



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF

The Northern Assurance Company of America

Canton, Massachusetts

As of December 31, 2011

NAIC GROUP CODE: 1129

NAIC COMPANY CODE: 38369

EMPLOYER'S ID NUMBER: 04-2974375

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

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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, Massachusetts 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

THE NORTHERN ASSURANCE COMPANY OF AMERICA

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

SCOPE OF EXAMINATION

The Northern Assurance Company of America ("the Company") or (the "Northern") 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/or 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 has 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") has provided an unqualified opinion based on the combined statutory statements of all insurance entities within 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

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 Employers' Fire Insurance Company, OneBeacon America Insurance Company and The Northern Assurance Company of America) 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)
- The Employers' Fire Insurance Company will be transferring its domicile from Massachusetts to Pennsylvania (pending Massachusetts & Pennsylvania regulatory approval)

The Northern Assurance Company of America

Other Events

The Northern Assurance Company of America (Company)

- 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 predecessor company was incorporated in 1954, under the laws of Massachusetts as the Halifax Insurance Company of Massachusetts. On December 31, 1960, the United States Branch of The Northern Assurance Company Limited was domesticated into its companion carrier, American Marine and General Insurance Company, which was simultaneously merged with and into The Halifax Insurance Company of Massachusetts. The surviving Massachusetts company adopted the present title on January 1, 1961. It subsequently redomesticated to Vermont.

The Company was incorporated under the laws of Massachusetts under the temporary title of Commercial Union Property and Casualty Insurance Company on August 21, 1987, to act as the vehicle for the return of the corporate domicile of The Northern Assurance Company of America from Vermont to Massachusetts, effective December 31, 1989. Through a merger dated August 1987, effective December 1989, the Company merged into Commercial Union Property and Casualty Insurance Company with Commercial Union plc being its parent.

In June 1998, Commercial Union plc and General Accident plc were merged in a pooling of interests. The U.S. operations of the companies 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. 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.

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 Northern Assurance Company of America

the group. As of December 31, 2011, White Mountains owned 76.0% of the common shares of the Bermuda entity.

The Company is a direct wholly owned subsidiary, within that holding company, of OneBeacon Insurance Company (hereinafter referred to as "Parent"), a Pennsylvania domestic.

Prior to the completion of this examination, a comprehensive restructuring of the OneBeacon holding company and its subsidiaries was implemented. This is discussed in the Subsequent Events section of this report.

Capital Stock

The Company has 60,000 shares of \$100 par value common stock of which 45,000 shares were issued and outstanding with an aggregate stated value of \$4,500,000. All of the common stock is owned by OneBeacon Insurance Company.

Dividends to Stockholders

As the immediate parent, OneBeacon Insurance Company owns 100% of the Company's issued and outstanding common stock. OneBeacon 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 did not declare and pay any dividends during the past year. Dividends of \$3,170,847, \$8,000,000 and \$10,972,343 were reported paid in 2010, 2008 and 2007 respectively. As noted in the Subsequent Events section above, the Company paid an extraordinary dividend in 2012 in the amount of \$29,000,000.

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.

The Northern Assurance Company of America

Articles of Incorporation and Bylaws

The articles of organization of the Company and its bylaws were reviewed for the period under examination. The Company was operating in accordance with both its articles of organization and bylaws.

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:

<u>Name and Address</u>	<u>Principal Occupation</u>
Timothy Michael Miller	Chairman of the Board OneBeacon Insurance Group, Ltd.
Brian David Poole	Senior Vice President and Chief Actuary OneBeacon Insurance Company
Paul Harrington McDonough	Senior Vice President and CFO OneBeacon Insurance Group, Ltd.
Alexander Constantine Archimedes	Senior Vice President OneBeacon Insurance Company
Thomas Norman Schmitt	Senior Vice President and Chief HR Officer OneBeacon Insurance Company

The Northern Assurance Company of America

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

The Northern Assurance Company of America

Alex C. Archimedes
Dana P. Hendershott
Scott W. McClintock
Thomas N. Schmitt

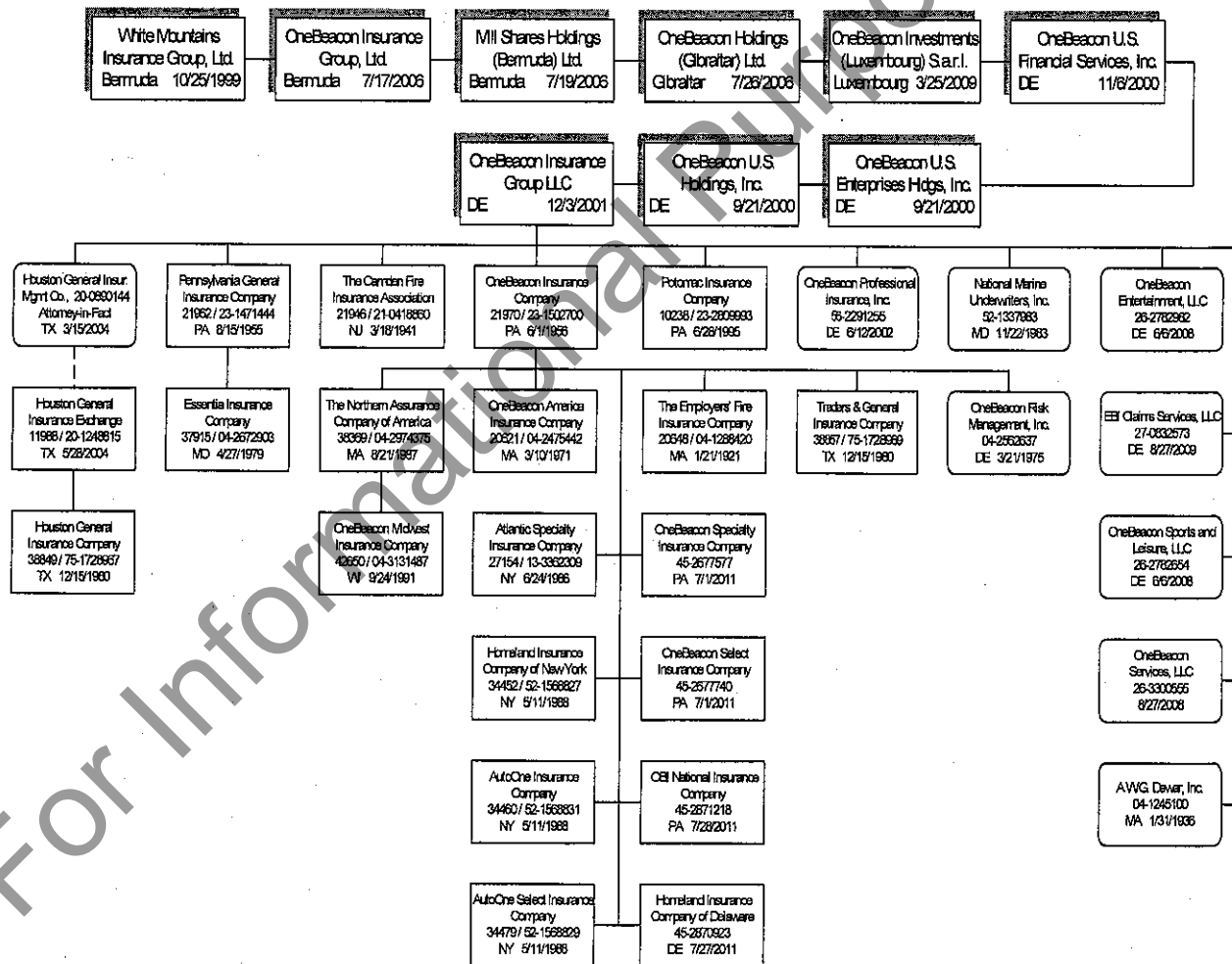
Senior Vice President
Senior Vice President
Senior Vice President and Chief Information Officer
Senior Vice President and Human Resources Officer

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:



The Northern Assurance Company of America

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

The Company maintains an agreement with White Mountains Advisors, LLC to act as investment advisor. Under this agreement, White Mountains Advisors, LLC provides investment management services, including the investment and reinvestment of the Company's investment assets. The fee for these services is paid on a quarterly basis at rates applied to its investment portfolio.

The Company maintains 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

The Northern Assurance Company of America

determined that 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 \$386,651. 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 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 U.S. Virgin Islands, the Group can expand geographically into new specialty, personal and commercial lines of business organically and through acquisition. Direct written premium in 2011 was \$106,412,659.

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	\$ 153,623,304	\$ 91,441,353	\$ 62,181,951	\$ 8,493,804
2010	155,236,163	97,674,144	57,562,019	18,658,314
2009	289,748,010	126,833,650	162,914,360	6,947,278
2008	284,255,397	132,489,467	151,765,930	(10,297,920)
2007	321,109,435	140,838,414	180,271,021	23,678,723

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.

The Northern Assurance Company of America

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	\$ 126,143	\$ 126,876
California	Reserved for Workers' Compensation	3,203,638	3,222,250
Connecticut	Reserved for Workers' Compensation	2,177,473	2,190,123
Delaware	Reserved for Workers' Compensation	110,125	110,765
Georgia	Protection of Georgia Policyholders	110,125	110,765
Idaho	Reserved for Workers' Compensation	30,034	30,209
Illinois	Reserved for Workers' Compensation	50,057	50,348
Kansas	Reserved for Workers' Compensation	60,068	60,417
Maryland	Reserved for Workers' Compensation	60,068	60,417
Massachusetts	Protection of All Policyholders	3,023,433	3,040,998
Nevada	Reserved for Workers' Compensation	110,125	110,765
New Hampshire	Reserved for Workers' Compensation	50,057	50,348
New Mexico	Protection of New Mexico Policyholders	310,352	312,155
New York	Reserved for Workers' Compensation	55,063	55,382
North Carolina	Protection of All Policyholders	305,347	307,121
Oregon	Surety & Workers' Compensation	460,523	463,198
Texas	Reserved for Fidelity & Surety	110,125	110,765
Virginia	Reserved per Ins Code Sec 38.2-1045	215,244	216,495
Aggregate Other	US Department of Labor	290,330	292,016
	Totals	<u>\$ 10,858,330</u>	<u>\$ 10,921,413</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 the Five-Year Period Ended December 31, 2011

For Informational Purposes Only

The Northern Assurance Company of America

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	\$ 97,390,902	\$ 0	\$ 97,390,902
Stocks:			
Common stocks	17,988,622		17,988,622
Cash, cash equivalents and short-term investments	6,580,201		6,580,201
Other invested assets	14,696,331		14,696,331
Receivables for securities	423		423
Subtotals, cash and invested assets	<u>136,656,479</u>		<u>136,656,479</u>
Investment income due and accrued	589,121		589,121
Premiums and considerations:			
Uncollected premiums and agents' balances	3,948,442		3,948,442
Deferred premiums booked but not yet due	5,644,279		5,644,279
Current federal and foreign income tax recoverable	3,971,446		3,971,446
Net deferred tax asset	1,716,446		1,716,446
Guaranty funds receivable or on deposit	87,450		87,450
Electronic data processing equipment and software	162,036		162,036
Receivables from parent, subsidiaries and affiliates	496,203		496,203
Aggregate write-ins for other than invested assets	351,402		351,402
Total Assets	<u>\$ 153,623,304</u>	<u>\$ 0</u>	<u>\$ 153,623,304</u>

The Northern Assurance Company of America

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	\$ 55,819,555	\$ 0	\$ 55,819,555	(1)
Loss adjustment expenses	7,556,823		7,556,823	(1)
Other expenses	61,712		61,712	
Taxes, licenses and fees excluding federal income tax	808,773		808,773	
Unearned Premiums	26,518,343		26,518,343	
Advanced Premiums	7,180		7,180	
Aggregate write-ins for liabilities	668,967		668,967	
Total Liabilities	91,441,353		91,441,353	
Common capital stock	4,500,000		4,500,000	
Gross paid in and contributed surplus	34,671,587		34,671,587	
Unassigned funds (surplus)	23,010,364		23,010,364	
Surplus as regards policyholders	62,181,951		62,181,951	
Total Liabilities, Capital and Surplus	\$ 153,623,304	\$ 0	\$ 153,623,304	

The Northern Assurance Company of America

Statement of Income

For the Year Ended December 31, 2011

	As Reported by the Company	Examination Changes	Per Statutory Examination
UNDERWRITING INCOME			
Premiums earned	\$ 52,546,151	\$ 0	\$ 52,546,151
Deductions:			
Losses incurred	21,459,678		21,459,678
Loss adjustment expenses incurred	9,574,986		9,574,986
Other underwriting expenses incurred	21,119,907		21,119,907
Aggregate writ-ins for underwriting deductions	(789,831)		(789,831)
Net underwriting deductions	<u>51,364,740</u>		<u>51,364,740</u>
Net underwriting gain (loss)	<u>1,181,411</u>		<u>1,181,411</u>
INVESTMENT INCOME			
Net investment income earned	2,260,923		2,260,923
Net realized capital gains less capital gains tax of \$446,000	4,663,937		4,663,937
Net investment gain	<u>6,924,860</u>		<u>6,924,860</u>
OTHER INCOME			
Net gain (loss) from agents' balance charged off	(30,965)		(30,965)
Finance and service charges not included in premiums	59,436		59,436
Aggregate write-ins for miscellaneous income (expenses)	(145,701)		(145,701)
Total other income	<u>(117,230)</u>		<u>(117,230)</u>
Net income before dividends to policyholders, after capital gains tax and and before all other federal and foreign income tax	7,989,041		7,989,041
Dividends to policyholders	<u>3,695</u>		<u>3,695</u>
Net income, after dividends to policyholders, after capital gains tax and and before all other federal and foreign income tax	7,985,346		7,985,346
Federal and foreign income taxes	(508,458)		(508,458)
Net Income	<u>\$ 8,493,804</u>	<u>\$ 0</u>	<u>\$ 8,493,804</u>

The Northern Assurance Company of America

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	\$ 57,562,019	\$ 0	\$ 57,562,019
Net income	8,493,804		8,493,804
Change in net unrealized capital gains (losses) less capital gains taxes of \$(1,025,879)	(1,442,009)		(1,442,009)
Change in net unrealized foreign exchange capital gain (loss)	(12,548)		(12,548)
Change in net deferred income tax	(3,007,676)		(3,007,676)
Change in nonadmitted assets	1,167,070		1,167,070
Aggregate write-ins for gains and losses in surplus	(578,709)		(578,709)
Net change in capital and surplus for the year	4,619,932.0		4,619,932.0
Capital and surplus, December 31 current year	\$ 62,181,951	\$ 0	\$ 62,181,951

The Northern Assurance Company of America

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	\$ 57,562,019	\$ 162,914,360	\$ 151,765,930	\$ 180,271,021	\$ 191,950,740
Net income	8,493,804	18,658,314	6,947,278	(10,297,920)	23,678,723
Change in net unrealized capital gains or (losses) less capital gains taxes	(1,442,009)	1,055,523	1,178,635	(5,096,693)	(3,880,643)
Change in net unrealized foreign exchange capital gains (losses)	(12,548)	(419,937)	4,359,200	(4,678,974)	(549,101)
Change in net deferred income tax	(3,007,676)	(1,882,398)	(4,496,561)	2,766,370	(872,248)
Change in nonadmitted assets	1,167,070	400,221	4,417,105	(3,197,874)	893,550
Surplus adjustments:					
Paid-in		(116,829,153)	(5,000,000)		(19,977,657)
Dividends to stockholders and losses in surplus	(578,709)	(3,170,847)	3,742,773	(8,000,000)	(10,972,343)
Net change in capital and surplus for the year	4,619,932	(105,352,341)	11,148,430	(28,505,091)	(11,679,719)
Capital and surplus, December 31, current year	<u>\$ 62,181,951</u>	<u>\$ 57,562,019</u>	<u>\$ 162,914,360</u>	<u>\$ 151,765,930</u>	<u>\$ 180,271,021</u>

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 5.0%.

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, that 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 5.0% 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.



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