



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

OneBeacon America Insurance Company

Canton, Massachusetts

As of December 31, 2011

NAIC GROUP CODE: 1129

NAIC COMPANY CODE: 20621

EMPLOYER'S ID NUMBER: 04-2475442

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	3
Subsequent Events	3
Company History	4
General	4
Capital Stock	5
Dividends to Stockholders	5
Corporate Records	5
Stockholders Minutes	5
Board of Directors Minutes	5
Articles of Incorporation and Bylaws	6
Conflict of Interest Procedures	6
Disaster Recovery and Business Continuity	6
Management and Control	6
Board of Directors	6
Officers	7
Affiliated Companies	8
Organization Chart	8
Transactions and Agreements with Subsidiaries and Affiliates	9
Fidelity Bonds and Other Insurance	9
Pensions, Stock Ownership and Insurance Plans	10
Territory and Plan of Operation	10
Growth of Company	10
Reinsurance	11
Intercompany Pooling	11
Accounts and Records	12
Statutory Deposits	13
Financial Statements	14
Statement of Assets, Liabilities, Surplus and Other Funds	15
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	16
Statement of Income	17
Statement of Capital and Surplus	18
Reconciliation of Capital and Surplus	19
Comments on Financial Statement Items	20
Acknowledgement	21



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

May 28, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("M.G.L."), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

ONEBEACON AMERICA INSURANCE COMPANY

at its home office located at 150 Royall Street, Canton, Massachusetts, 02021. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

OneBeacon America Insurance Company (the "Company") or ("OneBeacon America") was last examined as of December 31, 2006 by the Massachusetts Division of Insurance ("Division"). The current examination covers the five-year period from January 1, 2007 through December 31, 2011, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

Representatives from the professional services firm of INS Regulatory Insurance Services, Inc. ("InsRis") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. As part of the examination of the OneBeacon Group of companies (the "OneBeacon Group") and the OneBeacon Inter-Company Reinsurance Pool, (the "OneBeacon Pool") with Pennsylvania as the lead state. Risk & Regulatory Consulting, LLC ("RRC") was retained by the Pennsylvania Insurance Department ("PA Department") to assist in conducting its examination of the OneBeacon Pool and the OneBeacon Group. The Division relied on the work performed by Pennsylvania whenever deemed reasonable and appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees' pension and benefits plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

For each year during the period under examination, the Certified Public Accounting firm of PricewaterhouseCoopers LLP ("PwC") provided an unqualified opinion based on the combined statutory statements of all insurance entities within the OneBeacon Insurance Group, LLC on statutory accounting principles with the exception of those companies listed as subsidiaries of the Houston General Insurance Management Company. Relevant work performed by PwC during its annual audit of the Company was reviewed and relied upon where deemed appropriate during the examination and incorporated into the supporting examination work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The previous examination made the following two recommendations:

Agents' Balances and Premiums Receivable Over 90 Days Past Due

The prior examination noted that the non-admitted portion of the premiums receivable over 90 days past due was not in accordance with relevant Statutory Accounting Principles.

Reinsurance Recoverable on Paid Losses

The prior examination recommended that the Company record the non-affiliated reinsurance balances in OneBeacon Insurance Company and discontinue pooling these balances. Further, it was suggested that the Company review its inter-company pooling agreement and clarify the terms and conditions of the agreement as they relate to the accounting thereof.

The Company addressed all Comments and Recommendations from the prior examination.

SUBSEQUENT EVENTS

Changes in Organizational Structure

With the change to a specialty insurance writer, there have been some structural changes to separate the on-going specialty business from the run-off business. Effective October 1, 2012, The Intercompany Reinsurance Pooling Agreement was terminated and new reinsurance agreements were put in place such that all runoff business will be ceded to OneBeacon Insurance Company and all on-going specialty business will be ceded to Atlantic Specialty Insurance Company. As a result, The Northern Assurance Company of America, OneBeacon America Insurance Company and The Employers' Fire Insurance Company each entered into 100% quota share agreements with OneBeacon Insurance Company.

OneBeacon Insurance Group has an agreement in place to sell the runoff companies (which include OneBeacon Insurance Company, The Northern Assurance Company of America, OneBeacon America Insurance Company and The Employers' Fire Insurance Company) to an affiliate of Armour Holdings, Inc. A Form A is pending in Pennsylvania and the Company anticipates the sale to close during the second half of 2013. Conditions to closing the Armour transaction include certain mergers and transfers of domicile, including:

- OneBeacon Midwest Insurance Company will be merged into OneBeacon America Insurance Company (pending Massachusetts & Wisconsin regulatory approval)
- The Northern Assurance Company of America will be merged into OneBeacon America Insurance Company (pending Massachusetts regulatory approval)
- OneBeacon America Insurance Company will be transferring its domicile from Massachusetts to Pennsylvania (pending Massachusetts & Pennsylvania regulatory approval)

OneBeacon America Insurance Company

- The Employers' Fire Insurance Company will be transferring its domicile from Massachusetts to Pennsylvania (pending Massachusetts & Pennsylvania regulatory approval)

Other Events

The Northern Assurance Company of America

- Became a direct subsidiary of OneBeacon America Insurance Company as a result of a capital contribution from OneBeacon Insurance Company
- \$6M dividend received from OneBeacon Midwest Insurance Company effective November 1, 2012
- \$29M dividend paid to OneBeacon Insurance Company effective November 1, 2012

The Employers' Fire Insurance Company

- \$43M dividend paid to OneBeacon Insurance Company effective November 1, 2012

OneBeacon America Insurance Company

- \$146M dividend paid to OneBeacon Insurance Company effective November 1, 2012

COMPANY HISTORY

General

The Company is an outgrowth of the United States branch of Commercial Union Assurance Company Limited (which entered New York State in 1871) and, over the intervening century, the domestications and mergers with a number of insurance carriers operating in the United States. In 1960, the original Commercial Union Fire Insurance Company of New York (1891) was replaced by Commercial Union Insurance Company of New York upon merger with British General Insurance Corporation. In 1968, Commercial Union Insurance Company of America was formed to succeed Commercial Union Insurance Company of New York and, in 1971, was itself replaced by Employers' Commercial Union Insurance Company upon merger with the affiliated Pennsylvania Insurance Company. Employers' Commercial Union Insurance Company was incorporated under the laws of the Commonwealth of Massachusetts on March 10, 1971. The Employers' Commercial Union Insurance Company changed its name to Commercial Union Insurance Company effective January 1, 1973.

In June 1998, Commercial Union plc and General Accident plc were merged in a pooling of interests. The U.S. operations of the companies were formally combined on December 31, 1998 when all of the assets of General Accident Corporation of America were transferred to Commercial Union Corporation and the name was changed to CGU Corporation.

On June 1, 2001, White Mountains Insurance Group, Ltd. ("White Mountains") acquired CGU Corporation together with its subsidiaries, from London-based CGNU plc. On July 19, 2001 CGU Corporation was renamed OneBeacon Corporation, which merged into Fund American Companies, Inc. on December 30, 2001. On December 31, 2001, all assets formerly owned by OneBeacon Corporation were contributed by Fund American Companies, Inc. to OneBeacon Insurance Group LLC ("OBLLC"), a newly formed holding company.

OneBeacon America Insurance Company

On August 31, 2001, the Company changed its name from Commercial Union Insurance Company to the current name of OneBeacon America Insurance Company. The Company is a wholly owned subsidiary of OneBeacon Insurance Company, a Pennsylvania domestic.

White Mountains is a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. During the fourth quarter of 2006, White Mountains sold 27.6 million or 27.6% of OneBeacon Insurance Group Ltd. (Bermuda) (here in after referred to as "OBIG Ltd.") common shares in an initial public offering. Prior to the initial public offering, that entity was a wholly owned subsidiary of White Mountains and is the ultimate holding company in the group. As of December 31, 2011, White Mountains owned 76.0% of the common shares of the Bermuda entity.

Capital Stock

The Company has 60,000 shares of capital common stock authorized, issued, and outstanding with a stated per share par value of \$100. Total capital common stock is valued at \$6,000,000 and the Company has no preferred stock issued or outstanding.

Dividends to Stockholders

As the immediate parent, OneBeacon Insurance Company owns 100% of the Company's issued and outstanding common stock. OneBeacon Insurance Company is directly owned by OBLLC which is an indirect majority owned subsidiary of White Mountains.

There are no dividend restrictions other than statutory restrictions. The Company has not declared and paid any dividends during the past three years under examination. Dividends of \$25,000,000 and \$124,323,766 were reported paid in 2008 and 2007 respectively. As noted in the Subsequent Events section above, the Company paid an extraordinary dividend in 2012 in the amount of \$146,000,000.

CORPORATE RECORDS

Stockholders Minutes

The minutes indicated that a written consent of the sole stockholder in lieu of an annual meeting was obtained for each year during the examination period to accomplish the required duties of the stockholder.

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

OneBeacon America Insurance Company

Articles of Incorporation and Bylaws

The articles of organization of the Company have been amended once since the acquisition of Arkwright on December 30, 2003. This amendment took effect on April 14, 2006. The bylaws of the Company were amended June 16, 2004. The Articles and the bylaws were read and reviewed.

Conflict of Interest Procedures

OBIG Ltd. has in place a Code of Conduct policy that applies to the Company as a member of the OBIG Ltd. group of companies. Included in the policy is a specific section pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties. Annually, each officer and director complete an annual disclosure statement filed electronically confirming their compliance with the conflict of interest policy. The disclosure statements were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2011 Annual Statement.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M-180Q.

MANAGEMENT AND CONTROL

Board of Directors

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2011:

Name and Address

Timothy Michael Miller

Brian David Poole

Paul Harrington McDonough

Alexander Constantine Archimedes

Thomas Norman Schmitt

Principal Occupation

Chairman of the Board
OneBeacon Insurance Group, Ltd.

Senior Vice President and Chief Actuary
OneBeacon Insurance Company

Senior Vice President and CFO
OneBeacon Insurance Group, Ltd.

Senior Vice President
OneBeacon Insurance Company

Senior Vice President and Chief HR Officer
OneBeacon Insurance Company

OneBeacon America Insurance Company

Jane Ellen Freedman	Secretary and Associate General Counsel OneBeacon Insurance Group, Ltd.
Josette Durling Kiel	Senior Vice President and Chief Underwriting Officer OneBeacon Insurance Company
Bradford Whitman Rich	Senior Vice President and General Counsel OneBeacon Insurance Group, Ltd.
Joan Kathleen Geddes	Assistant Secretary OneBeacon Insurance Company
Dana Perkins Hendershott	Senior Vice President OneBeacon Insurance Company

All Directors are elected annually and shall serve until a successor is duly elected and qualified. A review of the minutes of the Board meetings held during the period under review indicated that attendance at such meetings was adequate and quorums were established at all meetings. The Board approved all investments transactions. General approval of reinsurance transactions was performed at the Parent level.

The bylaws of the Company state that the Board shall be comprised of not less than seven (7) Directors nor more than fifteen (15). As of the examination date, the Company was in compliance with this provision of its bylaws. The Company maintains interlocking directorates with its affiliated and subsidiary companies within the White Mountains corporate organizational structure.

The Company's bylaws indicate that the Board may create an executive, investment or any such other committee, as the Board may deem advisable. As of the examination date, no such committees were formed. These committees were maintained at the OBIG Ltd. level.

Officers

The following officers along with their respective titles have been identified as key officers of the Company as of December 31, 2011, duly elected and appointed by the Board of Directors.

<u>Name of Officer</u>	<u>Title</u>
Timothy M. Miller	Chairman of the Board
Bradford W. Rich	President, Chief Executive Officer and General Counsel
Virginia A. McCarthy	Secretary
Todd C. Mills	Vice President and Treasurer
Brian D. Poole	Senior Vice President & Chief Actuary
Ann M. Andrews	Controller & Chief Accounting Officer
Sean W. Duffy	Senior Vice President and Chief Claims Officer
Josette D. Kiel	Senior Vice President and Chief Underwriting Officer
Paul H. McDonough	Senior Vice President and Chief Financial Officer
Alex C. Archimedes	Senior Vice President

OneBeacon America Insurance Company

Dana P. Hendershott
 Scott W. McClintock
 Thomas N. Schmitt

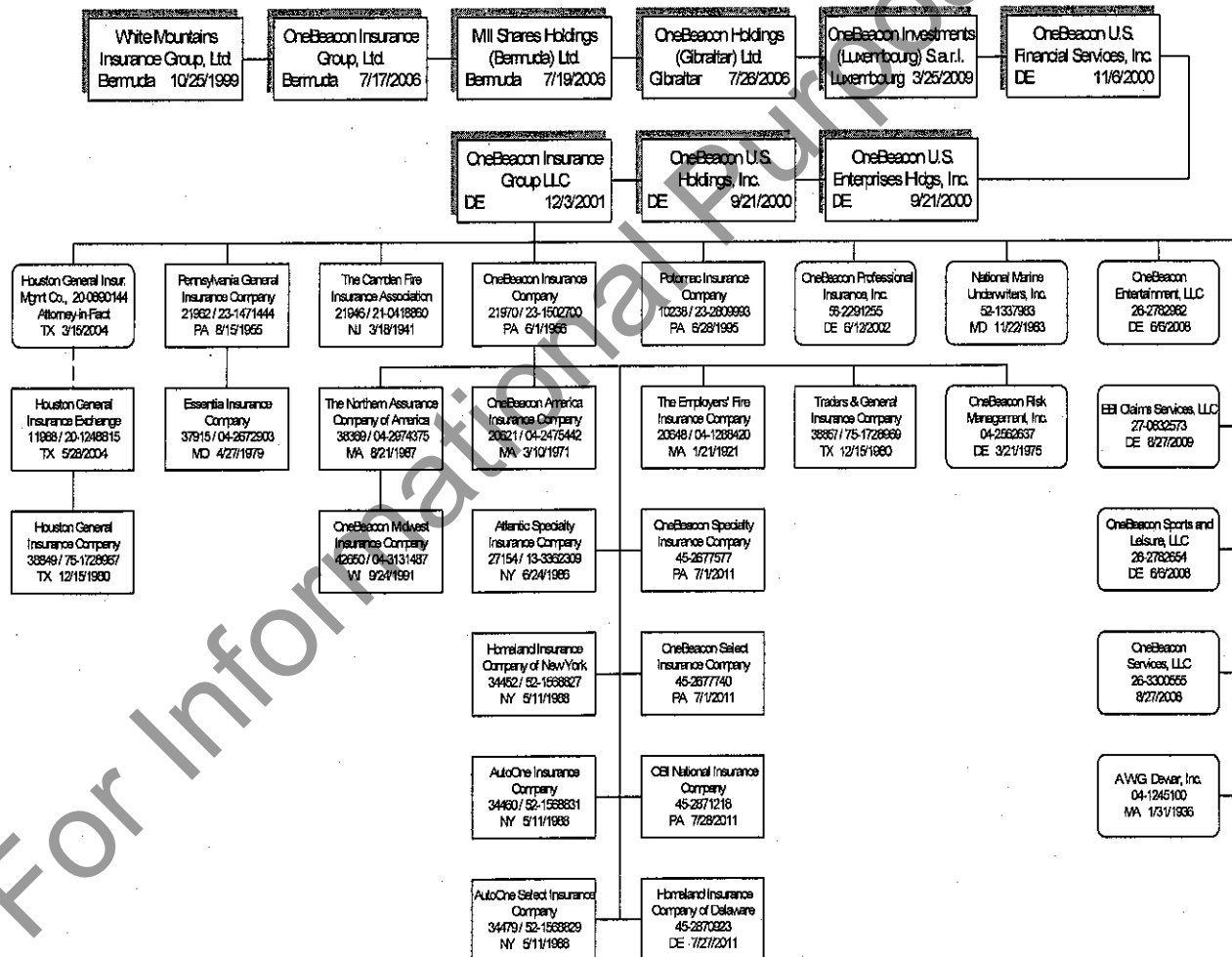
Senior Vice President
 Senior Vice President and Chief Information Officer
 Senior Vice President and Human Resources Officer

Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Commonwealth of Pennsylvania, the Company is a member of a holding company system. In accordance with M.G.L., Chapter 175, Section 206C, the Company provided the Division with a copy of its Registration Statement.

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2011 is illustrated below:



OneBeacon America Insurance Company

Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreement

Normal day-to-day management services are provided to the Company under the intercompany pooling reinsurance agreement. That agreement includes all of OneBeacon Insurance Group, Ltd.'s property and casualty insurance subsidiaries, except for Essentia Insurance Company. Under the terms of the pooling agreement, the Company will receive services for all non-investment related services for no fee or cost as long as the reinsurance agreement is in effect. (See Reinsurance Intercompany Pooling).

Tax Sharing Agreement

Effective December 31, 2001, the Company entered into a tax allocation agreement between OneBeacon U.S. Financial Services, Inc. ("OBFS") and its affiliates ("Affiliated Group") for the purposes contained within the Internal Revenue Code of 1986. During the examination period, affiliates were added and entities ceasing to be members of the original agreement were deleted. The intention of the agreement is such that each affiliate shall contribute its fair and equitable share of the taxes payable by the Affiliated Group.

Under the terms of the agreement, OBFS files a consolidated federal income tax return on behalf of the group in order to utilize certain tax advantages. OBFS shall then compute the separate federal tax liability or benefit of each member of the group as though each filed a separate tax return. The affiliates are then required to pay their respective tax liabilities to OBFS, which will remit the appropriate funds to those group members whose net operating losses were utilized to reduce the consolidated federal income tax liability of the Group in the subject year.

Investment Management Agreement

Effective October 1, 2010, the Company entered into an agreement with White Mountains Advisors, LLC. Under the terms of the agreement, White Mountains Advisors, LLC, will supervise and direct the investments of the Company's investment account in accordance with the investment objectives, policies and restrictions described in the investment guidelines furnished by the Company.

On November 14, 2006, the Company entered into an investment management agreement with Prospector Partners, LLC ("Prospector"), pursuant to which Prospector supervises and directs the publicly traded common equity and convertible securities portion of the Company's investment portfolio in accordance with the investment objectives, policies and restrictions described in the investment guidelines furnished by the Company.

FIDELITY BONDS AND OTHER INSURANCE

The examiner obtained the fidelity bond and related work from the Coordinating Lead State examination and reviewed the fidelity and other insurance coverage's in place protecting the Company. It was determined that this coverage covered all companies in the Massachusetts insurer group and each was a named insured. The fidelity bond was determined to be in a sufficient amount based upon the NAIC Financial Examiners Handbook guidelines. It was determined that

OneBeacon America Insurance Company

the Group maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Massachusetts General Laws, Chapter 175, Section 60.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's workforce is provided under the terms of the intercompany pooling reinsurance agreement with its Parent, and as such fall under the employment guidelines and benefits established by the Group. During 2011, the Parent sponsored pension and other benefit plans and allocated the expenses associated with the plans to the Company and other Pool Participants under the terms of the Pooling Agreement. The Company's share for the year 2011 was \$1,268,215. On December 31, 2011, the Parent transferred its sponsorship and related assets and liabilities of these plans to OneBeacon Services LLC.

TERRITORY AND PLAN OF OPERATION

The Company is a significant participant in a pool of affiliated insurance companies whose combined underwriting results was shared among the members by a predetermined percentage. With licenses and current certificates of authority in all 50 states, the District of Columbia and Puerto Rico, the Group can expand geographically into new specialty, personal and commercial lines of business organically and through acquisition. Direct written premium in 2011 was \$338,763,474.

The Company offers a wide range of specialty products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies. As a specialty company, the Company focuses on certain products and/or customer or industry groups where it believes its targeted approach and expertise deliver a competitive advantage. The overall Groups' products relate to professional liability, marine, collector cars and boats, energy, entertainment, sports and leisure, excess property, excess environmental, group accident, property and inland marine, public entities, technology and tuition refund.

GROWTH OF COMPANY

The growth of the Company for the years 2007 to 2011 is shown in the following table, which was compiled from the Company's Annual Statement filings.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income</u>
2011	\$ 483,405,267	\$ 300,538,162	\$ 182,867,105	\$36,147,875
2010	485,710,693	321,942,495	163,768,198	60,156,283
2009	743,070,922	416,268,261	326,802,661	47,038,209
2008	731,111,202	434,822,149	296,289,053	(59,340,010)
2007	904,285,713	471,229,674	433,056,039	62,300,803

REINSURANCE**Intercompany Pooling**

The Company operates under an Intercompany Pooling Agreement (the "Pool") with its immediate parent and several of its affiliates (collectively called "Pool Participants"). The current agreement was amended and restated effective October 1, 2011. Under the pooling agreement, the Company along with each of the other Pool Participants cedes 100% of its direct business to the Parent. Additionally, the Parent assumes 100% of all direct underwriting activity of the following affiliates: The Camden Fire Insurance Association, OneBeacon Midwest Insurance Company, Potomac Insurance Company and Traders & General Insurance Company. The Parent also assumes 90% of the direct underwriting activity from Essentia Insurance Company. None of the aforementioned companies are Pool participants.

OneBeacon Insurance Company as the Parent is the lead company in the Pool and, after recording all assumed reinsurance with affiliates and third parties and ceded reinsurance to third parties, the remaining net underwriting activity is retroceded to each Pool Participant in accordance with each participant's pooling percentage as follows:

<u>Company</u>	<u>NAIC Code</u>	<u>Effective 1/1/06</u>	<u>Effective 12/31/11</u>
OneBeacon Insurance Company (PA)	21970	54.0%	56.5%
OneBeacon America Insurance Company (MA) (the Company)	20621	16.4%	16.4%
The Employers' Fire Insurance Company (MA)	20648	1.5%	1.5%
The Northern Assurance Company of America (MA)	38369	5.0%	5.0%
Homeland Insurance Company of New York (NY)	34452	10.0%	10.0%
Pennsylvania General Insurance Company (PA)	21962	10.0%	10.0%
AutoOne Insurance Company (NY)	34460	1.0%	0.0%
AutoOne Select Insurance Company (NY)	34479	1.5%	0.0%
Atlantic Specialty Insurance Company (NY)	27154	.6%	.6%
		<u>100%</u>	<u>100%</u>

Effective October 1, 2012, the Intercompany Pooling Agreement was terminated.
(See Subsequent Events in this Report).

Under the terms of the Pooling Agreement, each Pool Participant authorizes the Parent to perform various services on behalf of the Company and other Pool Participants including policy development, marketing, underwriting, policy administration, loss settlement, personnel, purchasing, accounting, data processing and facilities management. The joint expenses attributable to these services are allocated among the Pool Participants in accordance with their participation percentages. Net settlements of all amounts under the pooling agreement are made quarterly.

The Pool Participants also authorize the Parent to effect and be responsible for all reinsurance with third parties on contracts and insurance policies issued by the Pool Participants. As a result, all third party reinsurance of the Pool is recorded within Parent, and only the intercompany pooling agreement reinsurance is recorded by the Company and the other Pool Participants.

ACCOUNTS AND RECORDS

The Company's internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants, PwC, including work papers generated to support the requirements of the Sarbanes-Oxley Act.

As part of its engagement for the PA Department, RRC performed a review and evaluation of the control environment of OneBeacon Group's IT systems. The NAIC's Information Systems Questionnaire ("ISQ") completed by the Company was reviewed and interviews with Company management and IT staff were conducted to gather supplemental information and corroborate the Company's responses to the ISQ. Included was a review of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computers, Local Area Network ("LAN"), Wide Area Network ("WAN") and Internet Controls. The control environment of the Company's information systems was found to have in place sufficient internal controls.

No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in PwC's filings with the Division. The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2011 Annual Statement. No material exceptions were noted.

OneBeacon America Insurance Company

STATUTORY DEPOSITS

The statutory deposits of the Company at December 31, 2011 are as follows:

<u>State</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
Arizona	Reserved for Workers' Compensation	\$ 414,765	\$ 417,156
California	Reserved for Workers' Compensation	10,494,043	10,554,548
Connecticut	Reserved for Workers' Compensation	6,191,486	6,227,183
Delaware	Reserved for Workers' Compensation	99,943	100,520
Georgia	Protection of Georgia Policyholders	89,949	90,468
Idaho	Reserved for Workers' Compensation	29,983	30,156
Illinois	Reserved for Workers' Compensation	49,972	50,260
Indiana	Reserved per Ins Code Stat 27-01-20-12	34,980	35,182
Kansas	Reserved for Workers' Compensation	59,966	60,312
Kentucky	Reserved for Licensing Purposes	554,685	557,883
Maryland	Reserved for Workers' Compensation	59,966	60,312
Massachusetts	Protection of All Policyholders	3,012,446	3,024,698
Montana	Reserved for Workers' Compensation	64,963	65,338
Nevada	Reserved for Workers' Compensation	109,938	110,571
New Hampshire	Reserved for Workers' Compensation	59,966	60,312
New Mexico	Protection of New Mexico Policyholders	319,809	321,662
New York	Reserved for Workers' Compensation	54,969	55,286
North Carolina	Protection of All Policyholders	304,827	306,584
Oregon	Surety & Workers' Compensation	899,489	904,676
Texas	Protection of All Policyholders	59,966	60,312
Virginia	Reserved per Ins Code Stat 38.2-1045	204,884	206,065
Puerto Rico	Reserved for Multiple Purposes	1,077,888	1,084,822
Aggregate Alien	US Department of Labor and US Aviation Group	7,075,984	7,116,780
	Totals	<u>\$31,324,867</u>	<u>\$31,501,086</u>

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance and by the NAIC as of December 31, 2011:

Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2011

Statement of Income for the Year Ended December 31, 2011

Statement of Capital and Surplus for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2011

For Informational Purposes Only

OneBeacon America Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2011

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 283,942,073	\$ 0	\$ 283,942,073
Stocks:			
Preferred stocks	96,819		96,819
Common stocks	54,761,746		54,761,746
Cash, cash equivalents and short-term investment	15,866,354		15,866,354
Other invested assets	78,623,872		78,623,872
Receivables for securities	45,399		45,399
Subtotals, cash and invested assets	<u>433,336,263</u>		<u>433,336,263</u>
Investment income due and accrued	1,955,319		1,955,319
Premiums and considerations:			
Uncollected premiums and agents' balances	12,950,893		12,950,893
Deferred premiums booked but not yet due	18,513,236		18,513,236
Current federal and foreign income tax recoverable	3,371,172		3,371,172
Net deferred tax asset	9,478,689		9,478,689
Guaranty funds receivable or on deposit	525,555		525,555
Electronic data processing equipment and software	531,476		531,476
Receivables from parent, subsidiaries and affiliates	1,590,954		1,590,954
Aggregate write-ins for other than invested assets	1,151,710		1,151,710
Total Assets	<u>\$ 483,405,267</u>	<u>\$ 0</u>	<u>\$ 483,405,267</u>

OneBeacon America Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2011

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Note(s)
Losses	\$ 183,088,107	\$ 0	\$ 183,088,107	(1)
Loss adjustment expenses	24,786,372		24,786,372	(1)
Other expenses	374,285		374,285	
Taxes, licenses and fees excluding federal income taxes	2,660,150		2,660,150	
Unearned Premiums	86,980,165		86,980,165	
Advanced Premiums	23,550		23,550	
Payable for securities	112,722		112,722	
Aggregate write-ins for liabilities	2,512,811		2,512,811	
Total Liabilities	<u>300,538,162</u>		<u>300,538,162</u>	
Common capital stock	6,000,000		6,000,000	
Aggregate write-ins for other than special surplus funds	1,515,837		1,515,837	
Gross paid in and contributed surplus	127,140,583		127,140,583	
Unassigned funds (surplus)	48,210,685		48,210,685	
Surplus as regards policyholders	<u>182,867,105</u>		<u>182,867,105</u>	
Total Liabilities, Capital and Surplus	<u>\$ 483,405,267</u>	<u>\$ 0</u>	<u>\$ 483,405,267</u>	

OneBeacon America Insurance Company

Statement of Income
For the Year Ended December 31, 2011

	As Reported by the Company	Examination Changes	Per Statutory Examination
UNDERWRITING INCOME			
Premiums earned	\$ 172,351,376	\$ 0	\$ 172,351,376
Deductions:			
Losses incurred	70,387,713		70,387,713
Loss adjustment expenses incurred	31,405,953		31,405,953
Other underwriting expenses incurred	69,273,286		69,273,286
Aggregate writ-ins for underwriting deductions	(2,590,646)		(2,590,646)
Net underwriting deductions	168,476,306		168,476,306
Net underwriting gain (loss)	3,875,070		3,875,070
INVESTMENT INCOME			
Net investment income earned	7,142,900		7,142,900
Net realized capital gains less capital gains tax of \$1,535,000	26,527,585		26,527,585
Net investment gain	33,670,485		33,670,485
OTHER INCOME			
Net gain or (loss) from agents' balance charged off	(101,566)		(101,566)
Finance and service charges not included in premiums	194,951		194,951
Aggregate write-ins for miscellaneous income (expense)	(479,629)		(479,629)
Total other income	(386,244)		(386,244)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income tax	37,159,311		37,159,311
Dividends to policyholders	12,119		12,119
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income tax	37,147,192		37,147,192
Federal and foreign income taxes	999,317		999,317
Net Income	\$ 36,147,875	\$ 0	\$ 36,147,875

OneBeacon America Insurance Company

Statement of Capital and Surplus
For the Year Ended December 31, 2011

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, December 31 prior year	\$ 163,768,198	\$ 0	\$ 163,768,198
Net income	36,147,875		36,147,875
Change in net unrealized capital gains (losses) less capital gains taxes (7,628,374)	(14,149,083)		(14,149,083)
Change in net unrealized foreign exchange capital gain and (loss)	(17,898)		(17,898)
Change in net deferred income tax	(8,225,814)		(8,225,814)
Change in nonadmitted assets	3,827,990		3,827,990
Aggregate write-ins for gains and losses in surplus	1,515,837		1,515,837
Net change in capital and surplus for the year	19,098,907		19,098,907
Capital and surplus, December 31 current year	\$ 182,867,105	\$ 0	\$ 182,867,105

OneBeacon America Insurance Company

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2011

	2011	2010	2009	2008	2007
Capital and surplus, December 31 prior year	\$ 163,768,198	\$ 326,802,661	\$ 296,289,053	\$ 433,056,039	\$ 520,890,583
Net income	36,147,875	60,156,283	47,038,209	(59,340,010)	62,300,803
Change in net unrealized capital gains or (losses) less capital gains taxes	(14,149,083)	3,497,167	(588,347)	(52,414,334)	8,714,917
Change in net unrealized foreign exchange capital gain (loss)	(17,898)	1,198,358	3,453,847	(7,285,550)	628,364
Change in net deferred income tax	(8,225,814)	(6,778,715)	(23,574,663)	15,784,084	(1,123,772)
Change in nonadmitted assets	3,827,990	337,392	12,739,616	(8,511,175)	(604,856)
Surplus adjustments:					
Paid-in		(215,000,000)	(15,000,000)		(33,426,234)
Dividends to stockholders				(25,000,000)	(124,323,766)
Aggregate write-ins for gains and losses in surplus	1,515,837	(6,444,948)	6,444,948		
Net change in capital and surplus for the year	19,098,907	(163,034,463)	30,513,608	(136,766,986)	(87,834,544)
Capital and surplus, December 31 current year	\$ 182,867,105	\$ 163,768,198	\$ 326,802,661	\$ 296,289,053	\$ 433,056,039

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1: Loss and Loss Adjustment Expense ("LAE") Reserves

As part of the coordinated financial examination of the OneBeacon Insurance Companies by the Pennsylvania Insurance Department, the "lead state" of the OneBeacon Group, it retained the actuarial services of Risk & Regulatory Consulting, LLC ("RRC") to perform an actuarial analysis of the loss and LAE reserves of the OneBeacon Pool, which includes all reinsured affiliates as of December 31, 2011. Actuarial data provided by the Company, was reviewed and tested by the examination staff for both accuracy and completeness by performing various examination procedures on statistically valid samples of paid losses and case reserves. RRC has made an independent assessment of the Pool's loss and LAE reserves as of December 31, 2011 to determine whether the reserve amounts carried are reasonably stated in accordance with sound actuarial principals. This analysis was performed both gross and net of reinsurance.

As a member of the Pool, the Company shares the results of its underwriting operations, including loss and loss adjust expense reserves, with a number of affiliates. The Company and all participants cede 100% of underwriting operations to the Pool, and assume from the Pool their respective share of the net underwriting results of the Pool on a pro-rata basis. The Company's participation ratio in the Pool as of December 31, 2011 was 16.4%.


RRC has concluded that based on its review of OneBeacon's loss and loss adjust expense reserve calculations, as well as its own independent testing, loss and loss adjust expense reserves held by the OneBeacon Pool are reasonably stated and fall within a range of reasonableness as of December 31, 2011.

Total net reserves for loss and loss adjust expense carried by the Pool as of December 31, 2011 are \$1,275,800,000, and are within approximately .38% of RRC's select point estimate and fall within a range of reasonableness. The Company reported net carried reserves for loss and loss adjustment expense per a pooling agreement based on 16.4% of the total pooled reserves.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by Hails W. Taylor, CFE, of InsRis who participated in this examination hereby is acknowledged.



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance