which the assets of the Issuer are transferred must assume the liability of the Company hereunder.

Section 11.05 Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 11.06 Binding Effect. This Agreement shall remain in full force and effect until such time as all of the Surplus Notes issued to either Purchaser shall have been repaid in full and cancelled.

Section 11.07 GOVERNING LAW. THIS AGREEMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE REGULATIONS ISSUED PURSUANT THERETO.

Section 11.08 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 11.09 Entire Agreement. This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and supersedes any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

Section 11.10 Limited Recourse. The obligation of the Issuer to pay the Surplus Notes shall not be part of the legal liabilities of the Issuer and shall not be a basis of any set-off but until the Surplus Notes are repaid, all statements published by the Issuer or filed with the Superintendent shall show, as a footnote, the amount then remaining unpaid.

Section 11.11 Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the first date written above.

BUILD AMERICA MUTUAL ASSURANCE COMPANY
as Issuer

By:____
Name:
Title:

HG HOLDINGS LTD.
as Purchaser

By:____
Name:
Title:

HG RE LTD.
as Purchaser

By:____
Name:
Title:

SCHEDULE I
to
Surplus Note Purchase Agreement between Build America Mutual Assurance Company, HG Holdings Ltd. and HG Re Ltd.

NOTICE INFORMATION

Address for Notices to Issuer:

Build America Mutual Assurance Company
ATTN: General Counsel
1345 Avenue of the Americas, 29th Floor
New York, NY 10105
Telephone: 212-365-7561
Email: amakowski@buildamerica.com

Address for Notices to Series 2012-A Purchaser:

HG Holdings Ltd.
ATTN: President
14 Wesley Street, Fifth Floor
Hamilton HM 11
Bermuda
Telephone: (441) 278-3148
Fax: (441) 278-3145
Email: sheila.nicoll@siriusgroup.com

With a copy to:

White Mountains Insurance Group, Ltd.
ATTN: General Counsel
80 South Main Street
Hanover, NH 03755
Telephone: (603) 640-2202
Fax: (603) 643-4592
Email: rseelig@whitemountains.com

Address for Notices to Series 2012-B Purchaser:

HG Re Ltd.
ATTN: President
14 Wesley Street, Fifth Floor

Hamilton HM 11
Bermuda
Telephone: (441) 278-3148
Fax: (441) 278-3145
Email: sheila.nicoll@siriusgroup.com

With a copy to:

White Mountains Insurance Group, Ltd.
ATTN: General Counsel
80 South Main Street
Hanover, NH 03755
Telephone: (603) 640-2202
Fax: (603) 643-4592
Email: rseelig@whitemountains.com

EXHIBIT A-1

FORM OF SERIES A NOTE

[ISSUE DATE]
Series 2012-A

Build America Mutual Assurance Company, a mutual insurance company duly organized and existing under the laws of the State of New York (the "Company"), for value received hereby promises to pay to HG Holdings Ltd., or its assigns, the outstanding balance of the principal sum of U.S.$1,000,000 (One Million Dollars) in cash on April 1, 2042; to pay interest thereon quarterly on the first day of March, June, September and December in each year, commencing December 1, 2012, at the rate per annum set forth below, until the principal hereof is paid in full, except that the final payment of any accrued and unpaid interest shall be concurrent with the final payment of principal; and, subject to the provisions of Paragraph 1 of this Surplus Note, to pay the principal of the Surplus Notes on April 1, 2042. The per annum rate of interest will be 8.0%. Interest will be computed on the basis of a 360-day year of twelve 30-day months. All principal and interest shall be paid at the principal corporate office of the Company or such other place, which shall be acceptable to the Company, as the holder hereof shall designate in writing to the Company, in collected and immediately available funds in lawful money of the United States of America. Principal and interest shall be payable on the terms and conditions set forth below:

1. No payment of principal or interest shall be permitted on this Surplus Note without the prior written approval of the Superintendent of the New York State Department of Financial Services (the "Superintendent"). The Company covenants that it shall use its best efforts to obtain such approvals on or prior to the date on which such principal or interest shall become due and payable.

2. Subject to the provisions of Paragraph 1 hereof, the Issuer may, at its sole option, pre-pay the principal on the Surplus Notes on any interest payment date, upon fifteen (15) calendar days' prior written notice to HG Holdings Ltd. or its assigns.

3. The Issuer hereby covenants it shall not make any payment of principal on Series 2012-B Notes, or on any other debt subordinated to this Surplus Note, until all outstanding principal and all interest due on Series 2012-A Notes has been paid.

4. Subject to the provisions of Paragraph 1 hereof, the Company may redeem this Surplus Note on any interest payment date, on not less than 15 calendar days’ prior written notice. The redemption price shall be equal to such portion of the outstanding principal amount of this Surplus Note to be redeemed plus any accrued and unpaid interest thereon up to but not including the date of redemption.

5. To the extent that a payment of all or a portion of the principal of this Surplus Note or interest hereon is prohibited pursuant to the provisions of Paragraph 1 hereof, such prohibition shall not be considered to be a forgiveness of the indebtedness hereunder, and interest shall continue to be accrued and paid at the rate provided herein through the date of payment on

any such unpaid principal (but not on interest the payment of which was prohibited pursuant to the provisions of Paragraph 1 hereof, during the period of such prohibition), and promptly (and in no event later than 30 calendar days) after the removal of any such prohibition the Company shall make payment of all amounts then past due and owing hereunder.

6. Upon the occurrence of an Event of Default (as defined in the Surplus Note Purchase Agreement pursuant to which this Surplus Note was issued) the Company will, upon demand by the holder of this Surplus Note, and subject to the provisions of Paragraph 1 hereof, pay to it the whole amount of the principal of this Surplus Note, plus accrued interest, with interest upon the overdue principal; and, in addition thereof, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable attorneys' fees.

7. In the event of the liquidation of the Company pursuant to the New York Code, the claims under this Surplus Note shall only be paid out of any assets remaining after the payment of all policy obligations and all other liabilities of the Company but before distribution of assets to members; provided, however, that the claims of the holder of this Surplus Note shall not be subordinated to the claims of the holder of any indebtedness expressly subordinated to the Surplus Note.

8. Except for the events described in Paragraphs 1 and 6 above, no provision of this Surplus Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Surplus Note at the times, place and rate, and in the coin or currency, herein prescribed. No provision of this Surplus Note shall extinguish ultimate liability for the payment of principal and interest hereunder.

9. The obligation of the Company to pay this Surplus Note shall not form a part of the Company's legal liabilities until authorized for payment by the Superintendent and shall not be a basis of any set off, but, until authorized for repayment by the Superintendent, all statements published or filed with the Superintendent by the Company shall show the amount thereof then remaining unpaid as a special surplus account. The obligation of the Company under this Surplus Note may not be offset or be subject to recoupment with respect to any liability or obligation owed to the Company.

10. Each payment made hereunder will be credited first to accrued but unpaid interest, if any, and the balance of such payment will be credited to the principal amount hereof.

11. In the event that any payment of principal or interest on this Surplus Note is scheduled to be made on a day that is not a Business Day, then such payment shall be made on the next following Business Day and no additional interest shall accrue as a result of payment on such following Business Day. For the purpose of this Paragraph 11, "Business Day" shall mean any day that is not a Saturday, Sunday or any other day on which banking institutions in the State of New York are permitted or required by any applicable law to close.

12. No agreement or interest securing any obligation of the Company, whether existing on the date of this Surplus Note or subsequently entered into, shall apply to or secure the obligation of the Company under this Surplus Note.

13. In the event the Company consolidates or merges into another entity or transfers substantially all of its assets to another entity, the entity into which the Company consolidates or merges or to which the assets of the Company are transferred must assume the liability of the Company hereunder.

14. This Surplus Note shall in all respects be governed by, and construed in accordance with, the laws of the State of New York and applicable regulations issued pursuant thereto.

IN WITNESS WHEREOF, the Company has caused this Surplus Note to be executed in its name and attested to by its authorized officer, and its corporate seal to be hereunto affixed, all as of the date first written above.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

(CORPORATE SEAL)

By:
Name:
Title:

Attest:_____

EXHIBIT A-2

FORM OF SERIES B NOTE

[ISSUE DATE]
Series 2012-B

Build America Mutual Assurance Company, a mutual insurance company duly organized and existing under the laws of the State of New York (the "Company"), for value received hereby promises to pay to HG Re Ltd., or its assigns, the outstanding balance of the principal sum of U.S.$1,000,000 (One Million Dollars) in cash on April 1, 2042; to pay interest thereon quarterly on the first day of March, June, September and December in each year, commencing December 1, 2012, at the rate per annum set forth below, until the principal hereof is paid in full, except that the final payment of any accrued and unpaid interest shall be concurrent with the final payment of principal; and, subject to the provisions of Paragraph 2 of this Surplus Note, to pay the principal of the Surplus Notes on April 1, 2042. The per annum rate of interest will be 8.0%. Interest will be computed on the basis of a 360-day year of twelve 30-day months. All principal and interest shall be paid at the principal corporate office of the Company or such other place, which shall be acceptable to the Company, as the holder hereof shall designate in writing to the Company, in collected and immediately available funds in lawful money of the United States of America. Principal and interest shall be payable on the terms and conditions set forth below:

1. Other than contributions to direct or indirect wholly-owned subsidiaries, this Surplus Note may not be sold, transferred or assigned, in whole or in part, unless it has been released from the trust account established pursuant to the Supplemental Trust Agreement dated as of July 17, 2012, among the Company, HG Re Ltd., an exempted Bermuda limited company and The Bank of New York Mellon, as trustee.

2. No payment of principal or interest shall be permitted on this Surplus Note without the prior written approval of the Superintendent of the New York State Department of Financial Services (the "Superintendent"). The Company covenants that it shall use its best efforts to obtain such approvals on or prior to the date on which such principal or interest shall become due and payable.

3. Payment of principal hereof shall be subject to the priority of payments set forth in the Surplus Note Purchase Agreement dated as of July 17, 2012, pursuant to which this Surplus Note was issued. The Issuer hereby covenants it shall not make any payment of principal on any debt subordinated to this Surplus Note until all outstanding principal and all interest due on Series 2012-B Notes has been paid.

4. Subject to the provisions of Paragraph 2 hereof, the Issuer may, at its sole option, pre-pay the principal on the Surplus Notes on any interest payment date, upon fifteen (15) calendar days' prior written notice to HG Re Ltd. or its assigns.

5. Subject to the provisions of Paragraph 2 hereof, the Company may redeem this Surplus Note on any interest payment date, on not less than 15 calendar days’ prior written

notice. The redemption price shall be equal to such portion of the outstanding principal amount of this Surplus Note to be redeemed plus any accrued and unpaid interest thereon up to but not including the date of redemption.

6. To the extent that a payment of all or a portion of the principal of this Surplus Note or interest hereon is prohibited pursuant to the provisions of Paragraph 2 hereof, such prohibition shall not be considered to be a forgiveness of the indebtedness hereunder, and interest shall continue to be accrued and paid at the rate provided herein through the date of payment on any such unpaid principal (but not on interest the payment of which was prohibited pursuant to the provisions of Paragraph 2 hereof, during the period of such prohibition), and promptly (and in no event later than 30 calendar days) after the removal of any such prohibition the Company shall make payment of all amounts then past due and owing hereunder.

7. Upon the occurrence of an Event of Default (as defined in the Surplus Note Purchase Agreement pursuant to which this Surplus Note was issued) the Company will, upon demand by the holder of this Surplus Note, and subject to the provisions of Paragraph 2 hereof, pay to it the whole amount of the principal of this Surplus Note, plus accrued interest, with interest upon the overdue principal; and, in addition thereof, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable attorneys' fees.

8. In the event of the liquidation of the Company pursuant to the New York Code, the claims under this Surplus Note shall only be paid out of any assets remaining after the payment of all policy obligations and all other liabilities of the Company but before distribution of assets to members or any indebtedness expressly subordinated to the Surplus Note; provided, however, that the claims of the holder of this Surplus Note shall be subordinated to the claims of the holder of the Surplus Notes of the Issuer denominated as Series 2012-A Notes in an aggregate principal amount of U.S.$203,000,000.

9. Except for the events described in Paragraphs 2 and 7 above, no provision of this Surplus Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Surplus Note at the times, place and rate, and in the coin or currency, herein prescribed. No provision of this Surplus Note shall extinguish ultimate liability for the payment of principal and interest hereunder.

10. The obligation of the Company to pay this Surplus Note shall not form a part of the Company's legal liabilities until authorized for payment by the Superintendent and shall not be a basis of any set off, but, until authorized for repayment by the Superintendent, all statements published or filed with the Superintendent by the Company shall show the amount thereof then remaining unpaid as a special surplus account. The obligation of the Company under this Surplus Note may not be offset or be subject to recoupment with respect to any liability or obligation owed to the Company.

11. Each payment made hereunder will be credited first to accrued but unpaid interest, if any, and the balance of such payment will be credited to the principal amount hereof.

12. In the event that any payment of principal or interest on this Surplus Note is scheduled to be made on a day that is not a Business Day, then such payment shall be made on the next following Business Day and no additional interest shall accrue as a result of payment on such following Business Day. For the purpose of this Paragraph 12, "Business Day" shall mean any day that is not a Saturday, Sunday or any other day on which banking institutions in the State of New York are permitted or required by any applicable law to close.

13. No agreement or interest securing any obligation of the Company, whether existing on the date of this Surplus Note or subsequently entered into, shall apply to or secure the obligation of the Company under this Surplus Note.

14. In the event the Company consolidates or merges into another entity or transfers substantially all of its assets to another entity, the entity into which the Company consolidates or merges or to which the assets of the Company are transferred must assume the liability of the Company hereunder.

15. This Surplus Note shall in all respects be governed by, and construed in accordance with, the laws of the State of New York and applicable regulations issued pursuant thereto.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Surplus Note to be executed in its name and attested to by its authorized officer, and its corporate seal to be hereunto affixed, all as of the date first written above.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

(CORPORATE SEAL)

By:
Name:
Title:

Attest:_____

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION PURSUANT TO RULE 13a - 14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Raymond Barrette, certify that:

1. I have reviewed this quarterly report on Form 10-Q of White Mountains Insurance Group, Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2012

By:

/s/ Raymond Barrette

Chairman and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER CERTIFICATION PURSUANT TO RULE 13a - 14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, David T. Foy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of White Mountains Insurance Group, Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2012

By:

/s/ David T. Foy

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

PRINCIPAL EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of White Mountains Insurance Group, Ltd. (the "Company") for the period ending September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raymond Barrette, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ Raymond Barrette

Chairman and Chief Executive Officer

(Principal Executive Officer)

October 30, 2012

Exhibit 32.2

PRINCIPAL FINANCIAL OFFICER
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of White Mountains Insurance Group, Ltd. (the "Company") for the period ending September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David T. Foy, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and,
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

/s/ David T. Foy

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

October 30, 2012