

OneBeacon Insurance Group, Ltd.  
Form 10-Q  
May 02, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

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

Commission file number 1-33128

ONEBEACON INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda 98-0503315

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

605 North Highway 169 55441  
Plymouth, Minnesota (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (952) 852-2431

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

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

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

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

As of April 28, 2016, 22,589,822 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.

ONEBEACON INSURANCE GROUP, LTD.

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ITEM 1. FINANCIAL STATEMENTSONEBEACON INSURANCE GROUP, LTD.  
CONSOLIDATED BALANCE SHEETS

| (\$ in millions, except per share amounts)   | March 31,<br>2016 | December 31,<br>2015 |
|--|-------------------|----------------------|
| Assets   |                   | (Unaudited)          |
| Investment Securities:   |                   |                      |
| Fixed maturity investments, at fair value (amortized cost: \$2,011.5 in 2016 and \$2,078.3 in 2015)  | \$ 2,028.7        | \$ 2,080.5           |
| Short-term investments, at amortized cost (which approximates fair value)  | 119.7             | 69.2                 |
| Common equity securities, at fair value (amortized cost - \$262.5 in 2016 and \$295.0 in 2015)   | 275.9             | 298.7                |
| Other investments, at fair value (amortized cost - \$132.6 in 2016 and \$135.6 in 2015)  | 137.8             | 143.0                |
| Total investment securities  | 2,562.1           | 2,591.4              |
| Cash   | 108.8             | 95.2                 |
| Reinsurance recoverables   | 167.0             | 193.5                |
| Premiums receivable  | 230.4             | 219.0                |
| Deferred acquisition costs   | 102.0             | 100.7                |
| Ceded unearned premiums  | 36.3              | 29.5                 |
| Net deferred tax asset   | 134.1             | 140.2                |
| Investment income accrued  | 9.4               | 10.1                 |
| Accounts receivable on unsettled investment sales  | 4.5               | 30.5                 |
| Other assets   | 174.4             | 192.5                |
| Total assets   | \$ 3,529.0        | \$ 3,602.6           |
| Liabilities  |                   |                      |
| Unpaid loss and loss adjustment expense reserves   | \$ 1,343.8        | \$ 1,389.8           |
| Unearned premiums  | 568.6             | 560.3                |
| Funds held under insurance contracts   | 134.9             | 137.7                |
| Debt   | 272.9             | 272.9                |
| Accounts payable on unsettled investment purchases   | 1.5               | —                    |
| Other liabilities  | 187.5             | 237.4                |
| Total liabilities  | 2,509.2           | 2,598.1              |
| OneBeacon's common shareholders' equity and noncontrolling interests   |                   |                      |
| OneBeacon's common shareholders' equity  |                   |                      |
| Preference shares (Par value \$0.01; 80,000,000 authorized shares; none issued or outstanding)   | —                 | —                    |
| Common shares and paid-in surplus (Class A: par value \$0.01; 200,000,000 authorized shares; 22,589,822 and 23,334,502 issued and outstanding)(Class B: par value \$0.01; 200,000,000 authorized shares; 71,754,738 issued and outstanding for both periods) | 1,011.1           | 1,022.0              |
| Retained earnings (deficit)  | 10.7              | (15.9 )              |
| Accumulated other comprehensive loss   | (5.2 )            | (5.2 )               |
| Total OneBeacon's common shareholders' equity  | 1,016.6           | 1,000.9              |
| Total noncontrolling interests   | 3.2               | 3.6                  |
| Total OneBeacon's common shareholders' equity and noncontrolling interests   | 1,019.8           | 1,004.5              |
| Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests  | \$ 3,529.0        | \$ 3,602.6           |

See Notes to Consolidated Financial Statements.

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ONEBEACON INSURANCE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(Unaudited)

| (\$ in millions, except per share amounts)   | Three months ended |         |
|--|--------------------|---------|
|  | March 31, 2016     | 2015    |
| Revenues   |                    |         |
| Earned premiums  | \$278.6            | \$286.6 |
| Net investment income  | 14.4               | 10.5    |
| Net realized and change in unrealized investment gains                               | 16.6               | 14.2    |
| Net other revenues (expenses)  | 0.9                | (3.1 )  |
| Total revenues   | 310.5              | 308.2   |
| Expenses   |                    |         |
| Loss and loss adjustment expenses  | 158.8              | 165.9   |
| Policy acquisition expenses  | 51.0               | 51.0    |
| Other underwriting expenses  | 55.3               | 55.9    |
| General and administrative expenses  | 3.9                | 4.1     |
| Interest expense   | 3.3                | 3.2     |
| Total expenses   | 272.3              | 280.1   |
| Pre-tax income from continuing operations  | 38.2               | 28.1    |
| Income tax benefit (expense)   | 8.7                | (3.4 )  |
| Net income from continuing operations  | 46.9               | 24.7    |
| Loss from discontinued operations, net of tax  | —                  | (0.1 )  |
| Net income, including noncontrolling interests                                       | 46.9               | 24.6    |
| Less: Net income attributable to noncontrolling interests                            | (0.5 )             | (0.5 )  |
| Net income attributable to OneBeacon's common shareholders                           | 46.4               | 24.1    |
| Other comprehensive income, net of tax   | —                  | 0.2     |
| Comprehensive income attributable to OneBeacon's common shareholders                 | \$46.4             | \$24.3  |
| Earnings per share attributable to OneBeacon's common shareholders—basic and diluted |                    |         |
| Net income attributable to OneBeacon's common shareholders per share                 | \$0.49             | \$0.25  |
| Dividends declared and paid per OneBeacon's common share                             | \$0.21             | \$0.21  |

See Notes to Consolidated Financial Statements.

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ONEBEACON INSURANCE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY  
(Unaudited)

| (\$ in millions)                           | OneBeacon's Common Shareholders' Equity |                                   |                   |                                 |   |                                     | Total OneBeacon's common shareholders' equity and noncontrolling interests |
|--|---|-----------------------------------|-------------------|---------------------------------|---|-------------------------------------|--|
|  | Common shares outstanding               | Common shares and paid-in surplus | Retained earnings | Accum. other comprehensive loss | Total OneBeacon common shareholders' equity | Noncontrolling interests, after tax |  |
| Balances at January 1, 2016                | 95,089,240                              | \$1,022.0                         | \$ (15.9 )        | \$ (5.2 )                       | \$ 1,000.9                                  | \$ 3.6                              | \$ 1,004.5   |
| Comprehensive income:                      |   |                                   |                   |                                 |   |                                     |  |
| Net income                                 | —                                       | —                                 | 46.4              | —                               | 46.4  | 0.5                                 | 46.9   |
| Other comprehensive income, net of tax     | —                                       | —                                 | —                 | —                               | —   | —                                   | —  |
| Total comprehensive income                 | —                                       | —                                 | 46.4              | —                               | 46.4  | 0.5                                 | 46.9   |
| Amortization of restricted share awards    | —                                       | 0.6                               | —                 | —                               | 0.6   | —                                   | 0.6  |
| Issuance of common shares                  | 170,650                                 | —                                 | —                 | —                               | —   | 0.1                                 | 0.1  |
| Repurchase and retirement of common shares | (915,330 )                              | (11.5 )                           | —                 | —                               | (11.5 )                                     | —                                   | (11.5 )  |
| Dividends                                  | —                                       | —                                 | (19.8 )           | —                               | (19.8 )                                     | (1.0 )                              | (20.8 )  |
| Balances at March 31, 2016                 | 94,344,560                              | \$1,011.1                         | \$ 10.7           | \$ (5.2 )                       | \$ 1,016.6                                  | \$ 3.2                              | \$ 1,019.8   |

| (\$ in millions)                           | OneBeacon's Common Shareholders' Equity |                                   |                   |  |   |                                     | Total OneBeacon's common shareholders' equity and noncontrolling interests |
|--|---|-----------------------------------|-------------------|--|---|-------------------------------------|--|
|  | Common shares outstanding               | Common shares and paid-in surplus | Retained earnings | Accum. other comprehensive income (loss) | Total OneBeacon common shareholders' equity | Noncontrolling interests, after tax |  |
| Balances at January 1, 2015                | 95,296,387                              | \$1,023.7                         | \$ 27.3           | \$ (5.2 )                                | \$ 1,045.8                                  | \$ 3.5                              | \$ 1,049.3   |
| Comprehensive income:                      |   |                                   |                   |  |   |                                     |  |
| Net income                                 | —                                       | —                                 | 24.1              | —  | 24.1  | 0.5                                 | 24.6   |
| Other comprehensive income, net of tax     | —                                       | —                                 | —                 | 0.2                                      | 0.2   | —                                   | 0.2  |
| Total comprehensive income                 | —                                       | —                                 | 24.1              | 0.2                                      | 24.3  | 0.5                                 | 24.8   |
| Amortization of restricted share awards    | —                                       | 0.6                               | —                 | —  | 0.6   | —                                   | 0.6  |
| Issuance of common shares                  | 75,950                                  | —                                 | —                 | —  | —   | 0.1                                 | 0.1  |
| Repurchase and retirement of common shares | (113,551 )                              | (1.6 )                            | —                 | —  | (1.6 )                                      | —                                   | (1.6 )   |
| Dividends                                  | —                                       | —                                 | (20.0 )           | —  | (20.0 )                                     | (1.1 )                              | (21.1 )  |
| Balances at March 31, 2015                 | 95,258,786                              | \$1,022.7                         | \$ 31.4           | \$ (5.0 )                                | \$ 1,049.1                                  | \$ 3.0                              | \$ 1,052.1   |

See Notes to Consolidated Financial Statements.



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

|   | Three months<br>ended<br>March 31, |         |
|---|------------------------------------|---------|
| (\$ in millions)  | 2016                               | 2015    |
| Cash flows from operations:   |                                    |         |
| Net income including noncontrolling interests                                     | \$46.9                             | \$24.6  |
| Charges (credits) to reconcile net income to cash flows provided from operations: |                                    |         |
| Net loss from discontinued operations   | —                                  | 0.1     |
| Net realized and change in unrealized investment gains                            | (16.6 )                            | (14.2 ) |
| Net adjustment to gain on sale of business  | —                                  | 3.7     |
| Deferred income tax expense   | 6.7                                | 0.5     |
| Other operating items:  |                                    |         |
| Net change in loss and LAE reserves   | (46.0 )                            | (38.2 ) |
| Net change in unearned premiums   | 8.3                                | 2.0     |
| Net change in ceded unearned premium  | (6.8 )                             | (1.4 )  |
| Net change in premiums receivable   | (11.4 )                            | (16.6 ) |
| Net change in reinsurance recoverables on paid and unpaid losses                  | 26.5                               | 14.0    |
| Net change in funds held under reinsurance contracts                              | —                                  | 19.7    |
| Net change in funds held under insurance contracts                                | (2.8 )                             | 12.0    |
| Net change in other assets and liabilities  | (28.3 )                            | 17.2    |
| Net cash provided from (used for) operations—continuing operations                | (23.5 )                            | 23.4    |
| Net cash used for operations—discontinued operations                              | —                                  | (0.1 )  |
| Net cash provided from (used for) operations                                      | (23.5 )                            | 23.3    |
| Cash flows from investing activities:   |                                    |         |
| Net maturities, purchases and sales of short-term investments                     | (50.5 )                            | 8.0     |
| Maturities of fixed maturity investments  | 110.1                              | 32.9    |
| Sales of fixed maturity investments   | 161.9                              | 177.6   |
| Sales of common equity securities   | 103.2                              | 39.6    |
| Return of capital and distributions of other investments                          | 3.0                                | 3.7     |
| Purchases of fixed maturity investments   | (209.8 )                           | (273.0) |
| Purchases of common equity securities   | (75.4 )                            | (26.2 ) |
| Contributions for other investments   | (0.3 )                             | (1.9 )  |
| Net change in unsettled investment purchases and sales                            | 27.6                               | 40.3    |
| Net acquisitions of property and equipment  | (0.9 )                             | (0.4 )  |
| Net cash used for investing activities  | 68.9                               | 0.6     |
| Cash flows from financing activities:   |                                    |         |
| Cash dividends paid to common shareholders  | (19.8 )                            | (20.0 ) |
| Repurchases and retirements of common stock                                       | (11.5 )                            | (1.6 )  |
| Payments on capital lease obligation  | (0.5 )                             | (1.4 )  |
| Net cash used for financing activities  | (31.8 )                            | (23.0 ) |
| Net increase in cash during period  | 13.6                               | 0.9     |
| Cash balance at beginning of period   | 95.2                               | 87.0    |
| Cash balance at end of period   | \$108.8                            | \$87.9  |



See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements include the accounts of OneBeacon Insurance Group, Ltd. (the "Company" or the "Registrant") and its subsidiaries (collectively, "OneBeacon") and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company is an exempted Bermuda limited liability company with U.S.-based underwriting operating companies that are property and casualty insurance writers and a Bermuda-based reinsurance company, Split Rock Insurance, Ltd. ("Split Rock"). OneBeacon offers a wide range of specialty insurance products and services primarily through independent agencies, regional and national brokers, wholesalers and managing general agencies.

OneBeacon is 76.1% owned by White Mountains Insurance Group, Ltd. ("White Mountains"), a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. The Company's headquarters are located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. The Company's U.S. corporate headquarters are located at 605 North Highway 169, Plymouth, Minnesota 55441 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

On December 23, 2014, OneBeacon completed the sale of its run-off business to a subsidiary of Armour Group Holdings Limited ("Armour"). See Note 2—"Acquisitions and Dispositions" and Note 15—"Discontinued Operations." The run-off business included the results of OneBeacon's non-specialty commercial lines business as well as the vast majority of asbestos and environmental reserves (the "Runoff Business," the sale of which is referred to as the "Runoff Transaction"). The Runoff Business has been presented as discontinued operations in the consolidated statements of operations and in the consolidated statements of cash flows for the three months ended March 31, 2016 and 2015.

OneBeacon's reportable segments are Specialty Products, Specialty Industries and Investing, Financing and Corporate. The Specialty Products segment is comprised of ten active 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 active 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 its intermediate subsidiaries. All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly state the financial position, results of operations and cash flows of OneBeacon. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company's 2015 Annual Report on Form 10-K. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company's 2015 Annual Report on Form 10-K for a complete discussion regarding OneBeacon's significant accounting policies. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

Recently Adopted Changes in Accounting Principles

Business Combinations - Measurement Period Adjustments

Effective January 1, 2016, OneBeacon adopted ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which requires adjustments to provisional amounts recorded in connection with a business combination that are identified during the measurement period are to be recorded in the reporting period in which the adjustment amounts are determined, rather than as retroactive adjustments to prior periods. OneBeacon has not recognized any adjustments to estimated purchase accounting amounts for the year to date period ended March 31, 2016 and accordingly, there was no effect to OneBeacon's financial statements upon adoption.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

Fair Value Measurements

Effective January 1, 2016, OneBeacon adopted ASU 2015-07, Fair Value Measurement - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (ASC 820) which eliminates the requirement to disclose the fair value hierarchy level for investments for which fair value is measured at net asset value ("NAV") using the practical expedient in ASC 820. OneBeacon measures the fair value of its investments in hedge funds and private equity funds using this practical expedient. Upon adoption, these fair value measurements are no longer classified within the fair value hierarchy. Prior year amounts have been modified to conform to the current year's disclosures.

Amendments to Consolidation Analysis

On January 1, 2016, OneBeacon adopted ASU 2015-02, Amendments to the Consolidation Analysis (ASC 810) which amends the guidance for determining whether an entity is a variable interest entity ("VIE"). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. Adoption of ASU 2015-02 did not affect the consolidation analysis for any of OneBeacon's investments.

Share-Based Compensation Awards

On January 1, 2016, OneBeacon adopted ASU 2014-12, Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASC 718). The new guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost is to be recognized in the period when it becomes probable the performance target will be achieved in an amount equal to the compensation cost attributable to the periods for which service has been rendered. There was no effect to OneBeacon's financial statements upon adoption.

Debt Issuance Costs

Effective January 1, 2016, OneBeacon adopted ASU 2015-03, Imputation of Interest (ASC 835) which requires debt issuance costs to be presented as a deduction from the carrying amount of the related debt, consistent with the treatment required for debt discounts. The new guidance requires amortization of debt issuance costs to be classified within interest expense and also requires disclosure of the debt's effective interest rate. OneBeacon has applied the guidance retrospectively and as a result has reclassified \$1.9 million of debt issuance costs from other assets, reflecting these amounts as reduction from the related debt and has modified its disclosures to include the required effective interest rate on its debt. Adoption of ASU 2015-03 did not have a material impact on OneBeacon's financial position, results of operations, or cash flows. In addition, effective January 1, 2016, OneBeacon adopted ASU 2015-15, Imputation of Interest (ASC 835), which addresses the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Adoption of ASU 2015-15 did not have a significant effect on OneBeacon's financial position, results of operations, cash flows, presentation or disclosures.

Recently Issued Accounting Pronouncements

Stock Compensation

On March 30, 2016, the Board issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASC 718) which is intended to simplify certain aspects of the accounting for share-based compensation. The new guidance provides an accounting policy election to account for forfeitures by either applying an assumption, as required under existing guidance, or by recognizing forfeitures when they actually occur. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. OneBeacon does not expect a significant effect upon adoption.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

Leases

On February 25, 2016, the FASB issued ASU 2016-02, Leases (ASC 842). The new guidance requires lessees to recognize lease assets and liabilities on the balance sheet for both operating and financing leases, with the exception of leases with an original term of 12 months or less. Under existing guidance recognition of lease assets and liabilities is not required for operating leases. The lease assets and liabilities to be recognized are both measured initially based on the present value of the lease payments. Under the new guidance, a sale-leaseback transaction must meet the recognition criteria under ASC 606, Revenues in order to be accounted for as sale. The new guidance is effective for OneBeacon for years beginning after December 15, 2018, including interim periods therein. OneBeacon is evaluating the expected impact of this new guidance and available adoption methods.

Financial Instruments - Recognition and Measurement

On January 5, 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 825-10). The new guidance requires all equity securities with readily determinable fair values to be measured at fair value with changes therein recognized through current period earnings. In addition, the new ASU simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, and for impaired equity security investments to be measured at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. OneBeacon has taken the fair value election for its portfolio of equity security investments and accordingly, does not expect the adoption of ASU 2016-01 to have a significant impact on its financial statements.

Insurance Contracts

In May 2015, the FASB issued ASU 2015-09, Disclosures about Short Duration Contracts (ASC 944) which requires expanded footnote disclosures about loss and loss adjustment expense ("LAE") reserves. Under the new guidance, some disclosures currently presented outside of OneBeacon's financial statements, such as loss development tables and a reconciliation of loss development data to the loss and LAE reserves reflected on the balance sheet, will become part of the financial statement footnotes. In addition, the loss development tables required to be presented under the new ASU must be presented on a disaggregated basis by accident year rather than by reporting year as currently presented. Some of the expanded disclosures are new requirements, such as the disclosure of reserves for losses incurred but not reported ("IBNR") plus expected development on reported claims, which must be presented by accident year on a disaggregated basis. The new guidance also requires new disclosures about claim frequency data together with descriptions of the approach used to measure that data. Qualitative descriptions of methodologies and assumptions used to develop IBNR estimates must be presented together with the disaggregated amounts of IBNR to which they relate, along with a discussion of any significant changes in methodology and assumptions and the related effect upon the loss reserves. The new guidance will be effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016 with retrospective restatement of prior periods required. OneBeacon will modify its financial statement footnote disclosures to conform to the requirements of ASU 2015-09 upon adoption, including revisions to prior year's disclosures.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606), which modifies the guidance for revenue recognition. The scope of the new ASU excludes insurance contracts but is applicable to certain fee arrangements, such as investment management fees. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (ASC 606), which delayed the effective date of ASU 2014-09 by one year. As a result, the standard is effective for annual and interim periods beginning after December 15, 2017. The Company is in the process of evaluating the new guidance and has not yet determined the potential effect of adoption on its financial position, results of operations, or cash flows.

NOTE 2. Acquisitions and Dispositions

Crop Business

On July 31, 2015, Monsanto Company sold Climate Crop Insurance Agency ("CCIA"), the third party agency with which OneBeacon previously had an exclusive managing general agency agreement, to an affiliate of AmTrust Financial Services, Inc. ("AmTrust"). As a result of the sale, the Company exited the multiple peril crop insurance ("MPCI") business and its related crop-hail business (collectively, "Crop Business"). As a result of the transaction, OneBeacon and CCIA agreed to an early termination of the existing five year agreement. In connection with the termination of the agreement, OneBeacon received a payment of \$3.0 million. Also related to the transaction, OneBeacon withdrew its 2016 Plan of Operations, which previously

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 2. Acquisitions and Dispositions

authorized it to write MPCCI for the 2016 Reinsurance Year, and affiliates of AmTrust agreed to reinsure the Company's remaining net Crop Business exposure for the 2015 Reinsurance Year under a related 100% quota share reinsurance agreement which, coupled with other transfer and assignment agreements as well as communications with policyholders and agents, had the effect of assumption reinsurance. As a result of this transaction, the Company has no material net exposure related to the Crop Business.

## Runoff Business

As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies," on December 23, 2014, OneBeacon completed the sale of its Runoff Business to Armour. OneBeacon provided financing in the form of surplus notes issued by Bedivere Insurance Company ("Bedivere"), one of the legal entities transferred as part of the transaction, having a par value of \$101.0 million, which had a fair value of \$64.9 million on the date of sale. See Note 15—"Discontinued Operations" for further information.

## Essentia Insurance Company

Effective January 1, 2013, OneBeacon completed the sale of Essentia Insurance Company ("Essentia"), which wrote the collector cars and boats business, to Markel Corporation. During the first quarter of 2015, the Company recognized in net other revenues (expenses) a \$3.7 million negative adjustment to the pre-tax gain on sale of Essentia in connection with an assessment from the Michigan Catastrophic Claims Association (MCCA) payable to Markel Corporation pursuant to the indemnification provisions in the stock purchase agreement governing the sale of Essentia.

Except as described above, during the three months ended March 31, 2016 and 2015, there were no significant acquisitions or dispositions.

## NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

## Loss and LAE reserve summary

The following table summarizes the loss and LAE reserve activities of OneBeacon's insurance subsidiaries for the three months ended March 31, 2016 and 2015:

| (\$ in millions)   | Three months ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2016               | 2015      |
| Gross beginning balance                                  | \$1,389.8          | \$1,342.2 |
| Less beginning reinsurance recoverables on unpaid losses | (186.0 )           | (161.6 )  |
| Net beginning loss and LAE reserves                      | 1,203.8            | 1,180.6   |
| Loss and LAE incurred relating to:                       |                    |           |
| Current year losses                                      | 158.8              | 167.7     |
| Prior year losses  | —                  | (1.8 )    |
| Total incurred loss and LAE                              | 158.8              | 165.9     |
| Loss and LAE paid relating to:                           |                    |           |
| Current year losses                                      | (22.0 )            | (22.1 )   |
| Prior year losses  | (147.2 )           | (162.0 )  |
| Total loss and LAE payments                              | (169.2 )           | (184.1 )  |
| Net ending loss and LAE reserves                         | 1,193.4            | 1,162.4   |
| Plus ending reinsurance recoverables on unpaid losses    | 150.4              | 141.6     |
| Gross ending loss and LAE reserves                       | \$1,343.8          | \$1,304.0 |
| Loss and LAE development                                 |                    |           |
| Loss and LAE development—2016                            |                    |           |

During the three months ended March 31, 2016, OneBeacon experienced no net loss and LAE reserve development on prior accident year reserves, as favorable development from several businesses, most notably Technology and Accident was offset by unfavorable development primarily in Healthcare due to large claims and heavy loss activity.





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

## Loss and LAE development—2015

During the three months ended March 31, 2015, OneBeacon experienced \$1.8 million of net favorable loss and LAE reserve development on prior accident year reserves, primarily attributable to favorable development from Crop resulting from the 2014 crop year and favorable development in several other businesses, most notably from Ocean Marine, Technology, Government Risks, Surety and Specialty Property. This favorable development was mostly offset by unfavorable development in Entertainment driven by several large and small to mid-sized claims and by losses within the Inland Marine business resulting from a few large claims.

## NOTE 4. Reinsurance

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

## Reinsurance Treaties

The Company's reinsurance coverage is discussed in Note 4—"Reinsurance" in the Company's 2015 Annual Report on Form 10-K. Except as discussed below, there have been no material changes to the Company's reinsurance coverage from that reported in the 2015 Annual Report on Form 10-K.

The Company entered into a 50% quota share reinsurance agreement related to its Financial Institutions business.

## Reinsurance Recoverables

As of March 31, 2016, OneBeacon had reinsurance recoverables on paid losses of \$16.6 million and reinsurance recoverables on unpaid losses of \$150.4 million. As reinsurance contracts do not relieve OneBeacon of its obligations, collectibility of balances due from reinsurers is critical to OneBeacon's financial strength. The following table summarizes Standard & Poor's Financial Services, LLC ("Standard & Poor's") ratings for OneBeacon's reinsurers, excluding industry pools and associations, based upon reinsurance recoverable amounts on paid and unpaid losses and LAE:

|   | Balance   |       |
|---|-----------|-------|
|   | at        | % of  |
|   | March     | total |
|   | 31, 2016  |       |
|   | (\$ in    |       |
|   | millions) |       |
| Standard & Poor's Rating <sup>(1)</sup> : |           |       |
| AA  | \$ 42.7   | 26 %  |
| A   | 98.2      | 59 %  |
| BBB, Not Rated and Other <sup>(2)</sup>   | 26.1      | 15 %  |
| Total reinsurance recoverables            | \$ 167.0  | 100%  |

<sup>(1)</sup> Standard & Poor's ratings as detailed above are "AA" (Very strong), "A" (Strong) and "BBB" (Adequate).

<sup>(2)</sup> Includes reinsurance recoverable on unpaid losses from Bedivere of \$19.4 million.

## NOTE 5. Investment Securities

OneBeacon's invested assets are comprised of securities and other investments held for general investment purposes. Refer to the Company's 2015 Annual Report on Form 10-K for a complete discussion.

OneBeacon classifies its portfolio of fixed maturity investments and common equity securities held for general investment purposes as trading securities. Trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Realized and change in unrealized investment gains on trading securities are reported, on a pre-tax basis, in total revenues as net realized and change in unrealized investment gains. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximates fair value.

Other investments primarily include surplus notes, private equity funds and hedge funds. OneBeacon measures its investments in private equity funds and hedge funds at fair value with changes therein reported in total revenues as net realized and change in unrealized investment gains. Surplus notes provided in conjunction with the financing of the Runoff Transaction are measured at their estimated fair value based on discounted expected cash flows, with changes in fair value reported in total

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

revenues as net realized and change in unrealized investment gains. Other investments also include an investment in a community reinvestment vehicle which is accounted for at fair value, with changes in fair value reported in total revenues as net realized and change in unrealized investment gains and a tax advantaged federal affordable housing development fund which is accounted for under the proportional amortization method.

Prospector Partners, LLC ("Prospector"), was the primary manager of OneBeacon's publicly-traded common equity securities portfolio. The Prospector-managed separate accounts were liquidated during the second quarter of 2015, and a Prospector-managed hedge fund was redeemed. As the separate accounts were liquidated, OneBeacon reinvested the majority of the proceeds into exchange traded funds ("ETFs") that seek to provide investment results that, before expenses, generally correspond to the performance of the S&P 500, Russell 1000, and Russell 1000 Value indices. OneBeacon's net investment income is comprised primarily of interest income associated with fixed maturity investments and dividend income from its equity investments.

Net investment income for the three months ended March 31, 2016 and 2015 consisted of the following:

| (\$ in millions)                  | Three months<br>ended<br>March 31, |        |
|-----------------------------------|------------------------------------|--------|
|                                   | 2016                               | 2015   |
| Fixed maturity investments        | \$12.1                             | \$10.2 |
| Common equity securities          | 1.0                                | 1.6    |
| Other investments <sup>(1)</sup>  | 2.5                                | 0.1    |
| Gross investment income           | 15.6                               | 11.9   |
| Less external investment expenses | (1.2 )                             | (1.4 ) |
| Net investment income, pre-tax    | \$14.4                             | \$10.5 |

<sup>(1)</sup> Includes an interest payment on the surplus notes of \$2.4 million received in the three months ended March 31, 2016.

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

| (\$ in millions)                                | Three<br>months<br>ended<br>March 31, |        |
|---|---------------------------------------|--------|
|   | 2016                                  | 2015   |
| Fixed maturity investments                      | \$(1.4)                               | \$0.7  |
| Common equity securities                        | (4.7 )                                | 9.8    |
| Other investments                               | 0.2                                   | (1.0 ) |
| Net realized investment gains (losses), pre-tax | \$(5.9)                               | \$9.5  |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

The net changes in net unrealized gains for the three months ended March 31, 2016 and 2015 are as follows:

| (\$ in millions)           | Three months ended March 31, 2016          |  |   |
|----------------------------|--|--|---|
|                            | Changes in net unrealized investment gains | Changes in net foreign currency gains (losses) | Total net changes in unrealized gains reflected in revenues |
| Fixed maturity investments | \$15.0                                     | \$ —   | —\$ 15.0  |
| Common equity securities   | 9.7  | —  | 9.7   |
| Other investments          | (2.2 )                                     | —  | (2.2 )  |
| Net change, pre-tax        | \$22.5                                     | \$ —   | —\$ 22.5  |

| (\$ in millions)           | Three months ended March 31, 2015          |  |   |
|----------------------------|--|--|---|
|                            | Changes in net unrealized investment gains | Changes in net foreign currency gains (losses) | Total net changes in unrealized gains reflected in revenues |
| Fixed maturity investments | \$6.6                                      | \$ —   | \$ 6.6  |
| Common equity securities   | (4.4 )                                     | (0.1 )   | (4.5 )  |
| Other investments          | 2.6  | —  | 2.6   |
| Net change, pre-tax        | \$4.8                                      | \$ (0.1 )                                      | \$ 4.7  |

The components of OneBeacon's ending net unrealized investment gains and losses, excluding the impact of net unrealized foreign currency translation gains and losses, on its investment portfolio as of March 31, 2016 and December 31, 2015 were as follows:

| (\$ in millions)                                 | March 31, December 31, |         |
|--|------------------------|---------|
|  | 2016                   | 2015    |
| Investment securities:                           |                        |         |
| Gross unrealized investment gains                | \$ 63.5                | \$ 46.5 |
| Gross unrealized investment losses               | (27.7 )                | (33.2 ) |
| Total net unrealized investment gains, pre-tax   | 35.8                   | 13.3    |
| Income taxes                                     | (12.4 )                | (6.5 )  |
| Total net unrealized investment gains, after-tax | \$ 23.4                | \$ 6.8  |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

The cost or amortized cost, gross unrealized pre-tax investment gains and losses, net foreign currency losses and carrying values of OneBeacon's fixed maturity investments as of March 31, 2016 and December 31, 2015 were as follows:

|  | March 31, 2016               |                              |                               |   |                   |
|--|------------------------------|------------------------------|-------------------------------|---|-------------------|
| (\$ in millions)                       | Cost or<br>amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Net<br>unrealized<br>foreign<br>currency<br>gains<br>(losses) | Carrying<br>value |
| U.S. Government and agency obligations | \$53.5                       | \$ 0.1                       | \$ —                          | \$  | —\$53.6           |
| Debt securities issued by corporations | 733.3                        | 11.2                         | (0.9 )                        | —   | 743.6             |
| Municipal obligations                  | 67.6                         | 1.8                          | (0.1 )                        | —   | 69.3              |
| Mortgage and asset-backed securities   | 1,077.8                      | 3.7                          | (3.7 )                        | —   | 1,077.8           |
| Foreign government obligations         | 1.0                          | 0.2                          | —                             | —   | 1.2               |
| Preferred stocks                       | 78.3                         | 4.9                          | —                             | —   | 83.2              |
| Total fixed maturity investments       | \$2,011.5                    | \$ 21.9                      | \$ (4.7 )                     | \$  | —\$2,028.7        |
|  | December 31, 2015            |                              |                               |   |                   |
| (\$ in millions)                       | Cost or<br>amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Net<br>unrealized<br>foreign<br>currency<br>gains<br>(losses) | Carrying<br>value |
| U.S. Government and agency obligations | \$85.4                       | \$ —                         | \$ (0.1 )                     | \$  | —\$85.3           |
| Debt securities issued by corporations | 810.8                        | 4.1                          | (4.5 )                        | —   | 810.4             |
| Municipal obligations                  | 67.7                         | 1.5                          | (0.2 )                        | —   | 69.0              |
| Mortgage and asset-backed securities   | 1,035.1                      | 1.3                          | (4.5 )                        | —   | 1,031.9           |
| Foreign government obligations         | 1.0                          | 0.2                          | —                             | —   | 1.2               |
| Preferred stocks                       | 78.3                         | 4.4                          | —                             | —   | 82.7              |
| Total fixed maturity investments       | \$2,078.3                    | \$ 11.5                      | \$ (9.3 )                     | \$  | —\$2,080.5        |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

The cost or amortized cost, gross unrealized pre-tax investment gains and losses, net unrealized pre-tax foreign currency losses and carrying values of common equity securities and other investments as of March 31, 2016 and December 31, 2015 were as follows:

| (\$ in millions)                                     | March 31, 2016               |                              |                               | Net<br>unrealized<br>foreign<br>currency<br>gains<br>(losses) | Carrying<br>value |
|--|------------------------------|------------------------------|-------------------------------|---|-------------------|
|  | Cost or<br>amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |   |                   |
| Common equity securities                             | \$262.5                      | \$ 19.4                      | \$ (6.0 )                     | \$  | —\$ 275.9         |
| Other investments                                    | 132.6                        | 22.2                         | (17.0 )                       | —   | 137.8             |
| Total common equity securities and other investments | \$395.1                      | \$ 41.6                      | \$ (23.0 )                    | \$  | —\$ 413.7         |
| (\$ in millions)                                     | December 31, 2015            |                              |                               | Net<br>unrealized<br>foreign<br>currency<br>gains<br>(losses) | Carrying<br>value |
|  | Cost or<br>amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |   |                   |
| Common equity securities                             | \$295.0                      | \$ 12.7                      | \$ (9.0 )                     | \$  | —\$ 298.7         |
| Other investments                                    | 135.6                        | 22.3                         | (14.9 )                       | —   | 143.0             |
| Total common equity securities and other investments | \$430.6                      | \$ 35.0                      | \$ (23.9 )                    | \$  | —\$ 441.7         |

As of March 31, 2016 and December 31, 2015, the Company held unrestricted collateral from its customers, primarily relating to its surety business, of \$134.9 million and \$137.7 million, respectively, which is included in cash and invested assets. The obligation to return these funds is classified as funds held under insurance contracts in the consolidated balance sheets.

The following table summarizes the ratings of the debt securities issued by corporations owned by OneBeacon as of March 31, 2016 and December 31, 2015:

| (\$ in millions)                                      | at Fair value     |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2016 | December 31,<br>2015 |
| AAA <sup>(1)</sup>                                    | \$2.6             | \$ —                 |
| AA <sup>(1)</sup>                                     | 63.7              | 42.7                 |
| A <sup>(1)</sup>                                      | 252.2             | 265.4                |
| BBB <sup>(1)</sup>                                    | 425.1             | 502.3                |
| Debt securities issued by corporations <sup>(1)</sup> | \$743.6           | \$ 810.4             |

<sup>(1)</sup> Credit ratings are assigned based on the following hierarchy: 1) Standard and Poor's Financial Services LLC ("Standard and Poor's") and 2) Moody's Investor Service ("Moody's").

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Fair value measurements

Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). Quoted prices in active markets for identical assets or liabilities have the highest priority ("Level 1"), followed by observable inputs other than quoted prices, including prices for similar but not identical assets or liabilities ("Level 2") and unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority ("Level 3"). As of both March 31, 2016 and December 31, 2015, approximately 92% of the investment portfolio recorded at fair value was priced based upon observable inputs.

Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equity securities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturity investments, which have been disaggregated into classes, including debt securities issued by corporations, municipal obligations, mortgage and asset-backed securities, foreign government obligations and preferred stocks. Investments valued using Level 2 inputs also include certain ETFs that track US stock indices such as the S&P 500 but are traded on foreign exchanges and that management values using the fund's published NAV to account for the difference in market close times. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include OneBeacon's investments in surplus notes which are measured at their estimated fair value based on discounted expected cash flows using information as of the measurement date, as well as certain investments in fixed maturity investments, common equity securities and other investments, where quoted market prices are unavailable or are not considered reasonable. OneBeacon determines when transfers between levels have occurred as of the beginning of the period.

OneBeacon uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, OneBeacon uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services OneBeacon uses have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted market prices are unavailable or are not considered reasonable, OneBeacon estimates the fair value using industry standard pricing models and observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, prepayment speeds, reference data including research publications and other relevant inputs. Given that many fixed maturity investments do not trade on a daily basis, the outside pricing services evaluate a wide range of fixed maturity investments by regularly drawing parallels from recent trades and quotes of comparable securities with similar features. The characteristics used to identify comparable fixed maturity investments vary by asset type and take into account market convention.

OneBeacon's process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of its fixed maturity investments and includes, but is not limited to, evaluation of model pricing methodologies, review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. OneBeacon also performs back-testing of selected purchases and sales activity to determine whether there are any significant differences between the market price used to value the security prior to purchase or sale and the actual purchase or sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and \$1.0 million from the expected price based on these procedures are considered outliers. Also considered outliers are prices that haven't changed from period to period and prices that have trended unusually compared to market conditions. In

circumstances where the results of OneBeacon's review process does not appear to support the market price provided by the pricing services, OneBeacon challenges the price. If OneBeacon cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question.

The valuation process above is generally applicable to all of OneBeacon's fixed maturity investments. The techniques and inputs specific to asset classes within OneBeacon's fixed maturity investments for Level 2 securities that use observable inputs are as follows:

Debt securities issued by corporations: The fair value of debt securities issued by corporations is determined from an evaluated pricing model that uses information from market sources and integrates relative credit information, observed market movements, and sector news. Key inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, quality ratings, duration, credit enhancements, early redemption features and market research publications.

Municipal obligations: The fair value of municipal obligations is determined from an evaluated pricing model that uses information from market makers, broker-dealers, buy-side firms, and analysts along with general market information. Key inputs include benchmark yields, reported trades, issuer financial statements, material event notices and new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including type, coupon, credit quality ratings, duration, credit enhancements, geographic location and market research publications.

Mortgage and asset-backed securities: The fair value of mortgage and asset backed securities is determined from an evaluated pricing model that uses information from market sources and leveraging similar securities. Key inputs include benchmark yields, reported trades, underlying tranche cash flow data, collateral performance, plus new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including issuer, vintage, loan type, collateral attributes, prepayment speeds, default rates, recovery rates, cash flow stress testing, credit quality ratings and market research publications.

Foreign government obligations: The fair value of foreign government obligations is determined from an evaluated pricing model that uses feeds from data sources in each respective country, including active market makers and inter-dealer brokers. Key inputs include benchmark yields, reported trades, broker-dealer quotes, two-sided markets, benchmark securities, bids, offers, local exchange prices, foreign exchange rates and reference data including coupon, credit quality ratings, duration and market research publications.

Preferred stocks: The fair value of preferred stocks is determined from an evaluated pricing model that calculates the appropriate spread over a comparable security for each issue. Key inputs include exchange prices (underlying and common stock of same issuer), benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features and market research publications.

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

The fair values of OneBeacon's investments in hedge funds and private equity funds have been classified as net asset value as prescribed by ASU 2015-07. As of March 31, 2016 and December 31, 2015, OneBeacon did not record a liquidity adjustment to the net asset value related to its investments in hedge funds or private equity funds.

As of both March 31, 2016 and December 31, 2015, other investments reported at fair value represented approximately 5% of the total investment portfolio and consisted of the following:

| (\$ in millions)                                 | March 31, December 31, |          |
|--|------------------------|----------|
|  | 2016                   | 2015     |
| Hedge funds <sup>(1)</sup>                       | \$ 16.2                | \$ 16.4  |
| Private equity funds <sup>(2)</sup>              | 41.3                   | 46.1     |
| Total hedge funds and private equity funds       | 57.5                   | 62.5     |
| Surplus notes (par value \$101.0) <sup>(3)</sup> | 51.8                   | 51.5     |
| Investment in community reinvestment vehicle     | 14.4                   | 14.3     |
| Total other investments <sup>(4)</sup>           | \$ 123.7               | \$ 128.3 |

(1) Consists of 4 hedge funds as of both March 31, 2016 and December 31, 2015.

(2) Consists of 17 private equity funds as of both March 31, 2016 and December 31, 2015.

(3)

The increase in the fair value of the surplus notes during the three months ended March 31, 2016 was primarily due to the time value of money benefit generated by moving one quarter closer to modeled cash receipts, offset by the negative valuation impact of an interest payment received in the first quarter of 2016.

Excludes the carrying value of \$14.1 million and \$14.7 million as of March 31, 2016 and December 31, 2015,<sup>(4)</sup> respectively, associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The largest investment in a single hedge fund or private equity fund was \$12.7 million and \$12.9 million as of March 31, 2016 and December 31, 2015, respectively.

As of both March 31, 2016 and December 31, 2015, OneBeacon held one private preferred stock that represented approximately 85% of its preferred stock portfolio. OneBeacon used quoted market prices for similar securities that were adjusted to reflect management's best estimate of fair value; this security is classified as a Level 3 measurement.

Surplus Notes

In the fourth quarter of 2014, in conjunction with the Runoff Transaction, OneBeacon provided financing in the form of surplus notes having a par value of \$101.0 million, which had a fair value of \$51.8 million and \$51.5 million as of March 31, 2016 and December 31, 2015, respectively. The surplus notes, issued by one of the transferred entities, Bedivere ("Issuer"), were in the form of both seller priority and pari passu notes.

The internal valuation model used to estimate the fair value is based on discounted expected cash flows using information as of the measurement date. The estimated fair value of the surplus notes is sensitive to changes in treasury rates and public debt credit spreads, as well as changes in estimates with respect to other variables including a discount to reflect the private nature of the notes (and the related lack of liquidity), the credit quality of the notes – based on the financial performance of the Issuer relative to expectations, and the timing, amount, and likelihood of interest and principal payments on the notes, which are subject to regulatory approval and therefore may vary from the contractual terms. An interest payment of \$2.4 million was received in the three months ended March 31, 2016. The Company has assumed for estimating value purposes that subsequent interest payouts will begin in year five (2020) and principal repayments begin on a graduating basis in year ten (2025) for the seller priority note and year fifteen (2030) for the pari passu note. Although these variables involve considerable judgment, the Company does not currently expect any resulting changes in the estimated value of the surplus notes to be material to its financial position.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

Below is a table illustrating the valuation adjustments taken to arrive at estimated fair value of the surplus notes as of March 31, 2016 and December 31, 2015:

|  | Type of<br>Surplus Note       | Total as<br>of<br>March<br>31,<br>2016 |               | Type of<br>Surplus Note       | Total as<br>of<br>December<br>31, 2015 |
|--|-------------------------------|--|---------------|-------------------------------|--|
|  | Seller Pari<br>Priority Passu |  | (in millions) | Seller Pari<br>Priority Passu |  |
| Par value  | \$57.9                        | \$43.1                                 | \$ 101.0      | \$57.9                        | \$ 43.1                                |
| Fair value adjustments to reflect:   |                               |  |               |                               |  |
| Current market rates on public debt and contract-based repayments <sup>(1)</sup> | (0.5 )                        | (14.2 )                                | (14.7 )       | (0.4 )                        | (14.7 )                                |
| Regulatory approval <sup>(2)</sup>   | (11.4 )                       | (13.0 )                                | (24.4 )       | (11.7 )                       | (12.5 )                                |
| Liquidity adjustment <sup>(3)</sup>  | (7.8 )                        | (2.3 )                                 | (10.1 )       | (7.8 )                        | (2.4 )                                 |
| Total  | (19.7 )                       | (29.5 )                                | (49.2 )       | (19.9 )                       | (29.6 )                                |
| Fair value <sup>(4)</sup>  | \$38.2                        | \$13.6                                 | \$51.8        | \$38.0                        | \$13.5                                 |

Represents the value of the surplus notes, at current market yields on comparable publicly traded debt, and  
 (1) assuming issuer is allowed to make principal and interest payments when its financial capacity is available, as measured by statutory capital in excess of a 250% score under the National Association of Insurance Commissioners' risk-based capital standards for property and casualty companies.

Represents anticipated delay in securing regulatory approvals of interest and principal payments to reflect  
 (2) graduated changes in Issuer's statutory surplus. The monetary impact of the anticipated delay is measured based on credit spreads of public securities with roughly equivalent percentages of discounted payments missed.

Represents impact of liquidity spread to account for OneBeacon's sole ownership of the notes, lack of a trading  
 (3) market, and ongoing regulatory approval risk.

The increase in the fair value of the surplus notes during the three months ended March 31, 2016 was primarily due  
 (4) to the time value of money benefit generated by moving one quarter closer to modeled cash receipts, offset by the negative valuation impact of an interest payment received in the first quarter of 2016.

## Fair value measurements by level

The following tables summarize the Company's fair value measurements for investments as of March 31, 2016 and December 31, 2015 by level. The major security types were based on the legal form of the securities. OneBeacon has disaggregated its fixed maturity investments based on the issuing entity type, which impacts credit quality, with debt securities issued by U.S. government entities carrying minimal credit risk, while the credit and other risks associated

with other issuers, such as corporations, foreign governments, municipalities or entities issuing asset-backed securities vary depending on the nature of the issuing entity type. OneBeacon further disaggregates debt securities issued by corporations and common equity securities by industry sector because investors often reference commonly used benchmarks and their subsectors to monitor risk and performance. Accordingly, OneBeacon has further disaggregated these asset classes into subclasses based on the similar sectors and industry classifications the Company uses to evaluate investment risk and performance against commonly used benchmarks, such as the Barclays Intermediate Aggregate and S&P 500 indices.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

| (\$ in millions)                        | Fair<br>value at<br>March<br>31, 2016 | Level 1 | Level 2   | Level 3 |
|---|---------------------------------------|---------|-----------|---------|
| Fixed maturity investments:             |                                       |         |           |         |
| U.S. Government and agency obligations  | \$53.6                                | \$53.6  | \$—       | \$—     |
| Debt securities issued by corporations: |                                       |         |           |         |
| Consumer                                | 211.6                                 | —       | 211.6     | —       |
| Industrial                              | 122.5                                 | —       | 122.5     | —       |
| Healthcare                              | 109.5                                 | —       | 109.5     | —       |
| Financials                              | 108.4                                 | —       | 108.4     | —       |
| Energy                                  | 59.8                                  | —       | 59.8      | —       |
| Utilities                               | 42.1                                  | —       | 42.1      | —       |
| Communications                          | 40.1                                  | —       | 40.1      | —       |
| Technology                              | 28.9                                  | —       | 28.9      | —       |
| Basic materials                         | 20.7                                  | —       | 20.7      | —       |
| Debt securities issued by corporations  | 743.6                                 | —       | 743.6     | —       |
| Municipal obligations                   | 69.3                                  | —       | 69.3      | —       |
| Mortgage and asset-backed securities    | 1,077.8                               | —       | 1,077.8   | —       |
| Foreign government obligations          | 1.2                                   | 0.7     | 0.5       | —       |
| Preferred stocks                        | 83.2                                  | —       | 12.7      | 70.5    |
| Fixed maturity investments              | 2,028.7                               | 54.3    | 1,903.9   | 70.5    |
| Short-term investments                  | 119.7                                 | 119.7   | —         | —       |
| Common equity securities:               |                                       |         |           |         |
| Exchange traded funds <sup>(1)</sup>    | 130.5                                 | 109.0   | 21.5      | —       |
| Consumer                                | 46.7                                  | 46.7    | —         | —       |
| Technology                              | 29.0                                  | 29.0    | —         | —       |
| Healthcare                              | 24.4                                  | 24.4    | —         | —       |
| Communications                          | 20.3                                  | 20.3    | —         | —       |
| Industrial                              | 17.0                                  | 17.0    | —         | —       |
| Financials                              | 8.0                                   | 8.0     | —         | —       |
| Common equity securities                | 275.9                                 | 254.4   | 21.5      | —       |
| Other investments <sup>(2)(3)</sup>     | 123.7                                 | —       | —         | 66.3    |
| Total <sup>(1)(2)</sup>                 | \$2,548.0                             | \$428.4 | \$1,925.4 | \$136.8 |

<sup>(1)</sup> ETF's traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated as level 2 measurements.

<sup>(2)</sup> Excludes the carrying value of \$14.1 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method as of March 31, 2016.

As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in

<sup>(3)</sup> hedge funds and private equity funds of \$57.4 million measured at fair value for which NAV is the practical expedient are no longer classified within the fair value hierarchy.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

| (\$ in millions)                        | Fair value                 |          |            |          |
|---|----------------------------|----------|------------|----------|
|   | at<br>December<br>31, 2015 | Level 1  | Level 2    | Level 3  |
| Fixed maturity investments:             |                            |          |            |          |
| U.S. Government and agency obligations  | \$ 85.3                    | \$ 85.3  | \$—        | \$—      |
| Debt securities issued by corporations: |                            |          |            |          |
| Consumer                                | 218.3                      | —        | 218.3      | —        |
| Healthcare                              | 136.2                      | —        | 136.2      | —        |
| Industrial                              | 121.8                      | —        | 121.8      | —        |
| Financials                              | 116.0                      | —        | 116.0      | —        |
| Energy                                  | 75.2                       | —        | 75.2       | —        |
| Communications                          | 46.0                       | —        | 46.0       | —        |
| Utilities                               | 42.2                       | —        | 42.2       | —        |
| Technology                              | 28.9                       | —        | 28.9       | —        |
| Basic materials                         | 25.8                       | —        | 25.8       | —        |
| Debt securities issued by corporations  | 810.4                      | —        | 810.4      | —        |
| Municipal obligations                   | 69.0                       | —        | 69.0       | —        |
| Mortgage and asset-backed securities    | 1,031.9                    | —        | 1,031.9    | —        |
| Foreign government obligations          | 1.2                        | 0.6      | 0.6        | —        |
| Preferred stocks                        | 82.7                       | —        | 12.7       | 70.0     |
| Fixed maturity investments              | 2,080.5                    | 85.9     | 1,924.6    | 70.0     |
| Short-term investments                  | 69.2                       | 69.2     | —          | —        |
| Common equity securities:               |                            |          |            |          |
| Exchange traded funds <sup>(1)</sup>    | 183.3                      | 162.0    | 21.3       | —        |
| Consumer                                | 38.2                       | 38.2     | —          | —        |
| Communications                          | 23.9                       | 23.9     | —          | —        |
| Healthcare                              | 19.6                       | 19.6     | —          | —        |
| Technology                              | 14.7                       | 14.7     | —          | —        |
| Industrial                              | 14.5                       | 14.5     | —          | —        |
| Financials                              | 4.5                        | 4.5      | —          | —        |
| Common equity securities                | 298.7                      | 277.4    | 21.3       | —        |
| Other investments <sup>(2)(3)</sup>     | 128.3                      | —        | —          | 65.9     |
| Total <sup>(1)(2)(3)</sup>              | \$ 2,576.7                 | \$ 432.5 | \$ 1,945.9 | \$ 135.9 |

<sup>(1)</sup> ETF's traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated as level 2 measurements.

<sup>(2)</sup> Excludes the carrying value of \$14.7 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method as of December 31, 2015.

As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in

<sup>(3)</sup> hedge funds and private equity funds of \$62.4 million measured at fair value for which NAV is the practical expedient are no longer classified within the fair value hierarchy.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

## Rollforwards of Fair Value Measurements by Level

The following tables summarize the changes in OneBeacon's fair value measurements by level for the three months ended March 31, 2016 and 2015:

| (\$ in millions)                  | Level 1<br>Investments | Level 2<br>Investments | Level 3 Investments              |                                |                      | NAV<br>investments <sup>(1)</sup> | Total <sup>(1)(2)(3)</sup> |
|-----------------------------------|------------------------|------------------------|----------------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------|
|                                   |                        |                        | Fixed<br>maturity<br>investments | Common<br>equity<br>securities | Other<br>investments |                                   |                            |
| Balance at January 1, 2016        | \$ 363.3               | \$ 1,945.9             | \$ 70.0                          | \$ —                           | \$ 65.9              | \$ 62.4                           | \$ 2,507.5                 |
| Amortization/accretion            | —                      | (3.2)                  | —                                | —                              | —                    | —                                 | (3.2)                      |
| Net realized and unrealized gains | 5.6                    | 12.5                   | 0.5                              | —                              | 0.4                  | (2.3)                             | 16.7                       |
| Purchases                         | 98.2                   | 187.0                  | —                                | —                              | —                    | 0.3                               | 285.5                      |
| Sales                             | (158.4)                | (216.8)                | —                                | —                              | —                    | (3.0)                             | (378.2)                    |
| Transfers in                      | —                      | —                      | —                                | —                              | —                    | —                                 | —                          |
| Transfers out                     | —                      | —                      | —                                | —                              | —                    | —                                 | —                          |
| Balance at March 31, 2016         | \$ 308.7               | \$ 1,925.4             | \$ 70.5                          | \$ —                           | \$ 66.3              | \$ 57.4                           | \$ 2,428.3                 |

(1) Excludes the carrying value of \$14.1 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method as of March 31, 2016.

As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in

(2) hedge funds and private equity funds measured using the NAV practical expedient are no longer classified within the fair value hierarchy.

(3) Excludes short-term investments.

| (\$ in millions)                  | Level 1<br>Investments | Level 2<br>Investments | Level 3 Investments              |                                |                      | NAV<br>investments <sup>(1)</sup> | Total <sup>(1)(2)(3)</sup> |
|-----------------------------------|------------------------|------------------------|----------------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------|
|                                   |                        |                        | Fixed<br>maturity<br>investments | Common<br>equity<br>securities | Other<br>investments |                                   |                            |
| Balance at January 1, 2015        | \$ 358.7               | \$ 1,692.1             | \$ 74.0                          | \$ —                           | \$ 79.6              | 102.4                             | \$ 2,306.8                 |
| Amortization/accretion            | —                      | (2.9)                  | —                                | —                              | —                    | —                                 | (2.9)                      |
| Net realized and unrealized gains | 5.5                    | 7.3                    | 0.3                              | —                              | 3.1                  | (1.9)                             | 14.3                       |
| Purchases                         | 62.4                   | 208.7                  | 28.4                             | —                              | —                    | 1.4                               | 300.9                      |
| Sales                             | (75.2)                 | (175.4)                | —                                | —                              | (0.1)                | (2.9)                             | (253.6)                    |
| Transfers in                      | —                      | 2.9                    | —                                | —                              | —                    | —                                 | 2.9                        |
| Transfers out                     | —                      | —                      | (2.9)                            | —                              | —                    | —                                 | (2.9)                      |
| Balance at March 31, 2015         | \$ 351.4               | \$ 1,732.7             | \$ 99.8                          | \$ —                           | \$ 82.6              | \$ 99.0                           | \$ 2,365.5                 |

(1) Excludes the carrying value of \$16.2 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method as of March 31, 2015.

As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in

(2) hedge funds and private equity funds measured using the NAV practical expedient are no longer classified within the fair value hierarchy.

(3) Excludes short-term investments.

There were no "Transfers in" to Level 3 or "Transfers out" of Level 3 for the three months ended March 31, 2016.

"Transfers out" of Level 3 fixed maturity investments of \$2.9 million for the three months ended March 31, 2015 was comprised of one corporate debt security which had been previously classified as a Level 3 measurement and was



recategorized as a Level 2 measurement when quoted market prices for similar securities that were considered reliable and could be validated against an alternative source became available. There were no “Transfers in” to Level 3 for the three months ended March 31, 2015.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

The following table summarizes the change in net pre-tax unrealized gains or losses for assets designated as Level 3 for the three months ended March 31, 2016 and 2015:

|                            | Three<br>months<br>ended<br>March 31, |       |
|----------------------------|---------------------------------------|-------|
| (\$ in millions)           | 2016                                  | 2015  |
| Fixed maturity investments | \$0.5                                 | \$0.3 |
| Other investments          | 0.4                                   | 3.0   |
| Total                      | \$0.9                                 | \$3.3 |

## Significant Unobservable Inputs

As previously described, in certain circumstances, OneBeacon estimates the fair value of investments using industry standard pricing models and both observable and unobservable inputs. The following summarizes significant unobservable inputs used in estimating the fair value of fixed maturity and other investments classified within Level 3, as of March 31, 2016 and December 31, 2015.

| (\$ in millions)               | As of March 31, 2016              |                       |                          |   |          |
|--------------------------------|-----------------------------------|-----------------------|--------------------------|---|----------|
| Description                    | Fair<br>Value<br>(in<br>millions) | Rating <sup>(1)</sup> | Valuation Technique      | Unobservable Inputs                         | Input    |
| Preferred stock <sup>(2)</sup> | \$70.5                            | N/R                   | Discounted cash flow     | Discount yield                              | 8.1%     |
| Surplus notes:                 |                                   |                       |                          |   | 15.8%    |
| - Seller priority note         | \$38.2                            | N/R                   | Discounted cash flow     | Discount rate <sup>(3)</sup>                | 12.5%    |
|                                |                                   |                       |                          | Timing of interest payments <sup>(4)</sup>  | 5 years  |
|                                |                                   |                       |                          | Timing of principal payments <sup>(4)</sup> | 10 years |
| - Pari passu note              | \$13.6                            | N/R                   | Discounted cash flow     | Discount rate <sup>(5)</sup>                | 22.5%    |
|                                |                                   |                       |                          | Timing of interest payments <sup>(4)</sup>  | 5 years  |
|                                |                                   |                       |                          | Timing of principal payments <sup>(4)</sup> | 15 years |
| (\$ in millions)               | As of December 31, 2015           |                       |                          |   |          |
| Description                    | Fair<br>Value<br>(in<br>millions) | Rating <sup>(1)</sup> | Valuation Technique      | Unobservable Inputs                         | Input    |
| Preferred stock <sup>(2)</sup> | \$70.0                            | N/R                   | Par value <sup>(6)</sup> | Issuer's intent to call                     | \$70.0   |
| Surplus notes:                 |                                   |                       |                          |   | 16.1%    |
| - Seller priority note         | \$38.0                            | N/R                   | Discounted cash flow     | Discount rate <sup>(3)</sup>                | 13.0%    |
|                                |                                   |                       |                          | Timing of interest payments <sup>(4)</sup>  | 5 years  |
|                                |                                   |                       |                          | Timing of principal payments <sup>(4)</sup> | 10 years |
| - Pari passu note              | \$13.5                            | N/R                   | Discounted cash flow     | Discount rate <sup>(5)</sup>                | 22.4%    |
|                                |                                   |                       |                          | Timing of interest payments <sup>(4)</sup>  | 5 years  |
|                                |                                   |                       |                          | Timing of principal payments <sup>(4)</sup> | 15 years |

<sup>(1)</sup> Credit ratings, if rated, are assigned based on the following hierarchy: 1) Standard & Poor's and 2) Moody's

<sup>(2)</sup> As of March 31, 2016 and December 31, 2015, asset type consists of one security.

<sup>(3)</sup> Stochastic modeling supporting the fair value estimation indicates that the average percentage of discounted payments missed on the seller priority note is roughly equivalent to that of a conventional debt security with a

credit rating of 'B'. The corresponding credit spread increased by an additional 250 bps to reflect both a liquidity discount for a private debt instrument and regulatory payment approval uncertainty, which was added to the treasury rate to determine the discount rate for the seller priority note.

(4) As of March 31, 2016 and December 31, 2015, the Company assumed for the purpose of estimating the fair value that future interest payouts begin in year five (2020) and principal repayments begin on a graduated basis in year ten (2025) for the seller priority note and year fifteen (2030) for the pari passu note.

Stochastic modeling supporting the fair value estimation indicates that the average percentage of discounted payments missed on the pari passu note is roughly equivalent to that of a conventional debt security with a credit (5) rating of 'CCC'. The corresponding credit spread increased by an additional 250 bps to reflect both a liquidity discount for a private debt instrument and regulatory payment approval uncertainty, which was added to the treasury rate to determine the discount rate for the pari passu note.

(6) Valuation based on issuer's intent as of December 31, 2015 to call the security in the near term.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

## Asset-backed Securities

OneBeacon purchases commercial mortgage-backed securities ("CMBS") and residential mortgage-backed securities ("RMBS") to maximize its risk adjusted returns in the context of a diversified portfolio. OneBeacon's non-agency CMBS are generally short tenor and structurally senior, with approximately 30 points of subordination on average for fixed rate and floating rate CMBS as of March 31, 2016. In general, subordination represents the percentage of principal loss on the underlying collateral that would have to occur before the security incurs a loss. These collateral losses, instead, are first absorbed by other securities lower in the capital structure. OneBeacon believes this structural protection mitigates the risk of loss tied to refinancing challenges facing the commercial real estate market. As of March 31, 2016, on average, less than 1% of the underlying loans were reported as non-performing for both agency and non-agency CMBS held by OneBeacon. OneBeacon did not hold any RMBS categorized as sub-prime as of March 31, 2016. OneBeacon considers sub-prime mortgage-backed securities to be those that have underlying loan pools that exhibit weak credit characteristics or are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., OneBeacon considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

There are also mortgage-backed securities that OneBeacon categorizes as "non-prime" (also called "Alt A" or "A-") that are backed by collateral that has overall credit quality between prime and sub-prime, as determined based on OneBeacon's review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. As of March 31, 2016, OneBeacon held one mortgage-backed security with a market value of \$7.4 million that was classified as non-prime. OneBeacon's non-agency RMBS portfolio is generally of moderate average life, fixed rate and structurally senior. OneBeacon does not own any collateralized debt obligations, with the exception of \$36.0 million of non-agency RMBS resecuritization tranches, each a senior tranche in its own right and each collateralized by a single earlier vintage Super Senior or Senior non-agency RMBS security.

The following table summarizes the carrying value of OneBeacon's asset-backed securities as of March 31, 2016 and December 31, 2015:

| (\$ in millions)                                  | March 31, 2016 |           |         | December 31, 2015 |           |         |
|---|----------------|-----------|---------|-------------------|-----------|---------|
|   | Fair Value     | Level 2   | Level 3 | Fair Value        | Level 2   | Level 3 |
| Mortgage-backed securities:                       |                |           |         |                   |           |         |
| Agency:   |                |           |         |                   |           |         |
| GNMA  | \$216.0        | \$216.0   | \$      | -\$220.5          | \$220.5   | \$      |
| FNMA  | 1.4            | 1.4       | —       | 1.4               | 1.4       | —       |
| FHLMC   | 2.9            | 2.9       | —       | 3.1               | 3.1       | —       |
| Total agency <sup>(1)</sup>                       | 220.3          | 220.3     | —       | 225.0             | 225.0     | —       |
| Non-agency:                                       |                |           |         |                   |           |         |
| Residential                                       | 131.8          | 131.8     | —       | 132.7             | 132.7     | —       |
| Commercial  | 128.8          | 128.8     | —       | 140.4             | 140.4     | —       |
| Total Non-agency                                  | 260.6          | 260.6     | —       | 273.1             | 273.1     | —       |
| Total mortgage-backed securities                  | 480.9          | 480.9     | —       | 498.1             | 498.1     | —       |
| Other asset-backed securities:                    |                |           |         |                   |           |         |
| Credit card receivables                           | 249.3          | 249.3     | —       | 202.7             | 202.7     | —       |
| Vehicle receivables                               | 265.0          | 265.0     | —       | 255.6             | 255.6     | —       |
| Other   | 82.6           | 82.6      | —       | 75.5              | 75.5      | —       |
| Total other asset-backed securities               | 596.9          | 596.9     | —       | 533.8             | 533.8     | —       |
| Total mortgage-backed and asset-backed securities | \$1,077.8      | \$1,077.8 | \$      | -\$1,031.9        | \$1,031.9 | \$      |

(1)

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

## Non-agency Mortgage-backed Securities

The security issuance years of OneBeacon's investments in non-agency RMBS and non-agency CMBS securities as of March 31, 2016 are as follows:

| (\$ in millions)      | Fair    | Security Issuance Year |       |       |       |        |        |        |        |        |        |
|-----------------------|---------|------------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
|                       | Value   | 2004                   | 2005  | 2006  | 2008  | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   |
| Total non-agency RMBS | \$131.8 | \$22.8                 | \$8.1 | \$3.6 | \$3.4 | \$13.1 | \$12.6 | \$9.3  | \$13.2 | \$45.7 | \$—    |
| Total non-agency CMBS | 128.8   | —                      | —     | —     | —     | 5.2    | —      | 18.3   | 15.4   | 44.8   | 45.1   |
| Total non-agency      | \$260.6 | \$22.8                 | \$8.1 | \$3.6 | \$3.4 | \$18.3 | \$12.6 | \$27.6 | \$28.6 | \$90.5 | \$45.1 |

## Non-agency Residential Mortgage-backed Securities

The classification of the underlying collateral quality and the tranche levels of OneBeacon's non-agency RMBS securities are as follows as of March 31, 2016:

| (\$ in millions)      | Fair    | Super                 | Senior <sup>(2)</sup> | Subordinate <sup>(3)</sup> |
|-----------------------|---------|-----------------------|-----------------------|----------------------------|
|                       | Value   | Senior <sup>(1)</sup> |                       |                            |
| Prime                 | \$124.4 | \$ 63.1               | \$ 61.3               | \$ —                       |
| Non-prime             | 7.4     | —                     | 7.4                   | —                          |
| Total non-agency RMBS | \$131.8 | \$ 63.1               | \$ 68.7               | \$ —                       |

At issuance, Super Senior, or in the case of resecuritization, the underlying securities, were rated AAA by

<sup>(1)</sup>Standard & Poor's, Aaa by Moody's, or AAA by Fitch Ratings ("Fitch") and were senior to other AAA or Aaa securities.

<sup>(2)</sup>At issuance, Senior, or in the case of resecuritization, the underlying securities, were rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were senior to non-AAA or non-Aaa securities.

<sup>(3)</sup>At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were junior to other AAA or Aaa securities.

## Non-agency Commercial Mortgage-backed Securities

The amount of fixed and floating rate securities and their tranche levels of OneBeacon's non-agency CMBS securities are as follows as of March 31, 2016:

| (\$ in millions)      | Fair    | Super                 | Senior <sup>(2)</sup> | Subordinate <sup>(3)</sup> |
|-----------------------|---------|-----------------------|-----------------------|----------------------------|
|                       | Value   | Senior <sup>(1)</sup> |                       |                            |
| Fixed rate CMBS       | \$96.0  | \$ 8.8                | \$ 46.0               | \$ 41.2                    |
| Floating rate CMBS    | 32.8    | —                     | —                     | 32.8                       |
| Total non-agency CMBS | \$128.8 | \$ 8.8                | \$ 46.0               | \$ 74.0                    |

<sup>(1)</sup>At issuance, Super Senior, or in the case of resecuritization, the underlying securities, were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa securities.

<sup>(2)</sup>At issuance, Senior, or in the case of resecuritization, the underlying securities, were rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were senior to non-AAA or non-Aaa securities.

<sup>(3)</sup>At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were junior to other AAA or Aaa securities.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

## Other Investments

OneBeacon holds investments in hedge funds and private equity funds which are included in other investments. The fair value of these investments has been estimated using the net asset value of the funds. The following table summarizes investments in hedge funds and private equity funds as of March 31, 2016 and December 31, 2015:

| (\$ in millions)                           | March 31, 2016 |                      | December 31, 2015 |                      |
|--|----------------|----------------------|-------------------|----------------------|
|  | Fair Value     | Unfunded Commitments | Fair Value        | Unfunded Commitments |
|  |                |                      |                   |                      |
| Hedge funds                                |                |                      |                   |                      |
| Long/short equity banks and financial      | \$12.7         | \$ —                 | \$12.8            | \$ —                 |
| Other                                      | 3.5            | —                    | 3.6               | —                    |
| Total hedge funds                          | 16.2           | —                    | 16.4              | —                    |
| Private equity funds                       |                |                      |                   |                      |
| Energy infrastructure and services         | 18.0           | 3.2                  | 20.7              | 3.4                  |
| Multi-sector                               | 13.0           | 2.1                  | 14.8              | 2.1                  |
| Private equity secondaries                 | 4.0            | 2.1                  | 4.4               | 2.1                  |
| Healthcare                                 | 3.8            | 0.4                  | 3.8               | 0.4                  |
| Insurance                                  | 2.0            | 0.1                  | 2.0               | 0.1                  |
| Real estate                                | 0.5            | 0.1                  | 0.4               | 0.1                  |
| Total private equity funds                 | 41.3           | 8.0                  | 46.1              | 8.2                  |
| Total hedge funds and private equity funds | \$57.5         | \$ 8.0               | \$62.5            | \$ 8.2               |

Redemptions of investments in certain hedge funds are subject to restrictions including "lock-up" periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period. The following summarizes the March 31, 2016 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

| (\$ in millions)     | Hedge Funds Notice Period |                     |                      |                  |        |
|----------------------|---------------------------|---------------------|----------------------|------------------|--------|
|                      | 30 - 59 days notice       | 60 - 89 days notice | 90 - 119 days notice | 120+ days notice | Total  |
| Redemption frequency |                           |                     |                      |                  |        |
| Monthly              | \$—                       | \$ —                | —\$ —                | \$ —             | \$—    |
| Quarterly            | 13.7                      | —                   | —                    | —                | 13.7   |
| Annual               | —                         | —                   | 2.5                  | —                | 2.5    |
| Total hedge funds    | \$13.7                    | \$ —                | \$ 2.5               | \$ —             | \$16.2 |

Certain hedge fund investments are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. As of March 31, 2016, \$1.0 million of OneBeacon's hedge funds were in liquidation. The actual amount of the final distribution is subject to market fluctuations. The date at which such distributions will be received is not determinable as of March 31, 2016.

OneBeacon has also submitted redemption requests for certain of its investments in active hedge funds. As of March 31, 2016, redemptions of \$2.5 million were outstanding and remain subject to market fluctuations. The date at which such redemptions will be received is not determinable at March 31, 2016. Redemptions are recorded as receivables when the investment is no longer subject to market fluctuations.





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 5. Investment Securities

Investments in private equity funds are generally subject to lock-up periods during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund's underlying investment. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors. As of March 31, 2016, investments in private equity funds were subject to lock-up periods as follows:

| (\$ in millions)                                       | 1 - 3 years | 3 - 5 years | 5 - 10 years | >10 years | Total   |
|--|-------------|-------------|--------------|-----------|---------|
| Private Equity Funds—expected lock-up period remaining | \$ 26.3     | \$ 3.8      | \$ 11.2      | \$        | —\$41.3 |

## NOTE 6. Debt

OneBeacon's debt outstanding as of March 31, 2016 and December 31, 2015 consisted of the following:

| (\$ in millions)                          | March 31, December 31, |          |
|---|------------------------|----------|
|   | 2016                   | 2015     |
| Senior unsecured notes, at face value     | \$ 275.0               | \$ 275.0 |
| Unamortized original issue discount       | (0.2 )                 | (0.2 )   |
| Unamortized issuance costs <sup>(1)</sup> | (1.9 )                 | (1.9 )   |
| Senior unsecured notes, carrying value    | \$ 272.9               | \$ 272.9 |

<sup>(1)</sup> Unamortized issuance costs have been reclassified from other assets to a decrease of the debt liability in accordance with ASU 2015-03.

## 2012 Senior Notes

In November 2012, OneBeacon U.S. Holdings, Inc. ("OBH") issued \$275.0 million face value of senior unsecured notes ("2012 Senior Notes") through a public offering, at an issue price of 99.9% and received \$272.9 million of proceeds. The 2012 Senior Notes bear an annual interest rate of 4.6% payable semi-annually in arrears on May 9 and November 9, until maturity on November 9, 2022, and are fully and unconditionally guaranteed as to the payment of principal and interest by the Company. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2012 Senior Notes have an effective yield to maturity of approximately 4.7% per annum.

## Credit Facility

On September 29, 2015, the Company and OBH, as co-borrowers and co-guarantors, entered into a revolving credit facility administered by U.S. Bank N.A. and also including BMO Harris Bank N.A., which has a total commitment of \$65.0 million and has a maturity date of September 29, 2019 (the "Credit Facility"). As of March 31, 2016, the credit facility was undrawn.

## Debt Covenants

The 2012 Senior Notes were issued under indentures that contain restrictive covenants which, among other things, limit the ability of the Company, OBH, and their respective subsidiaries to create liens and enter into sale and leaseback transactions and limits the ability of OneBeacon to consolidate, merge or transfer its properties and assets. The indentures do not contain any financial ratios or specified levels of net worth or liquidity to which the Company or OBH must adhere. In addition, a failure by the Company or its subsidiaries to pay principal and interest on covered debt, where such failure results in the acceleration of at least \$75.0 million of the principal amount of covered debt, could trigger the acceleration of the 2012 Senior Notes.

The Credit Facility contains various affirmative, negative and financial covenants which OneBeacon considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. These covenants can restrict the Company in several ways, including its ability to incur additional indebtedness. An uncured breach of these covenants could result in an event of default under the Credit Facility, which would allow lenders to declare any amounts owed under the Credit Facility to be immediately due and payable.

As of March 31, 2016, OneBeacon was in compliance with all of the covenants under the 2012 Senior Notes and the Credit Facility.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. Segment Information

The Company has sixteen active underwriting operating segments, which are managed by the chief operating decision maker and are aggregated into two underwriting reportable segments. The two underwriting reportable segments were determined based on the nature of products or services, the production process, the method of distribution and the nature of the regulatory environment. The principal difference between the reportable segments is the type or class of customer.

The Specialty Products reportable segment is comprised of ten active 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. Specialty Products includes the Healthcare, Management Liability, Financial Services, Other Professional Lines, Specialty Property, Environmental, Tuition Reimbursement, Programs, Surety and Financial Institutions underwriting operating segments, as well as Crop, which was exited in the third quarter of 2015.

The Specialty Industries reportable segment is comprised of six active underwriting operating segments, representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Specialty Industries segment includes the Ocean Marine, Inland Marine, Technology, Accident, Government Risks and Entertainment underwriting operating segments.

The Investing, Financing and Corporate reportable segment includes the investing and financing activities for OneBeacon on a consolidated basis, and certain other activities conducted through the Company and its intermediate subsidiaries, including the 100% quota share reinsurance agreement with Bedivere, which cedes the losses associated with the legacy Runoff Business to Bedivere, one of the transferred entities that was sold as part of the Runoff Transaction. There is no net retention of the legacy Runoff Business to OneBeacon.

Invested assets are not allocated to the Specialty Products and Specialty Industries segments since OneBeacon does not manage them by segment. Invested assets, net investment income and net realized and change in unrealized investment gains related to OneBeacon's 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. Debt and the related interest expense on debt also are not allocated to or managed by segment and are also included in the Investing, Financing and Corporate segment.

Substantially all of the Company's revenue is generated from customers located in the United States.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7. Segment Information

Financial information for OneBeacon's reportable segments is as follows:

| (\$ in millions)                                       | Insurance<br>Operations<br>Specialty<br>Products | Specialty<br>Industries | Investing,<br>Financing<br>and<br>Corporate | Consolidated |
|--|--|-------------------------|---|--------------|
| Three months ended March 31, 2016                      |  |                         |   |              |
| Earned premiums  | \$133.4  | \$145.2                 | \$ —  | \$ 278.6     |
| Loss and loss adjustment expense                       | (91.8 )  | (67.0 )                 | —   | (158.8 )     |
| Policy acquisition expenses                            | (24.0 )  | (27.0 )                 | —   | (51.0 )      |
| Other underwriting expenses                            | (23.4 )  | (31.9 )                 | —   | (55.3 )      |
| Total underwriting income (loss)                       | (5.8 )   | 19.3                    | —   | 13.5         |
| Net investment income                                  | —  | —                       | 14.4  | 14.4         |
| Net realized and change in unrealized investment gains | —  | —                       | 16.6  | 16.6         |
| Net other revenues (expenses)                          | (0.1 )   | 0.3                     | 0.7   | 0.9          |
| General and administrative expenses                    | —  | (0.5 )                  | (3.4 )                                      | (3.9 )       |
| Interest expense                                       | —  | —                       | (3.3 )                                      | (3.3 )       |
| Pre-tax income (loss) from continuing operations       | \$(5.9 )   | \$ 19.1                 | \$ 25.0                                     | \$ 38.2      |
| Three months ended March 31, 2015                      |  |                         |   |              |
| Earned premiums  | \$136.1  | \$150.5                 | \$ —  | \$ 286.6     |
| Loss and loss adjustment expense                       | (74.1 )  | (91.8 )                 | —   | (165.9 )     |
| Policy acquisition expenses                            | (22.9 )  | (28.1 )                 | —   | (51.0 )      |
| Other underwriting expenses                            | (25.7 )  | (30.2 )                 | —   | (55.9 )      |
| Total underwriting income                              | 13.4   | 0.4                     | —   | 13.8         |
| Net investment income                                  | —  | —                       | 10.5  | 10.5         |
| Net realized and change in unrealized investment gains | —  | —                       | 14.2  | 14.2         |
| Net other revenues (expenses)                          | —  | 0.2                     | (3.3 )                                      | (3.1 )       |
| General and administrative expenses                    | —  | (0.5 )                  | (3.6 )                                      | (4.1 )       |
| Interest expense                                       | —  | —                       | (3.2 )                                      | (3.2 )       |
| Pre-tax income from continuing operations              | \$13.4   | \$ 0.1                  | \$ 14.6                                     | \$ 28.1      |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7. Segment Information

| (\$ in millions)  | Insurance<br>Operations<br>Specialty<br>Products | Specialty<br>Industries | Investing,<br>Financing<br>and<br>Corporate | Consolidated |
|---|--|-------------------------|---|--------------|
| March 31, 2016  |  |                         |   |              |
| Assets  |  |                         |   |              |
| Total investment securities                                     | \$—  | \$ —                    | \$ 2,562.1                                  | \$ 2,562.1   |
| Premiums receivable   | 86.9   | 143.5                   | —   | 230.4        |
| Reinsurance recoverables <sup>(1)</sup>                         | 113.6  | 34.0                    | 19.4  | 167.0        |
| Deferred acquisition costs                                      | 52.9   | 49.1                    | —   | 102.0        |
| Ceded unearned premiums   | 25.4   | 10.9                    | —   | 36.3         |
| Other assets  | 1.1  | 0.1                     | 430.0                                       | 431.2        |
| Total Assets  | \$279.9  | \$ 237.6                | \$ 3,011.5                                  | \$ 3,529.0   |
| Liabilities   |  |                         |   |              |
| Unpaid loss and loss adjustment expense reserves <sup>(1)</sup> | \$730.7  | \$ 593.7                | \$ 19.4                                     | \$ 1,343.8   |
| Unearned premiums   | 305.7  | 262.9                   | —   | 568.6        |
| Funds held under insurance contracts                            | 134.9  | —                       | —   | 134.9        |
| Debt  | —  | —                       | 272.9                                       | 272.9        |
| Other liabilities   | —  | —                       | 189.0                                       | 189.0        |
| Total Liabilities   | \$1,171.3  | \$ 856.6                | \$ 481.3                                    | \$ 2,509.2   |
| December 31, 2015   |  |                         |   |              |
| Assets  |  |                         |   |              |
| Total investment securities                                     | \$—  | \$ —                    | \$ 2,591.4                                  | \$ 2,591.4   |
| Premiums receivable   | 63.0   | 156.0                   | —   | 219.0        |
| Reinsurance recoverables <sup>(1)</sup>                         | 139.5  | 33.6                    | 20.4  | 193.5        |
| Deferred acquisition costs                                      | 49.6   | 51.1                    | —   | 100.7        |
| Ceded unearned premiums   | 19.2   | 10.3                    | —   | 29.5         |
| Other assets  | 0.9  | 0.1                     | 467.5                                       | 468.5        |
| Total Assets  | \$272.2  | \$ 251.1                | \$ 3,079.3                                  | \$ 3,602.6   |
| Liabilities   |  |                         |   |              |
| Unpaid loss and loss adjustment expense reserves <sup>(1)</sup> | \$772.2  | \$ 597.2                | \$ 20.4                                     | \$ 1,389.8   |
| Unearned premiums   | 288.1  | 272.2                   | —   | 560.3        |
| Funds held under insurance contracts                            | 137.7  | —                       | —   | 137.7        |
| Debt  | —  | —                       | 272.9                                       | 272.9        |
| Other liabilities   | —  | —                       | 237.4                                       | 237.4        |
| Total Liabilities   | \$1,198.0  | \$ 869.4                | \$ 530.7                                    | \$ 2,598.1   |

As described in Note 15—"Discontinued Operations," Atlantic Specialty Insurance Company (ASIC), the top tier regulated U.S. insurance operating subsidiary of the Company, is ceding to Bedivere 100% of the legacy Runoff

<sup>(1)</sup> Business that was written by ASIC or one of the ongoing entities. As of March 31, 2016 and December 31, 2015, \$19.4 million and \$20.4 million, respectively, are included in both unpaid loss and loss adjustment expense reserves and reinsurance recoverable included within Investing, Financing, and Corporate.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 7. Segment Information

The following tables provide net written premiums, earned premiums and underwriting ratios for OneBeacon's insurance operations by reportable segment and in total, for the three months ended March 31, 2016 and 2015:

| (\$ in millions)                    | Three months ended March 31,<br>2016 |                         |              | Three months ended March 31,<br>2015 |                         |              |
|-------------------------------------|--------------------------------------|-------------------------|--------------|--------------------------------------|-------------------------|--------------|
|                                     | Specialty<br>Products                | Specialty<br>Industries | Consolidated | Specialty<br>Products                | Specialty<br>Industries | Consolidated |
| Net written premiums                | \$ 144.7                             | \$ 135.4                | \$ 280.1     | \$ 133.6                             | \$ 153.5                | \$ 287.1     |
| Earned premiums                     | 133.4                                | 145.2                   | 278.6        | 136.1                                | 150.5                   | 286.6        |
| Underwriting ratios: <sup>(1)</sup> |                                      |                         |              |                                      |                         |              |
| Loss and LAE                        | 68.8 %                               | 46.1 %                  | 57.0 %       | 54.4 %                               | 61.0 %                  | 57.9 %       |
| Expense                             | 35.6                                 | 40.5                    | 38.2         | 35.8                                 | 38.7                    | 37.3         |
| Total combined ratio                | 104.4 %                              | 86.6 %                  | 95.2 %       | 90.2 %                               | 99.7 %                  | 95.2 %       |

Underwriting ratios are used to measure the components of underwriting profitability and include: the loss and LAE ratio, calculated by dividing loss and LAE by earned premiums; the expense ratio, calculated by dividing policy acquisition and other underwriting expenses by earned premiums; and the combined ratio, the sum of the loss and LAE ratio and the expense ratio.

## NOTE 8. Retirement Plans

OneBeacon previously sponsored the OneBeacon qualified pension plan (the "Qualified Plan"). During the three months ended March 31, 2016, the Qualified Plan finalized its termination by purchasing group annuity contracts from the Principal Financial Group and making lump sum distributions to Qualified Plan participants electing such payments, which eliminated the remaining Qualified Plan liability. As a result of these transactions, the Company recognized a pre-tax pension settlement charge of \$0.3 million and no longer has a projected benefit obligation with respect to the Qualified Plan as of March 31, 2016. The Company continues to hold \$55.4 million of excess invested assets, of which it expects to transfer the majority of the assets into a defined contribution qualified replacement plan trust during 2016 to fund future benefits. A portion of the assets will remain in the Qualified Plan trust in order to wind-down potential post-termination obligations of that plan, as approved by way of a March 2016 private letter ruling from the IRS. These invested assets are included in other assets and are accounted for at fair value. The annuity purchase is subject to final true-up anticipated in the second quarter to the extent actual experience is different than expected up until OneBeacon ceases administratively paying claims on June 1, 2016.

OneBeacon continues to sponsor a non-qualified, non-contributory, defined benefit pension plan ("Non-qualified Plan") covering substantially all employees who were employed as of December 31, 2001 and former employees who had met the eligibility requirements, as well as retirees. The Non-qualified Plan, was frozen and curtailed in 2002, resulting in the pension benefit obligation being equal to the accumulated benefit obligation. The benefits are based primarily on years of service and employees' compensation through December 31, 2002. OneBeacon's funding policy is generally to contribute amounts to satisfy actual disbursements for the calendar year.

The components of net periodic benefit cost for the three months ended March 31, 2016 and 2015 for the Non-qualified Plan and Qualified Plan were as follows:

| (\$ in millions)               | Three<br>months<br>ended<br>March 31, |       |
|--------------------------------|---------------------------------------|-------|
|                                | 2016                                  | 2015  |
| Service cost                   | \$0.2                                 | \$0.2 |
| Interest cost                  | 0.8                                   | 1.2   |
| Expected return on plan assets | (1.0)                                 | (2.2) |

|  |       |         |
|--|-------|---------|
| Amortization of unrecognized loss        | 0.3   | 0.3     |
| Net periodic pension cost (income)       | 0.3   | (0.5 )  |
| Settlement loss <sup>(1)</sup>           | 0.3   | —       |
| Total net periodic benefit cost (income) | \$0.6 | \$(0.5) |

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<sup>(1)</sup> Represents the impact of the termination of the Qualified Pension Plan during the three months ended March 31, 2016.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 8. Retirement Plans

OneBeacon anticipates contributing \$2.1 million to the Non-qualified Plan in 2016, for which OneBeacon has assets held in a rabbi trust. During the three months ended March 31, 2016, the Company contributed \$0.5 million to the Non-qualified Plan.

## Other Benefit Plans

OneBeacon sponsors an employee savings plan (defined contribution plan) covering the majority of employees. The contributory plan provides qualifying employees with matching contributions of 50% of the first 6% of salary (subject to federal limits on allowable contributions in a given year). Total expense for the matching component of this plan was \$0.7 million in the three months ended March 31, 2016 and 2015. The employee savings plan includes an employee stock ownership component. See Note 9—"Employee Share-Based Incentive Compensation Plans." OneBeacon had a post-employment benefit liability related to disability and health benefits available to former employees that are no longer employed by the Company of \$3.9 million and \$4.1 million as of March 31, 2016 and December 31, 2015, respectively.

OneBeacon also had a post-employment benefit liability related to death benefits to beneficiaries of former executives that are no longer employed by the Company of \$12.4 million and \$12.5 million as of March 31, 2016 and December 31, 2015, respectively. OneBeacon has set aside funds to satisfy its obligation in a rabbi trust of \$34.5 million and \$33.9 million as of March 31, 2016 and December 31, 2015, respectively.

## NOTE 9. Employee Share-Based Incentive Compensation Plans

OneBeacon's share-based compensation plans include performance shares, restricted shares and restricted stock units ("RSUs"), which are designed to maximize shareholder value over long periods of time by aligning the financial interests of its management with those of its owners. Performance shares are payable only upon achievement of pre-defined business goals and are valued based on the market value of OneBeacon's common shares at the time awards are earned. Performance shares and restricted stock units are typically paid in cash, though, in some instances, they may be paid in common shares or may be deferred in accordance with the terms of OneBeacon's deferred compensation plan. Restricted shares vest either annually in equal installments over the specified service period or cliff-vest in full after the 2 to 3-year service period, depending on the award. OneBeacon expenses the full cost of all its share-based compensation over the requisite service period. The Company recognized expense related to its share-based compensation plans, including the OneBeacon 401(k) Savings and Employee Stock Ownership Plan ("KSOP"), of \$2.7 million and \$2.1 million for the three months ended March 31, 2016 and 2015, respectively.

## Performance Shares

The following summarizes performance share activity for the three months ended March 31, 2016 and 2015:

|   | Three months ended March 31,   |                 | Three months ended March 31,   |                 |
|---|--------------------------------|-----------------|--------------------------------|-----------------|
|   | 2016                           | 2015            | 2016                           | 2015            |
|   | Target                         | Target          | Target                         | Target          |
| (\$ in millions)                                  | Performance Shares outstanding | Accrued expense | Performance Shares outstanding | Accrued expense |
| Beginning of period                               | 449,435                        | \$ 1.4          | 517,470                        | \$ 3.4          |
| Payments and deferrals <sup>(1)</sup>             | (167,300)                      | (0.7 )          | (181,290)                      | (1.5 )          |
| New awards  | 163,150                        | —               | 154,887                        | —               |
| Forfeitures and net change in assumed forfeitures | (4,079 )                       | —               | (28,920 )                      | —               |
| Expense recognized                                | —                              | 0.4             | —                              | 0.2             |
| End of period                                     | 441,206                        | \$ 1.1          | 462,147                        | \$ 2.1          |

<sup>(1)</sup> Performance share payments in 2016 for the 2013-2015 performance cycle were based upon a performance factor of 24.3%. Performance share payments in 2015 for the 2012-2014 performance cycle were based upon a

performance factor of 45.7%.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 9. Employee Share-Based Incentive Compensation Plans

The following summarizes performance shares outstanding and accrued performance share expense at March 31, 2016 for each performance cycle:

| (\$ in millions)        | Target OB                      | Accrued |
|-------------------------|--------------------------------|---------|
|                         | Performance Shares outstanding | expense |
| Performance cycle:      |                                |         |
| 2014 - 2016             | 142,710                        | \$ 0.1  |
| 2015 - 2017             | 146,659                        | 0.8     |
| 2016 - 2018             | 163,150                        | 0.2     |
| Subtotal                | 452,519                        | 1.1     |
| Assumed forfeitures     | (11,313 )                      | —       |
| Total at March 31, 2016 | 441,206                        | \$ 1.1  |

If 100% of the outstanding performance shares had been vested on March 31, 2016, the total additional compensation cost to be recognized would have been \$3.1 million, based on current accrual factors (common share price, accumulated dividends and payout assumptions) at March 31, 2016.

All performance shares earned and paid were settled in cash or by deferral into OneBeacon's deferred compensation plan.

**Restricted Shares**

On February 24, 2016, OneBeacon issued to certain employees 170,650 shares of restricted stock having a grant date fair value of \$2.3 million, of which 92,500 are scheduled to cliff vest in full on February 24, 2018 and the remaining 78,150 are scheduled to cliff vest in full on January 1, 2019.

On February 24, 2015, OneBeacon issued to certain employees 75,950 shares of restricted stock having a grant date fair value of \$1.1 million, which are scheduled to cliff vest in full on January 1, 2018.

On May 25, 2011, OneBeacon issued to its CEO 630,000 shares of restricted stock, of which 157,500 restricted shares vested on each of February 22, 2014, 2015 and 2016, and the remaining 157,500 restricted shares are scheduled to vest on February 22, 2017.

The restricted shares contain dividend participation features and therefore are considered participating securities.

The following summarizes restricted shares activity for the three months ended March 31, 2016 and 2015:

| (\$ in millions)    | Three months ended March 31, |                                   | Three months ended March 31, |                                   |
|---------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
|                     | 2016                         | 2015                              | 2016                         | 2015                              |
|                     | Restricted Shares            | Unamortized Issue Date Fair Value | Restricted Shares            | Unamortized Issue Date Fair Value |
| Beginning of period | 382,722                      | \$ 2.5                            | 612,500                      | \$ 3.5                            |
| New awards          | 170,650                      | 2.3                               | 75,950                       | 1.1                               |
| Forfeitures         | —                            | —                                 | (1,500 )                     | —                                 |
| Vested              | (157,500)                    | —                                 | (296,000)                    | —                                 |
| Expense recognized  | —                            | (0.5 )                            | —                            | (0.6 )                            |
| End of period       | 395,872                      | \$ 4.3                            | 390,950                      | \$ 4.0                            |

Restricted shares that vested during the three months ended March 31, 2016 and 2015 had a grant date fair value of \$2.1 million and \$4.3 million, respectively. As of March 31, 2016, unrecognized compensation expense of \$4.3 million related to restricted stock awards is expected to be recognized over a weighted-average period of 0.9 years.

**Restricted Stock Units**

During the three months ended March 31, 2016, 222,449 RSUs were issued, and were all outstanding as of March 31, 2016. The RSUs are scheduled to cliff vest in full on January 1, 2019, at which time the RSUs will be paid out in cash

or shares at the discretion of the Compensation Committee. During the three months ended March 31, 2015, 207,848 RSUs were issued,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. Employee Share-Based Incentive Compensation Plans

with outstanding RSUs, net of forfeitures, at 198,928 as of March 31, 2016. The expense associated with the RSUs, which is being recognized over the vesting period, was \$0.4 million and \$0.1 million for the three months ended March 31, 2016 and 2015, respectively.

Other Share-Based Compensation

OneBeacon sponsors a defined contribution plan, the KSOP. Under the KSOP, participants have the ability to invest their balances in several different investment options, including the common shares of White Mountains and the common shares of the Company.

The employee stock ownership component of the KSOP provides all participants with an annual base contribution in common shares of the Company equal to 3% of their salary, up to the applicable Social Security wage base (or \$118,500 with respect to 2016). Additionally, those participants not otherwise eligible to receive certain other Company benefits can earn a variable contribution up to an additional 6% of their salary, capped at the annual covered compensation limits (\$265,000 for 2016), contingent upon OneBeacon's performance. OneBeacon has recorded \$1.4 million and \$1.2 million in compensation expense to pay benefits and allocate common shares to participants' accounts for the three months ended March 31, 2016 and 2015, respectively.

As of March 31, 2016 and December 31, 2015, the KSOP owned less than 3% of either of the total White Mountains common shares outstanding or the total Company common shares outstanding. All common shares held by the KSOP are considered outstanding for earnings per share computations.

NOTE 10. Income Taxes

OneBeacon and its Bermuda-domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event that there is a change in the current law such that taxes are imposed, OneBeacon and its Bermuda-domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. OneBeacon also has subsidiaries that operate in Gibraltar, Barbados, Luxembourg, the United Kingdom and the United States. U.S. operations are financed with a combination of debt and equity and the financing income and underwriting income currently account for the majority of non-U.S. earnings.

OneBeacon's income tax (benefit) expense related to pre-tax income from continuing operations for the three months ended March 31, 2016 and 2015, represented net effective tax rates of (22.8)% and 12.1%, respectively. The effective tax rates for the three months ended March 31, 2016 and 2015, 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 and underwriting income taxed in a jurisdiction with a lower effective tax rate. Additionally, the rate for the three months ended March 31, 2016 was impacted by a \$12.8 million favorable settlement of the 2007-2009 IRS exam, as further described below. For the three months ended March 31, 2016 and 2015, the effective tax rate on non-U.S. income was 0.7% and 1.2%, respectively.

In arriving at the effective tax rate for the three months ended March 31, 2016 and 2015, OneBeacon forecasted all income and expense items including the realized and change in unrealized investment gains for the years ending December 31, 2016 and 2015, and included these gains in the effective tax rate calculation.

OneBeacon records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, OneBeacon considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods as well as prudent and economically feasible strategies that, if executed would result in the realization of a deferred tax asset. It is possible that certain planning strategies or projected earnings in certain subsidiaries may not be feasible to utilize the entire deferred tax asset, which could result in material changes to OneBeacon's deferred tax assets and tax expense.

OneBeacon classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. With few exceptions, OneBeacon is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax

authorities for years before 2010.

On January 19, 2016, OneBeacon received Form 870-AD (Offer to Waive Restrictions on Assessment and Collection Tax Deficiency and to Accept Overassessment) from the IRS Appeals Office relating to the examination of tax years 2007, 2008 and 2009. All disputed items have now been agreed to and resolved with the Joint Committee on Taxation. As the receipt of the Form 870-AD described above represents formal settlement, OneBeacon recorded a tax benefit of \$12.8 million in the first quarter of 2016 related to tax years 2007, 2008 and 2009.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 10. Income Taxes

On September 5, 2013, the IRS commenced an examination of OneBeacon's U.S. income tax returns for 2010, 2011 and 2012. On March 22, 2016, OneBeacon received Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2010, 2011 and 2012. The estimated total overpayment is \$6.0 million. However, \$4.7 million of the adjustments relate to items for which the expense deduction has been disallowed in an earlier period, but deductibility will occur in a year being examined. Because of the impact of deferred tax accounting, other than interest and penalties, the allowance of the deduction in the exam period would not affect the effective tax rate. OneBeacon does not expect the resolution of this examination to result in a material change to its financial position.

## NOTE 11. Fair Value of Financial Instruments

OneBeacon carries its financial instruments on its balance sheet at fair value with the exception of its investment in qualified affordable housing projects, which is accounted for using the proportional amortization method, and fixed-rate, long-term indebtedness. For certain financial instruments where quoted market prices are not available, other independent valuation techniques and assumptions are used. Because considerable judgment is used, these estimates are not necessarily indicative of amounts that could be realized in a current market exchange. Certain financial instruments are excluded from disclosure, including insurance contracts.

As of March 31, 2016 and December 31, 2015, the fair value of OneBeacon's 2012 Senior Notes (its fixed-rate, long-term indebtedness) was \$278.0 million and \$276.4 million, respectively. As described in Note 6—"Debt", the net carrying value of the 2012 Senior Notes was \$272.9 million as of both March 31, 2016 and December 31, 2015. The fair value measurement of the 2012 Senior Notes is classified as Level 2 in the valuation hierarchy and determined based on the closing market price at the end of the fiscal quarter.

## NOTE 12. Legal Contingencies

OneBeacon, and the insurance and reinsurance industry in general, is routinely subject to claims related litigation and arbitration in the normal course of business, as well as litigation and arbitration that does not arise from, or directly relate to, claims activity. OneBeacon's estimates of the costs of settling matters routinely encountered in claims activity are reflected in the reserves for unpaid loss and LAE. See Note 3—"Unpaid Loss and Loss Adjustment Expense ("LAE") Reserves."

OneBeacon evaluates its exposure to non-claims related litigation and arbitration and establishes accruals for litigation and arbitration if it is probable that a loss has been incurred and it can be reasonably estimated. Disclosure of litigation and arbitration is made if it is probable that a loss has been incurred or if there is a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of claims and non-claims related litigation and arbitration, and the amount or range of potential loss at any particular time, is often inherently uncertain, management does not believe that the ultimate outcome of such claims and non-claims related litigation and arbitration will have a material adverse effect on OneBeacon's financial condition, full year results of operations, or cash flows.

The following summarizes significant ongoing non-claims related litigation or arbitration as of March 31, 2016:

## 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, OneBeacon-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, and in 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate the actions for pretrial matters and transferred all such proceedings to the United States District Court for the Southern District of New York. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without

receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. OneBeacon and OneBeacon-sponsored benefit plans received approximately \$32 million for Tribune common stock tendered in connection with the LBO. The Court granted an omnibus motion to dismiss the Noteholders Action in September 2013 and plaintiffs appealed. On March 29, 2016, a three judge panel of the U.S Second Circuit Court of Appeals affirmed the dismissal of the Noteholders Action. The plaintiffs may now accept the



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 12. Legal Contingencies

decision, ask the three judge panel to reconsider, file a motion for a rehearing en banc or seek a writ of certiorari to the U.S. Supreme Court.

In addition, OneBeacon, OneBeacon-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 (the "Committee"), 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 a litigation trustee replaced the Committee as plaintiff in the Committee Action. This matter was consolidated for pretrial matters with the Noteholder Actions in the United States District Court for the Southern District of New York and was stayed pending the motion to dismiss in the Noteholder Action. An omnibus motion to dismiss the shareholder defendants in the Committee Action was filed in May 2014. No amount has been accrued in connection with this matter as of March 31, 2016, as the amount of loss, if any, cannot be reasonably estimated.

## NOTE 13. Earnings per Share

Basic and diluted earnings per share amounts are based on the weighted average number of common shares outstanding, including unvested restricted shares that are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares. The following table outlines the Company's computation of earnings per share for net income from continuing operations attributable to OneBeacon's common shareholders for the three months ended March 31, 2016 and 2015:

|   | Three months<br>ended<br>March 31,<br>2016 2015 |         |
|---|---|---------|
| Earnings attributable to OneBeacon's common shareholders—basic and diluted (in millions):                                     |   |         |
| Net income from continuing operations attributable to OneBeacon's common shareholders   | \$46.4  | \$24.2  |
| Allocation of income for participating unvested restricted common shares  | (0.2 )  | (0.1 )  |
| Dividends paid on participating restricted common shares  | —   | (0.1 )  |
| Total allocation to restricted common shares  | (0.2 )  | (0.2 )  |
| Net income from continuing operations attributable to OneBeacon's common shareholders, net of restricted common share amounts | \$46.2  | \$24.0  |
| Undistributed net earnings (in millions):   |   |         |
| Net income from continuing operations attributable to OneBeacon's common shareholders, net of restricted common share amounts | \$46.2  | \$24.0  |
| Dividends paid, net of restricted common share amounts  | (19.8 )   | (19.9 ) |
| Total undistributed net earnings, net of restricted common share amounts  | \$26.4  | \$4.1   |
| Earnings per share denominator—basic and diluted (in millions):   |   |         |
| Total weighted average common shares outstanding  | 94.5  | 95.3    |
| Weighted average unvested restricted common shares <sup>(1)</sup>   | (0.4 )  | (0.5 )  |
| Basic and diluted earnings per share denominator  | 94.1  | 94.8    |
| Earnings per share attributable to OneBeacon's common shareholders—basic and diluted (in dollars):                            |   |         |
| Net income from continuing operations attributable to OneBeacon's common shareholders   | \$0.49  | \$0.25  |
| Dividends declared and paid   | (0.21 )   | (0.21 ) |
| Undistributed earnings  | \$0.28  | \$0.04  |

- (1) Restricted shares outstanding vest in equal installments upon a stated date or upon the occurrence of a specified event.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 14. Common Shareholders' Equity

## Common Shares Repurchased and Retired

On August 22, 2007, the Company's Board authorized the repurchase of up to \$200.0 million of its 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 authorization does not have a stated expiration date. During the three months ended March 31, 2016, 850,349 shares were repurchased under the share repurchase authorization for \$10.6 million at an average share price of \$12.42. No shares were repurchased under the share repurchase authorization during the three months ended March 31, 2015. The amount of authorization remaining is \$75.0 million as of March 31, 2016. During the three months ended March 31, 2016 and 2015, the Company repurchased 64,981 and 112,051 common shares, respectively, for \$0.9 million and \$1.6 million for the three months ended March 31, 2016 and 2015, respectively, to satisfy employee income tax withholding, pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not reduce the board authorization referred to above. During the three months ended March 31, 2016, no restricted shares were forfeited, with 1,500 such forfeitures occurring during the three months ended March 31, 2015.

## Dividends on Common Shares

During the three months ended March 31, 2016 and 2015 the Company declared and paid cash dividends to OneBeacon shareholders of \$0.21 per common share for a total of \$19.8 million and \$20.0 million, respectively.

## Accumulated Other Comprehensive Loss

The pre-tax components of the Company's other comprehensive income and the related tax expense are as follows:

|   | Three<br>months<br>ended<br>March<br>31,<br>2015 |
|---|--|
| (\$ in millions)  | 2015   |
| Net change in benefit plan assets and obligations             | \$-\$0.3   |
| Income tax expense  | —(0.1 )  |
| Net change in benefit plan assets and obligations, net of tax | \$-\$0.2   |

## NOTE 15. Discontinued Operations

## Runoff Business

As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" and Note 2—"Acquisitions and Dispositions," on December 23, 2014, OneBeacon completed the sale of its Runoff Business to Armour.

In conjunction with the Runoff Transaction, OneBeacon provided financing in the form of surplus notes issued by Bedivere having a par value of \$101.0 million, which had a fair value of \$64.9 million on the date of sale. Subsequent to the date of sale, these notes have been included in other investments on OneBeacon's consolidated balance sheet. See Note 5—"Investment Securities" for further disclosures regarding these surplus notes.

The vast majority of the gross and net run-off unpaid loss and LAE reserves were included in the entities that were transferred to Armour. As of March 31, 2016 and December 31, 2015, gross loss and LAE reserves of \$19.4 million and \$20.4 million, respectively, related to the Runoff Business were ceded to Bedivere, an indirect wholly-owned subsidiary of Armour, by way of a 100% quota share agreement with ASIC.

## Summary of Results of Operations

There was no loss from discontinued operations for the three months ended March 31, 2016. The loss from discontinued operations, net of tax, of \$0.1 million for the three months ended March 31, 2015, was the result of post-closing expenses incurred in connection with the Runoff Business.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 16. Consolidating Financial Information

The Company has fully and unconditionally guaranteed the 2012 Senior Notes issued by its 100% owned subsidiary, OBH, as well as any draw made by OBH on the Credit Facility, which was undrawn as of March 31, 2016. The following tables present OneBeacon's consolidating balance sheets as of March 31, 2016 and December 31, 2015 and statements of operations and comprehensive income for the three months ended March 31, 2016 and 2015 and cash flows for the three months ended March 31, 2016 and 2015. These financial statements reflect the Company's ("guarantor") financial position, results of operations and cash flows on a stand-alone basis, that of OBH ("the issuer") and of the Company's other entities ("non-guarantor subsidiaries") as well as the necessary consolidating adjustments to eliminate intercompany balances and transactions.

| Consolidating Balance Sheet<br>As of March 31, 2016<br>(in millions)        | The<br>Company<br>(guarantor) | Non-guarantor<br>subsidiaries | OBH<br>(issuer) | Consolidating<br>adjustments | Consolidated |
|---|-------------------------------|-------------------------------|-----------------|------------------------------|--------------|
| <b>Assets</b>   |                               |                               |                 |                              |              |
| <b>Investment Securities:</b>   |                               |                               |                 |                              |              |
| Fixed maturity investments, at fair value                                   | \$ —                          | \$ 2,028.7                    | \$ —            | \$ —                         | \$ 2,028.7   |
| Short-term investments, at amortized cost (which approximates fair value)   | 4.2                           | 115.4                         | 0.1             | —                            | 119.7        |
| Common equity securities, at fair value                                     | —                             | 275.9                         | —               | —                            | 275.9        |
| Other investments   | —                             | 137.8                         | —               | —                            | 137.8        |
| Total investment securities   | 4.2                           | 2,557.8                       | 0.1             | —                            | 2,562.1      |
| Cash  | —                             | 108.6                         | 0.2             | —                            | 108.8        |
| Reinsurance recoverables  | —                             | 167.0                         | —               | —                            | 167.0        |
| Premiums receivable   | —                             | 230.4                         | —               | —                            | 230.4        |
| Deferred acquisition costs  | —                             | 102.0                         | —               | —                            | 102.0        |
| Ceded unearned premiums   | —                             | 36.3                          | —               | —                            | 36.3         |
| Net deferred tax asset  | —                             | 134.0                         | —               | 0.1                          | 134.1        |
| Investment income accrued   | —                             | 9.4                           | —               | —                            | 9.4          |
| Accounts receivable on unsettled investment sales                           | —                             | 4.5                           | —               | —                            | 4.5          |
| Investments in subsidiaries   | 1,013.5                       | —                             | 982.8           | (1,996.3)                    | —            |
| Other assets  | 0.2                           | 171.4                         | 2.8             | —                            | 174.4        |
| Total assets  | \$ 1,017.9                    | \$ 3,521.4                    | \$ 985.9        | \$ (1,996.2)                 | \$ 3,529.0   |
| <b>Liabilities</b>  |                               |                               |                 |                              |              |
| Unpaid loss and loss adjustment expense reserves                            | \$ —                          | \$ 1,343.8                    | \$ —            | \$ —                         | \$ 1,343.8   |
| Unearned premiums   | —                             | 568.6                         | —               | —                            | 568.6        |
| Funds held under insurance contracts  | —                             | 134.9                         | —               | —                            | 134.9        |
| Debt  | —                             | —                             | 272.9           | —                            | 272.9        |
| Accounts payable on unsettled investment purchases                          | —                             | 1.5                           | —               | —                            | 1.5          |
| Other liabilities   | 1.3                           | 177.1                         | 9.1             | —                            | 187.5        |
| Total liabilities   | 1.3                           | 2,225.9                       | 282.0           | —                            | 2,509.2      |
| <b>OneBeacon's common shareholders' equity and noncontrolling interests</b> |                               |                               |                 |                              |              |
| Total OneBeacon's common shareholders' equity                               | 1,016.6                       | 1,292.3                       | 703.9           | (1,996.2)                    | 1,016.6      |
| Total noncontrolling interests  | —                             | 3.2                           | —               | —                            | 3.2          |
| Total OneBeacon's common shareholders' equity and noncontrolling interests  | 1,016.6                       | 1,295.5                       | 703.9           | (1,996.2)                    | 1,019.8      |
|   | \$ 1,017.9                    | \$ 3,521.4                    | \$ 985.9        | \$ (1,996.2)                 | \$ 3,529.0   |

Total liabilities, OneBeacon's common shareholders'  
equity and noncontrolling interests

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 16. Consolidating Financial Information

| Consolidating Balance Sheet<br>As of December 31, 2015<br>(in millions)                 | The<br>Company<br>(guarantor) | Non-guarantor<br>subsidiaries | OBH<br>(issuer) | Consolidating<br>adjustments | Consolidated |
|---|-------------------------------|-------------------------------|-----------------|------------------------------|--------------|
| <b>Assets</b>   |                               |                               |                 |                              |              |
| <b>Investment Securities:</b>   |                               |                               |                 |                              |              |
| Fixed maturity investments, at fair value   | \$ —                          | \$ 2,074.6                    | \$ 5.9          | \$ —                         | \$ 2,080.5   |
| Short-term investments, at amortized cost (which approximates fair value)               | 4.4                           | 64.1                          | 0.7             | —                            | 69.2         |
| Common equity securities, at fair value   | —                             | 298.7                         | —               | —                            | 298.7        |
| Other investments   | —                             | 143.0                         | —               | —                            | 143.0        |
| Total investment securities   | 4.4                           | 2,580.4                       | 6.6             | —                            | 2,591.4      |
| Cash  | —                             | 94.6                          | 0.6             | —                            | 95.2         |
| Reinsurance recoverables  | —                             | 193.5                         | —               | —                            | 193.5        |
| Premiums receivable   | —                             | 219.0                         | —               | —                            | 219.0        |
| Deferred acquisition costs  | —                             | 100.7                         | —               | —                            | 100.7        |
| Ceded unearned premiums   | —                             | 29.5                          | —               | —                            | 29.5         |
| Net deferred tax asset  | —                             | 140.1                         | —               | 0.1                          | 140.2        |
| Investment income accrued   | —                             | 10.1                          | —               | —                            | 10.1         |
| Accounts receivable on unsettled investment sales                                       | —                             | 30.5                          | —               | —                            | 30.5         |
| Investments in subsidiaries   | 996.9                         | —                             | 951.3           | (1,948.2 )                   | —            |
| Other assets  | 0.5                           | 190.6                         | 1.4             | —                            | 192.5        |
| Total assets  | \$ 1,001.8                    | \$ 3,589.0                    | \$ 959.9        | \$ (1,948.1 )                | \$ 3,602.6   |
| <b>Liabilities</b>  |                               |                               |                 |                              |              |
| Unpaid loss and loss adjustment expense reserves  | \$ —                          | \$ 1,389.8                    | \$ —            | \$ —                         | \$ 1,389.8   |
| Unearned premiums   | —                             | 560.3                         | —               | —                            | 560.3        |
| Funds held under insurance contracts  | —                             | 137.7                         | —               | —                            | 137.7        |
| Debt  | —                             | —                             | 272.9           | —                            | 272.9        |
| Other liabilities   | 0.9                           | 230.4                         | 6.1             | —                            | 237.4        |
| Total liabilities   | 0.9                           | 2,318.2                       | 279.0           | —                            | 2,598.1      |
| <b>OneBeacon's common shareholders' equity and noncontrolling interests</b>             |                               |                               |                 |                              |              |
| Total OneBeacon's common shareholders' equity   | 1,000.9                       | 1,267.2                       | 680.9           | (1,948.1 )                   | 1,000.9      |
| Total noncontrolling interests  | —                             | 3.6                           | —               | —                            | 3.6          |
| Total OneBeacon's common shareholders' equity and noncontrolling interests              | 1,000.9                       | 1,270.8                       | 680.9           | (1,948.1 )                   | 1,004.5      |
| Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests | \$ 1,001.8                    | \$ 3,589.0                    | \$ 959.9        | \$ (1,948.1 )                | \$ 3,602.6   |





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 16. Consolidating Financial Information

| Consolidating Statement of Operations and<br>Comprehensive Income<br>Three months ended March 31, 2016<br>(in millions) | The<br>Company<br>(guarantor) | Non-guarantor<br>subsidiaries | OBH<br>(issuer) | Consolidating<br>adjustments | Consolidated |
|---|-------------------------------|-------------------------------|-----------------|------------------------------|--------------|
| Revenues  |                               |                               |                 |                              |              |
| Earned premiums   | \$ —                          | \$ 278.6                      | \$ —            | \$ —                         | \$ 278.6     |
| Net investment income   | —                             | 14.4                          | —               | —                            | 14.4         |
| Net realized and change in unrealized investment gains  | —                             | 16.6                          | —               | —                            | 16.6         |
| Net other revenues  | —                             | 0.9                           | —               | —                            | 0.9          |
| Total revenues  | —                             | 310.5                         | —               | —                            | 310.5        |
| Expenses  |                               |                               |                 |                              |              |
| Loss and loss adjustment expenses   | —                             | 158.8                         | —               | —                            | 158.8        |
| Policy acquisition expenses   | —                             | 51.0                          | —               | —                            | 51.0         |
| Other underwriting expenses   | —                             | 55.3                          | —               | —                            | 55.3         |
| General and administrative expenses   | 1.2                           | 2.7                           | —               | —                            | 3.9          |
| Interest expense  | —                             | —                             | 3.3             | —                            | 3.3          |
| Total expenses  | 1.2                           | 267.8                         | 3.3             | —                            | 272.3        |
| Pre-tax income (loss) from continuing operations  | (1.2 )                        | 42.7                          | (3.3 )          | —                            | 38.2         |
| Income tax benefit  | —                             | 7.1                           | 1.6             | —                            | 8.7          |
| Net income (loss) from continuing operations  | (1.2 )                        | 49.8                          | (1.7 )          | —                            | 46.9         |
| Loss from discontinued operations, net of tax   | —                             | —                             | —               | —                            | —            |
| Income (loss) before equity in earnings of unconsolidated affiliates  | (1.2 )                        | 49.8                          | (1.7 )          | —                            | 46.9         |
| Equity in earnings of subsidiaries, net of tax  | 47.6                          | —                             | 22.7            | (70.3 )                      | —            |
| Net income including noncontrolling interests   | 46.4                          | 49.8                          | 21.0            | (70.3 )                      | 46.9         |
| Less: Net income attributable to noncontrolling interests   | —                             | (0.5 )                        | —               | —                            | (0.5 )       |
| Net income attributable to OneBeacon's common shareholders  | 46.4                          | 49.3                          | 21.0            | (70.3 )                      | 46.4         |
| Other comprehensive income, net of tax  | —                             | —                             | —               | —                            | —            |
| Comprehensive income attributable to OneBeacon's common shareholders  | \$ 46.4                       | \$ 49.3                       | \$ 21.0         | \$ (70.3 )                   | \$ 46.4      |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 16. Consolidating Financial Information

| Consolidating Statement of Operations and<br>Comprehensive Income<br>Three months ended March 31, 2015<br>(in millions) | The<br>Company<br>(guarantor) | Non-guarantor<br>subsidiaries | OBH<br>(issuer) | Consolidating<br>adjustments | Consolidated |
|---|-------------------------------|-------------------------------|-----------------|------------------------------|--------------|
| Revenues  |                               |                               |                 |                              |              |
| Earned premiums   | \$ —                          | \$ 286.6                      | \$ —            | \$ —                         | \$ 286.6     |
| Net investment income   | —                             | 10.5                          | —               | —                            | 10.5         |
| Net realized and change in unrealized investment gains  | —                             | 14.2                          | —               | —                            | 14.2         |
| Net other revenues (expenses)   | —                             | (3.1                          | )               | —                            | (3.1         |
| Total revenues  | —                             | 308.2                         | —               | —                            | 308.2        |
| Expenses  |                               |                               |                 |                              |              |
| Loss and loss adjustment expenses   | —                             | 165.9                         | —               | —                            | 165.9        |
| Policy acquisition expenses   | —                             | 51.0                          | —               | —                            | 51.0         |
| Other underwriting expenses   | —                             | 55.9                          | —               | —                            | 55.9         |
| General and administrative expenses   | 1.3                           | 2.7                           | 0.1             | —                            | 4.1          |
| Interest expense  | —                             | —                             | 3.2             | —                            | 3.2          |
| Total expenses  | 1.3                           | 275.5                         | 3.3             | —                            | 280.1        |
| Pre-tax income (loss) from continuing operations  | (1.3                          | )                             | 32.7            | (3.3                         | )            |
| Income tax (expense) benefit  | —                             | (4.8                          | )               | 1.4                          | —            |
| Net income (loss) from continuing operations  | (1.3                          | )                             | 27.9            | (1.9                         | )            |
| Loss from discontinued operations, net of tax   | —                             | (0.1                          | )               | —                            | —            |
| Net income (loss) before equity in earnings of<br>unconsolidated affiliates   | (1.3                          | )                             | 27.8            | (1.9                         | )            |
| Equity in earnings of subsidiaries, net of tax  | 25.4                          | —                             | 12.6            | (38.0                        | )            |
| Net income including noncontrolling interests   | 24.1                          | 27.8                          | 10.7            | (38.0                        | )            |
| Less: Net income attributable to noncontrolling interests   | —                             | (0.5                          | )               | —                            | —            |
| Net income attributable to OneBeacon's common<br>shareholders   | 24.1                          | 27.3                          | 10.7            | (38.0                        | )            |
| Other comprehensive income, net of tax  | 0.2                           | —                             | 0.2             | (0.2                         | )            |
| Comprehensive income attributable to OneBeacon's<br>common shareholders   | \$ 24.3                       | \$ 27.3                       | \$ 10.9         | \$ (38.2                     | )            |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 16. Consolidating Financial Information

| Consolidating Statement of Cash Flows<br>Three months ended March 31, 2016<br>(in millions)     | The<br>Company<br>(guarantor) | Non-guarantor<br>subsidiaries | OBH<br>(issuer) | Consolidating<br>adjustments | Consolidated |
|---|-------------------------------|-------------------------------|-----------------|------------------------------|--------------|
| Cash flows from operations:   |                               |                               |                 |                              |              |
| Net income including noncontrolling interests   | \$ 46.4                       | \$ 49.8                       | \$ 21.0         | \$ (70.3 )                   | \$ 46.9      |
| Charges (credits) to reconcile net income to cash flows<br>provided from (used for) operations: |                               |                               |                 |                              |              |
| Undistributed earnings from subsidiaries  | (47.6 )                       | —                             | (22.7 )         | 70.3                         | —            |
| Net realized and change in unrealized investment gains  | —                             | (16.6 )                       | —               | —                            | (16.6 )      |
| Deferred income tax expense   | —                             | 6.7                           | —               | —                            | 6.7          |
| Dividends received from subsidiaries  | 31.0                          | —                             | —               | (31.0 )                      | —            |
| Other operating items:  |                               |                               |                 |                              |              |
| Net change in loss and LAE reserves   | —                             | (46.0 )                       | —               | —                            | (46.0 )      |
| Net change in unearned premiums   | —                             | 8.3                           | —               | —                            | 8.3          |
| Net change in ceded unearned premiums   | —                             | (6.8 )                        | —               | —                            | (6.8 )       |
| Net change in premiums receivable   | —                             | (11.4 )                       | —               | —                            | (11.4 )      |
| Net change in reinsurance recoverables on paid and<br>unpaid losses                             | —                             | 26.5                          | —               | —                            | 26.5         |
| Net change in funds held under insurance contracts  | —                             | (2.8 )                        | —               | —                            | (2.8 )       |
| Net change in other assets and liabilities  | 1.3                           | (31.2 )                       | 1.6             | —                            | (28.3 )      |
| Net cash provided from (used for) operations  | 31.1                          | (23.5 )                       | (0.1 )          | (31.0 )                      | (23.5 )      |
| Cash flows from investing activities:   |                               |                               |                 |                              |              |
| Net maturities, purchases and sales of short-term<br>investments                                | 0.2                           | (51.3 )                       | 0.6             | —                            | (50.5 )      |
| Maturities of fixed maturity investments  | —                             | 110.1                         | —               | —                            | 110.1        |
| Sales of fixed maturity investments   | —                             | 161.9                         | 5.9             | (5.9 )                       | 161.9        |
| Sales of common equity securities   | —                             | 103.2                         | —               | —                            | 103.2        |
| Return of capital and distributions of other investments  | —                             | 3.0                           | —               | —                            | 3.0          |
| Purchases of fixed maturity investments   | —                             | (215.7 )                      | —               | 5.9                          | (209.8 )     |
| Purchases of common equity securities   | —                             | (75.4 )                       | —               | —                            | (75.4 )      |
| Contributions for other investments   | —                             | (0.3 )                        | —               | —                            | (0.3 )       |
| Net change in unsettled investment purchases and sales  | —                             | 27.6                          | —               | —                            | 27.6         |
| Net acquisitions of property and equipment  | —                             | (0.9 )                        | —               | —                            | (0.9 )       |
| Capital contribution from parent  | —                             | 8.8                           | 2.0             | (10.8 )                      | —            |
| Net cash provided from investing activities   | 0.2                           | 71.0                          | 8.5             | (10.8 )                      | 68.9         |
| Cash flows from financing activities:   |                               |                               |                 |                              |              |
| Cash dividends paid to common shareholders  | (19.8 )                       | —                             | —               | —                            | (19.8 )      |
| Cash dividends paid to parent   | —                             | (31.0 )                       | —               | 31.0                         | —            |
| Capital contribution to subsidiary  | —                             | (2.0 )                        | (8.8 )          | 10.8                         | —            |
| Repurchases and retirements of common stock   | (11.5 )                       | —                             | —               | —                            | (11.5 )      |
| Payments on capital lease obligation  | —                             | (0.5 )                        | —               | —                            | (0.5 )       |
| Net cash used for financing activities  | (31.3 )                       | (33.5 )                       | (8.8 )          | 41.8                         | (31.8 )      |
| Net increase (decrease) in cash during period   | —                             | 14.0                          | (0.4 )          | —                            | 13.6         |
| Cash balance at beginning of period   | —                             | 94.6                          | 0.6             | —                            | 95.2         |
| Cash balance at end of period   | \$ —                          | \$ 108.6                      | \$ 0.2          | \$ —                         | \$ 108.8     |



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 16. Consolidating Financial Information

| Consolidating Statement of Cash Flows<br>Three months ended March 31, 2015<br>(in millions)     | The<br>Company<br>(guarantor) | Non-guarant<br>subsidiaries | OBH<br>(issuer) | Consolidating<br>adjustments | Consolidated |
|---|-------------------------------|-----------------------------|-----------------|------------------------------|--------------|
| Cash flows from operations:   |                               |                             |                 |                              |              |
| Net income including noncontrolling interests   | \$ 24.1                       | \$ 27.8                     | \$ 10.7         | \$ (38.0 )                   | \$ 24.6      |
| Charges (credits) to reconcile net income to cash flows<br>provided from (used for) operations: |                               |                             |                 |                              |              |
| Undistributed earnings from subsidiaries  | (25.4 )                       | —                           | (12.6 )         | 38.0                         | —            |
| Net loss from discontinued operations   | —                             | 0.1                         | —               | —                            | 0.1          |
| Net realized and change in unrealized investment gains  | —                             | (14.2 )                     | —               | —                            | (14.2 )      |
| Net adjustment to gain on sale of business  | —                             | 3.7                         | —               | —                            | 3.7          |
| Deferred income tax expense   | —                             | 0.5                         | —               | —                            | 0.5          |
| Dividends received from subsidiaries  | 20.0                          | —                           | —               | (20.0 )                      | —            |
| Other operating items:  |                               |                             |                 |                              |              |
| Net change in loss and LAE reserves   | —                             | (38.2 )                     | —               | —                            | (38.2 )      |
| Net change in unearned premiums   | —                             | 2.0                         | —               | —                            | 2.0          |
| Net change in ceded unearned premiums   | —                             | (1.4 )                      | —               | —                            | (1.4 )       |
| Net change in premiums receivable   | —                             | (16.6 )                     | —               | —                            | (16.6 )      |
| Net change in reinsurance recoverables on paid and unpaid<br>losses                             | —                             | 14.0                        | —               | —                            | 14.0         |
| Net change in funds held under reinsurance contracts  | —                             | 19.7                        | —               | —                            | 19.7         |
| Net change in funds held under insurance contracts  | —                             | 12.0                        | —               | —                            | 12.0         |
| Net change in other assets and liabilities  | 2.8                           | 12.1                        | 2.3             | —                            | 17.2         |
| Net cash provided from operations—continuing operations   | 21.5                          | 21.5                        | 0.4             | (20.0 )                      | 23.4         |
| Net cash used for operations—discontinued operations  | —                             | (0.1 )                      | —               | —                            | (0.1 )       |
| Net cash provided from operations   | 21.5                          | 21.4                        | 0.4             | (20.0 )                      | 23.3         |
| Cash flows from investing activities:   |                               |                             |                 |                              |              |
| Net maturities, purchases and sales of short-term<br>investments                                | 0.1                           | 8.1                         | (0.2 )          | —                            | 8.0          |
| Maturities of fixed maturity investments  | —                             | 32.9                        | —               | —                            | 32.9         |
| Sales of fixed maturity investments   | —                             | 177.6                       | —               | —                            | 177.6        |
| Sales of common equity securities   | —                             | 39.6                        | —               | —                            | 39.6         |
| Return of capital and distributions of other investments  | —                             | 3.7                         | —               | —                            | 3.7          |
| Purchases of fixed maturity investments   | —                             | (273.0 )                    | —               | —                            | (273.0 )     |
| Purchases of common equity securities   | —                             | (26.2 )                     | —               | —                            | (26.2 )      |
| Contributions for other investments   | —                             | (1.9 )                      | —               | —                            | (1.9 )       |
| Net change in unsettled investment purchases and sales  | —                             | 40.3                        | —               | —                            | 40.3         |
| Net acquisitions of property and equipment  | —                             | (0.4 )                      | —               | —                            | (0.4 )       |
| Net cash provided from (used for) investing activities  | 0.1                           | 0.7                         | (0.2 )          | —                            | 0.6          |
| Cash flows from financing activities:   |                               |                             |                 |                              |              |
| Cash dividends paid to common shareholders  | (20.0 )                       | —                           | —               | —                            | (20.0 )      |
| Cash dividends paid to parent   | —                             | (20.0 )                     | —               | 20.0                         | —            |
| Repurchases and retirements of common stock   | (1.6 )                        | —                           | —               | —                            | (1.6 )       |
| Payments on capital lease obligation  | —                             | (1.4 )                      | —               | —                            | (1.4 )       |
| Net cash used for financing activities  | (21.6 )                       | (21.4 )                     | —               | 20.0                         | (23.0 )      |
| Net increase in cash during period  | —                             | 0.7                         | 0.2             | —                            | 0.9          |

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|                                     |      |         |       |      |         |
|-------------------------------------|------|---------|-------|------|---------|
| Cash balance at beginning of period | —    | 87.0    | —     | —    | 87.0    |
| Cash balance at end of period       | \$ — | \$ 87.7 | \$0.2 | \$ — | \$ 87.9 |

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Table of ContentsITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. 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 55 for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.

Overview—Three months ended March 31, 2016 versus three months ended March 31, 2015

We ended the first quarter of 2016 with a book value per share of \$10.78, reflecting a 4.4% increase, including a quarterly dividend of \$0.21 per share, for the three months ended March 31, 2016.

Net income attributable to OneBeacon's common shareholders was \$46.4 million for the first quarter of 2016, compared to net income of \$24.1 million for the first quarter of 2015. Pre-tax underwriting income was \$13.5 million for the first quarter of 2016, compared to pre-tax underwriting income of \$13.8 million for the first quarter of 2015, reflecting a combined ratio of 95.2% for both periods. Pre-tax underwriting results for the first quarter of 2016 were driven by the strong performance of a number of our businesses and also benefited from the improved relative performance of our Entertainment business which was significantly impacted by large and small to mid-sized claims in the first quarter of 2015. This favorable performance in the majority of our businesses was mostly offset by unfavorable performance in other businesses driven mainly by large claims and heavy loss activity in our Healthcare business. Pre-tax net investment return was \$31.0 million for the first quarter of 2016, representing a 1.2% total return on average invested assets, compared to \$24.7 million for the first quarter of 2015, representing a 1.0% total return on average invested assets. The increase was driven primarily by a higher return from our fixed maturity investments portfolio, which was positively impacted by declining interest rates in the first quarter of 2016.

Our net income for the first quarter of 2016 included a \$12.8 million tax benefit resulting from the settlement of an IRS examination for tax years 2007, 2008 and 2009. Our net income for the first quarter of 2015 was adversely impacted by a \$3.7 million negative adjustment to the pre-tax gain on the sale of Essentia Insurance Company (Essentia) in connection with an assessment from the Michigan Catastrophic Claims Association (MCCA) payable to Markel Corporation pursuant to the indemnification provisions in the stock purchase agreement governing the sale of Essentia.

## Book Value Per Share

The following table presents our book value per share:

|  | March     | December  | March     |
|--|-----------|-----------|-----------|
| (in millions except per share amounts)   | 31,       | 31,       | 31,       |
|  | 2016      | 2015      | 2015      |
| Numerator                                |           |           |           |
| OneBeacon's common shareholders' equity  | \$1,016.6 | \$1,000.9 | \$1,049.1 |
| Denominator                              |           |           |           |
| Common shares outstanding <sup>(1)</sup> | 94.3      | 95.1      | 95.3      |
| Book value per share <sup>(1)</sup>      | \$10.78   | \$10.53   | \$11.01   |
|  |           |           |           |
| Dividends paid per share, year-to-date   | \$0.21    | \$0.84    | \$0.21    |

<sup>(1)</sup> Common shares outstanding includes unvested restricted shares.

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## Results of Operations

## Review of Consolidated Results

A summary of our consolidated financial results for the three months ended March 31, 2016 and 2015 is as follows:

| (\$ in millions)   | Three months<br>ended<br>March 31, |         |
|--|------------------------------------|---------|
|  | 2016                               | 2015    |
| Gross written premiums   | \$310.5                            | \$316.0 |
| Net written premiums   | \$280.1                            | \$287.1 |
| Revenues   |                                    |         |
| Earned premiums  | \$278.6                            | \$286.6 |
| Net investment income  | 14.4                               | 10.5    |
| Net realized and change in unrealized investment gains               | 16.6                               | 14.2    |
| Net other revenues (expenses)  | 0.9                                | (3.1 )  |
| Total revenues   | 310.5                              | 308.2   |
| Expenses   |                                    |         |
| Loss and loss adjustment expense (LAE)                               | 158.8                              | 165.9   |
| Policy acquisition expenses  | 51.0                               | 51.0    |
| Other underwriting expenses  | 55.3                               | 55.9    |
| General and administrative expenses                                  | 3.9                                | 4.1     |
| Interest expense   | 3.3                                | 3.2     |
| Total expenses   | 272.3                              | 280.1   |
| Pre-tax income from continuing operations                            | 38.2                               | 28.1    |
| Income tax benefit (expense)   | 8.7                                | (3.4 )  |
| Net income from continuing operations                                | 46.9                               | 24.7    |
| Loss from discontinued operations, net of tax                        | —                                  | (0.1 )  |
| Net income including noncontrolling interests                        | 46.9                               | 24.6    |
| Less: Net income attributable to noncontrolling interests            | (0.5 )                             | (0.5 )  |
| Net income attributable to OneBeacon's common shareholders           | 46.4                               | 24.1    |
| Other comprehensive income, net of tax                               | —                                  | 0.2     |
| Comprehensive income attributable to OneBeacon's common shareholders | \$46.4                             | \$24.3  |

A summary of our consolidated underwriting income and pre-tax income from continuing operations is as follows:

| (\$ in millions)                                       | Three months<br>ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2016                               | 2015     |
| Earned premiums  | \$278.6                            | \$286.6  |
| Loss and LAE   | (158.8 )                           | (165.9 ) |
| Policy acquisition expenses                            | (51.0 )                            | (51.0 )  |
| Other underwriting expenses                            | (55.3 )                            | (55.9 )  |
| Pre-tax underwriting income                            | 13.5                               | 13.8     |
| Net investment income                                  | 14.4                               | 10.5     |
| Net realized and change in unrealized investment gains | 16.6                               | 14.2     |
| Net other revenues (expenses)                          | 0.9                                | (3.1 )   |
| General and administrative expenses                    | (3.9 )                             | (4.1 )   |
| Interest expense                                       | (3.3 )                             | (3.2 )   |
| Pre-tax income from continuing operations              | \$38.2                             | \$28.1   |





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The following table provides our consolidated underwriting ratios for the three months ended March 31, 2016 and 2015:

|                      | Three months<br>ended<br>March 31,<br>2016 2015 |       |
|----------------------|---|-------|
| Underwriting ratios: |   |       |
| Loss and LAE         | 57.0%   | 57.9% |
| Expense              | 38.2  | 37.3  |
| Total combined ratio | 95.2%   | 95.2% |

The impact of certain items to our underwriting ratios was as follows:

|  | Three months<br>ended<br>March 31,<br>2016 2015 |           |
|--|---|-----------|
| (Favorable) unfavorable impact                         |   |           |
| Point impact on loss and LAE ratio and combined ratio: |   |           |
| Catastrophe losses, net of reinsurance                 | 0.9 pts   | 2.0 pts   |
| Prior year loss reserve development                    | —   | (0.6) pts |

Consolidated Results—Three months ended March 31, 2016 versus three months ended March 31, 2015

Our comprehensive income attributable to OneBeacon's common shareholders was \$46.4 million for the first quarter of 2016 compared to \$24.3 million for the first quarter of 2015, with the change driven primarily by a \$12.8 million tax benefit resulting from the settlement of an IRS examination for tax years 2007, 2008 and 2009. Additionally, pre-tax investment results increased \$6.3 million driven by our fixed maturity investments portfolio, which was positively impacted by declining interest rates in the first quarter of 2016. Pre-tax underwriting results decreased slightly to \$13.5 million for the first quarter of 2016, compared to \$13.8 million for the first quarter of 2015 driven by the factors discussed below in "Underwriting Results."

Our total revenues of \$310.5 million for the first quarter of 2016 increased \$2.3 million from \$308.2 million for the 2015 period, due to the \$6.3 million increase in pre-tax investment results and an increase in other revenues (expenses) of \$4.0 million driven by the impact of the \$3.7 million negative adjustment to the pre-tax gain on the sale of Essentia Insurance Company (Essentia) included in the first quarter of 2015. These increases were partially offset by a decrease in net earned premiums of \$8.0 million, or 2.8%, primarily from decreases at our Healthcare business and in Other Professional Lines, which includes the lawyers professional liability line that was exited in 2015.

**Written Premiums**

Consolidated net written premiums were \$280.1 million in the first quarter of 2016, a decrease of 2.4% from the comparative prior year period. The Company previously exited its lawyers liability and Crop businesses, as well as an affiliated reinsurance treaty. These exited businesses included \$8.6 million of negative written premiums recorded in the first quarter of 2015 which, when excluding these amounts, resulted in a decrease to net written premiums of 5.3%. The decrease in net written premiums was driven by decreases of \$10.6 million and \$7.4 million at our Healthcare and Accident businesses, respectively. These decreases were partially offset by increases primarily at our newer Programs and Surety businesses of \$6.2 million and \$5.1 million, respectively.

**Underwriting Results**

Our pre-tax underwriting income was \$13.5 million for the first quarter of 2016, compared to pre-tax underwriting income of \$13.8 million for the first quarter of 2015.

Our combined ratio for the first quarter of 2016 of 95.2% reflected a 57.0% loss and LAE ratio and a 38.2% expense ratio, which compared to a combined ratio for the first quarter of 2015 of 95.2%, consisting of a 57.9% loss and LAE ratio and a 37.3% expense ratio.

The 0.9 point decrease in the loss and LAE ratio was comprised of a 0.4 point decrease in current accident year non-catastrophe losses, a 0.6 point decline in favorable prior year loss reserve development compared to the prior year period, and a 1.1 point decrease in catastrophe losses.

Current accident year non-catastrophe losses for the first quarter of 2016 of \$156.3 million, or 56.1 points, compared to \$162.1 million, or 56.5 points, for the 2015 period driven by favorable results at most of our businesses in the first quarter of 2016 and the adverse impact of Crop on the 2015 period. Partially offsetting these decreases was a higher current accident year provision in our Programs business.

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There was no net prior year loss and LAE reserve development in the first quarter of 2016, although unfavorable development was recorded primarily in the Healthcare business driven by large claims and heavy loss activity was offset by favorable development at a number of businesses, most notably Technology and Accident. This compared with \$1.8 million, or 0.6 points, of net favorable prior year loss and LAE reserve development for the first quarter of 2015 driven by favorable development from Crop resulting from the 2014 crop year and favorable development in several other businesses, most notably Ocean Marine. This favorable development in the 2015 period was mostly offset by unfavorable development in Entertainment driven by large and small to mid-sized claims and Inland Marine resulting from a few large claims.

Catastrophe losses of \$2.5 million, or 0.9 points, were fairly benign in the first quarter of 2016 compared to \$5.6 million, or 2.0 points, for the first quarter of 2015 primarily resulting from winter storms in the northeastern United States.

The expense ratio increased 0.9 points to 38.2% for the first quarter of 2016, compared to 37.3% for the first quarter of 2015, driven by the negative impact of lower earned premiums in the 2016 period, increased acquisition costs resulting from a change in the mix of business, and higher employee benefit costs as the prior year was favorably impacted by the net periodic benefit income from the over funded qualified pension plan and from medical plan related refunds, as well as severance costs incurred in the 2016 period. These unfavorable expense increases more than offset the favorable impact of exiting Crop and the adverse impact on the 2015 period of separation costs associated with senior management restructuring incurred in the first quarter of 2015.

**Investments**

Net investment income increased to \$14.4 million for the first quarter of 2016, compared to \$10.5 million for the first quarter of 2015 driven by a \$2.4 million interest payment on the surplus notes. Net realized and change in unrealized investment gains of \$16.6 million compared to \$14.2 million in the first quarter of 2015. The increase was driven primarily by a higher return from our fixed maturity investments portfolio, which was positively impacted by declining interest rates in the first quarter of 2016.

**Other Revenues (Expenses)**

The \$4.0 million favorable change in other revenues (expenses) compared to the first quarter of 2015 was driven by the impact of the \$3.7 million negative adjustment to the pre-tax gain on the sale of Essentia included in the first quarter of 2015.

**Income Taxes**

Our income tax (benefit) expense related to pre-tax income from continuing operations for the three months ended March 31, 2016 and 2015 represented net effective tax rates of (22.8)% and 12.1%, respectively. The effective tax rate for the three months ended March 31, 2016 was negative due to the impact of a \$12.8 million favorable settlement of the 2007, 2008 and 2009 IRS exam. The effective tax rate for the three months ended March 31, 2015, 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 and underwriting income taxed in a jurisdiction with a lower effective tax rate, which also provided a benefit to the current period. The effective tax rate on non-U.S. income for the three months ended March 31, 2016 and 2015 was 0.7% and 1.2%, respectively.

**Reinsurance Protection**

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

For the three months ended March 31, 2016 and 2015, our net combined ratio was higher than our gross combined ratio by 10.7 points and 5.6 points, respectively. In the first quarter of 2016, the Crop business reduced the gross combined ratio, but had no effect on the net combined ratio, as 100% of the Crop results were ceded under the quota

share reinsurance agreement that OneBeacon entered into on July 31, 2015 pursuant to our exit of the Crop business. Excluding the effects of the Crop business, our net combined ratio was higher than our gross combined ratio by 5.3 points and 5.0 points for the three months ended March 31, 2016 and 2015, respectively, as a result of the cost of the reinsurance programs.

#### Summary of Operations By Segment

Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate. The Specialty Products segment is comprised of ten active 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. Specialty Products includes the Healthcare, Management Liability, Financial Services, Other Professional Lines,

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Specialty Property, Environmental, Tuition Reimbursement, Programs, Surety and Financial Institutions underwriting operating segments, as well as Crop, which was exited in the third quarter of 2015.

The Specialty Industries segment is comprised of six active underwriting operating segments, representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Specialty Industries segment includes the Ocean Marine, Inland Marine, Technology, Accident, Government Risks and Entertainment underwriting operating segments.

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.

**Specialty Products**

Financial results for our Specialty Products reportable segment for the three months ended March 31, 2016 and 2015 were as follows:

| (\$ in millions)                                 | Three months ended |         |
|--|--------------------|---------|
|  | March 31,          |         |
|  | 2016               | 2015    |
| Gross written premiums                           | \$164.7            | \$152.9 |
| Net written premiums                             | \$144.7            | \$133.6 |
| Earned premiums                                  | \$133.4            | \$136.1 |
| Loss and LAE                                     | (91.8 )            | (74.1 ) |
| Policy acquisition expenses                      | (24.0 )            | (22.9 ) |
| Other underwriting expenses                      | (23.4 )            | (25.7 ) |
| Total underwriting income (loss)                 | (5.8 )             | 13.4    |
| Net other expenses                               | (0.1 )             | —       |
| General and administrative expenses              | —                  | —       |
| Pre-tax income (loss) from continuing operations | \$(5.9 )           | \$13.4  |

The following table provides underwriting ratios for Specialty Products for the three months ended March 31, 2016 and 2015:

|                      | Three months ended |       |
|----------------------|--------------------|-------|
|                      | March 31,          |       |
|                      | 2016               | 2015  |
| Underwriting ratios: |                    |       |
| Loss and LAE         | 68.8 %             | 54.4% |
| Expense              | 35.6               | 35.8  |
| Total combined ratio | 104.4%             | 90.2% |

The impact of certain items to our underwriting ratios was as follows:

| (Favorable) unfavorable impact                         | Three months ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2016               | 2015      |
| Point impact on loss and LAE ratio and combined ratio: |                    |           |
| Catastrophe losses, net of reinsurance                 | 0.4 pts            | 0.1 pts   |
| Prior year loss reserve development                    | 10.3 pts           | (3.1) pts |

Specialty Products—Three months ended March 31, 2016 versus three months ended March 31, 2015

Net written premiums for Specialty Products increased to \$144.7 million for the first quarter of 2016 from \$133.6 million for the comparative 2015 period, primarily due to increases at our newer Programs and Surety businesses of \$6.2 million and \$5.1 million, respectively. Additionally, the 2015 period was negatively impacted by negative written premiums related to premium adjustments for the 2014 crop year due to the reinsurance impact of favorable incurred

losses within Crop, the termination of an affiliated reinsurance treaty, including the transfer of the remaining unearned premium, and negative written premiums within the exited lawyers business. Excluding the \$8.6 million negative written premium for these exited businesses,

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net written premiums increased \$2.3 million, or 1.6%. These favorable changes were partially offset by a \$10.6 million decrease at our Healthcare business due to increased competition and a change in underwriting appetite. The Specialty Products combined ratio for the first quarter of 2016 increased to 104.4% from 90.2% for the first quarter of 2015, as the loss and LAE ratio increased by 14.4 points to 68.8%, slightly offset by the expense ratio which decreased by 0.2 points to 35.6%.

The 14.4 point increase was comprised of a 0.7 point increase in current accident year non-catastrophe losses, a 13.4 point unfavorable change in net prior year loss reserve development and a 0.3 point increase in catastrophe losses. The current accident year non-catastrophe loss ratio for the first quarter of 2016 was 58.1%, compared to 57.4% for the first quarter of 2015, due to higher current accident year provisions in the 2016 period in certain underwriting operating segments, most notably Programs.

The first quarter of 2016 results included 10.3 points of net unfavorable prior year loss reserve development, primarily related to unfavorable loss reserve development driven by large claims and heavy loss activity in Healthcare, and to a lesser extent Other Professional Lines and Programs, which was partially offset by favorable development in Financial Services and Surety. Net favorable prior year loss reserve development in the first quarter of 2015 was 3.1 points, driven by favorable incurred losses on the 2014 crop year and favorable development in Surety.

The first quarter of 2016 and 2015 both included fairly benign catastrophe losses of 0.4 points and 0.1 points, respectively.

The 0.2 point decrease in the expense ratio for the first quarter of 2016, compared to the first quarter of 2015, was driven by the favorable impact of exiting Crop and the unfavorable impact in the 2015 period of separation costs associated with senior management restructuring which were partially offset by increased acquisition expenses due to business mix.

**Specialty Industries**

Financial results for our Specialty Industries reportable segment for the three months ended March 31, 2016 and 2015 were as follows:

| (\$ in millions)                          | Three months ended |         |
|---|--------------------|---------|
|   | March 31,          |         |
|   | 2016               | 2015    |
| Gross written premiums                    | \$145.8            | \$163.1 |
| Net written premiums                      | \$135.4            | \$153.5 |
| Earned premiums                           | \$145.2            | \$150.5 |
| Loss and LAE                              | (67.0 )            | (91.8 ) |
| Policy acquisition expenses               | (27.0 )            | (28.1 ) |
| Other underwriting expenses               | (31.9 )            | (30.2 ) |
| Total underwriting income                 | 19.3               | 0.4     |
| Net other revenues                        | 0.3                | 0.2     |
| General and administrative expenses       | (0.5 )             | (0.5 )  |
| Pre-tax income from continuing operations | \$19.1             | \$0.1   |

The following table provides underwriting ratios for Specialty Industries for the three months ended March 31, 2016 and 2015:

| Underwriting ratios: | Three months ended |       |
|----------------------|--------------------|-------|
|                      | March 31,          |       |
|                      | 2016               | 2015  |
| Loss and LAE         | 46.1%              | 61.0% |
| Expense              | 40.5               | 38.7  |
| Total combined ratio | 86.6%              | 99.7% |





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The impact of certain items to our underwriting ratios was as follows:

|  | Three months<br>ended<br>March 31, |         |
|--|------------------------------------|---------|
| (Favorable) unfavorable impact                         | 2016                               | 2015    |
| Point impact on loss and LAE ratio and combined ratio: |                                    |         |
| Catastrophe losses, net of reinsurance                 | 1.4 pts                            | 3.6 pts |
| Prior year loss reserve development                    | (9.5) pts                          | 1.7 pts |

Specialty Industries—Three months ended March 31, 2016 versus three months ended March 31, 2015

Net written premiums for Specialty Industries decreased to \$135.4 million for the first quarter of 2016 from \$153.5 million for the comparative 2015 period. The decrease in the first quarter of 2016 was driven by declines at all underwriting operating segments due to an increasingly competitive market, as well as underwriting decisions, with Accident driving the decrease.

The Specialty Industries combined ratio for the first quarter of 2016 decreased to 86.6%, compared to 99.7% for the first quarter of 2015, as the loss and LAE ratio decreased by 14.9 points to 46.1%, partially offset by the expense ratio which increased 1.8 points to 40.5%.

The 14.9 point decrease was comprised of a 1.5 point decrease in current accident year non-catastrophe losses, an 11.2 point favorable change in prior year loss reserve development and a 2.2 point decrease in catastrophe losses.

The current accident year non-catastrophe loss ratio for the first quarter of 2016 was 54.2%, compared to 55.7% for the first quarter of 2015, driven by improved performance by most of the underwriting operating segments, most notably Government Risks driven by favorable case incurred activity.

Results for the first quarter of 2016 included 9.5 points of net favorable prior year loss reserve development driven by Technology, Accident, and Government Risks, generally resulting from better than expected case incurred activity. This compared to 1.7 points of net unfavorable prior year loss reserve development in the first quarter of 2015 primarily driven by large and small to mid-sized claims in Entertainment and a few large claims in Inland Marine, partially offset by favorable prior year loss reserve development in Ocean Marine and, to a lesser extent, within Technology and Government Risks.

Results for the first quarter of 2016 included 1.4 points of catastrophe losses, driven by winter storms in the eastern United States, primarily impacting Ocean Marine. This compared to 3.6 points of catastrophe losses in the first quarter of 2015, primarily related to winter storms in the northeastern United States impacting Ocean Marine and Entertainment.

The 1.8 point increase in the expense ratio for the first quarter of 2016, compared to the first quarter of 2015, was primarily driven by the unfavorable impact of lower earned premiums in 2016 more than offsetting the unfavorable impact in the 2015 period of separation costs associated with senior management restructuring.

Investing, Financing and Corporate

A summary of results from our Investing, Financing and Corporate reportable segment for the three months ended March 31, 2016 and 2015 is as follows:

|  | Three months<br>ended<br>March 31, |        |
|--|------------------------------------|--------|
| (\$ in millions)                                       | 2016                               | 2015   |
| Net investment income                                  | \$14.4                             | \$10.5 |
| Net realized and change in unrealized investment gains | 16.6                               | 14.2   |
| Pre-tax investment results                             | 31.0                               | 24.7   |
| Net other revenues (expenses)                          | 0.7                                | (3.3)  |
| General and administrative expenses                    | (3.4)                              | (3.6)  |
| Interest expense                                       | (3.3)                              | (3.2)  |
| Pre-tax income from continuing operations              | \$25.0                             | \$14.6 |

Investing, Financing and Corporate—Three months ended March 31, 2016 versus three months ended March 31, 2015

Investing, Financing and Corporate reported pre-tax income from continuing operations of \$25.0 million in the first quarter of 2016, compared to \$14.6 million in the first quarter of 2015. The increase was driven primarily by a higher return from our fixed maturity investments portfolio, which was positively impacted by declining interest rates in the first quarter of

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2016 as described in greater detail in "Summary of Investment Results" below. Additionally, the \$4.0 million favorable change in other revenues (expenses) compared to the first quarter of 2015 was driven by the impact of the \$3.7 million negative adjustment to the pre-tax gain on the sale of Essentia included in the first quarter of 2015.

## Discontinued Operations

There was no loss from discontinued operations for the three months ended March 31, 2016. The loss from discontinued operations, net of tax, of \$0.1 million for the three months ended March 31, 2015, was the result of post-closing expenses incurred in connection with the Runoff Business.

## Summary of Investment Results

## Investment Returns

A summary of our consolidated pre-tax investment results for the three months ended March 31, 2016 and 2015 is as follows:

| Components of Investment Results<br>(\$ in millions) | Three months<br>ended<br>March 31, |        |
|--|------------------------------------|--------|
|  | 2016                               | 2015   |
| Net investment income                                | \$14.4                             | \$10.5 |
| Net realized investment gains (losses)               | (5.9)                              | 9.5    |
| Change in net unrealized investment gains            | 22.5                               | 4.7    |
| Total pre-tax investment results                     | \$31.0                             | \$24.7 |

Gross investment returns on average invested assets versus typical benchmarks for the three months ended March 31, 2016 and 2015 are as follows:

|  | Three<br>months<br>ended<br>March<br>31, <sup>(1)</sup> |      |
|--|---|------|
|  | 2016  | 2015 |
| Fixed maturity investments                           | 1.3%  | 1.0% |
| Short-term investments:                              | —%  | —%   |
| Total fixed income                                   | 1.2%  | 0.9% |
| Barclays U.S. Intermediate Aggregate Index           | 2.3%  | 1.3% |
| Common equity securities                             | 2.1%  | 2.2% |
| Other investments                                    | 0.4%  | 0.8% |
| Total common equity securities and other investments | 1.5%  | 1.7% |
| S&P 500 Index  | 1.3%  | 1.0% |
| Total consolidated portfolio                         | 1.2%  | 1.0% |

(1) Gross investment returns exclude investment expenses of \$1.2 million and \$1.4 million for the three months ended March 31, 2016 and 2015, respectively.

Investment Returns—Three months ended March 31, 2016 versus three months ended March 31, 2015

## Overview

Our total pre-tax investment results were \$31.0 million, a return on average invested assets of 1.2% for the three months ended March 31, 2016, compared to \$24.7 million, a return on average invested assets of 1.0% for the three months ended March 31, 2015. The increase was driven primarily by a higher return from our fixed maturity investments portfolio, which was positively impacted by declining interest rates in the first quarter of 2016.



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## Fixed income

Our fixed income portfolio, which includes fixed maturity and short-term investments, returned 1.2% for the three months ended March 31, 2016, compared to 0.9% for the three months ended March 31, 2015, with the increase driven by the impact of declining interest rates in the first quarter of 2016. We maintained a high quality fixed maturity investments portfolio with a relatively short duration of approximately 2.2 years excluding short-term investments and approximately 2.1 years including short-term investments, as of March 31, 2016. Our fixed income portfolio underperformed the longer-duration Barclays U.S. Intermediate Aggregate Index return by 110 basis points and 40 basis points for the three months ended March 31, 2016, and 2015, respectively.

## Common equity securities and other investments

Our total common equity securities and other investments portfolio returned 1.5% for the three months ended March 31, 2016, compared to 1.7% for the three months ended March 31, 2015. Our common equity securities portfolio returned 2.1% for the three months ended March 31, 2016 compared to 2.2% for the three months ended March 31, 2015. The results outperformed the S&P 500 Index return by 80 basis points and 120 basis points for the three months ended March 31, 2016 and 2015, respectively.

The following summarizes OneBeacon's investments in ETFs by exposure to each index:

| Index              | Fair Value (\$ in millions) |                   |
|--------------------|-----------------------------|-------------------|
|                    | March 31, 2016              | December 31, 2015 |
| S&P 500            | \$100.1                     | \$ 153.1          |
| Russell 1000 Value | 20.8                        | 20.6              |
| Russell 1000       | 9.6                         | 9.6               |
| Total              | \$130.5                     | \$ 183.3          |

In the first quarter of 2016, the ETF investments earned the effective market return, before expenses, in each respective fund. OneBeacon continues to invest in publicly-traded common equity securities which are actively managed through WM Advisors. The portfolio had overweight exposure to consumer discretionary and communications sectors and underweight exposure to financial and energy sectors compared to the S&P 500 Index. Other investments, which are composed principally of hedge funds and private equity funds, as well as surplus notes, returned 0.4% and 0.8% for the three months ended March 31, 2016 and 2015, respectively. Our other investments portfolio outperformed the HFRX Equal Weighted Strategies Index return by 170 basis points. This outperformance was due primarily to a \$2.7 million return on the surplus notes, which included net investment income of \$2.4 million resulting from the receipt of an interest payment on the surplus notes, along with the change in fair value of the surplus notes. When excluding the \$2.7 million positive total return from the surplus notes, the portfolio underperformed the HFRX Equal Weighted Strategies Index return by 120 basis points for the three months ended March 31, 2016. When excluding the \$3.0 million return from the surplus notes, the portfolio underperformed the HFRX Equal Weighted Strategies Index return by 130 basis points for the three months ended March 31, 2015. The underperformance in both periods was due to exposure to energy-related funds.

## Liquidity and Capital Resources

## Operating Cash and Short-term Investments

Our sources and uses of cash are as follows:

Holding company level. The primary sources of cash for OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.) and certain of our intermediate holding companies are expected to be distributions and tax sharing payments received from our insurance operating subsidiaries, capital raising activities, net investment income, and proceeds from sales and maturities of holding company investments. The primary uses of cash are expected to be interest payments on our debt obligations, repurchases and retirements of our debt obligations, dividend payments on our common shares, common share repurchases, purchases of investments, payments made to tax authorities, contributions to our operating subsidiaries, and holding company operating expenses.

Operating subsidiary level. The primary sources of cash for our operating subsidiaries are expected to be premium collections, net investment income, capital raising activities, contributions from our holding companies, and proceeds from sales and maturities of investments. The primary uses of cash are expected to be claim payments, policy acquisition and other underwriting expenses, interest payments on internal debt obligations, repurchases and retirements of internal debt obligations, purchases of investments, and distributions and tax sharing payments made to parent holding companies.

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Insurance companies typically collect premiums on policies that they write prior to paying claims made under those policies. During periods of premium growth, insurance companies typically experience positive cash flow from operations, as premium receipts typically exceed claim payments and other operating expenses. When this happens, positive cash flow from operations is usually offset by negative cash flow from investing activities, as the positive operating cash flow is used to purchase investments. Conversely, during periods of premium decline, insurance companies typically experience negative cash flow from operations, even during periods in which they report net income, as the claims and other operating expenses that they pay exceed the premiums that they collect. When this happens, negative cash flow from operations is typically offset by positive cash flow from investing activities, as invested assets are sold to fund current claim and expense payments.

Both internal and external forces influence our financial condition, results of operations and cash flows. Claim settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, sometimes several years or more, may lapse between the occurrence of an insured loss, the reporting of the loss to us and the settlement of the liability for that loss. The exact timing of the payment of claims and benefits cannot be predicted with certainty. Our operating subsidiaries maintain portfolios of invested assets with varying maturities and a substantial amount of cash and short-term investments to provide adequate liquidity for the payment of claims.

Management believes that 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.

Dividend Capacity

Under the insurance laws of the states and jurisdictions under which our insurance operating subsidiaries are domiciled, an insurer is restricted with respect to the timing and the amount of dividends it may pay without prior approval by regulatory authorities. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future.

Our top tier regulated U.S. insurance operating subsidiary, Atlantic Specialty Insurance Company (ASIC), has the ability to pay dividends to its immediate parent during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus and subject to dividends paid in prior periods. Based upon the formula described above, most recently calculated as of December 31, 2015, ASIC has the ability to pay \$26.6 million of dividends during 2016 without prior approval of regulatory authorities. As of December 31, 2015, ASIC had \$622.3 million of statutory surplus and \$68.3 million of earned surplus. During the three months ended March 31, 2016, ASIC did not pay any dividends to its immediate parent.

The Company is in the process of seeking regulatory approval of the redomestication of ASIC from New York, its current state of domicile, to Pennsylvania. Under the existing dividend capacity formula, most recently calculated as of December 31, 2015, for the Commonwealth of Pennsylvania, which is the greater of 10% of policyholder surplus or net income of the previous year, ASIC would have the ability to pay \$62.2 million of dividends in 2016 once redomesticated to Pennsylvania, which it anticipates occurring during the second half of 2016. In April 2016, ASIC paid a dividend to the Company of \$26.5 million, which reduces the \$62.2 million allowed under the Pennsylvania dividend capacity formula.

During 2016, Split Rock has the ability to pay dividends and make distributions without the prior approval of regulatory authorities, subject to meeting all appropriate liquidity and solvency requirements, of up to \$37.4 million, which is equal to 15% of its December 31, 2015 statutory capital and surplus. As of December 31, 2015, Split Rock had \$249.5 million of statutory capital and surplus. During the three months ended March 31, 2016, Split Rock did not pay any dividends or distributions to its immediate parent.

During the three months ended March 31, 2016, our unregulated insurance operating subsidiaries paid \$4.6 million of dividends to their immediate parent. As of March 31, 2016, our unregulated insurance operating subsidiaries held \$99.8 million of net unrestricted cash, short-term investments, fixed maturity investments, and other investments which included surplus notes which had a fair value of \$51.8 million and a par value of \$101.0 million.



As described in Note 14—"Common Shareholders' Equity" to the accompanying consolidated financial statements, during the three months ended March 31, 2016 and 2015, we declared and paid dividends totaling \$19.8 million and \$20.0 million, respectively, to our common shareholders.

As of March 31, 2016, OneBeacon Ltd. and its intermediate holding companies held \$62.2 million of net unrestricted cash, short-term investments and fixed maturity investments and \$32.7 million of common equity securities outside of its regulated and unregulated insurance operating subsidiaries.

#### Insurance Float

Insurance float is an important aspect of our insurance operations. Insurance float represents funds that an insurance company holds for a limited time. In an insurance operation, float arises because premiums are collected before losses are paid.

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This interval can extend over many years. During that time, the insurer invests the funds. When the premiums that an insurer collects do not cover the losses and expenses it eventually must pay, the result is an underwriting loss, which can be considered as the cost of insurance float. One manner in which we calculate our insurance float is by taking our insurance liabilities and subtracting insurance assets. Although insurance float can be calculated using numbers determined under GAAP, insurance float is not a GAAP concept and, therefore, there is no comparable GAAP measure.

Insurance float can increase in a number of ways, including through acquisitions of insurance operations, organic growth in existing insurance operations and recognition of losses that do not immediately cause a corresponding reduction in investment assets. Conversely, insurance float can decrease in a number of other ways, including sales of insurance operations, shrinking or run-off of existing insurance operations, the acquisition of operations that do not have substantial investment assets (e.g., an agency) and the recognition of gains that do not cause a corresponding increase in investment assets. We intend to generate low-cost float over time through a combination of organic growth and acquisitions. However, we seek to increase overall profits sometimes by reducing float, such as in the Runoff Transaction.

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

The following table illustrates our consolidated insurance float position and two operational leverage ratios based on insurance float as of March 31, 2016 and December 31, 2015:

| (\$ in millions)   | March 31,<br>2016 | December<br>31,<br>2015 |
|--|-------------------|-------------------------|
| Loss and LAE reserves  | \$1,343.8         | \$1,389.8               |
| Unearned premiums  | 568.6             | 560.3                   |
| Ceded reinsurance payable  | 31.4              | 29.8                    |
| Funds held under insurance contracts                                     | 134.9             | 137.7                   |
| Insurance liabilities  | \$2,078.7         | \$2,117.6               |
| <br>   |                   |                         |
| Cash in regulated insurance and reinsurance subsidiaries                 | \$46.5            | \$43.9                  |
| Reinsurance recoverable on paid and unpaid losses                        | 167.0             | 193.5                   |
| Premiums receivable  | 230.4             | 219.0                   |
| Deferred acquisition costs   | 102.0             | 100.7                   |
| Ceded unearned premiums  | 36.3              | 29.5                    |
| Insurance assets   | \$582.2           | \$586.6                 |
| Insurance float  | \$1,496.5         | \$1,531.0               |
| Insurance float as a multiple of total capital                           | 1.2               | x 1.2 x                 |
| Insurance float as a multiple of OneBeacon's common shareholders' equity | 1.5               | x 1.5 x                 |

During the three months ended March 31, 2016, insurance float decreased by \$34.5 million, primarily due to a highly competitive market and strategic underwriting decisions which resulted in a slight contraction of our insurance operations.

## Financing

## Debt

The following table summarizes our debt to capital ratio at March 31, 2016 and December 31, 2015:

| (\$ in millions) | March 31,<br>2016 | December<br>31,<br>2015 |
|------------------|-------------------|-------------------------|
|------------------|-------------------|-------------------------|

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|   |           |           |   |
|---|-----------|-----------|---|
| Senior Notes, carrying value            | \$272.9   | \$272.9   |   |
| Non-controlling interest                | 3.2       | 3.6       |   |
| OneBeacon's common shareholders' equity | 1,016.6   | 1,000.9   |   |
| Total capital                           | \$1,292.7 | \$1,277.4 |   |
| Ratio of debt to total capital          | 21.1      | % 21.4    | % |

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We believe that we have the flexibility and capacity to obtain funds externally as needed through debt or equity financing on both a short-term and long-term basis. However, we can provide no assurance that, if needed, we would be able to obtain additional debt or equity financing on satisfactory terms, if at all.

On September 29, 2015, the Company and OneBeacon Holdings, Inc. (OBH), as co-borrowers and co-guarantors, entered into a revolving credit facility administered by U.S. Bank N.A. (Credit Facility) and also including BMO Harris Bank N.A., which has a total commitment of \$65.0 million and has a maturity date of September 29, 2019. As of March 31, 2016, the Credit Facility was undrawn.

The Credit Facility contains various affirmative, negative and financial covenants which OneBeacon considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. These covenants can restrict the Company in several ways, including its ability to incur additional indebtedness. An uncured breach of these covenants could result in an event of default under the Credit Facility, which would allow lenders to declare any amounts owed under the Credit Facility to be immediately due and payable.

In November 2012, OBH issued \$275.0 million face value of senior unsecured notes (2012 Senior Notes) through a public offering, at an issue price of 99.9% and received \$272.9 million of proceeds. The 2012 Senior Notes bear an annual interest rate of 4.6% payable semi-annually in arrears on May 9 and November 9, until maturity on November 9, 2022, and are fully and unconditionally guaranteed as to the payment of principal and interest by the Company. The 2012 Senior Notes were issued under indentures that contain restrictive covenants which, among other things, limit the ability of the Company, OBH, and their respective subsidiaries to create liens and enter into sale and leaseback transactions and limits the ability of OneBeacon to consolidate, merge or transfer their properties and assets. The indentures do not contain any financial ratios or specified levels of net worth or liquidity to which the Company or OBH must adhere. In addition, a failure by the Company or its subsidiaries to pay principal and interest on covered debt, where such failure results in the acceleration of at least \$75.0 million of the principal amount of covered debt, could trigger the acceleration of the 2012 Senior Notes.

No interest was paid or scheduled to be paid on the 2012 Senior Notes during the three months ended March 31, 2016 and 2015.

As of March 31, 2016, the Company and OBH were in compliance with all of the covenants under the 2012 Senior Notes and the Credit Facility, and anticipate they will continue to remain in compliance with these covenants for the foreseeable future.

Effective January 1, 2016, the Company adopted ASU 2015-03, Imputation of Interest (ASC 835) which requires debt issuance costs to be presented as a deduction from the carrying amount of the related debt, consistent with the treatment required for debt discounts. OneBeacon has applied the guidance retrospectively and as a result has reclassified \$1.9 million of debt issuance costs from other assets, reflecting these amounts as reduction from the related debt.

### Capital Lease

In December 2011, we sold the majority of our then-owned fixed assets and capitalized software. We entered into lease financing arrangements with US Bancorp and Fifth Third whereby we sold furniture and equipment and capitalized software, respectively, at a cost equal to net book value. We then leased the fixed 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. We received cash proceeds of \$23.1 million as a result of entering into the sale-leaseback transactions. In December 2015, the lease agreement with Fifth Third expired and the Company purchased the leased assets under the agreement with a remaining book value of \$1.3 million for a nominal fee. At the end of the lease term with US Bancorp on December 31, 2016, the Company will purchase the leased furniture and equipment assets for a nominal fee, and all rights, title and interest will transfer back to it. As of March 31, 2016 and December 31, 2015, the Company had a capital lease obligation of \$1.2 million and \$1.7 million, respectively, included within other liabilities and a capital lease asset of \$2.1 million and \$2.4 million, respectively, included within other assets.

### Share Repurchase Authorization

On August 22, 2007, our Board authorized us to repurchase up to \$200.0 million of OneBeacon's 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 authorization does not have a stated expiration date. Since the inception of this authorization, the Company has repurchased and retired 6.7 million of its Class A common shares. During three months ended March 31, 2016, 850,349 shares were repurchased under the share repurchase authorization for \$10.6 million at an average share price of \$12.42. No shares were repurchased under the share repurchase authorization during the three months ended March 31, 2015. The amount of authorization remaining is \$75.0 million as of March 31, 2016.

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During the three months ended March 31, 2016 and 2015, the Company repurchased 64,981 and 112,051 common shares, respectively, for \$0.9 million and \$1.6 million for the three months ended March 31, 2016 and 2015, respectively, to satisfy employee income tax withholding pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not reduce the board authorization referred to above.

### Cash Flows

Detailed information concerning our cash flows during the three months ended March 31, 2016 and 2015 follows:

#### Cash flows from operations for the three months ended March 31, 2016 and 2015

For the three months ended March 31, 2016, net cash flows used for operations were \$23.5 million compared to net cash flows provided by operations of \$23.3 million for the three months ended March 31, 2015. Net cash flows relating to continuing operations decreased primarily due to higher payments related to various incentive programs relative to the prior year period, as well as lower premium collections and higher loss payments.

#### Other Liquidity and Capital Resource Activities

During the three months ended March 31, 2016, we made payments with respect to our long-term incentive compensation plans totaling \$9.3 million, in cash or by deferral into certain of our non-qualified compensation plans. These payments were made primarily with respect to 167,300 performance shares, 126,900 performance units, and 3,825,000 long-term cash awards for the 2013-2015 performance cycle.

During the three months ended March 31, 2015, we made payments with respect to our long-term incentive compensation plans totaling \$8.6 million, in cash or by deferral into certain of our non-qualified compensation plans. These payments were made primarily with respect to 181,290 performance shares, 129,100 performance units, and 3,965,000 long-term cash awards for the 2012-2014 performance cycle.

#### Cash flows from investing and financing activities for the three months ended March 31, 2016 and 2015

#### Financing and Other Capital Activities

During the three months ended March 31, 2016 and 2015, we declared and paid \$19.8 million and \$20.0 million, respectively, of regular quarterly cash dividends to holders of OneBeacon's common shares.

During the three months ended March 31, 2016, we repurchased and retired 850,349 shares of our Class A common stock for \$10.6 million at an average share price of \$12.42 under the board authorization referred to above. No shares were repurchased under the board authorization during the three months ended March 31, 2015.

During the three months ended March 31, 2016 and 2015, the Company repurchased 64,981 and 112,051 common shares, respectively, for \$0.9 million and \$1.6 million, respectively, to satisfy employee income tax withholding pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not fall under the board authorization referred to above.

#### Recently Issued Accounting Pronouncements

Refer to Note 1—"Nature of Operations and Summary of Significant Accounting Policies" to the Company's unaudited consolidated financial statements contained in this quarterly report and in the Company's 2015 Annual Report on Form 10-K for a discussion of recently issued accounting pronouncements.

#### Fair Value of Financial Instruments

Refer to Note 5—"Investment Securities" to the Company's unaudited consolidated financial statements contained in this quarterly report and in the Company's 2015 Annual Report on Form 10-K for discussion regarding assets measured at fair value using unobservable inputs.

#### Critical Accounting Estimates

Refer to the Company's 2015 Annual Report on Form 10-K for a complete discussion regarding our critical accounting estimates. As of March 31, 2016, there were no material changes to our critical accounting estimates.

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FORWARD-LOOKING STATEMENTS

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

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

These statements are based on certain assumptions and analyses made by us in light of our experience and judgments about historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform to our expectations is subject to a number of risks, uncertainties or other factors which are described in more detail beginning on page 18 of the Company's 2015 Annual Report on Form 10-K, that could cause actual results to differ materially from expectations, including:

- changes in interest rates, debt or equity markets or other market volatility that negatively impact our investment portfolio;
- competitive forces and the cyclical nature of the property and casualty insurance industry;
- recorded loss and loss adjustment expense reserves subsequently proving to have been inadequate;
- claims arising from catastrophic events, such as hurricanes, windstorms, earthquakes, floods or terrorist attacks;
- the continued availability of capital and financing;
- the continued availability and cost of reinsurance coverage and our ability to collect reinsurance recoverables;
- the outcome of litigation and other legal or regulatory proceedings;
- our ability to continue meeting our debt and related service obligations or to pay dividends;
- the ability of our technology resources to prevent a data breach and the ability of our internal controls to ensure compliance with legal and regulatory policies;
- our ability to successfully develop new specialty businesses;
- actions taken by rating agencies from time to time with respect to us, such as financial strength or credit rating downgrades or placing our ratings on negative watch;
- changes in laws or regulations, or their interpretations, which are applicable to us, our competitors, our agents or our customers;
- participation in guaranty funds and mandatory market mechanisms;
- changes to current shareholder dividend practice and regulatory restrictions on dividends;
- credit risk exposure in certain of our business operations;
- our ability to retain key personnel;
- our status as a subsidiary of White Mountains, including potential conflicts of interest;
- changes in tax laws or tax treaties; and
- other factors, most of which are beyond our control.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the anticipated results or developments will be realized or, even if substantially

realized, that they will have the expected consequences. The forward-looking statements in this report speak only as of the date on which they are made. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Refer to our 2015 Annual Report on Form 10-K and in particular Item 7A — "Quantitative and Qualitative Disclosures About Market Risk." As of March 31, 2016, there were no material changes to the market risks described in our most recent Annual Report on Form 10-K.



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ITEM 4. CONTROLS AND PROCEDURES

Management's Quarterly Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required financial disclosure.

The Company's management, with the participation of the CEO and CFO (the principal executive officer and principal financial officer, respectively), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the CEO and CFO have concluded that as of March 31, 2016, our disclosure controls and procedures are adequate and effective to provide reasonable assurance that material information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. During the quarter ended March 31, 2016, there were no changes with respect to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

OneBeacon, and the insurance and reinsurance industry in general, is routinely subject to claims-related litigation and arbitration in the normal course of business, as well as litigation and arbitration that do not arise from, or directly relate to, claims activity. 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, OneBeacon-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, and in 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate the actions for pretrial matters and transferred all such proceedings to the United States District Court for the Southern District of New York. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. OneBeacon and OneBeacon-sponsored benefit plans received approximately \$32 million for Tribune common stock tendered in connection with the LBO. The Court granted an omnibus motion to dismiss the Noteholders Action in September 2013 and plaintiffs appealed. On March 29, 2016, a three judge panel of the U.S. Second Circuit Court of Appeals affirmed the dismissal of the Noteholders Action. The plaintiffs may now accept the decision, ask the three judge panel to reconsider, file a motion for a rehearing en banc or seek a writ of certiorari to the U.S. Supreme Court.

In addition, OneBeacon, OneBeacon-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 (the "Committee"), 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 a litigation trustee replaced the Committee as plaintiff in the Committee Action. This matter

was consolidated for pretrial matters with the Noteholder Actions in the United States District Court for the Southern District of New York and was stayed pending the motion to dismiss in the Noteholder Action. An omnibus motion to dismiss the shareholder defendants in the Committee Action was filed in May 2014. No amount has been accrued in connection with this matter as of March 31, 2016, as the amount of loss, if any, cannot be reasonably estimated.

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## ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, including those identified in Item 1A — “Risk Factors” of our 2015 Annual Report on Form 10-K, that could have a material effect on our business, results of operations, financial condition and/or liquidity and that could cause our operating results to vary significantly from period to period. As of March 31, 2016, there have been no material changes to the risk factors disclosed in our most recent Annual Report on Form 10-K. We may disclose changes to any risk factors presented or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Purchases of Equity Securities by the Issuer

The following table provides information with respect to purchases made by the Company of its own stock during the first quarter of 2016:

| Period                               | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | Approximate<br>Dollar Value<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(1)</sup> |
|--------------------------------------|---|---------------------------------------|---|---|
| January 1, 2016 — January 31, 2016   | 581,428                                   | \$ 12.27                              | 581,428   | \$78,479,243  |
| February 1, 2016 — February 29, 2016 | 633,902                                   | 12.85                                 | 268,921   | 75,040,931  |
| March 1, 2016 — March 31, 2016       | —   | —                                     | —   | 75,040,931  |
| Total                                | 915,330                                   | \$ 12.48                              | 850,349   | \$75,040,931  |

<sup>(1)</sup>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.

## ITEM 6. EXHIBITS

## (a) Exhibits

- 10.1\* Second  
Amendment  
dated as of June  
1, 2015 to the  
Amended and  
Restated  
Investment  
Management  
Agreement  
dated as of  
December 23,  
2014 by and  
between White  
Mountains  
Advisors LLC  
and OneBeacon  
Insurance  
Group, Ltd.
- 10.2\*

- Third  
Amendment  
dated as of  
February 10,  
2016 to the  
Amended and  
Restated  
Investment  
Management  
Agreement  
dated as of  
December 23,  
2014 by and  
between White  
Mountains  
Advisors LLC  
and OneBeacon  
Insurance  
Group, Ltd.  
OneBeacon's  
2016  
10.3\* Management  
Incentive Plan.  
Certification of  
T. Michael  
Miller pursuant  
31.1\* to Section 302  
of the  
Sarbanes-Oxley  
Act of 2002.  
Certification of  
Paul H.  
McDonough  
31.2\* pursuant to  
Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.  
Certification of  
T. Michael  
Miller pursuant  
to 18 U.S.C.  
Section 1350, as  
32.1\*\* Adopted  
Pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002.  
32.2\*\* Certification of  
Paul H.

McDonough  
pursuant to 18  
U.S.C. Section  
1350, as  
Adopted  
Pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002.

101.1\*The following  
financial  
information  
from  
OneBeacon  
Insurance  
Group, Ltd.'s  
Quarterly  
Report on Form  
10-Q for the  
quarter ended  
March 31, 2016  
formatted in  
XBRL: (i)  
Consolidated  
Balance Sheets,  
March 31, 2016  
and December  
31, 2015; (ii)  
Consolidated  
Statements of  
Operations and  
Comprehensive  
Income, Three  
Months Ended  
March 31, 2016  
and 2015; (iii)  
Consolidated  
Statements of  
Common  
Shareholders'  
Equity, Three  
Months Ended  
March 31, 2016  
and 2015; (iv)  
Consolidated  
Statements of  
Cash Flows,  
Three Months  
Ended March  
31, 2016 and

2015; and (v)  
Notes to  
Consolidated  
Financial  
Statements.

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\*Filed Herewith

\*\*Furnished Herewith

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SIGNATURES

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

OneBeacon Insurance Group, Ltd.

Date: May 2, 2016 By: /s/ JOHN C. TREACY

John C. Treacy

Chief Accounting Officer and Treasurer\*

\*Executing as both the Chief Accounting Officer and a duly authorized officer of the Company