OneBeacon Insurance Group, Ltd.
Form 10-K
February 28, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 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 1-33128
ONEBEACON INSURANCE GROUP, LTD.
(Exact name of Registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	98-0503315 (I.R.S. Employer Identification No.)
601 Carlson Parkway Minnetonka, Minnesota (Address of principal executive offices)	55305 (Zip Code)

Registrant's telephone number, including area code: (952) 852-2431
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Shares, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act. Yes o No x
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the Registrant 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 (§232.405 of this chapter) during the preceding 12 months. Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller

reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	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 x

The aggregate market value of voting shares (based on the closing price of Class A common shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2012, was $294,962,046.

As of February 25, 2013, 23,631,441 Class A common shares, par value $0.01 per share, and 71,754,738 Class B common shares, par value $0.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to the Registrant's Annual General Meeting of Members scheduled to be held May 22, 2013 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Overview

OneBeacon Insurance Group, Ltd. (the Company or the Registrant), an exempted Bermuda limited liability company, through its subsidiaries (collectively, OneBeacon, we, us, or our) 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 a specialty underwriter, we believe that we will generate superior returns as compared to an underwriter that takes a more "generalist" underwriting approach and that our knowledge regarding specialized insurance products, targeted industries, classes of business, and risk characteristics provides us with a competitive edge when determining the terms and conditions on individual accounts. Our products relate to professional liability, marine, energy, entertainment, sports and leisure, excess property, environmental, group accident, property and inland marine, public entities, technology, surety, and tuition refund. Additionally, we wrote collector car and boat insurance through an exclusive underwriting agreement with Hagerty Insurance Agency (Hagerty) that was terminated effective January 1, 2013. See Collector Cars and Boats in "Insurance Operations—Specialty Products" below.

Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate.

The Specialty Products segment is comprised of seven underwriting operating segments representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. The Specialty Industries segment is comprised of six underwriting operating segments representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Investing, Financing and Corporate segment includes the investing and financing activities for OneBeacon on a consolidated basis, and certain other activities conducted through the Company and our intermediate subsidiaries, as well as operations associated with personal lines business that we sold in 2010 (see Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions").

Previously, we reported our insurance operations through a Specialty Insurance Operations segment and an Other Insurance Operations segment. The former Specialty Insurance Operations segment was comprised of twelve underwriting operating segments that were aggregated into a single reportable segment, with supplemental disclosures of three major underwriting units for financial reporting: MGA Business, Specialty Industries and Specialty Products. The former Other Insurance Operations segment consisted of substantially all operations classified as discontinued operations as of December 31, 2012, including AutoOne, other run-off business, and certain purchase accounting adjustments relating to the run-off business and the OneBeacon Acquisition (defined below). Prior periods have been reclassified to conform to the current presentation.

OneBeacon was acquired by White Mountains Insurance Group, Ltd. (White Mountains) from Aviva plc (Aviva) in 2001 (the OneBeacon Acquisition). White Mountains is a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. During the fourth quarter of 2006, White Mountains sold 27.6 million or 27.6% of our common shares in an initial public offering. Prior to the initial public offering, OneBeacon was a wholly-owned subsidiary of White Mountains. As of December 31, 2012, White Mountains owned 75.2% of our common shares.

Our headquarters are located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. Our U.S. corporate headquarters are located at 601 Carlson Parkway, Minnetonka, Minnesota 55305 and our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

OneBeacon has assets, liabilities and capital related to non-specialty business that it no longer writes, principally non-specialty commercial lines and certain other run-off business, including nearly all of its asbestos and environmental reserves (Runoff Business). On October 17, 2012, OneBeacon entered into a definitive agreement to sell the Runoff Business, including various insurance subsidiaries holding runoff loss reserves for the Runoff Business (Runoff Subsidiaries), to Trebuchet U.S. Holdings, Inc. (Trebuchet), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, Armour), to support the separation and transfer of the Runoff Business to Armour (the Runoff Transaction). Upon completion of the Runoff Transaction, which is expected to occur in the second half of 2013 subject to regulatory approval, OneBeacon will be focused exclusively on specialty business. See

Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions" for a description of the Runoff Transaction.
At December 31, 2012 and 2011, OneBeacon had $5.4 billion and $5.8 billion of total assets and $1.0 billion and $1.1 billion of common shareholders' equity, respectively. OneBeacon wrote $1.2 billion, $1.1 billion and $1.2 billion in net written premiums in 2012, 2011 and 2010, respectively.

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The following table presents the financial strength ratings assigned to our principal insurance operating subsidiaries which support our ongoing specialty insurance operations (Ongoing Subsidiaries) as well as our Runoff Subsidiaries, as of February 28, 2013:

	A.M. Best[1]	Standard & Poor's[2]	Moody's[3]	Fitch[4]
Ongoing Subsidiaries:				
Ratings	"A" (Excellent)	"A-" (Strong)	"A2" (Good)	"A" (Strong)
Outlook	Stable	Stable	Stable	Stable
Runoff Subsidiaries:[5]				
Ratings	"A" (Excellent)	Unrated	"A2" (Good)	"A" (Strong)
Outlook	Under Review - Negative	N/A	Negative	Rating Watch - Negative

(1) "A" is the third highest of sixteen financial strength ratings assigned by A.M. Best Company (A.M. Best).

(2) "A-" is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's Financial Services, LLC (Standard & Poor's).

(3) "A2" is the sixth highest of twenty-one financial strength ratings assigned by Moody's Investor Service (Moody's).

(4) "A" is the sixth highest of nineteen international financial strength ratings assigned by Fitch Ratings (Fitch).

(5) 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 Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody'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 ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook. The above table summarizes the ratings related to the entities supporting the Ongoing Subsidiaries and, separately the Runoff Subsidiaries.

Our Operating Principles

We strive to operate within the spirit of four operating principles. These are:

Underwriting Comes First. An insurance enterprise must respect the fundamentals of insurance. There must be a realistic expectation of underwriting profit on all business written, and demonstrated fulfillment of that expectation over time, with focused attention to the loss ratio and to all the professional insurance disciplines of pricing, underwriting and claims management.

Maintain a Disciplined Balance Sheet. The first concern here is that insurance liabilities must always be fully recognized. Loss reserves and expense reserves must be solid before any other aspect of the business can be solid. Pricing, marketing and underwriting all depend on informed judgment of ultimate loss costs and that can be managed effectively only with a disciplined balance sheet.

Invest for Total Return. Historical insurance accounting tends to hide unrealized gains and losses in the investment portfolio and over-reward reported investment income (interest and dividends). Regardless of the accounting, we must invest for the best growth in after tax value over time. In addition to investing our bond portfolios for total after tax return, that will also mean prudent investment in a balanced portfolio consistent with leverage and insurance risk considerations.

Think Like Owners. Thinking like owners has a value all its own. There are stakeholders in a business enterprise and doing good work requires more than this quarter's profit. But thinking like an owner embraces all that without losing the touchstone of a capitalist enterprise.

Property and Casualty Insurance Overview

Generally, property and casualty insurance companies write insurance policies in exchange for premiums paid by their customers (the insured). An insurance policy is a contract between the insurance company and the insured where the insurance company agrees to pay for losses suffered by the insured that are covered under the contract. Such contracts

often are subject to subsequent legal interpretation by courts, legislative action and arbitration.
We write both property insurance and casualty insurance. Property insurance generally covers the financial consequences of accidental losses to the insured's property, such as a business's building, inventory and equipment or personal property.

Casualty insurance (often referred to as liability insurance) generally covers the financial consequences of a legal liability of an individual or an organization resulting from negligent acts and omissions causing bodily injury and/or property damage to a third party. Premiums from ocean and inland marine, private passenger auto, fire and allied lines, and certain commercial multiple peril policies generally represent our property lines of business, and claims from such business are typically reported and settled in a relatively short period of time. Premiums from general liability, commercial and personal auto liability and certain commercial multiple peril policies generally represent our casualty lines of business, and claims from such business can take years, even decades, to settle. Our Specialty Products and Specialty Industries segments each write business in both the property and casualty lines, as well as other lines of business such as credit and accident insurance.

We believe that our various lines of business generally fall into three major categories, which are reflective of how we view the primary risk classification associated with each line: property lines, casualty lines, and other lines. Net written premiums by line of business for the years ended December 31, 2012, 2011 and 2010 consist of the following:

	Year ended December 31,		
	2012	2011	2010[1]
Insurance operations by line of business	($ in millions)		
Property Lines:			
Ocean and Inland Marine	$ 214.2	$ 210.7	$ 208.6
Private Passenger Auto	99.7	92.8	87.1
Commercial Multiple Peril and Auto	52.7	39.7	31.5
Fire and Allied	50.5	57.7	57.4
Total Property Lines	417.1	400.9	384.6
Casualty Lines:			
General Liability	418.1	372.7	356.6
Automobile Liability	74.8	63.9	55.0
Workers Compensation	71.9	50.8	42.4
Other Casualty	38.2	30.7	25.4
Total Casualty Lines	603.0	518.1	479.4
Other Lines[2]	159.1	143.7	124.0
Total insurance operations line of business	$ 1,179.2	$ 1,062.7	$ 988.0

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[1] Excludes $179.7 million in net written premiums associated with personal lines that were sold in 2010, which are included in the Investing, Financing and Corporate segment.

[2] Includes Group Accident & Health and Credit insurance products.

We derive substantially all of our revenues from earned premiums, investment income, and net realized and unrealized investment gains and losses on investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, we invest the premiums, earn investment income, and generate net realized and unrealized gains and losses on investment activities.

Insurance companies incur a significant amount of their total expenses from policyholder losses, which are commonly referred to as claims. In settling policyholder losses, various loss adjustment expenses (LAE) are incurred such as insurance adjusters' fees and litigation expenses. Loss and LAE are categorized by the year in which the claim is incurred, or “accident year.” In the following calendar years, as we increase or decrease our estimate for the ultimate loss and LAE for claims incurred in prior accident years, we will record favorable or adverse “loss reserve development” which is recorded in the current period. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including their employees' compensation and benefits. The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company's combined ratio, under accounting principles generally accepted in the United States (GAAP), is calculated by adding the ratio of incurred loss and LAE to earned premiums

(the loss and LAE ratio) and the ratio of policy acquisition and other underwriting expenses to earned premiums (the expense ratio). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

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Insurance Business

Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate.

The Specialty Products segment is comprised of seven underwriting operating segments representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. The Specialty Industries segment is comprised of six underwriting operating segments representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Investing, Financing and Corporate segment includes the investing and financing activities for OneBeacon on a consolidated basis, and certain other activities conducted through the Company and our intermediate subsidiaries, as well as operations associated with personal lines business that we sold in 2010 (see Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions"). See Note 12—"Segment Information" in the accompanying consolidated financial statements.

Our net written premiums by segment for the years ended December 31, 2012, 2011 and 2010 consist of the following:

	Year ended December 31,		
	2012	2011	2010[(1)]
	($ in millions)		
Specialty Products	$630.9	$571.2	$556.8
Specialty Industries	548.3	491.5	431.2
Total	$1,179.2	$1,062.7	$988.0

(1) Excludes $179.7 million in net written premiums associated with personal lines that were sold in 2010, which are included in the Investing, Financing and Corporate segment.

Specialty Products

For the years ended December 31, 2012, 2011 and 2010, our Specialty Products segments net written premiums by underwriting operating segment were as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Professional Insurance	$340.7	$314.9	$320.7
Collector Cars and Boats	179.7	166.6	153.3
Tuition Reimbursement	65.1	60.6	59.7
Other Specialty Products	45.4	29.1	23.1
Total Specialty Products	$630.9	$571.2	$556.8

A description of business written by each underwriting operating segment in the Specialty Products segment follows:

OneBeacon Professional Insurance (Professional Insurance)

Professional Insurance specializes in professional liability product solutions for a specialized customer base, including hospitals, managed care organizations, long-term care facilities, medical facilities, physician groups, media organizations, lawyers, design professionals, financial services and technology providers. Additionally, Professional Insurance provides employment practices liability, management liability and other tailored products for complex organizations including health care provider excess insurance and HMO reinsurance. General liability, property and workers compensation coverages are also available for financial institutions. Professional Insurance policies are primarily issued on a "claims made" basis, which generally covers claims that are made against an insured during the time period when a liability policy is in effect, regardless of when the event causing the loss occurred. This coverage differs from “claims occurrence” basis policies, which generally cover losses on events that occur during a period specified in the policy, regardless of when the claim is reported.

Collector Cars and Boats

Through our exclusive partnership with Hagerty, we offered tailored coverages for collectible vehicles and wooden boats, automotive museums and restoration shops. Notable features included agreed value for the insured vehicle or

boat, flexible

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usage, and overseas shipping/foreign touring coverage—supported by in-house claims expertise. In January 2013, OneBeacon and Hagerty terminated their relationship and we sold to Markel Corporation, Essentia Insurance Company ("Essentia"), an indirect wholly-owned subsidiary that wrote the Hagerty collector car and boat business. We anticipate recognizing a pre-tax gain on sale of approximately $23.0 million ($15.0 million after tax) in the first quarter of 2013. For the years ended December 31, 2012, 2011 and 2010, business written through Hagerty generated net written premiums of approximately 15%, 16% and 13%, respectively, of our consolidated net written premiums.

Tuition Reimbursement

A.W.G. Dewar, Inc. (Dewar) has been a leading provider of tuition reimbursement insurance since 1930. Dewar's product, classified as credit insurance, protects both schools and parents from the financial consequences of a student's withdrawal or dismissal from school. We own approximately 82% of Dewar.

Other Specialty Products

OneBeacon Specialty Property (Specialty Property)

Specialty Property provides excess property and inland marine solutions that augment primary policies or provide coverage in excess of self-insured retentions. Target classes of business include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale, education and public entities. Specialty Property products are provided primarily through surplus lines wholesalers.

OneBeacon Excess and Surplus (Excess and Surplus)

Excess and Surplus was established in July 2010 to support our current businesses and write selectively in the excess and surplus market. Excess and Surplus includes OneBeacon Environmental, which specializes in environmental risk solutions designed to address a variety of exposures for a broad range of businesses, including multiline casualty placements for the environmental industry. The product suite includes commercial general liability, contractors environmental liability, professional services liability, environmental premises liability, products pollution liability, follow-form excess and commercial auto.

OneBeacon Program Group (Programs)

Formed in 2012, Programs provides a full range of multi-line package insurance solutions for select specialty programs overseen by dedicated agencies that perform all policy administration functions. Products are available on an admitted and nonadmitted basis. Programs works primarily with managing general agents and managing general underwriters, commonly referred to as program administrators.

OneBeacon Surety Group (Surety)

Formed in 2012, Surety offers a broad range of commercial, custom and miscellaneous surety bonds targeting middle-market, Fortune 2500 companies written through a network of independent agencies, brokers and wholesalers. Business is serviced through eight regions throughout the United States.

Specialty Industries

For the years ended December 31, 2012, 2011 and 2010, our Specialty Industries segment's net written premiums by underwriting operating segment were as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
International Marine Underwriters	$160.1	$180.0	$188.9
Technology	121.0	94.3	75.3
Accident	102.0	86.8	66.9
Entertainment	71.4	61.2	56.2
Other Specialty Industries	93.8	69.2	43.9
Total Specialty Industries	$548.3	$491.5	$431.2

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A description of business written by each underwriting operating segment in OneBeacon's Specialty Industries segment follows:

International Marine Underwriters (IMU)

IMU traces its roots to the early 1900s, and offers a full range of ocean and inland marine insurance solutions. Ocean marine products include, but are not limited to, commercial hull and marine liabilities at both the primary and excess levels; ocean and air cargo with coverage extensions such as inland transit, warehousing and processing; yachts; and several marine “package” products with comprehensive property, auto and liability coverage. Inland marine solutions include builders' risks, contractors' equipment, energy, installation floaters, fine arts, motor truck cargo, transportation, miscellaneous articles floaters, warehousemen's legal liability and other inland marine opportunities. During 2012, we merged the Property Inland Marine underwriting unit into our IMU underwriting segment.

OneBeacon Technology Insurance (Technology)

Our Technology underwriting operating segment provides insurance solutions for specific technology industries including: infotech, medtech, telecommunications, electronic manufacturing, integration contractors, instrument manufacturers and clean tech/solar. Tailored products and coverages include property, general liability, business auto, commercial umbrella, workers compensation, international, technology errors or omissions, data privacy and communications liability. Specialized technology insurance expertise, innovation and service are delivered through dedicated underwriting, risk control and claims staff.

OneBeacon Accident Group (Accident)

Our Accident underwriting operating segment focuses on analyzing and developing unique accident solutions for the transportation industry and corporate accident marketplace, while also developing specialized accident insurance programs. Our Accident product suite includes accidental death and dismemberment, occupational accident, sports accident, non-truckers liability, vehicle physical damage and other accident coverages. Accident also provides employers and affinity groups with access to services including a discounted prescription drug program, identity theft management services and travel assistance services.

Other Specialty Industries

OneBeacon Entertainment (Entertainment)

Entertainment provides specialized commercial insurance, including professional liability protection, for the entertainment, sports and leisure industries. Coverages include film and television portfolio, producers portfolio, theatrical package, event cancellation, premises liability, event liability and participant liability.

OneBeacon Government Risks (Government Risks)

Government Risks provides solutions for mid-sized municipalities and counties, special districts including water and sanitation, non-rail transit authorities and other publicly funded agencies. Government Risks products cover property and casualty risks, employment practices liability and professional liability for law enforcement and public officials. Government Risks products are offered on a fully insured, deductible, self-insured retention or assumed reinsurance basis.

OneBeacon Energy Group (Energy)

Energy, a business we decided to exit (except for certain inland marine accounts that will be transferred into our IMU underwriting operating segment) commencing in the fourth quarter of 2012, focused on middle-market upstream and midstream conventional energy businesses, alternative and renewable energy producers, alternative fuel producers and related service and manufacturing enterprises. Energy offered a full array of property, inland marine and casualty insurance, including property damage, boiler and machinery breakdown, general liability, auto liability and umbrella liability. Energy did not offer offshore energy products.

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Geographic Concentrations

Substantially all of our net written premiums are derived from business produced in the United States. For the years ended December 31, 2012, 2011 and 2010, business was produced in the following states:

	Year ended December 31,		
	2012	2011	2010[2]
California	15.9 %	13.9 %	13.4 %
New York	9.4	9.3	8.8
Texas	7.3	6.8	6.7
Florida	5.1	5.0	5.6
District of Columbia	4.6	3.8	2.4
Massachusetts	3.7	4.5	5.0
Other[1]	54.0	56.7	58.1
Total	100.0 %	100.0 %	100.0 %

(1) No other individual state is greater than 5% of net written premiums for the years ended December 31, 2012, 2011 and 2010.

(2) Excludes net written premiums associated with personal lines that were sold in 2010.

Marketing and Distribution

We offer our products through a network of independent agents, regional and national brokers and wholesalers. Overall, we have approximately 2,700 distribution relationships across the country. In recent years, we have expanded our distribution channels to include select managing general agencies (MGAs), either through acquisitions or exclusive relationships. These MGAs focus on a particular customer group with tailored products and services, and related expertise.

We protect the integrity of our franchise value by selectively appointing distribution partners that demonstrate business and industry knowledge and geographic profiles that align with our target markets and specialized capabilities. We believe in the added value provided by independent distribution partners as they conduct more complete assessments of their clients' needs, which result in more appropriate coverages and prudent risk management. We also believe that independent insurance agencies and brokers will continue to be a significant force in overall industry premium production.

Underwriting and Pricing

We believe there must be a realistic expectation of attaining an underwriting profit on all the business we write, as well as a demonstrated fulfillment of that expectation over time. Consistent with our "Underwriting Comes First" operating principle, adequate pricing is a critical component for achieving an underwriting profit. We underwrite our book with a disciplined approach towards pricing our insurance products and are willing to forgo a business opportunity if we believe it is not priced appropriately to the exposure.

We actively monitor pricing activity and measure usage of tiers, credits, debits and limits. In addition, we regularly update base rates to achieve targeted returns on capital and attempt to shift writings away from lines and classes where pricing is inadequate. To the extent changes in premium rates, policy forms or other matters are subject to regulatory approval (see "Regulatory Matters—General" and "Risk Factors—Regulation may restrict our ability to operate"), we proactively monitor our pending regulatory filings to facilitate, to the extent possible, their prompt processing and approval. Lastly, we expend considerable effort to measure and verify exposures and insured values.

Competition

Property and casualty insurance is highly competitive. Our businesses each compete against a different subset of companies. In general terms, we compete in one or more of our businesses with most of the large multi-line insurance companies, such as ACE, AIG, Chubb Group, CNA, Liberty Mutual, Travelers and Zurich Insurance Group. We also compete with most of the specialty companies, such as Allied World Assurance Company, HCC Insurance Holdings, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. Lastly, we compete in certain of our businesses with various local and regional insurance companies.

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The more significant competitive factors for most insurance products we offer are price, product terms and conditions, agency and broker relationships, and claims service. Our underwriting principles and dedication to independent distribution partners are unlikely to make us the low-cost provider in most markets. While it is often difficult for insurance companies to differentiate their products, we believe that providing superior specialty products to satisfy market needs and relying on agents and brokers who value our targeted expertise, superior claims service, and disciplined underwriting, establishes a competitive advantage. The continued existence of carriers operating with lower cost structures places ongoing pressure on our pricing and terms and conditions, which may impact our ability to compete.

Claims Management

Effective claims management is a critical factor in achieving satisfactory underwriting results. We maintain an experienced staff of appraisers, medical specialists, managers and field adjusters strategically located throughout our operating territories. We also maintain a special investigative unit designed to detect insurance fraud and abuse and support efforts by regulatory bodies and trade associations to curtail fraud.

Claims operations are organized into ongoing claims and run-off claims, with specific claims resources supporting the respective operations. This approach allows us to better identify and manage claims handling costs. In addition, a shared claims service unit manages costs related to all claims staff and vendors. We have adopted a total claims cost management approach that gives equal importance to controlling claims handling expenses, legal expenses and claims payments, enabling us to lower the sum of the three. This approach requires the utilization of a considerable number of conventional metrics to monitor the effectiveness of various programs implemented to lower total loss costs. We utilize the metrics to guard against implementation of expense containment programs that will cost us more than we expect to save.

Our claims department utilizes a claims workstation to record reserves, payments and adjuster activity and, with support from expert tools, assists each claim handler in identifying recovery potential, estimating property damage, evaluating claims and identifying fraud. Our commitment and performance in fighting insurance fraud has reduced claim costs and aided law enforcement investigations.

Catastrophe Risk Management and Reinsurance Protection

In the normal course of our business, we purchase reinsurance from high-quality, highly rated, third-party reinsurers in order to minimize loss from large losses or catastrophic events.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to our operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in the area affected by the event as well as the severity of the event. We use models (primarily AIR Worldwide (AIR) version 12) to estimate the probability of the occurrence of a catastrophic event as well as potential losses under various scenarios. We use this model output in conjunction with other data to manage our exposure to catastrophe losses through individual risk selection and by limiting our concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, we impose wind deductibles on existing coastal windstorm exposures.

We seek to further reduce our potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective May 1, 2012, we renewed our property catastrophe reinsurance program through April 30, 2013. The program provides coverage for our property business as well as certain acts of terrorism. Under the program, the first $25.0 million of losses resulting from any single catastrophe are retained and the next $155.0 million of losses resulting from the catastrophe are reinsured in three layers, although we retain a co-participation of 55% of losses from $25.0 million to $40.0 million, 15% of losses from $40.0 million to $80.0 million, and 10% of losses from $80.0 million to $180.0 million. Any loss above $180.0 million would be retained in full. In the event of a catastrophe, our 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. We anticipate that the $180.0 million limit is sufficient to cover Northeast windstorm losses with a modeled 0.4% probability of occurrence (1-in-250-year event). This $180.0 million limit was reduced from the $225.0 million limit that our previous catastrophe reinsurance program provided, as a result of lower

catastrophe exposure as a specialty-focused company.

In addition to the corporate catastrophe reinsurance protection that we secure, we may also purchase dedicated reinsurance protection for specific businesses. In 2012, we purchased insurance to protect our collector car and boat business from catastrophic losses. This treaty covered losses in excess of $2.5 million up to $25 million in two layers. The first layer, $2.5 million in excess of $2.5 million carried a 5% co-participation. The company held a 20% co-participation on the second

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layer, $20 million in excess of $5 million. Catastrophe losses above $25 million are retained by the company in full. Reinstatement premiums are paid if the coverage is attached.

We also purchase a per occurrence treaty for IMU that protects against large occurrences, whether a single large claim or a catastrophe. The IMU treaty attaches at $2 million per occurrence. Coverage is provided up to $60 million. The first layer of the marine treaty is $5 million in excess of $2 million, with an annual aggregate deductible of $1.5 million for large losses and $5 million for catastrophes losses. For losses in the layer $10 million excess of $50 million, the company retains half of the loss. The portion of loss above $60 million is retained in full by the company. Reinstatement premiums are paid in full or in part depending on the layer and the occurrence if the coverage is attached. Losses retained under both the collector car and marine reinsurance treaties are subject to the corporate catastrophe treaty.

We also purchase property-per-risk reinsurance coverage to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of $10.0 million up to $100.0 million. Individual risk facultative reinsurance may be purchased above $100.0 million where we deem it appropriate. Under the property-per-risk program, we retain a co-participation of 10% for losses in excess of $20.0 million up to $50.0 million and a co-participation of 20% for losses in excess of $50.0 million. The property-per-risk program also provides one limit of reinsurance protection for losses in excess of $10.0 million up to $100.0 million on an individual risk basis for foreign terrorism losses. However, any nuclear events, or biological, chemical or radiological terrorist attacks are not covered.

We also maintain a casualty reinsurance program that provides protection for individual policies involving general liability, automobile liability, professional liability or umbrella liability. Our healthcare professional liability treaty covers losses in excess of $5.0 million up to $20.0 million in two layers. The first layer, $5.0 million excess of $5.0 million has a 20% co-participation. All other casualty business is covered in a separate treaty covering losses in excess of $5.0 million up to $21.0 million. This treaty has a 22.5% co-participation in the first layer ($6.0 million excess of $5.0 million) and a 10% co-participation in the second layer of $10.0 million excess of $11.0 million. We purchase a treaty to protect against large workers compensation losses that covers 100% of the loss in excess of $1.0 million up to $10.0 million per person. In addition, for casualty losses involving more than one insured, we maintain a dedicated treaty that covers up to $40.0 million in excess of a $10.0 million retention.

Our property catastrophe reinsurance program does not cover property losses resulting from any nuclear events or biological, chemical or radiological terrorist attacks or losses resulting from acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002 (the Terrorism Act, or TRIA), as amended, committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as well as domestic acts of terrorism. See "Business—Terrorism" below.

Reinsurance contracts do not relieve us of our obligation to our policyholders. Therefore, collectibility of balances due from reinsurers is critical to our financial strength. See Note 4—"Third-Party Reinsurance" of the accompanying consolidated financial statements.

Terrorism

Since the terrorist attacks of September 11, 2001, we have sought to mitigate the risk associated with any future terrorist attacks by limiting the aggregate insured value of policies in geographic areas with exposure to losses from terrorist attacks. This is accomplished by either limiting the total insured values exposed, or, where applicable, through the use of terrorism exclusions.

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

We estimate our individual retention level for commercial policies subject to the Terrorism Act to be approximately $100 million in 2013. The federal government will pay 85% of covered terrorism losses that exceed our or the industry's retention levels in 2013, up to a total of $100 billion.

Our current property and casualty catastrophe reinsurance programs provide coverage for both "certified" and "non-certified" events as defined under the Terrorism Act provided such losses are not the result of a nuclear, biological, chemical or radiological terrorist attack, or for "certified" acts committed by an individual or individuals acting on behalf of any foreign person or foreign interest. See "Business—Catastrophe Risk Management and Reinsurance Protection" above.

We closely monitor and manage our concentration of risk by geographic area. Our guideline is to control our exposures so that our total maximum expected loss from a likely terrorism event within any half-mile radius in a metropolitan area or around a target risk will not exceed $200 million, or $300 million in all other areas before considering the Terrorism Act. Reports monitoring our terrorism exposures are generated quarterly, and the exposure of potential new business located in areas of existing concentration or that individually present significant exposure is evaluated during the underwriting process. As a result, we believe that we have taken appropriate actions to limit our exposure to losses from terrorist attacks and will continue to monitor our terrorism exposure in the future. Nonetheless, risks insured by us, including those covered by the Terrorism Act, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material.

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Loss and LAE Reserves

We establish loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates."

The following table summarizes our loss and LAE reserve activities for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Gross beginning loss and LAE reserve	$3,358.6	$3,295.5	$3,934.8
Less beginning reinsurance recoverable on unpaid losses	(2,167.5)	(1,893.2)	(2,192.9)
Net beginning loss and LAE reserves	1,191.1	1,402.3	1,741.9
Loss and LAE incurred relating to:			
Current year losses	657.4	578.1	721.6
Prior year losses	(7.4)	(29.8)	(36.0)
Total incurred loss and LAE from continuing operations	650.0	548.3	685.6
Loss and LAE paid relating to:			
Current year losses	(224.6)	(216.9)	(285.2)
Prior year losses	(340.5)	(306.3)	(369.6)
Total loss and LAE payments from continuing operations	(565.1)	(523.2)	(654.8)
Net loss and LAE reserves	1,276.0	1,427.4	1,772.7
Total incurred loss and LAE from discontinued operations	48.4	89.5	244.6
Total loss and LAE payments from discontinued operations	(220.8)	(261.1)	(384.0)
Net loss and LAE reserves	1,103.6	1,255.8	1,633.3
Net loss and LAE reserves reclassified to held for sale[1]	(147.1)	(64.7)	—
Net loss and LAE reserves sold[2]	(63.8)	—	(231.0)
Net ending loss and LAE reserves	892.7	1,191.1	1,402.3
Plus ending reinsurance recoverable on unpaid losses	107.3	2,167.5	1,893.2
Gross ending loss and LAE reserves	$1,000.0	$3,358.6	$3,295.5

(1) During the year ended December 31, 2012, $211.8 million of net loss and LAE reserves related to the Runoff Business were reclassified to held for sale and $64.7 million of net loss and LAE reserves related to the AutoOne Transaction were reclassified from held for sale. In the year ended December 31, 2011, $64.7 million of net loss and LAE reserves related to the AutoOne Transaction were reclassified to held for sale.

(2) During the year ended December 31, 2012, $63.8 million of net loss and LAE reserves related to the AutoOne Transaction were sold. During the year ended December 31, 2010, $231.0 million of net loss and LAE reserves related to the Personal Lines Transaction (as defined in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Significant Transactions") were sold.

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The following information presents (1) our reserve development over the preceding 10 years and (2) a reconciliation of reserves on a regulatory basis to reserves determined in accordance with GAAP, as prescribed by Securities Act Industry Guide No. 6.

Section I of the 10-year table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including incurred but not reported, or IBNR, reserves. The liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency (the average number of claims submitted per policy during a given period of time) and severity (the average value of claims submitted per policy during a given period of time) patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2012. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2012. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2012.

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	Loss and LAE[1], [2] Year ended December 31,										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	($ in millions)										
I. Liability for unpaid loss and LAE:											
Gross balance	78.9	130.3	211.4	376.7	436.1	480.2	627.1	702.1	835.1	868.5	1,000.0
Less reinsurance recoverable on unpaid loss and LAE	(12.0)	(15.7)	(14.5)	(46.8)	(30.6)	(24.3)	(49.6)	(43.8)	(53.6)	(61.6)	(107.3)
Net balance	66.9	114.6	196.9	329.9	405.5	455.9	577.5	658.3	781.5	806.9	892.7
II. Cumulative amount of net liability paid through:											
1 year later	32.5	48.7	58.1	126.8	96.6	97.8	154.8	219.4	306.3	339.0	
2 years later	49.0	62.3	76.6	168.7	132.3	159.4	235.2	357.0	474.4		
3 years later	55.8	74.3	95.4	185.4	167.2	197.3	294.4	436.3			
4 years later	61.2	81.2	101.2	205.1	183.9	230.3	331.4				
5 years later	64.5	82.5	105.0	214.1	195.3	244.7					
6 years later	65.0	84.1	106.6	218.7	199.6						
7 years later	65.9	84.5	106.9	221.4							
8 years later	66.3	84.3	108.7								
9 years later	66.0	82.8									
10 years later	64.5										
III. Net liability re-estimated as of:											
1 year later	74.7	109.7	179.9	325.9	308.1	391.1	492.9	630.2	751.7	799.5	
2 years later	67.9	102.3	152.4	269.6	267.8	335.4	459.3	595.8	743.8		
3 years later	69.3	100.0	128.1	243.1	243.2	318.8	416.1	589.6			
4 years later	69.5	91.7	119.1	238.8	227.1	297.4	413.5				
5 years later	68.1	87.2	118.2	228.8	224.8	294.3					
6 years later	67.6	86.2	111.8	229.5	221.6						
7 years later	67.3	86.3	110.1	230.2							
8 years later	67.4	86.1	111.2								
9 years later	66.9	84.5									
10 years later	65.3										
IV. Cumulative net redundancy	$1.6	$30.1	$85.7	$99.7	$183.9	$161.6	$164.0	$68.7	$37.7	$7.4	
Percent redundant	2.4%	26.2%	43.5%	30.2%	45.4%	35.4%	28.4%	10.4%	4.8%	0.9%	
V. Reconciliation											

of net liability re-estimated as of the end of the latest re-estimation period (see III above):										
Gross unpaid loss and LAE latest re-estimate	$71.2	$107.9	$130.8	$305.7	$251.2	$328.4	$458.6	$629.5	$787.2	$843.8
Reinsurance recoverable latest re-estimate	(5.9)	(23.4)	(19.6)	(75.5)	(29.6)	(34.1)	(45.1)	(39.9)	(43.4)	(44.3)
Net unpaid loss and LAE latest re-estimate	$65.3	$84.5	$111.2	$230.2	$221.6	$294.3	$413.5	$589.6	$743.8	$799.5
VI. Cumulative gross redundancy	$7.7	$22.4	$80.6	$71.0	$184.9	$151.8	$168.5	$72.6	$47.9	$24.7
Percent redundant	9.8%	17.2%	38.1%	18.8%	42.4%	31.6%	26.9%	10.3%	5.7%	2.8%

(1) The 10-year table is reflective of activity related to our loss and LAE reserves from Specialty Products and Specialty Industries and excludes the purchase accounting adjustments for the OneBeacon Acquisition or the effect of any reserve activity from the affiliate quota share agreements. Affiliate quota shares refer to two quota share reinsurance agreements we entered into with subsidiaries of White Mountains primarily for White Mountains' capital management purposes. These agreements were commuted in the fourth quarter of 2006 in connection with our initial public offering. The 10-year table also excludes the Runoff Business and AutoOne, which have been presented as discontinued operations in the statements of operations for all periods presented. For purposes of the 10-year table, loss and LAE reserves, and the related reinsurance recoverable on unpaid loss and LAE, related to the Runoff Business and AutoOne have been excluded for all periods presented to conform to the presentation of assets and liabilities associated with the Runoff Business and AutoOne, which are presented as held for sale in the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

(2) The 10-year table also excludes loss and LAE reserves related to the Personal Lines Transaction (as defined in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Significant Transactions"). The net reserves related to this business for the years 2002 through 2009 were as follows: $697.1 million, $627.8 million, $518.3 million, $434.4 million, $386.6 million, $322.5 million, $333.5 million and $315.4 million, respectively. This business was sold in 2010 and therefore, there were no net reserves as of December 31, 2010, 2011 or 2012.

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The following table reconciles loss and LAE reserves, excluding the impact of purchase accounting adjustments, determined on a statutory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

	December 31, 2012	2011	2010
	($ in millions)		
Statutory reserves	$2,299.1	$2,604.6	$2,681.7
Reinsurance recoverable on unpaid losses[1]	107.3	61.6	53.6
Runoff Business[2]	(1,406.4)	(1,717.8)	(1,800.1)
AutoOne[3]	—	(64.7)	(77.3)
Other[4]	—	(15.2)	(22.8)
GAAP reserves	$1,000.0	$868.5	$835.1

(1) Represents adjustments made to add back reinsurance recoverables on unpaid losses related to ongoing specialty business included with the presentation of reserves under statutory accounting.

(2) Represents loss and LAE reserves related to the Runoff Business which are presented as liabilities held for sale in the December 31, 2012 balance sheet and have been excluded from this table for the prior periods presented to conform to the current presentation. Also includes adjustments made for certain reinsurance recoverables on unpaid losses that have a different presentation for statutory than for GAAP.

(3) Represents loss and LAE reserves related to AutoOne which are presented as liabilities held for sale in the December 31, 2011 balance sheet and have been excluded from the 10-year table for all periods presented.

(4) Amounts as of December 31, 2011 and 2010 represent long-term workers compensation loss and LAE reserve discount in excess of statutorily defined discount. As of December 31, 2012, the GAAP discount on long-term workers compensation loss and LAE reserves was equal to the statutorily defined discount.

Investing, Financing and Corporate

Investing, Financing and Corporate primarily consists of investing and financing activities, as well as other assets and liabilities, and general and administrative expenses and interest expense incurred at the holding company level. Also included in this segment for 2010 are the operations associated with personal lines business that we sold in 2010. See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Significant Transactions."

Investing

Overview

Invested assets are not allocated to our Specialty Products or Specialty Industries reportable segments since we do not manage our assets by segment. Invested assets, net investment income, and net realized and change in unrealized investment gains (losses) related to our Specialty Products and Specialty Industries segments are included in the Investing, Financing and Corporate segment since these assets are available for payment of losses and expenses for all segments.

Our traditional investment philosophy is to maximize our after tax risk-adjusted return while taking prudent levels of risk and maintaining a diversified portfolio. Under this approach, each dollar of after-tax investment income and realized and unrealized gains and losses is valued equally.

Our investment portfolios are managed under agreements with White Mountains Advisors LLC (WM Advisors), a registered investment advisor that is owned by White Mountains, and Prospector Partners, LLC (Prospector), a primary registered investment advisor. See Note 15—"Related Party Disclosures" of the accompanying consolidated financial statements. Our investment portfolio mix as of December 31, 2012 consisted in large part of high quality, short duration fixed maturity investments and short-term investments, as well as equity investments which are comprised of common stock, convertible fixed maturity securities and other investments such as hedge funds and private equity funds. Our management believes that prudent levels of investments in common equity securities, convertible fixed maturity securities, and other investments within our investment portfolio are likely to enhance long-term after tax total returns without significantly increasing the risk profile of the portfolio.

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Fixed Income and Other Investments

WM Advisors, along with any sub-advisors they may engage, manages our fixed income portfolio, which includes both fixed maturity and short-term investments, and our other investments portfolio which primarily consists of hedge funds and private equity funds. WM Advisors' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to their investment risks. WM Advisors generally manages the interest rate risk associated with holding fixed maturity investments by actively maintaining the average duration of the portfolio to achieve an adequate after tax total return without subjecting the portfolio to an unreasonable level of interest rate risk.

Common Equity Securities and Convertible Fixed Maturity Securities

Prospector is the primary manager of our common equity securities and convertible fixed maturity securities portfolios. Prospector's investment strategy is to maximize risk-adjusted absolute return through investments in a variety of equity, equity-related and convertible fixed maturity instruments. Prospector invests in the United States and other developed markets. Prospector's philosophy is to utilize a bottom-up, value investing approach. Preservation of capital is of the utmost importance.

Financing

Debt and the related interest expense on debt also are not allocated to or managed by segment and are included in the Investing, Financing and Corporate segment.

2012 Senior Notes

In November 2012, OneBeacon U.S. Holdings, Inc. (OBH), an intermediate holding company of OneBeacon, issued $275.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.9% (2012 Senior Notes). The net proceeds from the issuance of the 2012 Senior Notes were used to repurchase OBH's existing outstanding senior notes, the 2003 Senior Notes (as defined below). The 2012 Senior Notes bear an annual interest rate of 4.60%, payable semi-annually in arrears on May 9 and November 9 until maturity on November 9, 2022. OneBeacon Insurance Group, Ltd. provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the 2012 Senior Notes.

2003 Senior Notes

In May 2003, OBH issued $700.0 million face value of senior unsecured debt (2003 Senior Notes) through a public offering, at an issue price of 99.7%. The 2003 Senior Notes had an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, and were scheduled to mature on May 15, 2013.

From 2008 through 2011, OneBeacon repurchased and retired a total of $430.1 million of the face value of its 2003 Senior Notes through various transactions. In the fourth quarter of 2012, in connection with the issuance of the 2012 Senior Notes, OBH purchased and retired the remaining $269.8 million aggregate principal amount of outstanding 2003 Senior Notes for $275.9 million, which included $6.1 million related to a make-whole premium. White Mountains had provided an irrevocable and unconditional guarantee as to the payment of principal and interest on the 2003 Senior Notes. This obligation was cancelled as a result of the full retirement of the notes in the fourth quarter 2012.

See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing."

Capital Lease

In December 2011, OneBeacon Insurance Company (OBIC), a wholly-owned insurance operating subsidiary, sold the majority of its fixed assets and capitalized software to OneBeacon Services LLC (OB Services), an indirect wholly-owned subsidiary of the Company. The fixed assets and capitalized software were sold at a cost equal to book value with no gain or loss recorded on the sale. Subsequent to purchasing the fixed assets and capitalized software from OBIC, OB Services entered into lease financing arrangements with US Bancorp Equipment Finance, Inc. (US Bancorp) and Fifth Third Equipment Finance Company (Fifth Third) whereby OB Services sold its furniture and equipment and its capitalized software, respectively, to US Bancorp and Fifth Third. The assets were sold at a cost equal to net book value. OB Services then leased the assets back from US Bancorp for a lease term of five years and leased the capitalized software back from Fifth Third for a lease term of four years. OBIC recorded the sale of the assets with no gain or loss recognized while OB Services has recorded a capital lease obligation. See Note 16—"Commitments and Contingencies" of the accompanying consolidated financial statements.

Corporate

Our Corporate operations consists of the activities of OneBeacon Insurance Group, Ltd. and our intermediate subsidiary holding companies which include OneBeacon U.S. Enterprises Holdings, Inc. (OBEH) and OBH, both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda. The primary purpose of these entities is to efficiently manage the group's various capital and financing activities.

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Regulatory Matters

General

Our insurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, state regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of the consolidated financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders.

State Accreditation and Monitoring

Most states have laws that establish standards for current, as well as continued, state accreditation. In addition, the National Association of Insurance Commissioners (NAIC) has risk-based capital (RBC) standards for property and casualty companies, which are designed to determine minimum capital requirements and to raise the level of protection that statutory surplus provides for policyholder obligations. The RBC formula for property and casualty insurance companies measures three major areas of risk facing property and casualty insurers: underwriting, which encompasses the risk of adverse loss developments and inadequate pricing; declines in asset values arising from market and/or credit risk; and off-balance sheet risk arising from adverse experience from non-controlled assets, guarantees for affiliates or other contingent liabilities and excessive premium growth. Under laws adopted by individual states, insurers having less total adjusted capital than that required by the RBC calculation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The NAIC has a set of financial relationships or tests known as the Insurance Regulatory Information System (IRIS) to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios (IRIS ratios), each with defined "usual ranges." Generally, regulators will begin to investigate or monitor an insurance company if its IRIS ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue or, in severe situations, assume control of the company. We are not aware that any of our insurance companies are currently subject to regulatory investigation based on these ratios.

State insurance laws require us to analyze the adequacy of our reserves annually. Our actuaries must submit an opinion that our reserves, when considered in light of the assets we hold with respect to those reserves, make adequate provision for our contractual obligations and related expenses.

The NAIC's Annual Financial Reporting Model Regulation, or the Model Audit Rule (MAR), includes provisions that are similar to Sarbanes-Oxley requirements for public companies and requires certain insurance companies to appoint audit committees to oversee accounting and financial reporting processes as well as the audit of the financial statements of the insurer. Audit committees also are required to appoint independent auditors, among other things. The designated audit committee must receive reports regarding significant deficiencies, material weaknesses and solvency concerns at the insurance company level. Certain insurance companies, including OneBeacon, are also required to file an annual management report on internal control over financial reporting.

Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states prohibit an insurer from withdrawing from one or more lines of insurance business in the state without the state regulator's approval. State regulators may refuse to approve withdrawal plans on the grounds that they could lead to market disruption, or for other reasons, including political and tax related reasons.

Mandatory Shared Market Mechanisms

As a condition of our license to do business in certain states, we are required to participate in mandatory shared market mechanisms. Each state dictates the types of insurance and the level of coverage that must be provided. The most common type of shared market mechanism in which we are required to participate is an assigned risk plan. Many states operate assigned risk plans. These plans require insurers licensed within the applicable state to accept the applications for insurance policies of customers who are unable to obtain insurance in the voluntary market. The total

number of such policies an insurer is required to accept is based on its market share of voluntary business in the state. Underwriting results related to assigned risk plans are typically adverse. Accordingly, we may be required to underwrite policies with a higher risk of loss than we would otherwise accept.

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Reinsurance facilities are another type of shared market mechanism. Reinsurance facilities require an insurance company to accept all applications submitted by certain state designated agents. The reinsurance facility then allows the insurer to cede some of its business to the reinsurance facility so that the facility will reimburse the insurer for claims paid on ceded business. Typically, however, reinsurance facilities operate at a deficit, which is funded through assessments against the same insurers. As a result, we could be required to underwrite policies with a higher risk of loss than we would otherwise voluntarily accept.

Pricing, Investment and Dividends

Nearly all states have insurance laws requiring property and casualty insurance companies to file price schedules, policy or coverage forms, and other information with the state's regulatory authority. In most cases, such price schedules and/or policy forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that prices are adequate, not excessive and not discriminatory.

We are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. Our investment portfolio at December 31, 2012 complied with such laws and regulations in all material respects.

One of the primary sources of cash inflows for us and certain of our intermediary holding companies is dividends received from our operating subsidiaries. Under the insurance laws of the jurisdictions under which our insurance subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities. During the year ended December 31, 2012, we, through our top tier regulated operating subsidiaries, distributed $173.1 million to OneBeacon Insurance Group LLC (OneBeacon LLC). Included in this amount, and as part of the internal capital restructuring transactions described in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Significant Transactions," were $114.7 million of dividends, which included the distribution of a regulated insurance subsidiary with a value of $34.0 million, and a return of capital to OneBeacon LLC of $58.4 million.

Holding Company Structure

We are subject to regulation under certain state insurance holding company acts. These regulations contain reporting requirements relating to our capital structure, ownership, financial condition and general business operations. These regulations also contain special reporting and prior approval requirements with respect to certain transactions among affiliates. Since we are an insurance holding company, the domiciliary states of our insurance subsidiaries impose regulatory application and approval requirements on acquisitions of common shares which may be deemed to confer control over those subsidiaries, as that concept is defined under the applicable state laws. Acquisition of as little as 10% of our common shares may be deemed to confer control under the insurance laws of some jurisdictions, and the application process for approval can be extensive and time consuming.

Legislation

The insurance industry is highly regulated at the state level. While the federal government does not directly regulate the insurance business, federal legislation and administrative policies affect the insurance industry. In addition, legislation has been introduced from time to time in recent years that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) created the Federal Insurance Office (FIO) within the Treasury Department, which is responsible for gathering information and monitoring the insurance industry to identify gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or U.S. financial system. In addition, the FIO can recommend changes to state insurance laws and regulations. Although the deadline was in January 2012, the FIO's "Study and Report on the Regulation of Insurance" in the United States has not yet been released. We cannot predict whether the FIO will recommend any changes or whether states will adopt any such changes.

In addition, the Terrorism Act established a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended in December 2007, the law also covers domestic acts of terrorism. See "Business—Catastrophe Management and Reinsurance Protection" and "—Terrorism". We are actively complying with the requirements of the Terrorism Act

in order to ensure our ability to be reimbursed by the federal government for any losses we may incur as a result of future terrorist acts. The Terrorism Act expires in 2014, and there can be no assurance that it will be extended.

The NAIC's 2010 amendment to the Model Insurance Company Holding Company System Regulatory Act (the Model Law) enhances the authority of state insurance regulators in the adopting state to regulate insurers as well as their affiliated entities, on an enterprise risk basis. The amendment to the Model Law requires the ultimate controlling person in an insurer's

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holding company structure to identify and report to state insurance regulators material risks within the structure that could pose enterprise risk to the insurer. The amendment to the Model Law will need to be adopted by individual state legislatures before they become binding on any given state. States may also deviate from these Model Law revisions as states differ in their approaches on several requirements. We cannot predict whether states will adopt the amendment to the Model Law, or if adopted, whether the amendment will differ from the Model Law.

Environmental

Environmental cleanup of polluted waste sites is subject to both federal and state regulations. Superfund and comparable state statutes govern the cleanup and restoration of waste sites by potentially responsible parties (PRPs). These laws can impose liability for the entire cost of cleanup upon any PRP, regardless of fault. The insurance industry in general is involved in extensive litigation regarding coverage issues arising out of the cleanup of such sites by insured PRPs and as a result has disputed many such claims. From time to time, comprehensive Superfund reform proposals are introduced in Congress, but none has yet been enacted. At this time, it remains unclear as to whether Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims. The NICO Cover includes coverage for such exposures at our company, however, there can be no assurance that the coverage provided under the NICO Cover (as defined in Item 1A—"Risk Factors") will ultimately prove to be adequate for our incurred environmental losses.

Bermuda Law

We are an exempted company organized under the Companies Act 1981 of Bermuda (Companies Act). As a result, we are required to comply with the provisions of the Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realizable value of the company's assets would thereby be less than its liabilities.

Under our bye-laws, each common share is entitled to dividends if, and when, dividends are declared by our board of directors (the Board), subject to any preferred dividend rights of the holders of any preference shares. Issued share capital is the aggregate par value of the company's issued shares, and the share premium account is the aggregate amount paid for issued shares over and above their par value. Share premium accounts may be reduced in certain limited circumstances. In addition, the Companies Act regulates return of capital, reduction of capital and any purchase or redemption of shares by OneBeacon.

Although we are incorporated in Bermuda, we have been designated as a non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority, or the BMA. Pursuant to our non-resident status, we may hold any currency other than Bermuda dollars and convert that currency into any other currency, other than Bermuda dollars, without restriction.

Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 and the Exchange Control Act 1972, and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the BMA pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA in its policy dated June 1, 2005 provides that where any equity securities, including our common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equity securities of such company remain so listed. The New York Stock Exchange is deemed to be an appointed stock exchange under Bermuda law. Notwithstanding the above general permission, the BMA has granted us permission to, subject to our common shares being listed on an appointed stock exchange, (a) issue and transfer our shares, up to the amount of our authorized capital from time to time, to persons resident and non-resident of Bermuda for exchange control purposes; (b) issue and transfer our options, warrants, depositary receipts, rights, and other securities; and (c) issue and transfer our loan notes and other debt instruments and options, warrants, receipts, rights over loan notes and other debt instruments to persons resident and non-resident of Bermuda for exchange control purposes.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place in Bermuda. As an exempted company, we may not, without the express authorization of the Bermuda legislature or under a license granted by the Bermuda Minister of Finance, participate in various specified business transactions, including:

- the acquisition or holding of land in Bermuda, except land held by way of lease or tenancy agreement which is required for our business and held for a term not exceeding 50 years, or which is used to provide

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accommodation or recreational facilities for our officers and employees and held with the consent of the Bermuda Minister of Finance, for a term not exceeding 21 years;

- the taking of mortgages on land in Bermuda in excess of $50,000;
- the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government or public authority securities; or
- subject to some exceptions, the carrying on of business of any kind in Bermuda for which we are not licensed in Bermuda.

Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian) is available who meets the minimum standard requirements for the advertised position. The Bermuda government's policy limits the duration of work permits to six years, with certain exemptions for key employees.

Ratings

Insurance companies are evaluated by various rating agencies in order to measure each company's financial strength. Higher ratings generally indicate financial stability and a stronger ability to pay claims. We believe that strong ratings are an important factor in the marketing of insurance products and services to distribution partners and customers. 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 following table presents the financial strength ratings assigned to our principal insurance operating subsidiaries which support our ongoing specialty insurance operations (Ongoing Subsidiaries) as well as our Runoff Subsidiaries, as of February 28, 2013:

	A.M. Best[(1)]	Standard & Poor's[(2)]	Moody's[(3)]	Fitch[(4)]
Ongoing Subsidiaries:				
Ratings	"A" (Excellent)	"A-" (Strong)	"A2" (Good)	"A" (Strong)
Outlook	Stable	Stable	Stable	Stable
Runoff Subsidiaries:[(5)]				
Ratings	"A" (Excellent)	Unrated	"A2" (Good)	"A" (Strong)
Outlook	Under Review - Negative	N/A	Negative	Rating Watch - Negative

(1) "A" is the third highest of sixteen financial strength ratings assigned by A.M. Best Company (A.M. Best).

(2) "A-" is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's Financial Services, LLC (Standard & Poor's).

(3) "A2" is the sixth highest of twenty-one financial strength ratings assigned by Moody's Investor Service (Moody's).

(4) "A" is the sixth highest of nineteen international financial strength ratings assigned by Fitch Ratings (Fitch).

(5) 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 Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody'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 ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook. The above table summarizes the ratings related to the entities supporting the Ongoing Subsidiaries and, separately the Runoff Subsidiaries.

Employees

As of December 31, 2012, we employed approximately 1,200 persons. We believe that we have satisfactory relations with our employees.

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AVAILABLE INFORMATION

We are subject to the informational reporting requirements of the Securities Exchange Act of 1934. In accordance therewith, we file reports, proxy statements and other information with the Securities and Exchange Commission (SEC). These documents are available free of charge at www.onebeacon.com as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. In addition, our Code of Business Conduct as well as the charters of our Board Committees are available free of charge at www.onebeacon.com.

We will provide to any shareholder, upon request and without charge, copies of these documents (excluding any applicable exhibits unless specifically requested). Written or telephone requests should be directed to Investor Relations, OneBeacon Insurance Group, Ltd., 601 Carlson Parkway, Minnetonka, MN 55305, (877) 248-8765. Additionally, all such documents are physically available at our registered office at Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda.

ITEM 1A. RISK FACTORS

Our business is subject to various risks and uncertainties. Any of the risks described below could materially adversely affect our business, financial condition, and results of operations.

Risks Relating to Our Business

Our loss and loss adjustment expense reserves may be inadequate to cover our ultimate liability for losses and as a result our financial results could be adversely affected.

We are required to maintain adequate reserves to cover our estimated ultimate liabilities for loss and LAE. Loss and LAE reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as IBNR reserves, which include a provision for expected future development on case reserves. These reserves are estimates based on actuarial, claims and underwriting assessments of what we believe the settlement and administration of claims will cost based on facts and circumstances then known to us. Because of the uncertainties that surround estimating loss and LAE reserves, we cannot be certain that our reserves are adequate and actual claims and claim expenses paid might exceed our reserves due to the uncertainties that surround estimating loss and LAE reserves. For example, we have a large number of workers' compensation permanent disability claims. These claims involve medical payments that will be made far into the future and therefore the impact of medical inflation including increased utilization could have a material adverse impact on the ultimate amount of losses paid.

We had established gross loss and LAE reserves of $1.0 billion and $3.4 billion as of December 31, 2012 and 2011, respectively. For the years ended December 31, 2012, 2011 and 2010, we recorded favorable loss reserve development of $7.4 million, $29.8 million and $36.0 million, respectively, net of reinsurance, related to the re-estimation of previously established reserves. As of December 31, 2012, $2.1 billion of gross loss reserves were reclassified to liabilities held for sale on the consolidated balance sheet, which are not reflected in the amounts above.

Our reserves are intended to cover future payments, which could be impacted by future changes in calendar year inflation. We have modeled the impact of future inflation on our reserve portfolio, and we estimate that our current reserves would be sufficient to cover adverse development to the 80th percentile of all inflation scenarios. Our principal risk management tools for reserve volatility are to (1) maintain a conservative provision for the loss and loss expense liabilities, (2) test reserve adequacy on a quarterly basis, and (3) purchase excess of loss reinsurance annually to limit potential adverse development on individual claims to our retentions. However, our models could turn out to be inaccurate predictors of inflation, and our risk management tools could be ineffective, with the result that our reserves are inadequate to offset inflation.

If in the future we determine that our reserves are insufficient to cover our actual loss and LAE, we would have to strengthen our reserves, which could have a material adverse effect on our results of operations and financial condition.

For additional information relating to loss and LAE reserve requirements, see "Business—Regulatory Matters." For further discussion of our loss and LAE reserves, including our asbestos and environmental (A&E) reserves, see "Business—Loss and LAE Reserves" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates."

Exposure to asbestos or environmental claims could materially adversely affect our results of operations and financial condition.

We have exposure to A&E claims, substantially all of which relate to the Runoff Business and are included in liabilities held for sale on the December 31, 2012 consolidated balance sheet, which may be difficult to estimate. To help protect against potential A&E claims relating to the period prior to 2001, we have a reinsurance contract from National Indemnity Company

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(NICO), rated "A++" (Superior, the highest of sixteen financial strength ratings) by A.M. Best and "AA+" (Very Strong, the second highest of twenty-one financial strength ratings) by Standard & Poor's. We refer to this reinsurance contract as the NICO Cover. Under the NICO Cover, we are entitled to recover up to $2.5 billion from NICO for (1) all asbestos claims arising from business written by us in 1992 and prior, (2) all environmental claims arising from business written by us in 1987 and prior, and (3) certain other latent exposures.

In September 2011, we completed a study of our A&E exposures based on experience through 2010. Reasonable estimates of potential adverse scenarios continue to be within the $2.5 billion cover issued by NICO. Based on the study, we increased the point estimate of incurred losses ceded to NICO, net of underlying reinsurance, by $121.9 million to $2.3 billion. As of December 31, 2012, we have ceded estimated incurred losses of approximately $2.3 billion to the NICO Cover, leaving remaining protection under the NICO Cover of $198.3 million. Net losses paid totaled $1.5 billion as of December 31, 2012. Due to exclusions in policy language and changes in coverages provided, we do not believe that we have significant exposure to asbestos claims arising from business we wrote after 1992 or to environmental claims arising from business we wrote after 1987.

As of December 31, 2012, we had established gross loss and LAE reserves for asbestos claims of $929.4 million. Approximately 99% of these loss and LAE reserves are covered under reinsurance arrangements. Our net loss and LAE reserves for asbestos claims after giving effect to third-party reinsurance other than the NICO Cover were $602.5 million at December 31, 2012. Our net loss and LAE reserves for asbestos claims after giving effect to both third-party reinsurance and the NICO Cover were $2.4 million at December 31, 2012.

As of December 31, 2012, we had established gross loss and LAE reserves for environmental claims of $233.0 million. Approximately 98% of these loss and LAE reserves are covered under reinsurance arrangements. Our net loss and LAE reserves for environmental claims after giving effect to third-party reinsurance other than the NICO Cover were $125.4 million at December 31, 2012. Our net loss and LAE reserves for environmental claims after giving effect to both third-party reinsurance and the NICO Cover were $6.4 million as of December 31, 2012.

Estimating our exposure to A&E claims is subject to a high degree of uncertainty and final ultimate loss and LAE could exceed the coverage available under our reinsurance arrangements or our net loss and LAE reserves. Policyholders continue to assert new theories of recovery. From time to time, there is proposed state and federal legislation regarding A&E liability, which would also affect our exposure. Although we expect the number of our A&E related claims to decrease over time, there is no assurance that these or other factors may not impact our liability or increase our claims. If we do not have adequate reinsurance protection and if we have not established adequate loss and LAE reserves to cover future claims, our results of operations and financial condition could be materially adversely affected.

Unpredictable catastrophic events could adversely affect our results of operations and financial condition.

We write insurance policies that cover catastrophic events. Our policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, explosions and severe winter weather. Recent event frequency, particularly severe storms, has been high relative to historic standards. Our exposure to hurricanes and earthquakes is the largest natural catastrophe risk to our business. Exposure to damage resulting from a hurricane in the northeastern United States has historically been and remains the largest natural catastrophe exposure for us. We also have exposure to windstorm damage in the United States Atlantic Coast (i.e., Massachusetts to Florida) and the United States Gulf Coast region (i.e., Florida to Texas), as well as a major earthquake in California. In addition, we are exposed to losses from terrorist attacks, such as the attacks on the United States on September 11, 2001.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Increases in the value and concentrations of insured property or insured employees, the effects of inflation, and changes in cyclical weather patterns may increase the frequency and severity of claims from catastrophic events in the future. Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year and adversely affect our financial condition. Our ability to write new insurance policies could also be impacted as a result of corresponding reductions in our surplus levels.

We seek to manage our exposure to catastrophic losses by tracking our aggregate exposure in high hazard zones, underwriting and pricing our policies to reflect the costs of concentrations, by estimating our PML for many different

catastrophe scenarios and by buying reinsurance. To manage and analyze aggregate insured values and PML, we use a variety of tools, including catastrophe modeling software packages. Our estimates of PML are dependent on many variables, including assumptions about the demand surge and storm surge, loss adjustment expenses, insurance-to-value and storm intensity in the aftermath of weather-related catastrophes utilized to model the event and the relationship of the actual event to the modeled event. Accordingly, if our assumptions about these variables are incorrect, the losses we might incur from an actual catastrophe

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could be materially higher than our expectation of losses generated from modeled catastrophe scenarios, and our results of operations and financial condition could be materially adversely affected.

Future insurance and reinsurance coverage for terrorist acts is uncertain, and we may in the future have substantial exposure to such acts.

We are unable to predict the extent to which our future insurance contracts will cover terrorist acts. We also are unsure how terrorist acts will be defined in our future contracts. The Terrorism Act, which has been modified and extended through the end of 2014, requires primary commercial insurers to make terrorism coverage available and provides Federal protection for certain losses above both individual company retention and industry retention levels. While we know of no reason that the Terrorism Act will not be extended for an additional period of time, there is no assurance that it will be extended or of the terms of any such extension. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverages except directors and officers coverage. We manage our exposure to losses resulting from acts of terrorism by limiting our concentration of risk by geographic area. We estimate our PML for different scenarios using computer models in conjunction with other data. We also manage our terrorism exposures by purchasing reinsurance. Our current property and casualty catastrophe reinsurance programs provide coverage for us for "non-certified" events as defined under the Terrorism Act, provided such losses are not the result of a nuclear, biological, chemical or radiological terrorist attack. Nonetheless, risks insured by us, including those covered by the Terrorism Act, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material to our results of operations and financial condition.

Our investment portfolio may suffer reduced returns or losses which could adversely affect our results of operations and financial condition. Adverse changes in interest rates, equity markets, debt markets or market volatility could result in significant losses to the fair value of our investment portfolio.

Our investment portfolio consists of fixed maturity securities, convertible fixed maturity securities, short-term investments, common equity securities and other investments such as hedge funds and private equity funds. We invest to maximize after tax total risk-adjusted return over the long term subject to our investment guidelines and various regulatory restrictions. However, investing entails substantial risks. We cannot assure you that we will achieve our investment objectives, and our investment performance may vary substantially over time. Investment returns are an important part of our strategy to grow book value, and fluctuations in the fixed income or equity markets could impair our results of operations and financial condition. Investments generate both income, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities, and realized and unrealized investment gains or losses.

Both the investment income we generate and the fair market value of our investment portfolio are affected by general economic and market conditions, including fluctuations in interest rates, debt market levels, equity market levels and market volatility. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we attempt to manage the risks of changes in interest rates, we may not be able to do so. In particular, a significant increase in interest rates could result in significant losses in the fair value of our investment portfolio, and consequently, could have an adverse effect on our results of operations and financial condition. We are exposed to changes in equity markets. We are also exposed to changes in the volatility levels of various investment markets. The underlying conditions are outside of our control and could adversely affect the value of our investments and our results of operations and financial condition.

We are highly dependent on WM Advisors, which is owned by White Mountains, and Prospector, in connection with the management of our investment portfolio. WM Advisors supervises and directs the fixed income and other investments portion of our investment portfolio, and Prospector is the primary supervisor and director of the publicly-traded common equity securities and convertible fixed maturity securities portion of our investment portfolio. We entered into a new investment management agreement with WM Advisors effective October 1, 2010 which replaced the November 2006 agreement and remains in full force and effect until terminated by either party upon sixty (60) days' prior written notice. We entered into a new investment management agreement with Prospector effective March 1, 2011 which replaced the 2006 agreement with substantially the same terms and conditions as the 2006

agreement, including an initial fixed term of three years which may be extended for an additional two year term. If we lose our investment relationship with either of WM Advisors or Prospector, we may not be able to secure an investment advisor or advisors who will produce returns on our investments similar to these produced by WM Advisors and Prospector in the past, or any positive returns at all.

The property and casualty insurance industry is highly competitive and cyclical, and we may not be able to compete effectively in the future.

The property and casualty insurance industry is highly competitive and has historically been cyclical, experiencing periods of severe price competition and less selective underwriting standards (soft markets) followed by periods of relatively

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high prices and more selective underwriting standards (hard markets). Our businesses each compete against a different subset of companies. In general terms, we compete in one or more of our businesses with most of the large multi-line insurance companies, such as ACE, AIG, Chubb Group, CNA, Liberty Mutual, Travelers and Zurich Insurance Group. We also compete with most of the specialty companies, such as Allied World Assurance Company, HCC Insurance Holdings, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. Lastly, we compete in certain of our businesses with various local and regional insurance companies. Many of our competitors have greater resources than we do and have established long-term and continuing business relationships throughout the insurance industry, which can be a significant competitive advantage for them.

We offer our products through a network of independent agents, regional and national brokers, wholesalers and MGAs. We selectively appoint our distribution partners based upon their knowledge of our target markets, and our specialized capabilities as well as their geographic profiles. We sometimes pay higher commissions and incur higher expenses to align with these distribution partners, however, we believe that they add value to our business with their specialized knowledge. These agents, brokers, MGAs and wholesalers are sometimes able to offer substantial discounts in pricing through their other markets as compared to our insurance products. If our distribution partners experience increased competition from other writers of insurance, we in turn could be adversely affected if they are unable to maintain our competitive position in their respective markets. If we are unable to maintain our competitive position throughout soft and hard market cycles, our results of operations and financial condition may be adversely affected.

The current pricing market is highly competitive and soft, however, we have maintained underwriting and pricing discipline. Any significant decrease in the rates we can charge for property and casualty insurance would adversely affect our results. We expect to continue to experience the effects of this cyclicality which, during down periods, could materially adversely affect our results of operations and financial condition.

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 as business counterparties and have become an increasingly important factor in establishing the competitive position of insurance 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.

Rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. Our current financial strength ratings for our operating subsidiaries which are not being transferred as part of the Runoff Transaction (“Ongoing Subsidiaries”) are “A” (Excellent, third highest of sixteen 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 nineteen ratings) by Fitch. For our Ongoing Subsidiaries, we 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 subsidiaries from writing new insurance policies or renewing existing insurance policies, which could have a material adverse effect on our results of operations and financial condition. See Risk Factors -- “Brokers, agents or policyholders may react negatively to the Runoff Transaction.”

General creditworthiness ratings are used by existing or potential investors to assess the likelihood of repayment on a particular debt issue. We believe that strong creditworthiness ratings are important factors that provide better financial flexibility when issuing new debt or restructuring existing debt. A downgrade, withdrawal or negative watch/outlook of our creditworthiness ratings could limit our ability to raise new debt or make new debt more costly and/or have more restrictive conditions. 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 Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch

negative; and Moody'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 ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook.

Our debt and related service obligations could adversely affect our business.

As of December 31, 2012, we had $275.0 million face value of indebtedness. See "Business—Investing, Financing and Corporate—2012 Senior Notes." Our ability to meet our debt and related service obligations, as well as our ability to pay a dividend on our common shares, will depend on our future performance, which will be affected by financial, business,

economic, regulatory and other factors, many of which are beyond our control. If the Company or OBH defaults under a separate credit agreement, mortgage, or similar debt agreement with a principal amount greater than $75 million, and such default results in the acceleration of such debt, there is a default under the 2012 Senior Notes which would permit the holders of 25% or more of the 2012 Senior Notes to declare an event of default under the indenture documents resulting in a required repayment of the 2012 Senior Notes. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt and meet our other obligations, or to repay any accelerated indebtedness as a result of the trigger of the cross acceleration provisions in the indentures of the 2012 Senior Notes. If we do not have enough cash, we may be required to refinance all or part of our existing debt, sell assets, borrow more cash or sell equity. We cannot make assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing".

We could incur additional indebtedness or issue preferred stock, or other hybrid instruments, in the future. To the extent new debt, preferred stock, hybrid instrument, or other obligations are added to our current debt levels, the risks described in the previous paragraph would increase.

We may not be able to successfully alleviate risk through reinsurance arrangements. Additionally, we may be unable to collect all amounts due from our reinsurers under our existing reinsurance arrangements.

We attempt to limit our risk of loss through reinsurance arrangements. The availability and cost of reinsurance protection is subject to market conditions, which are outside of our control. In addition, the coverage under our reinsurance contracts may be inadequate to cover our future liabilities. As a result, we may not be able to successfully alleviate risk through these arrangements, which could have a material adverse effect on our results of operations and financial condition.

We are not relieved of our obligations to our policyholders by purchasing reinsurance. We may be unable to recover amounts due under our reinsurance arrangements if our reinsurers choose to withhold payment due to a dispute or other factors beyond our control. We are also subject to credit risk with respect to our reinsurance in the event that a reinsurer is unable to pay amounts owed to us as a result of a deterioration in its financial condition. A number of reinsurers experienced such deterioration in the aftermath of the 2001 terrorist attacks and the active 2005 hurricane season. To mitigate this risk, we annually review and periodically monitor our reinsurers' financial condition and require at the time of purchase of reinsurance that each of our reinsurers holds a rating of at least "A-" (Excellent, the fourth highest of sixteen financial strength ratings) by A.M. Best or the equivalent. While we believe that our reinsurers' financial condition is strong, it is possible that one or more of our reinsurers will be significantly adversely affected by future significant loss or economic events, causing them to be unable to pay amounts owed to us.

Many of our reinsurers are non-U.S. companies and as such are subject to foreign regulations, including Solvency II which regulates insurance firms that operate in the European Union. Solvency II was enacted to reduce the risk that insurers would not be able to pay claims to policyholders as well as promote financial stability through minimum capital and other requirements for the governance, risk management and supervision of insurers. We cannot predict what regulations will be adopted to implement Solvency II nor the impact of such regulation upon our non-U.S. reinsurers, which could affect our ability to obtain reinsurance on terms acceptable to us, or at all.

We are a holding company with no direct operations, and our insurance subsidiaries' ability to pay dividends to us is restricted by law.

As a holding company with no direct operations, we rely on net investment income and dividends and other permitted payments from our subsidiaries to pay our expenses. Our subsidiaries may not be able to generate cash flow sufficient to pay a dividend or distribute funds to us. In addition, under the insurance laws of the jurisdictions in which our insurance subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without the prior approval of regulatory authorities. Generally, our regulated 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 statutory surplus, subject to the availability of unassigned funds. During the fourth quarter of 2012, we executed various intercompany reinsurance agreements which, along with other internal capital transactions among our insurance operating subsidiaries, resulted in Atlantic Specialty Insurance Company (ASIC) becoming the lead insurance company for the ongoing specialty

business and OBIC becoming the lead insurance company for the Runoff Business. Notwithstanding these restructuring transactions, we continue to manage our statutory capital on a combined basis. Although OBIC remains a top tier regulated insurance operating subsidiary and maintains sufficient statutory capital to support the Runoff Business, the majority of the group's statutory capital is now included in ASIC to support the ongoing specialty business. Since ASIC is a second tier, wholly-owned subsidiary of OBIC, OBIC's ability to pay dividends in 2013 may be dependent on receipt of dividends from ASIC. ASIC’s dividend capacity is impacted by a different formula than the calculation described above and will likely require prior approval by its regulatory authority, which operates in a different jurisdiction than OBIC. At December 31, 2012, ASIC had negative earned surplus and $0.7 billion of statutory surplus.

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At December 31, 2012, OBIC had approximately $0.7 billion of unassigned funds. At December 31, 2012, OneBeacon had approximately $272 million of net unrestricted cash, short-term investments and fixed maturity investments and approximately $33 million of common equity securities and convertible fixed maturity investments outside of its regulated insurance operating subsidiaries.
Management believes that our cash balances, cash flows from operations and cash flows from investments are adequate to meet expected cash requirements for the foreseeable future on both a holding company and operating subsidiary level. However, if our insurance subsidiaries cannot pay dividends in future periods, we may have difficulty servicing our debt, paying dividends on our common shares and meeting our holding company expenses. For additional information relating to insurance regulations governing our operations, see Business--"Regulatory Matters."
In addition, our current shareholder dividend practices are subject to change for reasons that may include decisions on whether, when and in which amounts to make any future distributions, which remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or suspend our dividend practices at any time and for any reason. Our common shareholders should be aware that they have no contractual or other legal right to dividends.
We may suffer losses from unfavorable outcomes from litigation and other legal proceedings.
In the ordinary course of business, we are subject to litigation and other legal proceedings as part of the claims process, the outcomes of which are uncertain. We maintain reserves for these legal proceedings as part of our loss and LAE reserves. We do not believe that the ultimate outcome of such matters will have a material adverse effect on our financial condition. However, adverse outcomes are possible and could negatively impact our financial condition. In addition, we also maintain separate reserves for legal proceedings that are not related to the claims process. In the event of an unfavorable outcome in one or more legal matters, our ultimate liability may be in excess of amounts we have currently reserved for and such additional amounts may be material to our results of operations and financial condition. Except as disclosed in "Legal Proceedings" and Note 16 to our financial statements, as of December 31, 2012, we had no material pending non-claims legal proceedings.
As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our results of operations and financial condition by either extending coverage beyond our underwriting intent or by increasing the number and size of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance contracts that are affected by the changes.
Our profitability may be adversely impacted by legislative actions and judicial decisions.
Legislative actions and judicial decisions continue to broaden liability and policy definitions and to increase the severity of claim payments, such as described above with respect to A&E claims. To the extent these legislative actions and judicial decisions cause claim costs to increase above reserves established for these claims, we will be required to increase our loss and LAE reserves with a corresponding reduction in our net income in the period in which the deficiency is identified.
Regulation may restrict our ability to operate.
The insurance industry is subject to extensive regulation under U.S. and state laws. Governmental agencies have broad administrative power to regulate many aspects of the insurance business, which include premium rates, marketing practices, advertising, policy forms and capital adequacy. These governmental agencies are concerned primarily with the protection of policyholders rather than shareholders. Insurance laws and regulations impose restrictions on the amount and type of investments, prescribe solvency standards that must be met and maintained and require the maintenance of reserves. Premium rate regulation may make it difficult for us to increase premiums to adequately reflect the cost of providing insurance coverage to our policyholders. In our underwriting, we rely heavily upon information gathered from third parties such as credit report agencies and other data aggregators. The use of this information is also highly regulated and any changes to the current regulatory structure could materially affect how we underwrite and price premiums.
Changes in federal or state laws and regulations may restrict our ability to operate and/or have an adverse effect upon the profitability of our business within a given jurisdiction, and could have an effect on our business, results of

operations and financial condition. For example, the Dodd-Frank Act, which was enacted in 2010, created the FIO within the Treasury Department. The FIO is responsible for gathering information and monitoring the insurance industry to identify gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or U.S. financial system. The FIO also has the authority to recommend changes to state insurance laws and regulations. Although the deadline was in January 2012, the FIO's "Study and Report on the Regulation of Insurance" in the United States has not yet been released. We cannot predict whether the FIO will recommend any such changes, whether any states will adopt any such changes, or what effect such changes may have on our insurance operations. As another example, it is possible that the NAIC could adopt part or all of Solvency II including minimum capital requirements that could be in excess of our current minimum capital requirements

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established by state regulations. If the NAIC adopted Solvency II including additional capital requirements, our business and results of operations could be materially impacted.

Mandated market mechanisms may require us to underwrite policies with a higher risk of loss, and assessments and other surcharges for guaranty funds and second-injury funds may reduce our profitability.

We are often required to participate directly or indirectly in mandatory shared market mechanisms as a condition of our licenses to do business in certain states. These markets, which are commonly referred to as "residual" or "involuntary" markets, generally consist of risks considered to be undesirable from a standard or routine underwriting perspective. Underwriting performance related to assigned risk plans, a form of mandated market mechanism, is typically adverse and, as a result, we are required to underwrite some policies with a higher risk of loss than we would normally accept. Our participation in assigned risk plans may result in greater liabilities than we anticipate and could materially adversely affect our results of operations and financial condition.

In addition, virtually all states require insurers licensed to do business in their state to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. These guaranty funds are funded by assessments that are expected to increase in the future as a result of recent insolvencies. Many states also have laws that established second-injury funds to provide compensation to injured employees for aggravation of a prior condition or injury which are funded by either assessments based on paid losses or premium surcharge mechanisms. The effect of these assessments and surcharges or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

We may need additional capital in the future, which may not be available to us or available to us on favorable terms. Raising additional capital could dilute your ownership in our company and may cause the market price of our common shares to fall.

We may need to raise additional funds through public or private debt or equity financings in order to:

- fund liquidity needs;
- replace capital lost in the event of a catastrophe or adverse reserve development or investment losses;
- repay $275.0 million aggregate principal amount of our 2012 Senior Notes;
- satisfy letter of credit or guarantee bond requirements that may be imposed by our clients or by regulators;
- acquire new businesses or invest in existing businesses;
- expand our business into new regions and countries; or
- otherwise respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute an existing shareholders' ownership percentage in our company and may decrease the market price of our common shares. Furthermore, the securities may have rights, preferences and privileges that are senior or otherwise superior to those of our common shares. Any additional financing we may need may not be available on terms favorable to us, or at all.

We depend on our key personnel to manage our business effectively and they may be difficult to replace.

Our performance substantially depends on the efforts and abilities of our management team and other executive officers and key employees, including our experienced teams of specialty underwriters. Furthermore, much of our competitive advantage is based on the expertise, experience and know-how of our key management personnel and underwriting teams. We do not have fixed term employment agreements with any of our key employees nor key man life insurance, and the loss of one or more of these key employees could adversely affect our business, results of operations and financial condition. Our success also depends on the ability to hire and retain additional key personnel including underwriting teams. Difficulty in hiring or retaining key personnel could adversely affect our results of operation and financial condition.

We may not be successful in developing our specialty businesses which could cause us to underestimate reserves, incur additional expenses, and fail to fully realize our investments in these businesses, which could materially affect our business and results of operations.

We have recently entered into new specialty business lines, including surety and programs lines. We intend to continue to look for appropriate opportunities to diversify our business portfolio by adding new specialty lines of insurance coverage. We also intend to continue to grow our existing specialty business lines. Due to our limited history in new business lines, there could be limited financial information available to us to help us estimate sufficient

loss reserves for these lines and to help

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evaluate whether we will be able to successfully develop these lines or estimate the likely ultimate losses and expenses associated with these lines. Also, we may have less experience than some of our competitors in managing certain of these business lines. We may also incur expenses related to these business lines that may be difficult to manage in addition to our existing expense structure. Accordingly, we may fail to fully realize the benefits and profits from some or all of our new specialty lines businesses relative to the resources that we invest in them. Also, these business lines may fail to perform at the levels we anticipate. Although we have a conservative approach to adding new businesses to our portfolio, including stringent management oversight of, among other areas, underwriting, product and pricing development, and financial performance, there is no assurance that we will be able to realize profitability from some or all of these new specialty businesses, which could materially adversely affect our results of operations and financial condition.

We may be unable to adequately maintain our systems and safeguard the security of our data which may adversely impact our ability to operate our business and cause reputational harm and financial loss.

Our business and operations rely on secure and efficient processing, storage and transmission of customer and company data, including personally identifiable information (PII) such as a name together with a social security number, bank account number, driver's license number, passport number, birthday or other identifying information. Our ability to effectively operate our business depends upon our ability and the ability of certain third parties including vendors and business partners to access our computer systems to perform necessary business functions such as providing quotes and product pricing, billing and processing premiums, administering claims, and reporting our financial results. Our business and operations also depend upon our ability to safeguard PII and other confidential and proprietary information belonging to us, our employees, our policyholders and our business partners as well as Tower's policyholders as a result of the TSA entered into in connection with the Personal Lines Transaction (as defined in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Significant Transactions"). Our systems may be vulnerable to unauthorized access and hackers, computer viruses, and other scenarios in which our data may be vulnerable to a breach. Specifically, we could be exposed to data breach risk from lost or stolen laptops, other portable media or prohibited disclosure containing PII. Data incidents could result in financial loss and reputational harm to us, which could affect our business and results of operations. Nearly every state has enacted data breach laws and regulations that require, among other things, notification to affected persons and state regulatory agencies of a data breach that involves PII. Some U.S. state and federal laws also require us to implement measures to safeguard PII. For example, new Massachusetts regulations require our employees to encrypt information stored on laptops and other portable devices and transmitted through electronic media, and take reasonable steps to verify that our third-party vendors utilize security procedures to protect PII.

Although we have taken measures to safeguard our information and that of policyholders and other third parties, we could be exposed to data loss. As a result, our ability to conduct our business may be affected, and impact our results of operations, financial condition and reputation.

Risks Relating to the Runoff Transaction

There is no certainty that the Runoff Transaction will close.

Consummation of the sale of the Company's Runoff Business pursuant to the Stock Purchase Agreement is subject to conditions, primarily 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 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 Moody'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 ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook.

The Runoff Subsidiaries have been underwriting specialty policies, and they will continue to do so on a limited basis 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 the Company believes that the Runoff Subsidiaries' financial strength is robust notwithstanding the Runoff Transaction, it has taken 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

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in continuing to underwrite the specialty business on an interim basis, which may have an adverse impact on the Company's results of operations or financial condition.

Risks Relating to Our Relationship with White Mountains

Control of us by White Mountains and the holding of White Mountains shares by some of our directors and officers may result in conflicts of interest.

White Mountains beneficially owns all of our Class B common shares, representing 96.8% of the voting power of our voting securities and 75.2% of our total equity as of December 31, 2012. As long as White Mountains owns our common shares representing more than 50% of the voting power of our outstanding voting securities, White Mountains will generally be able to determine the outcome of all corporate actions requiring shareholder approval, including the election of directors. Furthermore, we are relying on the "controlled company" exemption under the rules of the New York Stock Exchange, and are therefore not required to have a majority of independent directors on our Board. Of the ten directors that we have on our Board, six are current or former employees, directors or officers of White Mountains, and one is a portfolio manager at Prospector. White Mountains also has control over the adoption or amendment of provisions in our memorandum of association or bye-laws and the approval of amalgamations, mergers, and other significant corporate transactions. Furthermore, White Mountains will continue to be able to exercise this control as long as its economic equity ownership in us is at least 20%. These factors also may delay or prevent a change in the management or voting control of us.

Also, at some time in the future, White Mountains may sell all or a portion of its ownership interest in us or may make a tax-free distribution to its shareholders of all or a portion of that interest.

Questions relating to conflicts of interest may arise between us and White Mountains in a number of areas relating to our past and ongoing relationships. Certain of our directors and executive officers may own substantial amounts of White Mountains stock and may also be directors or officers of White Mountains from time to time. Their ownership of White Mountains stock and these other relationships could create, or appear to create, potential conflicts of interest when these individuals are faced with decisions that could have different implications for us and White Mountains. These potential conflicts could arise, for example, over matters such as the desirability of an acquisition opportunity, employee retention or recruiting, or our dividend policy.

White Mountains may compete with us and the involvement of those individuals who are directors and officers of White Mountains and directors of ours in resolving matters relating to such competition will not constitute a breach of fiduciary duty to us.

Our bye-laws provide that White Mountains will have no obligation to refrain from:

- engaging in the same or similar business activities or lines of business as we do; or
- doing business with any of our clients or customers.

Because White Mountains may currently or in the future engage in the same activities in which we engage, we may be in direct competition with White Mountains. While White Mountains has indicated to us that its current expectation is to manage its activities such that opportunities to acquire specialty businesses will be pursued through OneBeacon, White Mountains is not legally obligated to do so and could in the future manage its activities in a different way. Due to the resources of White Mountains, including financial resources, name recognition and knowledge of our strengths, weaknesses and business practices, White Mountains could have a competitive advantage over us should it decide to engage in the type of business we conduct, which may have a material adverse effect on our operations and financial condition. The corporate opportunity policy included in our bye-laws addresses potential conflicts of interest between us, on the one hand, and White Mountains and its officers and directors who are also our directors, on the other hand. These provisions are designed to resolve conflicts between us and White Mountains. Under our bye-laws, it is not a breach of fiduciary duty on the part of any of our officers and directors by reason of their participation in any of the above described activities.

Transitional and other arrangements with White Mountains may not be on arm's length terms.

In connection with the initial public offering, we entered into certain contractual arrangements with White Mountains and its affiliates. These agreements were made in the context of a parent-subsidiary relationship. For example, some of our investments are managed pursuant to an investment management agreement on a discretionary basis by a registered investment advisor which is owned by White Mountains. We have a multi-year investment management

contract with this advisor. While we are satisfied with the terms of such arrangement, we cannot confirm that such terms are as favorable to us as they might have been had we contracted with an independent advisor. On the other hand, after the expiration of this agreement, we may not be able to replace these investment services in a timely manner or on terms and conditions, including cost, that are comparable to those we receive from White Mountains, and we may have to pay higher prices for similar services from

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unaffiliated third parties. For more information on these and other arrangements with White Mountains, see Note 15—"Related Party Disclosures" of the accompanying consolidated financial statements.

Risks That Relate to Taxes

We may become subject to taxes in Bermuda after 2035.

We have received a standard assurance from the Bermuda Minister of Finance, under Bermuda's Exempted Undertakings Tax Protection Act 1966, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or to any of our operations or our shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 31, 2035. In the event that we become subject to any Bermuda tax after such date, it could have a material adverse effect on our results of operations and financial condition.

Changes in tax laws or tax treaties may cause more of the income of certain non-U.S. companies in our group to become subject to taxes in the United States.

The taxable income of our U.S. subsidiaries is subject to U.S. federal, state and local income tax and other taxes. The income of the non-U.S. companies in our group is generally not subject to tax in the United States other than withholding taxes on interest and dividends. Certain of our non-U.S. companies are eligible for the benefits of tax treaties between the United States and other countries. We believe our non-U.S. companies will continue to be eligible for treaty benefits. However, it is possible that factual changes or changes to U.S. tax laws or changes to tax treaties that presently apply to our non-U.S. companies could increase income, or the tax rate on income, subject to tax in the United States. Similarly, changes to the applicable tax laws, treaties or regulations of other countries could subject the income of members of our group to higher rates of tax outside the United States.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of the date of this report, we had no unresolved written comments from the Commission staff regarding our periodic or current reports under the Exchange Act.

ITEM 2. PROPERTIES

Our headquarters are located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. Our U.S. corporate headquarters are located at 601 Carlson Parkway, Minnetonka, Minnesota 55305 and our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. We also maintain branch offices in various cities throughout the United States. Our headquarters, U.S. corporate headquarters and our branch offices are leased. We also own a building in Canton, Massachusetts that houses certain limited corporate functions, as well as field and business operations personnel. In November 2011, we entered into a lease for most of our Canton building. The lease began in June 2012. We will retain a portion of the building to house certain limited corporate functions, as well as field and business operations personnel. Management considers our office facilities suitable and adequate for our current level of operations.

ITEM 3. LEGAL PROCEEDINGS

The Company from time to time is involved in various routine legal proceedings. We believe that the outcome of these proceedings, even if determined adversely, would not have a material adverse effect on our business, financial condition and results of operations.

Deutsche Bank Litigation

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

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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”). Tribune emerged from bankruptcy in 2012, and 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 Company, 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 sought injunctive relief and unspecified damages. After court-ordered expedited discovery was completed, the claims for injunctive relief were resolved pursuant to a confidential agreement. The remaining claim against OBH is for damages only and is scheduled to be heard in April. After the claims against OBH for injunctive relief were resolved, Ace filed a Demand for Arbitration against five of the former Ace surety employees hired by OneBeacon, alleging breach of their duty of loyalty to Ace and misappropriation of Ace trade secrets. OneBeacon believes that Ace's damages claim against OBH and the claims against the individual employees are without merit and intends to vigorously defend both.

ITEM 4. MINE SAFETY DISCLOSURE

None.

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Class A common shares of OneBeacon are listed and traded on the New York Stock Exchange (Symbol: OB). Our Class A common shares began trading on November 9, 2006. Prior to such date, there was no established public trading market for our common shares. We also have Class B common shares that are not listed for trading, all of which are held by White Mountains. There is no public market for this class of securities. The closing price per share of the Class A common shares on the New York Stock Exchange on February 25, 2013 was $13.27. As of February 25, 2013, the 23,631,441 outstanding Class A common shares were held by 54 holders of record. During 2012, we paid a quarterly dividend of $0.21 per common share, or $80.1 million total. On February 27, 2013, the Board declared an ordinary dividend of $0.21 per common share, payable on March 29, 2013 to shareholders of record on March 15, 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Dividend Capacity" and Note 11—"Statutory Capital and Surplus" in the accompanying consolidated financial statements.

The following table presents the range of share prices for our Class A common shares for the periods indicated, and the quarterly dividends declared per share:

	Three months ended,			
	March 31,	June 30,	September 30,	December 31,
2012				
Common share price:				
High	$16.46	$15.41	$13.64	$13.90
Low	$14.96	$12.73	$12.23	$12.78
Dividends declared	$0.21	$0.21	$0.21	$0.21
2011				
Common share price:				
High	$15.43	$15.00	$14.15	$15.91
Low	$12.80	$12.63	$12.37	$13.19
Dividends declared	$0.21	$1.21	$0.21	$0.21

We were acquired by White Mountains from Aviva in 2001. White Mountains is a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. During the fourth quarter of 2006, White Mountains sold 27.6 million or 27.6% of our Class A common shares in an initial public offering. Prior to the initial public offering, we were a wholly-owned subsidiary of White Mountains. As of December 31, 2012, White Mountains owned 75.2% of our common shares.

For information on securities authorized for issuance under our equity compensation plans, see "Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters."

Purchases of Equity Securities by the Issuer

On August 22, 2007, the Board authorized us to repurchase up to $200.0 million of our Class A common shares from time to time, subject to market conditions. Shares may be repurchased on the open market or through privately negotiated transactions. This program does not have a stated expiration date. During the years ended December 31, 2012 and 2011, no shares were repurchased. During the year ended December 31, 2010, 0.7 million of our Class A common shares under this program were repurchased for $10.5 million and retired. As of December 31, 2012, 5.6 million Class A common shares under this program were repurchased for $112.3 million and retired.

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Stock Performance Graph

The following chart compares the total return on a cumulative basis of $100 invested in our Class A common shares on December 31, 2007 to the Standard & Poor's 500 Stock Index and the Standard & Poor's Property and Casualty Insurance Index. The following chart includes reinvestment of dividends.

Comparison of Five Year Cumulative Total Return

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected consolidated financial information for the dates indicated. We have derived the selected consolidated financial information presented below as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 from our consolidated financial statements. Prior periods have been reclassified to conform to the current presentation.

	Year ended December 31,					
	2012	2011	2010	2009		2008
Summary Income Statement Data:	(in millions, except per share amounts)					
Net written premiums	$1,179.2	$1,062.7	$1,167.7	$1,366.1	946,100,000	$1,336.4
Revenues						
Earned premiums	$1,132.0	$1,012.2	$1,181.1	$1,385.1		$1,248.7
Net investment income	53.6	71.4	96.6	125.5		164.4
Net realized and change in unrealized investment gains (losses)	55.7	10.6	74.6	248.6		(763.6)
Net other revenues (expenses)	(0.5)	(12.4)	(0.6)	(0.1)		3.5
Total revenues	1,240.8	1,081.8	1,351.7	1,759.1		653.0
Expenses						
Loss and loss adjustment expenses	650.0	548.3	685.6	716.0		660.6
Policy acquisition and other underwriting expenses	454.6	383.5	448.2	498.4		431.7
General and administrative expenses	13.4	9.8	12.9	13.1		15.6
Interest expense	16.9	20.5	29.6	39.7		78.3
Total expenses	1,134.9	962.1	1,176.3	1,267.2		1,186.2
Pre-tax income (loss) from continuing operations	105.9	119.7	175.4	491.9		(533.2)
Income tax (expense) benefit	(8.4)	(14.8)	(25.1)	(125.1)		196.0
Net income (loss) from continuing operations	97.5	104.9	150.3	366.8		(337.2)
Loss (income) from discontinued operations, net of tax	(24.3)	(29.6)	(30.4)	(22.7)		(43.8)
Loss from sale of discontinued operations, net of tax	(91.0)	(19.2)	—	—		—
Net income (loss) including noncontrolling interests	(17.8)	56.1	119.9	344.1		(381.0)
Less: Net income attributable to noncontrolling interests	(1.4)	(1.0)	(1.6)	(2.1)		(1.7)
Net income (loss) attributable to OneBeacon's common shareholders	(19.2)	55.1	118.3	342.0		(382.7)
Change in other comprehensive income (loss) items	(2.9)	(11.2)	6.5	18.8		(25.5)
Comprehensive income (loss) attributable to OneBeacon's common shareholders	$(22.1)	$43.9	$124.8	$360.8		$(408.2)
Basic and diluted earnings (loss) per share attributable to OneBeacon's common shareholders:						
Net income (loss) from continuing operations per share	$1.00	$1.08	$1.57	$3.83		$(3.53)
Loss (income) from discontinued operations, net of tax, per share	(0.25)	(0.30)	(0.32)	(0.23)		(0.46)

Loss from sale of discontinued operations, net of tax, per share	(0.96)	(0.20)	—	—	—
Net income (loss) attributable to OneBeacon's common shareholders per share	$(0.21)	$0.58	$1.25	$3.60	$(3.99)
Weighted average number of common shares outstanding[(1)]	94.5	94.4	94.8	95.1	95.9

(1) Weighted average common shares outstanding includes the impact of unvested restricted shares as well as the impact of repurchases of Class A common shares made under the Company's share repurchase authorization.

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	Year ended December 31,									
	2012		2011		2010		2009		2008	
	(in millions)									
Underwriting Ratios:										
Consolidated Insurance Operations										
Loss and LAE ratio[(1)(2)]	57.4	%	54.2	%	58.0	%	51.7	%	52.9	%
Expense ratio[(1)(3)]	40.1		37.9		38.0		36.0		34.6	
Combined ratio[(1)(4)]	97.5	%	92.1	%	96.0	%	87.7	%	87.5	%
Specialty Products										
Loss and LAE ratio[(2)]	57.2	%	51.2	%	50.5	%	39.8	%	42.2	%
Expense ratio[(3)]	40.7		37.5		35.9		36.6		33.5	
Combined ratio[(4)]	97.9	%	88.7	%	86.4	%	76.4	%	75.7	%
Specialty Industries										
Loss and LAE ratio[(2)]	57.7	%	57.7	%	61.1	%	49.3	%	53.5	%
Expense ratio[(3)]	39.4		38.3		41.8		41.6		39.4	
Combined ratio[(4)]	97.1	%	96.0	%	102.9	%	90.9	%	92.9	%
Summary Balance Sheet Data:										
Total cash and investments	$2,335.4		$2,762.5		$3,299.6		$4,087.6		$3,864.5	
Total assets	5,401.5		5,821.6		6,166.7		7,532.0		7,940.8	
Loss and LAE reserves	1,000.0		3,358.6		3,295.5		3,934.8		4,294.0	
Unearned premiums	573.8		528.0		627.5		1,018.3		1,088.2	
Debt	274.7		269.7		419.6		620.5		731.9	
OneBeacon's common shareholders' equity	1,014.5		1,099.8		1,229.0		1,429.0		1,155.1	
OneBeacon's common shareholders' equity and noncontrolling interests	1,017.3		1,113.9		1,248.9		1,448.1		1,172.3	

(1) The consolidated loss and LAE, expense and combined ratios for the years ended December 31, 2010, 2009 and 2008 include the results from personal lines that were sold in 2010, which are included in the Investing, Financing and Corporate segment. See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions—Dispositions."

(2) The loss and LAE ratio is calculated by dividing loss and LAE by earned premiums.

(3) The expense ratio is calculated by dividing policy acquisition and other underwriting expenses by earned premiums.

(4) The combined ratio is the sum of the loss and LAE ratio and the expense ratio.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains "forward-looking statements." Statements that are not historical in nature are forward-looking statements. OneBeacon cannot promise that its expectations in such forward-looking statements will turn out to be correct. OneBeacon's actual results could be materially different from and worse than its expectations. See "Forward-Looking Statements" on page 77 for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.

Book Value Per Share

The following table presents our book value per share:

	December 31,		
	2012	2011	2010
	(in millions except per share amounts)		
Numerator			
OneBeacon's common shareholders' equity	$1,014.5	$1,099.8	$1,229.0
Denominator			
Common shares outstanding[1]	95.4	95.1	94.4
Book value per share	$10.63	$11.56	$13.02
Dividends paid per share	$0.84	$1.84	$3.34

(1) Common shares outstanding includes the impact of unvested restricted shares and also the impact of repurchases of Class A common shares made under the Company's share repurchase authorization.

Book Value Per Share—December 31, 2012 versus December 31, 2011

We ended the full year 2012 with a book value per share of $10.63, reflecting a decrease of 0.8%, including dividends (a quarterly dividend of $0.21 per share), on an internal rate of return basis for the year ended December 31, 2012. The change in book value per share includes a 4.4% total return on invested assets. The decrease in book value was driven by a $91.0 million estimated after tax loss from sale of discontinued operations and a $24.3 million loss from discontinued operations (including a $9.0 million after tax charge related to an adjustment to the discount rate applied to the workers compensation loss reserves being transferred as part of the Runoff Transaction). This negative impact to book value per share was partially offset by $97.5 million of net income from continuing operations and also a $13.6 million increase in capital, net of transaction costs, as a result of the sale of OneBeacon Holdings (Luxembourg) S.à r.l. (OB Lux) to a subsidiary of White Mountains Insurance Group, Ltd. (White Mountains). We reported comprehensive loss attributable to OneBeacon’s common shareholders of $22.1 million in the year ended December 31, 2012, compared to comprehensive income attributable to OneBeacon’s common shareholders of $43.9 million in the year ended December 31, 2011. The change in net income (loss) in the year ended December 31, 2012 compared to the prior year was primarily due to charges associated with the Runoff Transaction and $28.2 million of after tax ($43.4 million pre-tax) catastrophe losses and reinstatement premiums resulting from the impact of hurricane Sandy, which made landfall in the mid-Atlantic and northeastern regions of the United States in October 2012.

Our combined ratio was 97.5% for the year ended December 31, 2012, compared to 92.1% for the year ended December 31, 2011. The increase in the combined ratio for the year ended December 31, 2012 was primarily due to the impact of hurricane Sandy in the year ended December 31, 2012. Favorable loss reserve development for our consolidated insurance operations was $7.4 million, or 0.7 points, in 2012 compared to $29.8 million, or 2.9 points, for the prior year. The favorable reserve development for the year ended December 31, 2012 was primarily in the workers' compensation, multiple peril liability and general liability lines. This favorable development was offset somewhat by adverse development on a few excess property claims. Catastrophe losses were $47.7 million, or 4.2 points, for the year ended December 31, 2012, due primarily to the impact of hurricane Sandy. The year ended December 31, 2011 included $36.7 million, or 3.6 points, of catastrophe losses primarily related to hurricane Irene, tornados in the southeastern and midwestern United States as well as storms and freezing weather in the northeastern

and southwestern United States. Total net written premiums increased 11.0% in the year ended December 31, 2012 to $1,179.2 million, compared to $1,062.7 million for the prior year, due to the growth from both our Specialty Products

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and Specialty Industries segments. The expense ratio increased 2.2 points, primarily due to our investment in new businesses and costs associated with actions taken to migrate certain corporate functions to Minnesota in the year ended December 31, 2012.

Book Value Per Share—December 31, 2011 versus December 31, 2010

We ended the full year 2011 with a book value per share of $11.56, reflecting an increase of 3.1%, including dividends (a quarterly dividend of $0.21 per share and a special dividend of $1.00 per share paid in June 2011), on an internal rate of return basis, for the year ended December 31, 2011. The increase includes a 3.0% total return on invested assets for the year ended December 31, 2011. Results for the year ended December 31, 2011 were adversely impacted by investment results in the pension plan, the debt tender completed in April, the shares of restricted stock granted in May, as well as the estimated loss on sale of AutoOne. Results for AutoOne and the estimated loss on sale are reported as discontinued operations. We reported comprehensive income attributable to OneBeacon's common shareholders of $43.9 million in the year ended December 31, 2011, compared to $124.8 million in the year ended December 31, 2010. Our 2011 results include a $19.2 million after tax ($29.6 million pre-tax) estimated loss on the sale of AutoOne, as well as a $7.8 million after tax ($12.0 million pre-tax) loss related to the purchase of a portion of the 2003 Senior Notes. Change in other comprehensive income and loss items in the year ended December 31, 2011 includes the impact of an $11.2 million after tax decrease in our pension plans primarily related to a decrease in the over-funded status of our qualified pension plan driven by a decline in value of the investment assets in the plan.

Our combined ratio for the year ended December 31, 2011 decreased to 92.1% from 96.0% for the year ended December 31, 2010. The loss and LAE ratio decreased by 3.8 points to 54.2% while the expense ratio decreased by 0.1 points to 37.9%. The decrease in the loss and LAE ratio was primarily due to a decrease in current accident year non-catastrophe losses. We experienced a number of large losses in our property and inland marine business within Specialty Industries during the year ended December 31, 2010. The year ended December 31, 2011 included $29.8 million or 2.9 points of favorable loss reserve development, as compared to $36.0 million or 3.0 points of favorable loss reserve development in the year ended December 31, 2010. During the year ended December 31, 2011, the favorable loss reserve development in continuing operations was primarily related to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines. Catastrophe losses were 0.6 points higher than the prior year. The year ended December 31, 2011 included $36.7 million or 3.6 points of catastrophe losses, as compared to $35.1 million or 3.0 points of catastrophe losses in the year ended December 31, 2010. The slight decrease in the expense ratio reflects lower other underwriting expense.

Overview

We are an exempted Bermuda limited liability company. Our operating companies are U.S.-based property and casualty insurance writers, most of which operate in a multi-company pool. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus rather than just on its own capital and surplus. Under such arrangements, the members share substantially all insurance business that is written, and allocate the combined premiums, losses and expenses. During the fourth quarter of 2012, we restructured our internal pooling arrangement as part of the Runoff Transaction, as further described below. The internal pool restructuring did not have an effect on our consolidated results. We provide a wide range of specialty insurance products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies. In the year ended December 31, 2012, our net written premiums totaled $1.2 billion and we had total assets of approximately $5.4 billion and total OneBeacon's common shareholders' equity of $1.0 billion at December 31, 2012.

Our Segments

Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate.

The Specialty Products segment is comprised of seven underwriting operating segments representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. The Specialty Industries segment is comprised of six underwriting operating segments representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Investing, Financing and Corporate segment includes the investing and financing activities for OneBeacon on a consolidated basis, and certain other activities conducted through the Company and our intermediate subsidiaries, as

well as operations associated with personal lines business that we sold in 2010 (see Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview").

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Previously, we reported our insurance operations through a Specialty Insurance Operations segment and an Other Insurance Operations segment. The former Specialty Insurance Operations segment was comprised of twelve underwriting operating segments that were aggregated into a single reportable segment, with supplemental disclosures of three major underwriting units for financial reporting: MGA Business, Specialty Industries and Specialty Products. The former Other Insurance Operations segment consisted of substantially all operations classified as discontinued operations as of December 31, 2012, including AutoOne, other run-off business, and certain purchase accounting adjustments relating to the run-off business and the OneBeacon Acquisition. Prior periods have been reclassified to conform to the current presentation.

Significant Transactions

See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions—Dispositions" below.

Historically, we have offered a range of specialty, commercial and personal products and services, however, as a result of recent transactions we are now focused exclusively on specialty business. In addition, the transactions freed up significant capital, increased our financial flexibility and reduced our catastrophe exposure.

Runoff Business. On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC, entered into a definitive agreement (the Stock Purchase Agreement) with Trebuchet US Holdings, Inc. (Trebuchet), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, Armour), to sell its run-off business. OneBeacon's run-off business includes the results of OneBeacon's remaining non-specialty commercial lines business and certain other run-off business, including the vast majority of asbestos and environmental reserves, as well as certain purchase accounting adjustments related to the OneBeacon Acquisition (the Runoff Business, the sale of which is referred to as the Runoff Transaction). During 2012, OneBeacon recorded a $91.5 million after tax estimated loss on sale of the Runoff Business and $24.0 million in after tax losses from discontinued operations, which included $9.0 million of after tax incurred loss and loss adjustment expenses relating to an adjustment to the workers compensation discount rate applied to the loss reserves being transferred, as well as $6.5 million of after tax underwriting losses primarily related to adverse prior year loss reserve development related to a legacy assumed reinsurance treaty.

AutoOne. On August 30, 2011, we entered into the AutoOne Purchase Agreement to sell AutoOne to Interboro. AutoOne offers products and services to assigned risk markets primarily in New York and New Jersey. AutoOne has been presented as discontinued operations in the statements of operations with the prior periods reclassified to conform to the current presentation. Pursuant to the terms of the AutoOne Purchase Agreement, at closing OneBeacon transferred to Interboro all of the issued and outstanding shares of common stock of AutoOne Insurance Company (AOIC) and AutoOne Select Insurance Company (AOSIC), through which substantially all of the AutoOne business is written on a direct basis. At closing, OneBeacon transferred the assets, liabilities (including loss reserves and unearned premiums) and capital of the business as well as substantially all of the AutoOne infrastructure including systems and office space as well as certain staff. The AutoOne Transaction included the execution of a reinsurance agreement with certain subsidiaries of the Company pursuant to which we cede, on a 100% quota share basis, AutoOne business not directly written by AOIC and AOSIC. The AutoOne Transaction, which was subject to regulatory approvals, closed in 2012 and we recorded post-closing adjustments, which resulted in recording an after tax net charge of $0.3 million relating to underwriting activity and an after tax net gain of $0.5 million to true up the estimated loss on sale. During the year ended December 31, 2011, we recorded an after tax net charge of approximately $19.2 million reflecting the estimated loss on sale of the AutoOne business.

Personal lines. On July 1, 2010, we completed the sale of our traditional personal lines business (the Personal Lines Transaction) to Tower Group, Inc. (Tower). The Personal Lines Transaction included two insurance companies through which the majority of the traditional personal lines business was written on a direct basis, two attorneys-in-fact managing the reciprocals that wrote the traditional personal lines business in New York and New Jersey, the surplus notes issued by the New York and New Jersey reciprocals and the remaining renewal rights to certain other traditional personal lines insurance policies. In addition, the Personal Lines Transaction included the execution of reinsurance agreements with certain subsidiaries of the Company pursuant to which we cede, on a 100% quota share basis, traditional personal lines business not directly written by companies included in the sale and

assume, on a 100% quota share basis, certain specialty lines business written directly by York Insurance Company of Maine (York). OneBeacon and Tower also entered into a TSA, pursuant to which we provide certain services to Tower during the three-year term of the TSA. Tower reimburses us for all of our expenses incurred to provide these services. Reimbursement for these services is netted against the expense incurred.

As consideration, based upon the carrying value of the traditional personal lines business as of July 1, 2010, we received $166.6 million. The consideration represented the statutory surplus in the reciprocals (as consideration for surplus notes issued by the reciprocals), the combined GAAP equity in the insurance companies and attorneys-in-fact being sold, plus $32.5 million. During the year ended December 31, 2010, we recorded a total after tax net gain on the sale of $24.6 million that is comprised of $8.5 million included in net other revenues and $16.1 million included in the tax provision. During the second quarter of

2011, OneBeacon and Tower reached agreement on post-closing adjustments resulting in no material change to the $24.6 million after tax net gain on sale that OneBeacon had recorded during 2010.

Revenues

Premiums written are recognized as revenues and are earned ratably over the term of the related policy. Unearned premiums represent the portion of premiums written that are applicable to future insurance coverage provided by policies.

Deferred Acquisition Costs

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs that are directly attributable to and vary with the production of business. These costs are deferred and amortized over the applicable premium recognition period. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. This limitation is referred to as a premium deficiency. A premium deficiency is recognized if the sum of expected loss and LAE, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums and anticipated investment income. A premium deficiency is recognized by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. On January 1, 2012, we adopted Accounting Standards Update (ASU) 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, codified within ASC 944. ASU 2010-26 is effective for interim periods and annual fiscal years beginning after December 15, 2011. We have elected to adopt ASU 2010-26 on a prospective basis. 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. See Note 1—"Nature of Operations and Summary of Significant Accounting Policies" of the accompanying consolidated financial statements.

Loss and Loss Adjustment Expenses

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

Reinsurance

Our insurance subsidiaries enter into ceded reinsurance contracts from time to time to protect their businesses from losses due to concentration of risk and to limit losses arising from catastrophic events. The majority of such reinsurance contracts are executed through excess-of-loss treaties and catastrophe contracts under which a third-party reinsurer indemnifies our insurance subsidiaries for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. We also have entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are ceded to third-party reinsurers on a pro rata basis. The amount of each risk ceded by us is subject to maximum limits that vary by line of business and type of coverage. Amounts related to reinsurance contracts are recorded in our consolidated financial statements in accordance with ASC 944, as applicable.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Our ability to collect our reinsurance recoverables is subject to the solvency of the reinsurers with whom we have entered into reinsurance contracts. We are selective in regard to our reinsurers, principally placing reinsurance with those reinsurers with strong financial condition, reputation, industry ratings and underwriting ability. Management monitors the financial condition and ratings of our reinsurers on an ongoing basis.

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy

acquisition costs.
Share-Based Compensation
Compensation Philosophy
Our executive compensation policies are designed with one goal in mind, namely, the maximization of shareholder value over long periods of time. We believe that this goal is best pursued by utilizing a pay-for-performance program that serves to

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attract and retain superior executive talent and provide management with performance-based incentives to maximize shareholder value. Through this compensation program, we seek to maximize shareholder value by aligning closely the financial interests of management with those of our shareholders.

Compensation of our senior management team, including our named executive officers, consists primarily of three components: base salary, annual bonus and long-term incentive awards. Base salaries have been capped at $500,000. Annual bonus targets for all senior executives are 50%, with the exception of the Chief Executive Officer at 75%, of base salary. Long-term incentives for senior executives have in the past been comprised of performance shares and/or performance units. Under these instruments, payouts are explicitly tied to OneBeacon's performance over a three-year period and are highly variable (the actual number of shares/units paid out at the end of the cycle will range from 0% to 200% of target depending on performance against established goals). See Note 9—"Employee Share-Based Incentive Compensation Plans" of the accompanying consolidated financial statements. Additionally, in recognition that the 2007-2009 and 2008-2010 performance share cycles, as described below, were projected to payout at or close to zero, creating a significant retention risk over the next years the OneBeacon Compensation Committee of the Board (the Compensation Committee) in February 2009 approved cash retention awards for the executive officers and certain members of senior management. The Compensation Committee also approved a pool of money for senior management to make retention awards to certain other key personnel.

Share-Based Compensation Recognition

Our share-based compensation plans consist of performance shares which are typically settled in cash, stock options which were granted in connection with our initial public offering, restricted stock units and restricted shares. We account for these share-based compensation plans in accordance with ASC 718. Compensation cost is measured and recognized based on the current market price of the underlying common shares and on the number of shares that are expected to vest.

Share-Based Compensation Plans

Performance Shares

In February 2007, the Compensation Committee approved the principal performance share goal of the OneBeacon Long-Term Incentive Plan to be growth in its intrinsic business value per share (GIBVPS), which was defined by the Compensation Committee with respect to each award cycle.

2008-2010 Performance Share Plan. In February 2008, the Compensation Committee defined GIBVPS for the 2008-2010 performance cycle to be a weighted measure comprised of growth in adjusted book value per share and underwriting return on equity. In the 2008-2010 performance cycle, a total of 929,849 performance shares were earned based upon a performance factor of 68.5%.

2009-2011 Performance Share Plan. In February 2009, the Compensation Committee defined GIBVPS for the 2009-2011 performance cycle to be a weighted measure comprised of growth in adjusted book value per share and underwriting return on equity. In the 2009-2011 performance cycle, a total of 256,751 performance shares were earned based upon a performance factor of 138.6%.

2010-2012 Performance Share Plan. In February 2010, the Compensation Committee granted performance shares with a goal of growth in book value per share for the 2010-2012 performance cycle. As of December 31, 2012, 238,658 performance shares were outstanding with respect to the 2010-2012 performance cycle.

2011-2013 Performance Share Plan. In February 2011, the Compensation Committee granted performance shares with a goal of growth in book value per share for the 2011-2013 performance cycle. As of December 31, 2012, 151,563 performance shares were outstanding with respect to the 2011-2013 performance cycle.

2012-2014 Performance Share Plan. In February 2012, the Compensation Committee granted performance shares with a goal of growth in book value per share for the 2012-2014 performance cycle. As of December 31, 2012, 181,290 performance shares were outstanding with respect to the 2012-2014 performance cycle.

As a result of the sale of the renewal rights to our non-specialty commercial lines business in 2009 (the Commercial Lines Transaction) and the Personal Lines Transaction, payments were made in the year ended December 31, 2010 to certain former employees of OneBeacon prior to the end of the performance cycle on a pro rata basis. Performance shares earned and paid for the 2008-2010, 2009-2011 and 2010-2012 performance cycles were based upon a performance factor of 100%.

Restricted Stock Units

In connection with OneBeacon's initial public offering, options were issued to certain key employees as a one-time incentive. The options did not include a mechanism to reflect the contribution to total return from the regular quarterly

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dividend. As a result, in February 2008, the Compensation Committee approved a grant of restricted stock units as a supplement to the initial public offering stock grant. The RSUs were scheduled to vest one-third on each of November 9, 2009, 2010 and 2011 subject to growth in adjusted book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date. All three tranches of RSUs vested and were mandatorily deferred into our deferred compensation plan and distributed in May 2012.

Restricted Shares

On March 1, 2012, OneBeacon issued 300,000 shares of restricted stock to certain employees that vest in equal installments on February 28, 2014 and 2015. On May 25, 2011, OneBeacon issued 630,000 shares of restricted stock to its CEO that vest in equal installments on February 22, 2014, 2015, 2016 and 2017. Concurrently with the 2011 grant of restricted stock, 35,000 performance shares issued to the CEO for the 2011-2013 performance share cycle were forfeited. Performance share awards to the CEO for each of the next five years are being reduced by 35,000 shares. The restricted shares contain dividend participation features, and therefore, are considered participating securities. At December 31, 2012 and 2011, the Company had unvested restricted shares outstanding of 927,000 and 630,000, respectively.

Income taxes

The income tax expense related to pre-tax income from continuing operations for the years ended December 31, 2012, 2011 and 2010 represented net effective tax rates of 7.9%, 12.4% and 14.3%, respectively. Our effective tax rate for the years ended December 31, 2012 and 2011 were lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States, principally representing interest income taxed in a jurisdiction with a lower effective tax rate. Our effective tax rate for the year ended December 31, 2010 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States, principally representing interest income taxed in a jurisdiction with a lower effective tax rate, and recognition of a deferred tax asset for a higher tax basis and deconsolidation of the companies sold as part of the Personal Lines Transaction, partially offset by an increase in the valuation allowance for insurance reciprocals. For the years ended December 31, 2012, 2011 and 2010, the effective tax rate on non-U.S. income was 0.6%, 0.3% and 0.5%, respectively, and the effective rate on U.S. income was 26.1%, 31.6% and 25.2%, respectively.

Significant Transactions

Debt Issuance and Refinancing

In November 2012, OneBeacon U.S. Holdings, Inc. issued $275.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.9% (2012 Senior Notes), which bear an annual interest rate of 4.60%. The net proceeds from the issuance of the 2012 Senior Notes were used to repurchase the outstanding balance on OBH's senior unsecured debt issued in May 2003, which had an annual interest rate of 5.875%. OneBeacon Insurance Group, Ltd provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the 2012 Senior Notes. See Note 6—"Debt" of the accompanying consolidated financial statements. In conjunction with the repurchase of the 2003 Senior Notes, we recognized a loss of $6.3 million.

Dispositions

Effective January 1, 2013, OneBeacon completed the sale of Essentia Insurance Company (Essentia), an indirect wholly-owned subsidiary which wrote the collector car and boat business, to Markel Corporation. Concurrently therewith, OneBeacon and Hagerty Insurance Agency (Hagerty) terminated their underwriting arrangement with respect to the collector car and boat business. OneBeacon anticipates recognizing a pre-tax gain on sale of approximately $23.0 million ($15.0 million after tax) in the first quarter of 2013. The business associated with this agreement generated net written premiums of approximately $179.7 million, or 15.2% of consolidated written premiums, for the year ended December 31, 2012.

On October 17, 2012, we entered into the Stock Purchase Agreement with respect to the sale of our Runoff Business to Armour. Pursuant to the terms of the Stock Purchase Agreement, at closing, OneBeacon will transfer to Armour 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 Runoff Transaction is expected to close in the

second half of 2013. During 2012, we recorded a $91.5 million after tax estimated loss on sale of the Runoff Business and $24.0 million in after tax losses from discontinued operations, which included $9.0 million of after tax incurred loss and loss adjustment expenses relating to an adjustment to the workers compensation discount rate applied to the loss reserves being transferred, as well as $6.5 million of after tax underwriting losses primarily related to adverse prior year loss reserve development related to a legacy assumed reinsurance treaty.

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The assets and liabilities associated with the Runoff Business as of December 31, 2012 have been presented in the balance sheet as held for sale assuming the investing and financing steps required to effect the sale were completed as of the current balance sheet date. The prior year balance sheet has not been reclassified to conform to the current period's presentation. The Runoff Business has been presented as discontinued operations in the consolidated statements of operations and cash flows, with the prior periods reclassified to conform to the current period's presentation. The Runoff Business disposal group excludes investing and financing activities from amounts classified as discontinued operations. OneBeacon's investing and financing operations are conducted on an overall consolidated level and, accordingly, there are no separately identifiable investing or financing cash flows associated with the Runoff Business. Pursuant to the terms of the Stock Purchase Agreement, the legal entities included in the sale and expected to be transferred to Armour will hold an agreed upon level of invested assets and capital at closing. See Note 2—"Acquisitions and Dispositions" of the accompanying consolidated financial statements.

In anticipation of the Runoff Transaction, and as means to separate the Runoff Business from the ongoing specialty business, we sought and received various regulatory approvals to terminate, incept or amend various intercompany reinsurance agreements which took effect on October 1, 2012.

The Runoff Transaction is subject to various closing conditions, primarily the receipt of regulatory approvals. At closing, Armour and/or OneBeacon Insurance Company (OBIC) and certain legal entities within the ongoing OneBeacon structure will enter into various ancillary agreements, including the amendment of existing reinsurance agreements and administrative services agreements, to support the separation of the Runoff Business and subsequent transfer to Armour. Also as part of the Runoff Transaction, at closing, OneBeacon and Armour will enter into a Transition Services Agreement (TSA), pursuant to which OneBeacon will provide certain transition services to Armour during the term of the TSA, which has an initial term of one year. OneBeacon has concluded that continuing involvement after the closing of the transaction is insignificant relative to the business being sold.

On February 22, 2012, OneBeacon completed the sale of its AutoOne Insurance business (AutoOne) to Interboro Holdings, Inc. (Interboro) (the AutoOne Transaction). AutoOne had offered products and services to assigned risk markets primarily in New York and New Jersey. AutoOne has been presented as discontinued operations in the statements of operations and cash flows with the prior periods reclassified to conform to the current presentation. The AutoOne disposal group excludes investing and financing activities from amounts classified as discontinued operations. OneBeacon's investing and financing operations are conducted on an overall consolidated level and, accordingly, there are no separately identifiable investing or financing cash flows associated with AutoOne. Pursuant to the terms of the AutoOne Transaction, at closing, the legal entities included in the sale held an agreed upon level of invested assets and capital. 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 assuming the investing and financing steps required to effect the sale were completed as of December 31, 2011.

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Results of Operations

Review of Consolidated Results

Certain amounts in the prior period consolidated results have been reclassified to conform to the current presentation.

A summary of our consolidated financial results for the years ended December 31, 2012, 2011 and 2010, is as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Net written premiums	$1,179.2	$1,062.7	$1,167.7
Revenues			
Earned premiums	$1,132.0	$1,012.2	$1,181.1
Net investment income	53.6	71.4	96.6
Net realized and change in unrealized investment gains	55.7	10.6	74.6
Net other revenues (expenses)	(0.5)	(12.4)	(0.6)
Total revenues	1,240.8	1,081.8	1,351.7
Expenses			
Loss and loss adjustment expense	650.0	548.3	685.6
Policy acquisition expenses	249.4	221.2	