UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2010

OR

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

For the transition period from to

Commission file number 1-33128

ONEBEACON INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer o	Accelerated Filer x
Non-accelerated filer o	Smaller reporting company o

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

As of October 27, 2010, 22,661,739 Class A common shares, par value of $0.01 per share, and 71,754,738 Class B common shares, par value of $0.01 per share, were outstanding.

Table of Contents

ONEBEACON INSURANCE GROUP, LTD.

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009
	(in millions, except share and per share amounts)	
Assets		
Investment Securities:		
Fixed maturity investments, at fair value (amortized cost $2,206.7 and $2,900.6)	$ 2,304.4	$ 2,994.3
Short-term investments, at amortized cost (which approximates fair value)	465.6	544.4
Common equity securities, at fair value (cost $232.5 and $176.3)	262.7	187.6
Convertible bonds, at fair value (amortized cost $83.7 and $153.7)	93.8	170.2
Other investments (cost $157.0 and $122.8)	184.3	146.3
Total investments	3,310.8	4,042.8
Cash	34.6	44.8
Reinsurance recoverable on unpaid losses	641.1	664.1
Reinsurance recoverable on unpaid losses Berkshire Hathaway, Inc.	1,298.2	1,528.8
Reinsurance recoverable on paid losses	14.9	15.9
Premiums receivable	341.1	469.1
Deferred acquisition costs	128.5	215.0
Net deferred tax asset	107.7	161.1
Investment income accrued	18.6	29.4
Ceded unearned premiums	162.9	49.9
Accounts receivable on unsettled investment sales	10.4	24.2
Other assets	338.7	286.9
Total assets	$ 6,407.5	$ 7,532.0
Liabilities		
Loss and LAE reserves	$ 3,390.2	$ 3,934.8
Unearned premiums	731.5	1,018.3
Debt	419.5	620.5
Ceded reinsurance payable	188.6	24.7
Accounts payable on unsettled investment purchases	50.6	7.6
Other liabilities	388.2	478.0
Total liabilities	5,168.6	6,083.9
OneBeacon s common shareholders equity and noncontrolling interests		
OneBeacon s common shareholders equity		
Common shares and paid-in surplus (par value $0.01; authorized, 200,000,000 shares; issued and outstanding, 94,416,477 and 95,121,050 shares)	1,000.3	1,009.7
Retained earnings	225.1	425.5
Accumulated other comprehensive loss, after-tax:		
Net unrealized foreign currency translation losses	(0.7)	(0.7)

Other comprehensive income and loss items		(5.6)		(5.5)
Total OneBeacon s common shareholders equity		1,219.1		1,429.0
Total noncontrolling interests		19.8		19.1
Total OneBeacon s common shareholders equity and noncontrolling interests		1,238.9		1,448.1
Total liabilities, OneBeacon s common shareholders equity and noncontrolling interests	$	6,407.5	$	7,532.0

See Notes to Consolidated Financial Statements

Table of Contents

ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in millions, except per share amounts)			
Revenues				
Earned premiums	$ 317.9	$ 492.8	$ 1,199.4	$ 1,470.8
Net investment income	21.6	34.4	74.9	92.4
Net realized and unrealized investment gains	51.6	117.6	79.6	239.1
Net other revenues	17.1	5.7	21.3	16.2
Total revenues	408.2	650.5	1,375.2	1,818.5
Expenses				
Loss and LAE	179.9	298.2	775.5	861.9
Policy acquisition expenses	66.9	101.4	263.5	294.3
Other underwriting expenses	53.8	79.4	186.5	236.4
General and administrative expenses	6.0	6.9	20.5	18.9
Accretion of fair value adjustment to loss and LAE reserves		1.4		4.1
Interest expense on debt	6.4	9.1	23.4	30.1
Total expenses	313.0	496.4	1,269.4	1,445.7
Pre-tax income	95.2	154.1	105.8	372.8
Income tax expense	(7.6)	(44.8)	(8.8)	(101.3)
Net income including noncontrolling interests	87.6	109.3	97.0	271.5
Less: Net income attributable to noncontrolling interests	(0.8)	(0.7)	(1.6)	(1.9)
Net income attributable to OneBeacon s common shareholders	86.8	108.6	95.4	269.6
Change in other comprehensive income and loss items	(0.3)	0.2	(0.1)	7.5
Comprehensive income attributable to OneBeacon s common shareholders	$ 86.5	$ 108.8	$ 95.3	$ 277.1
Earnings per share attributable to OneBeacon s common shareholders basic and diluted				
Net income attributable to OneBeacon s common shareholders per share	$ 0.92	$ 1.14	$ 1.01	$ 2.83
Dividends declared and paid per OneBeacon s common share	$ 2.71	$ 0.21	$ 3.13	$ 0.63

See Notes to Consolidated Financial Statements

Table of Contents

ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

(Unaudited)

	OneBeacon s Common Shareholders Equity				
	Common shareholders equity	Common shares and paid-in surplus	Retained earnings ($ in millions)	Accum. other comprehensive (loss) income, after tax	Noncontrolling interests, after tax
Balances at January 1, 2010	$ 1,429.0	$ 1,009.7	$ 425.5	$ (6.2)	$ 19.1
Net income	95.4		95.4		1.6
Accrued option expense	0.7	0.7			
Issuance of common shares	0.4	0.4			
Repurchases and retirements of common shares	(10.5)	(10.5)			0.3
Dividends	(295.8)		(295.8)		(0.7)
Contributions					0.5
Distributions					(1.0)
Other comprehensive income, after tax	(0.1)			(0.1)	
Balances at September 30, 2010	$ 1,219.1	$ 1,000.3	$ 225.1	$ (6.3)	$ 19.8

	OneBeacon s Common Shareholders Equity				
	Common shareholders equity	Common shares and paid-in surplus	Retained earnings ($ in millions)	Accum. other comprehensive (loss) income, after tax	Noncontrolling interests, after tax
Balances at January 1, 2009	$ 1,155.1	$ 1,016.7	$ 163.4	$ (25.0)	$ 17.2
Net income	269.6		269.6		1.9
Accrued option expense	0.9	0.9			
Issuance of common shares	0.3	0.3			
Repurchases and retirements of common shares					0.3
Dividends	(59.9)		(59.9)		(0.6)
Contributions					5.1
Distributions					(5.0)
Other comprehensive income, after tax	7.5			7.5	
Balances at September 30, 2009	$ 1,373.5	$ 1,017.9	$ 373.1	$ (17.5)	$ 18.9

See Notes to Consolidated Financial Statements

Table of Contents

ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2010	2009
	($ in millions)	
Cash flows from operations:		
Net income including noncontrolling interests	$ 97.0	$ 271.5
Charges (credits) to reconcile net income to cash flows used for operations:		
Net realized and unrealized investment gains	(79.6)	(239.1)
Net realized loss on settlement of interest rate swap		7.4
Net realized gain on Personal Lines Transaction	(8.5)	
Net other realized losses (gains)	10.8	(5.4)
Deferred income tax expense	53.4	147.0
Other operating items:		
Net change in loss and LAE reserves	(295.3)	(264.4)
Net change in unearned premiums	(56.3)	(7.0)
Net change in ceded reinsurance payable	167.2	(34.2)
Net change in ceded unearned premiums	(135.1)	7.4
Net change in premiums receivable	40.3	21.8
Net change in reinsurance recoverable on paid and unpaid losses	308.9	263.4
Net change in other assets and liabilities	(93.1)	(54.8)
Net cash provided from operations	9.7	113.6
Cash flows from investing activities:		
Net maturities, purchases and sales of short-term investments	(444.6)	233.6
Maturities of fixed maturity investments	939.1	389.5
Sales of fixed maturity investments	794.6	528.9
Sales of common equity securities	42.7	214.3
Sales of convertible bonds	117.5	123.5
Distributions and redemptions of other investments	11.4	44.7
Purchases of fixed maturity investments	(1,007.1)	(1,380.2)
Purchases of common equity securities	(97.7)	(37.8)
Purchases of convertible bonds	(31.6)	(89.9)
Contributions for other investments	(45.8)	(6.5)
Proceeds from the Personal Lines Transaction	166.6	
Net change in unsettled investment purchases and sales	56.8	41.4
Net acquisitions of property and equipment	(4.2)	(1.8)
Net cash provided from investing activities	497.7	59.7
Cash flows from financing activities:		
Repayment of debt	(14.0)	(42.8)
Repurchases of debt	(197.3)	(63.2)
Cash dividends paid to common shareholders	(295.8)	(59.9)
Repurchases and retirements of Class A common shares	(10.5)	
Settlement of interest rate swap		(7.4)
Net cash used for financing activities	(517.6)	(173.3)
Net change in cash during period	(10.2)	
Cash balance at beginning of period	44.8	53.0
Cash balance at end of period	$ 34.6	$ 53.0

Supplemental cash flows information:

Interest paid	$	18.1	$	21.6
Net tax payments to (refunds from) state and national governments		6.5		(1.9)

See Notes to Consolidated Financial Statements

Table of Contents

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. The OneBeacon operating companies are U.S.-based property and casualty insurance writers, most of which operate in a multi-company pool. OneBeacon offers a wide range of insurance products and services sold through independent agencies, brokers and managing general agencies. OneBeacon has historically offered a range of specialty, commercial and personal products and services, however, OneBeacon recently completed two transactions that represent significant steps in its transformation into a specialty lines company. On December 3, 2009, OneBeacon sold the renewal rights to approximately $490 million in premiums from its non-specialty commercial lines business to The Hanover Insurance Group (The Hanover). The transaction includes small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates (the Commercial Lines Transaction). On July 1, 2010, OneBeacon completed the sale of its traditional personal lines business. See Note 2 for further discussion.

OneBeacon was acquired by White Mountains Insurance Group, Ltd. (White Mountains) from Aviva plc (Aviva , formerly CGNU) in 2001 (the OneBeacon Acquisition). White Mountains is a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. As of September 30, 2010, White Mountains owned 76.0% of the Company s common shares. Within this report, the term OneBeacon is used to refer to one or more entities within the consolidated organization, as the context requires. The Company is a Bermuda exempted limited company with its headquarters located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. The Company s principal executive office is located at 601 Carlson Parkway, Minnetonka, Minnesota 55305, its U.S. headquarters are located at 1 Beacon Lane, Canton, Massachusetts 02021 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

OneBeacon s reportable segments are Insurance Operations and Other Operations. OneBeacon s Insurance Operations segment includes the results of its insurance operations. OneBeacon has recently managed its Insurance Operations segment through a specialty lines underwriting unit and a personal lines underwriting unit, nearly all of which was subject to the personal lines transaction described in Note 2. The Insurance Operations segment also includes run-off business, which primarily consists of non-specialty commercial lines business which is being transferred to The Hanover, as described above, and other run-off business. OneBeacon s Other Operations segment consists of the Company and its intermediate holding companies which include OneBeacon U.S. Enterprises Holdings, Inc. and OneBeacon U.S. Holdings, Inc. (OBH), both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda. As a result of the transactions described above, OneBeacon is currently evaluating its segments to determine the most effective management reporting structure.

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments, consisting of a normal recurring nature, 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 2009 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 2009 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

Transfers of Financial Assets and Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

On January 1, 2010, OneBeacon adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-16 and ASU 2009-17, codified within Accounting Standards Codification (ASC) 860 and ASC 810, respectively. Under ASC 860, the concept of a qualifying special-purpose entity (QSPE) has been eliminated and accordingly, any existing QSPE must be evaluated for consolidation upon adoption. The appropriateness of derecognition is evaluated based on whether or not the transferor has surrendered control of the transferred assets. The evaluation must consider any continuing involvement by the transferor. OneBeacon does not have any entities that were considered a QSPE under guidance prior to ASC 860. ASC 810 clarifies the application of consolidation accounting for entities for which the controlling financial interest might not be solely identified through voting rights. The guidance under ASC 810 still requires a reporting entity to perform an analysis to determine if its variable interests give it a controlling financial interest in a variable interest entity (VIE). The analysis required identifies the primary beneficiary of a VIE as the entity having both of the following:

Table of Contents

- The power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance; and

- The obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

In addition, a reporting entity must assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining if it has the power to direct the activities of the VIE that most significantly affect the entity s economic performance. The concept of a reconsideration event is retained and an ongoing reassessment of whether a reporting entity is the primary beneficiary of a VIE is required. Specifically, the list of reconsideration events includes a change in facts and circumstances where the holders of an equity investment at risk as a group lose the power from voting or similar rights to direct the activities of the entity that most significantly affect the entity s economic performance. In addition, a troubled debt-restructuring is now defined as a reconsideration event. Both statements expand required disclosures and are effective as of the beginning of the first annual reporting period that begins after November 15, 2009. The adoption of ASC 860 and ASC 810 had no material impact on OneBeacon s financial position or results of operations.

Improving Disclosures about Fair Value Measurements

On January 1, 2010, OneBeacon adopted ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, codified within ASC 820. ASU 2010-06 requires new disclosures and clarifies existing disclosure requirements for fair value measurements. ASU 2010-06 requires disclosure of the amounts and nature of the transfers in and out of Level 1 and Level 2 measurements. The ASU also requires a gross presentation of activity within the Level 3 rollforward, presenting separately information about purchases, sales, issuances and settlements. In addition, fair value measurements by Level will now be presented on a more disaggregated basis, by asset or liability class. The ASU also requires more detailed disclosures about inputs and valuation techniques for Level 2 and Level 3 measurements for interim and annual reporting periods. The ASU is effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. The adoption of ASU 2010-06 had no material impact on OneBeacon s financial position or results of operations. See Note 5 for required disclosures.

Recently Issued Accounting Pronouncements

Policy Acquisition Costs

On October 13, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, codified within ASC 944. The new standard changes the types of policy acquisition costs that are eligible for deferral. Specifically, the new guidance limits deferrable costs to those that are incremental direct costs of contract acquisition and certain costs related to acquisition activities performed by the insurer, such as underwriting, policy issuance and processing, medical and inspection costs and sales force contract selling. ASU 2010-26 defines incremental direct costs as those costs that result directly from and were essential to the contract acquisition and would not have been incurred absent the acquisition. Accordingly, under the new guidance, deferrable acquisition costs are limited to costs related to successful contract acquisitions. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred.

ASU 2010-26 is effective for interim periods and annual fiscal years beginning after December 15, 2011 and may be applied prospectively or retrospectively. OneBeacon is in the process of determining the expected effect on its financial position, results of operations and cash flows upon adoption.

Table of Contents

NOTE 2. Acquisitions and Dispositions

On July 1, 2010, OneBeacon completed the sale of its traditional personal lines business (the Personal Lines Transaction) to Tower Group, Inc. (Tower). The Personal Lines Transaction included two insurance companies through which the majority of the traditional personal lines business was written on a direct basis, two attorneys-in-fact managing the reciprocal insurance exchanges (reciprocals) that wrote the traditional personal lines business in New York and New Jersey, the surplus notes issued by the New York and New Jersey reciprocals and the remaining renewal rights to certain other traditional personal lines insurance policies. Net written premiums for the traditional personal lines business, which is included in the Personal Lines underwriting unit within OneBeacon s Insurance Operations segment, totaled approximately $420 million for the year ended December 31, 2009. The Personal Lines Transaction required completion of the following:

- the termination of intercompany reinsurance agreements between York Insurance Company of Maine (York) and its affiliate, OneBeacon Insurance Company (OBIC), and Massachusetts Homeland Insurance Company (MHIC) and OBIC pursuant to which they ceded 100% of their respective direct business to OBIC;

- the sale to Tower of all of the issued and outstanding capital stock of York and MHIC through which the majority of the traditional personal lines business was written on a direct basis;

- the sale of all of the issued and outstanding units of two managing attorneys-in-fact, Adirondack AIF, LLC (AAIF) and New Jersey Skylands Management LLC (NJSM);

- the transfer to Tower of the surplus notes issued by each of Adirondack Insurance Exchange (Adirondack Insurance) and New Jersey Skylands Insurance Association (NJSIA), both reciprocals, which triggered deconsolidation of the reciprocals by OneBeacon (the surplus notes eliminated upon consolidation in OneBeacon s financial statements);

- the execution of reinsurance agreements with certain subsidiaries of the Company pursuant to which OneBeacon cedes, on a 100% quota share basis, traditional personal lines business not directly written by York and MHIC; and

- the execution of a reinsurance agreement pursuant to which OneBeacon assumes, on a 100% quota share basis, non-traditional personal lines business written directly by York.

As consideration, based upon the carrying value of the traditional personal lines business as of July 1, 2010, OneBeacon received $166.6 million. The consideration represented the statutory surplus in the reciprocals (as consideration for surplus notes issued by the reciprocals), the combined GAAP equity in the insurance companies and attorneys-in-fact being sold, plus $32.5 million. For the nine months ended September 30, 2010, OneBeacon recorded a total after tax net gain on the sale of $24.6 million that is comprised of $8.5 million included in net other revenues and $16.1 million included in the tax provision. Included in OneBeacon s second quarter financial statements was $5.6 million of the tax benefit related to the difference between the tax basis of the companies sold as part of the Personal Lines Transaction and the net asset value of those entities under GAAP. OneBeacon s third quarter financial statements reflect the remaining $19.0 million of after tax net gain on the sale. The purchase price is subject to post-closing adjustments.

OneBeacon and Tower also entered into a Transition Services Agreement (TSA), pursuant to which OneBeacon is providing certain services to Tower during the three-year term of the TSA. The Personal Lines Transaction did not meet the criteria for discontinued operations accounting because of significant continuing cash flows between OneBeacon and the business sold relating to TSA services and reinsurance activities.

Except as described in Note 1 with respect to the Commercial Lines Transaction for renewals with January 1, 2010 effective dates and above with respect to the Personal Lines Transaction, during the first nine months of 2010, there were no acquisitions or dispositions. During the first nine months of 2009, there were no acquisitions or dispositions.

Table of Contents

NOTE 3. Reserves for Unpaid Loss and LAE

The following table summarizes the loss and LAE reserve activities of OneBeacon s insurance subsidiaries for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	($ in millions)			
Gross beginning balance	$ 3,609.2	$ 4,060.5	$ 3,934.8	$ 4,294.0
Less beginning reinsurance recoverable on unpaid losses	(2,100.7)	(2,301.2)	(2,192.9)	(2,503.3)
Net loss and LAE reserves	1,508.5	1,759.3	1,741.9	1,790.7
Loss and LAE incurred relating to:				
Current year losses	191.7	318.9	811.6	915.2
Prior year losses	(11.8)	(20.7)	(36.1)	(53.3)
Total incurred loss and LAE	179.9	298.2	775.5	861.9
Accretion of fair value adjustment to net loss and LAE reserves		1.4		4.1
Loss and LAE paid relating to (1):				
Current year losses	(102.3)	(138.6)	(308.2)	(327.9)
Prior year losses	(135.2)	(135.0)	(527.3)	(543.5)
Total loss and LAE payments	(237.5)	(273.6)	(835.5)	(871.4)
Net loss and LAE reserves	1,450.9	1,785.3	1,681.9	1,785.3
Net loss and LAE reserves reclassified from held for sale (2)	231.0			
Net loss and LAE reserves sold as part of the Personal Lines Transaction	(231.0)		(231.0)	
Net ending balance	1,450.9	1,785.3	1,450.9	1,785.3
Plus ending reinsurance recoverable on unpaid losses	1,939.3	2,244.3	1,939.3	2,244.3
Gross ending balance	$ 3,390.2	$ 4,029.6	$ 3,390.2	$ 4,029.6

(1) Loss and LAE paid for the three and nine months ended September 30, 2010 includes $78.2 million of traditional personal lines loss reserves not directly written by York or MHIC ($2.5 million relating to current year losses and $75.7 million relating to prior year losses) ceded to Tower pursuant to the Personal Lines Transaction which closed in July 2010.

(2) In the second quarter of 2010, $231.0 million of net loss and LAE reserves related to the Personal Lines Transaction were reclassified to held for sale. The Personal Lines Transaction closed in July 2010.

During the three months ended September 30, 2010, OneBeacon experienced $11.8 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, commercial package business and other general liability lines. During the three months ended September 30, 2009, OneBeacon experienced $20.7 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines and commercial package business lines.

During the nine months ended September 30, 2010, OneBeacon experienced $36.1 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, commercial package business and other general liability lines. The favorable development also included a one-time $6.5 million release of commercial and personal auto reserves associated with participation in an involuntary auto pool. During the nine months ended September 30, 2009, OneBeacon experienced $53.3 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines and commercial package business lines, partially offset by adverse loss reserve development primarily related to New York personal injury protection litigation at AutoOne Insurance (AutoOne).

In connection with purchase accounting for the OneBeacon Acquisition, loss and LAE reserves and the related reinsurance recoverables were adjusted to fair value on the balance sheets. The net reduction to loss and LAE reserves was accreted through an income statement charge ratably with and over the period the claims are settled. Accordingly, OneBeacon recognized $1.4 million and $4.1 million of such charges for the three and nine months ended September 30, 2009, respectively. As of both September 30, 2010 and December 31, 2009, the outstanding pre-tax unaccreted adjustment was $0.

Table of Contents

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.

Effective July 1, 2010, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2011. The program provides coverage for OneBeacon s property business as well as certain acts of terrorism. Under the program, the first $80.0 million of losses resulting from any single catastrophe are retained and the next $195.0 million of losses resulting from the catastrophe are reinsured, with OneBeacon keeping a small co-participation. Any loss above $275.0 million would be retained. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

OneBeacon had entered into a 30% quota share agreement with a group of reinsurers that ran from January 1, 2009 through December 31, 2009, and had renewed the agreement effective January 1, 2010. Through June 30, 2010, OneBeacon ceded $25.6 million of written premiums from its Northeast homeowners business written through OBIC and its subsidiary companies, along with Adirondack Insurance and NJSIA in New York and New Jersey, respectively. Effective July 1, 2010, the closing date of the Personal Lines Transaction, the agreement was amended to remove OneBeacon as a signatory. During the three and nine months ended September 30, 2009, OneBeacon ceded $16.5 million and $46.5 million, respectively, of written premiums under the agreement.

At September 30, 2010, OneBeacon had $14.9 million of reinsurance recoverables on paid losses and $2,119.3 million (gross of $180.0 million in purchase accounting adjustments, as described in Note 3) that will become recoverable if claims are paid in accordance with current reserve estimates. Reinsurance contracts do not relieve OneBeacon of its obligations. Therefore, collectibility of balances due from its reinsurers is critical to OneBeacon s financial strength. OneBeacon is selective in regard to its reinsurers, principally placing reinsurance with those reinsurers with strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis. As a result, uncollectible amounts have historically not been significant.

The following table provides a listing of OneBeacon s top reinsurers for its insurance operations, excluding industry pools and associations and affiliates of OneBeacon, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurers A.M. Best Company, Inc. (A.M. Best) ratings.

($ in millions)	Balance at September 30, 2010	% of total	A.M. Best Rating (1)
National Indemnity Company and General Reinsurance Corporation (2)	$ 1,618.4	76%	A++
Tower Insurance Company	70.6	3%	A-
Tokio Marine and Nichido Fire (3)	69.0	3%	A++
Hanover Insurance Company	41.9	2%	A
Munich Reinsurance America	36.3	2%	A+

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

and A- (Excellent, which is the fourth highest of fifteen financial strength ratings).

(2) Includes $320.2 million of Third Party Recoverables (as defined below), which NICO (as defined below) would pay under the terms of the NICO Cover (as defined below) if they are unable to collect from third party reinsurers. OneBeacon also has an additional $8.6 million of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) Includes $41.8 million of reinsurance recoverables from various reinsurers that are guaranteed by Tokio Marine and Nichido Fire under the terms of a 100% quota share reinsurance agreement between Houston General Insurance Company and Tokio Marine and Nichido Fire.

Table of Contents

In connection with the OneBeacon Acquisition, Aviva caused OneBeacon to purchase two reinsurance contracts: a reinsurance contract with National Indemnity Company (NICO) for up to $2.5 billion in old asbestos and environmental (A&E) claims and certain other exposures (the NICO Cover) and an adverse loss reserve development cover from General Reinsurance Corporation (GRC) for up to $570.0 million, comprised of $400.0 million of adverse loss reserve development occurring in years 2000 and prior (the GRC Cover) in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for under GAAP as a seller guarantee. NICO and GRC are wholly-owned subsidiaries of Berkshire Hathaway, Inc.

Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon s third party reinsurers (Third Party Reinsurers) in existence at the time the NICO Cover was executed (Third Party Recoverables). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. OneBeacon estimates that on an incurred basis it has used approximately $2.2 billion of the coverage provided by NICO at September 30, 2010. Since entering into the NICO Cover, approximately 5% of the $2.2 billion of utilized coverage relates to uncollectible Third Party Recoverables and settlements on Third Party Recoverables through September 30, 2010. Net losses paid totaled approximately $1.4 billion as of September 30, 2010. To the extent that actual experience differs from OneBeacon s estimate of ultimate A&E losses and Third Party Recoverables, future losses could exceed the $320.2 million of protection remaining under the NICO Cover at September 30, 2010.

Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to seek reimbursement from GRC only for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be nominal. During the three and nine months ended September 30, 2010, $61.3 million was billed to and collected from GRC under the GRC Cover.

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 2009 Annual Report on Form 10-K for a complete discussion.

In accordance with ASC 825, OneBeacon classifies its portfolio of fixed maturity investments and common equity securities, including convertible bonds, 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 unrealized investment gains and losses on trading securities are reported pre-tax in revenues.

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 approximated fair value as of September 30, 2010 and December 31, 2009.

Other investments primarily include hedge funds and private equity funds. OneBeacon measures its investments in hedge funds and private equity funds at fair value with changes therein reported in net realized and unrealized investment gains and losses in revenues on a pre-tax basis. Other investments also includes an investment in a community reinvestment vehicle which is accounted for at fair value and a tax advantaged federal affordable housing development fund which OneBeacon accounts for under the equity method.

OneBeacon had participated in a securities lending program as a mechanism for generating additional investment income on its fixed maturity and common equity portfolios. Under the securities lending arrangements, certain of its fixed maturity and common equity investments were loaned to other institutions for short periods of time through a lending agent. OneBeacon maintained control over the securities it loaned, retained the earnings and cash flows associated with the loaned securities and received a fee from the borrower for the temporary use of the asset. Collateral, in the form of cash and United States government securities, was required at a rate of 102% of the fair value of the loaned securities. An indemnification agreement with the lending agent protected OneBeacon in the event a borrower became insolvent or failed to return any of the securities on loan. In the event of a shortfall in the collateral amount required to be returned to the securities lending counterparty (e.g., as a result of investment losses), OneBeacon was obligated to make up any deficiency.

Prior to February 2009, the collateral was controlled by the lending agent. The lending agent managed the investment of the cash collateral, however, other than in the event of default by the borrower, this collateral was not available to OneBeacon and was remitted to the borrower by the lending agent upon the return of the loaned securities. Because of these restrictions, OneBeacon

Table of Contents

considered its securities lending activities to be non-cash transactions. The fair value of the securities lending collateral was recorded as both an asset and liability on the balance sheet.

In February 2009, OneBeacon amended the terms of the securities lending program to give it more control over the investment of borrowers collateral and to separate the assets supporting that collateral into a segregated account. Pursuant to the amendment, (i) the guidelines for the investment of any new cash collateral as well as the reinvestment of cash were narrowed to permit investment in only cash equivalent securities, (ii) OneBeacon had the authority to direct the lending agent to both sell specific collateral securities in the segregated account and to not sell certain collateral securities which the lending agent proposes to sell, and (iii) OneBeacon and the lending agent agreed to manage the securities lending program toward an orderly wind-down. In May 2009, OneBeacon instructed the lending agent not to make any additional loans of securities and to recall all of the securities on loan and fund the return of collateral to the borrower. As a result of the actions described above, the securities lending assets are no longer segregated and are included within OneBeacon s investment securities. As of September 30, 2010, $1.7 million in collateral had not been returned to the borrower.

OneBeacon s net investment income is comprised primarily of interest income associated with OneBeacon s fixed maturity investments, dividend income from its equity investments and interest income from its short-term investments. Net investment income for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in millions)			
Investment income:				
Fixed maturity investments	$ 21.3	$ 34.8	$ 73.3	$ 91.5
Short-term investments	0.2	0.2	0.7	2.2
Common equity securities	1.1	0.2	3.0	1.1
Convertible bonds	1.2	2.0	4.2	5.1
Other investments	(0.1)	0.2	0.5	1.3
Gross investment income	23.7	37.4	81.7	101.2
Less investment expenses	(2.1)	(3.0)	(6.8)	(8.8)
Net investment income, pre-tax	$ 21.6	$ 34.4	$ 74.9	$ 92.4

The composition of net realized investment gains (losses), a component of net realized and unrealized investment gains (losses), consisted of the following:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in millions)			
Fixed maturity investments	$ 16.1	$ 13.4	$ 46.1	$ (10.4)
Short-term investments				0.1
Common equity securities	(0.3)	1.4	1.3	(31.6)
Convertible bonds	3.9	(0.1)	14.4	1.8
Other investments (1)	2.6	14.9	(0.3)	4.8
Net realized investment gains (losses), pre-tax	$ 22.3	$ 29.6	$ 61.5	$ (35.3)

(1) The nine months ended September 30, 2010 include $1.3 million of realized losses related to the impairment of a receivable related to an outstanding hedge fund redemption.

Table of Contents

The net changes in fair value for the three months ended September 30, 2010 and 2009 are as follows:

	Three months ended September 30, 2010		
	Changes in net unrealized gains and losses (1)	Changes in net foreign currency translation gains and losses (1) ($ in millions)	Total net changes in fair value reflected in revenues (1)
Fixed maturity investments	$ 5.2	$ (1.8)	$ 3.4
Short-term investments		0.1	0.1
Common equity securities	23.4		23.4
Convertible bonds	2.2		2.2
Other investments	0.2		0.2
Total	$ 31.0	$ (1.7)	$ 29.3

	Three months ended September 30, 2009		
	Changes in net unrealized gains and losses (1)	Changes in net foreign currency translation gains and losses (1) ($ in millions)	Total net changes in fair value reflected in revenues (1)
Fixed maturity investments	$ 66.9	$ 3.0	$ 69.9
Short-term investments		0.3	0.3
Common equity securities	1.7		1.7
Convertible bonds	26.3	0.1	26.4
Other investments	(10.3)		(10.3)
Total	$ 84.6	$ 3.4	$ 88.0

(1) Includes changes in net deferred gains and losses on sales of investments between OneBeacon and entities under White Mountains common control of $(0.2) million and $0.2 million, pre-tax, for the three months ended September 30, 2010 and 2009, respectively.

The net changes in fair value for the nine months ended September 30, 2010 and 2009 are as follows:

	Nine months ended September 30, 2010		
	Changes in net unrealized gains and losses (1)	Changes in net foreign currency translation gains and losses (1) ($ in millions)	Total net changes in fair value reflected in revenues (1)
Fixed maturity investments	$ 4.3	$ (1.9)	$ 2.4
Short-term investments		(0.8)	(0.8)
Common equity securities	18.8		18.8
Convertible bonds	(6.2)		(6.2)
Other investments	3.9		3.9
Total	$ 20.8	$ (2.7)	$ 18.1

	Nine months ended September 30, 2009		
	Changes in net unrealized gains and losses (1)	Changes in net foreign currency translation gains and losses (1) ($ in millions)	Total net changes in fair value reflected in revenues (1)
Fixed maturity investments	$ 198.4	$ 18.5	$ 216.9

Short-term investments		(0.2)		1.3		1.1
Common equity securities		12.4		0.1		12.5
Convertible bonds		33.7		0.1		33.8
Other investments (2)		10.1				10.1
Total	$	254.4	$	20.0	$	274.4

(1) Includes changes in net deferred gains and losses on sales of investments between OneBeacon and entities under White Mountains common control of $(1.4) million and $0.4 million, pre-tax, for the nine months ended September 30, 2010 and 2009, respectively.

(2) Includes net unrealized gains related to OneBeacon s securities lending program of $7.0 million, pre-tax, for the nine months ended September 30, 2009

Table of Contents

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 trading investment portfolio as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
	($ in millions)	
Investment securities:		
Gross unrealized investment gains	$ 175.1	$ 167.2
Gross unrealized investment losses	(9.2)	(23.5)
Net unrealized gains from investment securities	165.9	143.7
Income taxes	(58.1)	(50.3)
Total net unrealized investment gains, after tax	$ 107.8	$ 93.4

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses and carrying values of OneBeacon s fixed maturity investments as of September 30, 2010 and December 31, 2009 were as follows:

			September 30, 2010		
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
			($ in millions)		
U.S. Government and agency obligations	$ 251.8	$ 9.3	$	$	$ 261.1
Debt securities issued by corporations	824.5	63.5	(0.4)		887.6
Municipal obligations	3.0				3.0
Asset-backed securities	1,036.2	20.5	(0.3)	(0.5)	1,055.9
Foreign government obligations	13.8	0.7		(0.1)	14.4
Preferred stocks	77.4	5.0			82.4
Total fixed maturity investments	$ 2,206.7	$ 99.0	$ (0.7)	$ (0.6)	$ 2,304.4

			December 31, 2009		
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
			($ in millions)		
U.S. Government and agency obligations	$ 519.4	$ 12.4	$ (0.2)	$	$ 531.6
Debt securities issued by corporations	1,278.6	73.5	(6.4)	1.3	1,347.0
Municipal obligations	2.5	0.1			2.6
Asset-backed securities	1,003.7	18.4	(7.2)		1,014.9
Foreign government obligations	25.6	1.1			26.7
Preferred stocks	70.8	0.7			71.5
Total fixed maturity investments	$ 2,900.6	$ 106.2	$ (13.8)	$ 1.3	$ 2,994.3

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses and carrying values of OneBeacon s common equity securities, convertible bonds and other investments as of September 30, 2010 and December 31, 2009 were as follows:

September 30, 2010

	Cost or amortized cost		Gross unrealized gains		Gross unrealized losses ($ in millions)		Net foreign currency losses		Carrying value
Common equity securities	$	232.5	$	32.9	$	(2.7)	$	$	262.7
Convertible bonds		83.7		10.1					93.8
Other investments		157.0		33.1		(5.8)			184.3

Table of Contents

	December 31, 2009				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses ($ in millions)	Net foreign currency losses	Carrying value
Common equity securities	$ 176.3	$ 12.3	$ (1.0)	$	$ 187.6
Convertible bonds	153.7	16.6	(0.1)		170.2
Other investments	122.8	32.1	(8.6)		146.3

Fair value measurements at September 30, 2010

OneBeacon records its investments in accordance with ASC 820 which provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value 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). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 Valuations based on unobservable inputs.

As of September 30, 2010 and December 31, 2009, approximately 91% and 93%, respectively, of the investment portfolio recorded at fair value was priced based upon observable inputs.

Fair values for securities for which quoted prices are unavailable are estimated based upon reference to observable inputs other than quoted prices, such as benchmark interest rates, market comparables, broker quotes and other relevant observable inputs. In circumstances where observable inputs are adjusted to reflect management s best estimate of fair value, such fair value measurements are considered a lower level measurement in the fair value hierarchy.

Other investments, which are primarily comprised of hedge funds and private equity funds for which the fair value option has been elected, are carried at fair value based upon OneBeacon s proportionate interest in the underlying fund s net asset value, which is deemed to approximate fair value. The fair value of OneBeacon s investments in hedge funds and private equity funds has been estimated using net asset value because it reflects the fair value of the funds underlying investments in accordance with ASC 820. OneBeacon employs a number of procedures to assess the reasonableness of the fair value measurements, including obtaining and reviewing each fund s audited financial statements and discussing each fund s pricing with the fund s manager. However, since the fund managers do not provide sufficient information to independently evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of OneBeacon s investment in hedge funds and private equity funds have been classified as Level 3 under the fair value hierarchy.

In circumstances where the underlying investments are publicly traded, such as the investments made by hedge funds, the fair value of the underlying investments is determined using current market prices. In circumstances where the underlying investments are not publicly traded, such as the investments made by private equity funds, the private equity fund managers have considered the need for a liquidity discount on each of the underlying investments when determining the fund s net asset value in accordance with ASC 820. In circumstances where OneBeacon s portion of a fund s net asset value is deemed to differ from fair value due to illiquidity or other factors associated with OneBeacon s investment in the fund, including counterparty credit risk, the net asset value is adjusted accordingly. At September 30, 2010 and December 31, 2009, 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 September 30, 2010 and December 31, 2009, other investments reported at fair value represented approximately 5% and 4%, respectively, of the investment portfolio recorded at fair value. Other investments accounted for at fair value as of September 30, 2010 and December 31, 2009 were comprised of $73.7 million and $74.2 million, respectively, in hedge funds, $75.7 million and $58.0 million, respectively, in private equity funds and $14.1 million for both periods of an investment in a community reinvestment vehicle. At September 30, 2010 and December 31, 2009, we held investments in 14 and 15 hedge funds, respectively,

Table of Contents

and 16 private equity funds. The largest investment in a single fund was $24.0 million and $10.8 million, respectively, at September 30, 2010 and December 31, 2009.

As of September 30, 2010, other investments also included $20.8 million of an investment in a tax advantaged federal affordable housing development fund which is accounted for using the equity method.

The fair value measurements at September 30, 2010 and December 31, 2009 and their related inputs are as follows:

	Fair value at September 30, 2010	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
			($ in millions)	
Fixed maturity investments:				
U.S. Government and agency obligations	$ 261.1	$ 258.6	$ 2.5	$
Debt securities issued by corporations:				
Consumer	299.8		299.8	
Industrial	222.2		222.2	
Financial	75.5		75.5	
Communications	97.3		97.3	
Energy	62.9		62.9	
Basic materials	62.8		62.8	
Utilities	52.3		52.3	
Technology	14.8		14.8	
Debt securities issued by corporations	887.6		887.6	
Municipal obligations	3.0		3.0	
Asset-backed securities	1,055.9		1,032.5	23.4
Foreign government obligations	14.4	13.6	0.8	
Preferred stocks	82.4		11.7	70.7
Fixed maturity investments	2,304.4	272.2	1,938.1	94.1
Short-term investments	465.6	465.6		
Common equity securities:				
Financials	102.3	65.5		36.8
Basic Materials	57.6	57.6		
Consumer	35.8	35.8		
Energy	39.8	37.4		2.4
Utilities	12.7	12.6		0.1
Other	14.5	14.5		
Common equity securities	262.7	223.4		39.3
Convertible bonds	93.8		93.8	
Other investments (1)	163.5			163.5
Total	$ 3,290.0	$ 961.2	$ 2,031.9	$ 296.9

(1) Excludes the carrying value of $20.8 million associated with a tax advantaged federal affordable housing development fund accounted for using the equity method.

Table of Contents

	Fair value at December 31, 2009	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
		($ in millions)		
Fixed maturity investments:				
U.S. Government and agency obligations	$ 531.6	$ 529.0	$ 2.6	$
Debt securities issued by corporations:				
Consumer	516.9		516.9	
Industrial	287.5		287.5	
Financial	121.5		121.3	0.2
Communications	185.5		185.5	
Energy	75.4		75.4	
Basic materials	67.4		67.4	
Utilities	76.6		76.6	
Technology	16.2		16.2	
Debt securities issued by corporations	1,347.0		1,346.8	0.2
Municipal obligations	2.6		2.6	
Asset-backed securities	1,014.9		999.2	15.7
Foreign government obligations	26.7	21.4	5.3	
Preferred stocks	71.5		1.5	70.0
Fixed maturity investments	2,994.3	550.4	2,358.0	85.9
Short-term investments	544.4	544.4		
Common equity securities:				
Financials	82.3	50.1		32.2
Basic Materials	32.3	32.3		
Consumer	19.2	19.2		
Energy	29.4	27.8		1.6
Utilities	7.2	7.2		
Other	17.2	17.2		
Common equity securities	187.6	153.8		33.8
Convertible bonds	170.2		170.2	
Other investments	146.3			146.3
Total	$ 4,042.8	$ 1,248.6	$ 2,528.2	$ 266.0

At September 30, 2010 and December 31, 2009, OneBeacon held one private preferred stock that represented approximately 86% and 98%, respectively, 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.

The following table summarizes the ratings of OneBeacon s corporate debt securities as of September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
	($ in millions)	
AA	$ 69.8	$ 101.0
A	353.8	398.3
BBB	454.5	794.0
BB	9.5	31.6

Other				22.1
Debt securities issued by corporations	$	887.6	$	1,347.0

In addition to the investment portfolio described above, OneBeacon had $41.6 million and $27.2 million, respectively, of liabilities recorded at fair value and included in other liabilities as of September 30, 2010 and December 31, 2009. These liabilities relate to securities that have been sold short by a limited partnership in which OneBeacon invests and is required to consolidate in accordance with GAAP. All of the liabilities included in the $41.6 million and $27.2 million, respectively, have been deemed to have a Level 1 designation as of September 30, 2010 and December 31, 2009.

Table of Contents

Asset-backed Securities

OneBeacon purchases commercial and residential mortgage backed securities to maximize its fixed income portfolio s risk adjusted returns in the context of a diversified portfolio. OneBeacon s non-agency commercial mortgage-backed portfolio (CMBS) is generally short tenor, fixed rate and structurally senior, with more than 30 points of subordination on average for fixed rate CMBS and more than 55 points of subordination on average for floating rate CMBS as of September 30, 2010. 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 these levels of protection will mitigate the risk of loss tied to refinancing challenges facing the commercial real estate market. As of September 30, 2010, on average approximately 7% of the underlying loans were reported as non-performing for all CMBS held by OneBeacon. OneBeacon is not an originator of residential mortgage loans and held less than $0.1 million of residential mortgage-backed securities (RMBS) categorized as sub-prime as of September 30, 2010. In addition, OneBeacon s investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage backed securities as of September 30, 2010. OneBeacon considers sub-prime mortgage backed securities to be those that are issued from dedicated sub-prime shelves or have underlying loan pools that exhibit weak credit characteristics or dedicated second-lien shelf registrations (i.e., OneBeacon considers investments backed primarily by second-liens to be a sub-prime risk 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 September 30, 2010, OneBeacon did not hold any mortgage backed securities that were classified as non-prime. OneBeacon s non-agency residential mortgage-backed portfolio is generally of moderate average life, fixed rate and structurally senior. OneBeacon does not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

The following table summarizes the carrying value of OneBeacon s asset-backed securities as of September 30, 2010 and December 31, 2009:

	September 30, 2010			December 31, 2009		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
			($ in millions)			
Mortgage-backed securities:						
Agency:						
GNMA	$ 699.4	$ 682.5	$ 16.9	$ 483.0	$ 483.0	$
FNMA	94.9	94.9		149.1	149.1	
FHLMC	30.8	30.8		76.3	76.3	
Total agency(1)	825.1	808.2	16.9	708.4	708.4	
Non-agency:						
Residential	6.5		6.5	30.7	30.7	
Commercial	82.9	82.9		136.1	120.4	15.7
Total Non-agency	89.4	82.9	6.5	166.8	151.1	15.7
Total mortgage-backed securities	914.5	891.1	23.4	875.2	859.5	15.7
Other asset-backed securities:						
Credit card receivables	38.7	38.7		27.7	27.7	
Vehicle receivables	102.2	102.2		111.1	111.1	
Other	0.5	0.5		0.9	0.9	

Total other asset-backed securities		141.4		141.4				139.7		139.7		
Total asset-backed securities	$	1,055.9	$	1,032.5	$	23.4	$	1,014.9	$	999.2	$	15.7

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

Table of Contents

The security issuance years of OneBeacon s investments in non-agency RMBS and non-agency CMBS securities as of September 30, 2010 are as follows:

	Fair Value	2001	2003	Security Issuance Year 2005 ($ in millions)	2006	2007	2010
Non-agency RMBS	$ 6.5	$	$	$	$	$	$ 6.5
Non-agency CMBS	82.9	11.1	1.6	14.3	4.1	51.8	
Total	$ 89.4	$ 11.1	$ 1.6	$ 14.3	$ 4.1	$ 51.8	$ 6.5

Non-agency Residential Mortgage Securities

The classification of the underlying collateral quality and the tranche levels of OneBeacon s non-agency RMBS securities are as follows as of September 30, 2010:

	Fair Value	Super Senior (1) ($ in millions)	Senior (2)	Subordinate (3)
Prime	$ 6.4	$	$ 6.4	$
Sub-prime	0.1		0.1	
Total	$ 6.5	$	$ 6.5	$

(1) At issuance, Super Senior were rated AAA and were senior to other AAA bonds.

(2) At issuance, Senior were rated AAA and were senior to non-AAA bonds.

(3) At issuance, Subordinate were not rated AAA and were junior to other bonds.

Non-agency Commercial Mortgage Securities

The amount of fixed and floating rate securities and their tranche levels are as follows as of September 30, 2010:

Fair Value	Super Senior (1)	Senior(2)	Subordinate(3)

	($ in millions)			
Fixed rate CMBS	$ 63.5	$ 50.7	$ 1.6	$ 11.2
Floating rate CMBS	19.4	15.3		4.1
Total	$ 82.9	$ 66.0	$ 1.6	$ 15.3

(1) At issuance, Super Senior were rated AAA and were senior to other AAA bonds.

(2) At issuance, Senior were rated AAA and were senior to non-AAA bonds.

(3) At issuance, Subordinate were not rated AAA and were senior to other bonds.

Table of Contents

The changes in Level 1 fair value measurements for the three and nine months ended September 30, 2010 are as follows:

	Fixed maturity investments	Common equity securities	Convertible bonds ($ in millions)	Other investments	Total (1)
Balance at January 1, 2010	$ 550.4	$ 153.8	$	$	$ 704.2
Amortization/accretion	0.1				0.1
Total net realized and unrealized gains (losses)	2.1	5.1			7.2
Purchases	185.8	61.7			247.5
Sales	(308.5)	(10.9)			(319.4)
Transfers in					
Transfers out					
Balance at March 31, 2010	$ 429.9	$ 209.7	$	$	$ 639.6
Amortization/accretion	0.8				0.8
Total net realized and unrealized gains (losses)	(2.1)	(11.4)			(13.5)
Purchases	19.0	25.5			44.5
Sales	(161.9)	(25.9)			(187.8)
Transfers in					
Transfers out	(4.7)				(4.7)
Balance at June 30, 2010	$ 281.0	$ 197.9	$	$	$ 478.9
Amortization/accretion	(0.4)				(0.4)
Total net realized and unrealized gains (losses)	0.3	23.4			23.7
Purchases	3.0	11.9			14.9
Sales	(11.7)	(9.8)			(21.5)
Transfers in					
Transfers out					
Balance at September 30, 2010	$ 272.2	$ 223.4	$	$	$ 495.6

(1) Excludes short-term investments which are deemed to have a Level 1 designation. The net maturities, purchases and sales of short-term investments, including the transfer of $523.4 million in short-term investments as part of the Personal Lines Transaction, resulted in an increase of $78.8 million during the nine months ended September 30, 2010.

Transfers out of Level 1 include the securities that were reclassified to assets held for sale as part of the Personal Lines Transaction in the June 30, 2010 consolidated balance sheet.

Table of Contents

The changes in Level 2 fair value measurements for the three and nine months ended September 30, 2010 are as follows:

	Fixed maturity investments	Common equity securities	Convertible bonds ($ in millions)	Other investments	Total
Balance at January 1, 2010	$ 2,358.0	$	$ 170.2	$	$ 2,528.2
Amortization/accretion	(1.9)		0.3		(1.6)
Total net realized and unrealized gains (losses)	20.3		6.2		26.5
Purchases	111.9	0.1	23.7		135.7
Sales	(659.3)		(29.5)		(688.8)
Transfers in	0.2				0.2
Transfers out					
Balance at March 31, 2010	$ 1,829.2	$ 0.1	$ 170.9	$	$ 2,000.2
Amortization/accretion	(2.1)		0.5		(1.6)
Total net realized and unrealized gains (losses)	9.1	(0.4)	(4.1)		4.6
Purchases	164.5	0.5	4.0		169.0
Sales	(189.1)		(37.9)		(227.0)
Transfers in	14.7				14.7
Transfers out					
Balance at June 30, 2010	$ 1,826.3	$ 0.2	$ 133.4	$	$ 1,959.9
Amortization/accretion	(2.8)		0.4		(2.4)
Total net realized and unrealized gains (losses)	16.3		6.2		22.5
Purchases	692.8		4.1		696.9
Sales	(594.5)	(0.2)	(50.3)		(645.0)
Transfers in					
Transfers out					
Balance at September 30, 2010	$ 1,938.1	$	$ 93.8	$	$ 2,031.9

Table of Contents

The changes in Level 3 fair value measurements for the three and nine months ended September 30, 2010 are as follows:

	Fixed maturity investments	Common equity securities	Convertible bonds ($ in millions)	Other investments	Total
Balance at January 1, 2010	$ 85.9	$ 33.8	$	$ 146.3	$ 266.0
Amortization/accretion	(1.4)				(1.4)
Total net realized and unrealized gains (losses)	2.8	2.4		3.8	9.0
Purchases				9.1	9.1
Sales	(1.7)	(0.4)		(2.1)	(4.2)
Transfers in					
Transfers out	(0.2)				(0.2)
Balance at March 31, 2010	$ 85.4	$ 35.8	$	$ 157.1	$ 278.3
Amortization/accretion					
Total net realized and unrealized gains (losses)	(3.2)	1.3		(1.7)	(3.6)
Purchases				9.1	9.1
Sales				(5.5)	(5.5)
Transfers in					
Transfers out	(14.7)				(14.7)
Balance at June 30, 2010	$ 67.5	$ 37.1	$	$ 159.0	$ 263.6
Amortization/accretion					
Total net realized and unrealized gains (losses)	3.1	2.0		2.7	7.8
Purchases	23.5	0.2		12.6	36.3
Sales				(10.8)	(10.8)
Transfers in					
Transfers out					
Balance at September 30, 2010	$ 94.1	$ 39.3	$	$ 163.5	$ 296.9

Transfers out of Level 3 and included in transfers in of Level 2 fixed maturity investments of $0.2 million for the three months ended March 31, 2010 and $14.7 million for the three months ended June 30, 2010 each comprise one 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 during the three months ended March 31, 2010 and June 30, 2010, respectively.

The following table summarizes the change in net unrealized gains or losses for assets designated as Level 3 for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
		($ in millions)		
Fixed maturity investments	$ 3.4	$ 10.4	$ 0.6	$ 22.7
Short-term investments				
Common equity securities	2.0	1.4	5.8	4.8
Convertible bonds				

Other investments		0.2		(10.3)		3.9		10.1
Total	$	5.6	$	1.5	$	10.3	$	37.6

Table of Contents

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 at September 30, 2010:

	Fair Value	Unfunded Commitments
	($ in millions)	
Hedge funds		
Long/short credit and distressed	$ 24.1	
Long bank loan	3.7	
Long/short equity	39.2	
Long/short equity real estate investment trust	0.8	
Long/short equity activist	5.9	
Total hedge funds	$ 73.7	
Private equity funds		
Insurance	$ 5.7	$ 0.1
Banking	3.3	
Distressed residential real estate	24.0	1.9
Energy infrastructure and services	13.0	5.3
Healthcare	0.8	4.0
Multi-sector	17.9	6.9
Private equity secondaries	6.8	1.9
Real estate	4.2	0.8
Total private equity funds	$ 75.7	$ 20.9
Total hedge funds and private equity funds(1)	$ 149.4	$ 20.9

(1) Other investments also includes $14.1 million of an investment in a community reinvestment vehicle and $20.8 million of an investment in a tax advantaged federal affordable housing development fund.

The following table summarizes investments in hedge funds and private equity funds as of December 31, 2009:

	Fair Value	Unfunded Commitments
	($ in millions)	
Hedge funds		
Long/short credit and distressed	$ 21.7	
Long bank loan	3.4	
Long/short equity	47.8	
Long/short equity activist	1.3	
Total hedge funds	$ 74.2	
Private equity funds		
Insurance	$ 5.8	$ 0.1

Banking		4.2		0.1
Distressed residential real estate		4.6		20.5
Energy infrastructure and services		17.2		8.8
Healthcare				4.8
Multi-sector		16.7		7.7
Private equity secondaries		4.6		3.4
Real estate		4.9		1.1
Total private equity funds	$	58.0	$	46.5
Total hedge funds and private equity funds(1)	$	132.2	$	46.5

(1) Other investments also includes $14.1 million of an investment in a community reinvestment vehicle.

Table of Contents

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 September 30, 2010 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

	Hedge Funds Active Funds				
	30 - 59 days notice	**60 - 89 days notice**	**90 - 119 days notice**	**120+ days notice**	**Total**
			($ in millions)		
Redemption frequency					
Monthly	$	$	$	$ 5.9	$ 5.9
Quarterly	17.9	17.1	10.4		45.4
Semi-annual	11.3		0.8		12.1
Annual			6.6	3.7	10.3
Total	$ 29.2	$ 17.1	$ 17.8	$ 9.6	$ 73.7

Certain of the 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. At September 30, 2010 and December 31, 2009, $5.8 million and $16.2 million, respectively, of 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 at September 30, 2010.

OneBeacon has also submitted redemption requests for certain of its investments in active hedge funds. At September 30, 2010 and December 31, 2009, redemptions of $16.0 million and $9.6 million, respectively, were submitted. OneBeacon expects to receive these funds within the next 12 months. Redemptions are recorded as receivables when approved by the hedge funds and when no longer subject to market fluctuations.

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. At September 30, 2010, investments in private equity funds were subject to lock-up periods as follows:

	1 - 3 years	**3 - 5 years**	**5 - 10 years**	**>10 years**	**Total**
			($ in millions)		
Private Equity Funds expected lock-up period remaining	$ 9.0	$ 24.0	$ 42.7	$	$ 75.7

NOTE 6. Debt

OneBeacon s debt outstanding as of September 30, 2010 and December 31, 2009 consisted of the following:

	September 30, 2010	December 31, 2009
	($ in millions)	
Senior unsecured notes, at face value	$ 419.8	$ 607.1
Unamortized original issue discount	(0.3)	(0.6)
Senior unsecured notes, carrying value	419.5	606.5
Atlantic Specialty Note		14.0
Total debt	$ 419.5	$ 620.5

Senior Notes

In May 2003, OBH, a wholly-owned subsidiary of the Company, issued $700.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.7% (the Senior Notes). The Senior Notes bear an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, until maturity on May 15, 2013, and are fully and unconditionally guaranteed as to the payment of principal and interest by White Mountains. OBH incurred $7.3 million in expenses related to the issuance of the Senior Notes (including the $4.5 million underwriting discount), which have been deferred and are being recognized

Table of Contents

into interest expense over the life of the Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the Senior Notes have an effective yield to maturity of approximately 6.0% per annum.

On May 3, 2010, OBH commenced a cash tender offer for up to $200.0 million in aggregate principal amount of the Senior Notes at a price of $1,027.50 per $1,000 principal amount. The cash tender offer, which was not subject to the tender of any minimum principal amount of Senior Notes, expired on May 28, 2010. Holders of Senior Notes who tendered on or before May 14, 2010 received an early tender payment of $30 for every $1,000 principal amount of Senior Notes validly tendered. Payment for the Senior Notes included accrued and unpaid interest up to the settlement date. OBH accepted and retired $156.4 million aggregate principal amount, of which $155.2 million was tendered by the early tender deadline, for purchase for $165.4 million, which resulted in a $9.6 million loss.

During the second quarter of 2010, OBH repurchased and retired $18.2 million of outstanding Senior Notes for $18.9 million, which resulted in a $0.7 million loss. During the first quarter of 2010, OBH repurchased and retired $11.5 million of outstanding Senior Notes for $11.9 million, which resulted in a $0.5 million loss. During the first quarter of 2010, OBIC purchased $1.1 million of outstanding Senior Notes for $1.1 million. During the third quarter of 2009, OBIC purchased $21.0 million of outstanding Senior Notes for $19.8 million, which resulted in a $1.0 million gain. During the second quarter of 2009, OBIC purchased $37.3 million of outstanding Senior Notes for $35.2 million, which resulted in a $1.9 million gain. During the first quarter of 2009, OBH repurchased and retired $10.6 million of outstanding Senior Notes for $8.1 million, which resulted in a $2.5 million gain. At September 30, 2010, OBH was in compliance with all of the covenants under the Senior Notes.

White Mountains has provided and, pursuant to a separation agreement, continues to provide an irrevocable and unconditional guarantee as to the payment of principal and interest on the Senior Notes. Refer to   Note 16. Related Party Disclosures   of the Company   s 2009 Annual Report on Form 10-K.

Mortgage Note on Real Estate Owned

In connection with its December 2005 purchase of land and an office building that is its U.S. headquarters, OneBeacon entered into a $40.8 million, 18-year mortgage note which had a variable interest rate based upon the lender   s 30-day LIBOR rate. As of December 31, 2008, OneBeacon had drawn the full amount of $40.8 million on the mortgage note. Repayment on the mortgage note commenced in January 2009. During the three months ended March 31, 2009, OneBeacon repaid $0.2 million of principal in accordance with the terms of the mortgage note. On May 7, 2009, OneBeacon repaid $40.6 million, representing the outstanding principal on the mortgage note.

Concurrent with entering into the mortgage note, OneBeacon also entered into an interest rate swap to hedge its exposure to the variability in the interest rate on the mortgage note. The notional amount of the swap was equal to the debt outstanding on the mortgage note and was adjusted to match the drawdowns and repayments on the mortgage note so that the principal amount of the mortgage note and the notional amount of the swap were equal at all times. Under the terms of the swap, OneBeacon paid a fixed interest rate of approximately 6% and received a variable interest rate based on the same LIBOR index used for the mortgage note. Interest paid or received on the swap was reported in interest expense. In accordance with GAAP, OneBeacon accounted for the swap as a cash flow hedge and recorded the interest rate swap at fair value on the balance sheet in other assets or liabilities depending on the value as of the balance sheet date. Changes in the fair value of the interest rate swap were reported as a component of other comprehensive income or loss. Any gains and losses on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness were recorded in revenues. At the time of repayment of the outstanding balance on the mortgage note, OneBeacon paid $7.4 million to settle the interest rate swap. The $7.4 million settlement amount was recorded as an expense in net other revenues on a pre-tax basis and in other comprehensive income and loss items as an increase of $4.8 million on an after tax basis ($7.4 million pre-tax). The nine months ended September 30, 2009 also included $2.0 million, after tax, in other comprehensive income and loss items related to changes in fair value on the interest rate swap.

Other Debt of Operating Subsidiaries

In connection with the acquisition of Atlantic Specialty Insurance Company on March 31, 2004, OneBeacon issued a $20.0 million ten-year note to the seller (the Atlantic Specialty Note). OneBeacon was required to repay $2.0 million of principal on the Atlantic Specialty Note each year, commencing in January 2007. The Atlantic Specialty Note accrued interest at a rate of 5.2% except that the outstanding principal amount in excess of $15.0 million accrued interest at a rate of 3.6%. During the three months ended March 31, 2009, OneBeacon repaid $2.0 million on the Atlantic Specialty Note. During the three months ended March 31, 2010, OneBeacon repaid $14.0 million on the Atlantic Specialty Note, representing the outstanding principal on the note.

Table of Contents

NOTE 7. Segment Information

OneBeacon s segments consist of the following: (1) Insurance Operations; and (2) Other Operations. OneBeacon has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company s subsidiaries and affiliates; (ii) the manner in which the Company s subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the chief operating decision makers and the Board of Directors (the Board). Significant intercompany transactions among OneBeacon s segments have been eliminated herein. Financial information for OneBeacon s segments follows:

	Insurance Operations	Other Operations ($ in millions)	Total
Three months ended September 30, 2010			
Earned premiums	$ 317.9	$	$ 317.9
Net investment income (expense)	22.2	(0.6)	21.6
Net realized and unrealized investment gains	51.5	0.1	51.6
Net other revenues (expenses)	17.4	(0.3)	17.1
Total revenues	409.0	(0.8)	408.2
Loss and LAE	179.9		179.9
Policy acquisition expenses	66.9		66.9
Other underwriting expenses	53.8		53.8
General and administrative expenses	4.6	1.4	6.0
Interest expense on debt		6.4	6.4
Total expenses	305.2	7.8	313.0
Pre-tax income (loss)	$ 103.8	$ (8.6)	$ 95.2
Three months ended September 30, 2009			
Earned premiums	$ 492.8	$	$ 492.8
Net investment income (expense)	35.6	(1.2)	34.4
Net realized and unrealized investment gains (losses)	118.1	(0.5)	117.6
Net other revenues	5.1	0.6	5.7
Total revenues	651.6	(1.1)	650.5
Loss and LAE	298.2		298.2
Policy acquisition expenses	101.4		101.4
Other underwriting expenses	79.4		79.4
General and administrative expenses	4.2	2.7	6.9
Accretion of fair value adjustment to loss and LAE reserves		1.4	1.4
Interest expense on debt	0.2	8.9	9.1
Total expenses	483.4	13.0	496.4
Pre-tax income (loss)	$ 168.2	$ (14.1)	$ 154.1

Table of Contents

	Insurance Operations	Other Operations ($ in millions)	Total
Nine months ended September 30, 2010			
Earned premiums	$ 1,199.4	$	$ 1,199.4
Net investment income (expense)	76.8	(1.9)	74.9
Net realized and unrealized investment gains (losses)	81.1	(1.5)	79.6
Net other revenues (expenses)	33.2	(11.9)	21.3
Total revenues	1,390.5	(15.3)	1,375.2
Loss and LAE	775.5		775.5
Policy acquisition expenses	263.5		263.5
Other underwriting expenses	186.5		186.5
General and administrative expenses	14.0	6.5	20.5
Interest expense on debt	0.1	23.3	23.4
Total expenses	1,239.6	29.8	1,269.4
Pre-tax income (loss)	$ 150.9	$ (45.1)	$ 105.8
Nine months ended September 30, 2009			
Earned premiums	$ 1,470.8	$	$ 1,470.8
Net investment income (expense)	93.5	(1.1)	92.4
Net realized and unrealized investment gains (losses)	239.5	(0.4)	239.1
Net other revenues	12.1	4.1	16.2
Total revenues	1,815.9	2.6	1,818.5
Loss and LAE	861.9		861.9
Policy acquisition expenses	294.3		294.3
Other underwriting expenses	236.4		236.4
General and administrative expenses	12.8	6.1	18.9
Accretion of fair value adjustment to loss and LAE reserves		4.1	4.1
Interest expense on debt	1.4	28.7	30.1
Total expenses	1,406.8	38.9	1,445.7
Pre-tax income (loss)	$ 409.1	$ (36.3)	$ 372.8

During 2010, OneBeacon determined that unearned Limited Assignment Distribution fees, which are included in unearned premiums, had been overstated in years prior to 2010. In order to correct this error, OneBeacon recorded an adjustment in the three months ended September 30, 2010 of $5.5 million which decreased unearned premiums and increased earned premiums.

OneBeacon has recently managed its Insurance Operations segment through a specialty lines underwriting unit and a personal lines underwriting unit, nearly all of which was subject to the Personal Lines Transaction, as described in Note 2. The Insurance Operations segment also includes run-off business, which primarily consists of non-specialty commercial lines business which is being transferred to The Hanover, as described in Note 1, and other run-off business. As a result of the transactions described in Notes 1 and 2, OneBeacon is currently evaluating its segments to determine the most effective management reporting structure.

OneBeacon s specialty lines underwriting unit is a collection of niche insurance businesses, including professional liability products, marine insurance, collector cars and boats, property and inland marine, tuition reimbursement, excess property and accident & health products, as well as property and casualty insurance coverages tailored to industry groups such as technology, financial services, entertainment, sports and leisure industries and government entities. Additionally, OneBeacon s specialty lines underwriting unit also includes excess and surplus lines coverages, its newest specialty business. OneBeacon s personal lines underwriting unit provides homeowners, automobile and combination insurance policies. The personal lines underwriting unit also includes AutoOne, a subsidiary within OneBeacon that offers products and services to assigned risk markets. OneBeacon s Insurance Operations segment also includes run-off which consists of non-specialty commercial lines business included in the Commercial Lines Transaction, as well as national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group effective November 1, 2001.

Table of Contents

The following tables provide ratios, net written premiums and earned premiums for OneBeacon s Insurance Operations by major underwriting unit and in total for the three and nine months ended September 30, 2010 and 2009:

	Specialty(1)	Personal	Run-off(2)	Total
		($ in millions)		
Three months ended September 30, 2010				
Ratios:				
Loss and LAE	51.1%	76.3%	76.9%	56.6%
Expense	38.9	34.3	35.3	38.0
GAAP combined	90.0%	110.6%	112.2%	94.6%
Net written premiums	$ 273.5	$ 13.6	$ 0.6	$ 287.7
Earned premiums	249.6	24.2	44.1	317.9
Three months ended September 30, 2009				
Ratios:				
Loss and LAE	52.6%	68.9%	66.3%	60.5%
Expense	39.1	32.5	37.1	36.7
GAAP combined	91.7%	101.4%	103.4%	97.2%
Net written premiums	$ 260.9	$ 128.3	$ 114.7	$ 503.9
Earned premiums	233.9	140.5	118.4	492.8
Nine months ended September 30, 2010				
Ratios:				
Loss and LAE	55.9%	76.2%	80.4%	64.7%
Expense	38.5	33.0	39.8	37.5
GAAP combined	94.4%	109.2%	120.2%	102.2%
Net written premiums	$ 771.6	$ 238.6	$ (7.1)	$ 1,003.1
Earned premiums	726.7	265.4	207.3	1,199.4
Nine months ended September 30, 2009				
Ratios:				
Loss and LAE	43.9%	75.2%	66.3%	58.6%
Expense	38.8	30.9	37.4	36.1
GAAP combined	82.7%	106.1%	103.7%	94.7%
Net written premiums	$ 724.0	$ 397.9	$ 349.3	$ 1,471.2
Earned premiums	673.9	436.8	360.1	1,470.8

(1) Specialty lines includes Technology, Financial Services, OneBeacon Specialty Property and Property and Inland Marine which were formerly reported in commercial lines. The prior periods have been reclassified to conform to the current presentation.

(2) Run-off includes non-specialty commercial lines business subject to the Commercial Lines Transaction and other run-off business. The prior periods have been reclassified to conform to the current presentation.

NOTE 8. Variable Interest Entities

Reciprocals

Reciprocals are policyholder-owned insurance carriers organized as unincorporated associations. Each policyholder insured by the reciprocal shares risk with the other policyholders. Policyholders share profits and losses in the same proportion as the amount of insurance purchased but are not subject to assessment for net losses of the reciprocal.

OneBeacon had capitalized three reciprocals by loaning funds to them in exchange for surplus notes. In 2002, OneBeacon formed NJSM to provide management services for a fee to New Jersey Skylands Insurance Association, a reciprocal, and its wholly-owned subsidiary New Jersey Skylands Insurance Company (together, New Jersey Skylands Insurance). New Jersey Skylands Insurance was capitalized with a $31.3 million surplus note issued to OneBeacon in 2002. OneBeacon also loaned $0.2 million to New Jersey Skylands Insurance in the form of a security deposit. In 2004, OneBeacon formed Houston General Management Company to provide management services for a fee to another reciprocal, Houston General Insurance Exchange. During 2004, OneBeacon contributed $2.0 million of capital to Houston General Insurance Exchange. In 2005, OneBeacon contributed one of its subsidiaries, Houston General Insurance Company with assets of $149.4 million and liabilities of $127.6 million, to Houston General Insurance Exchange (together Houston General Insurance). Subsequent to the contribution of Houston General Insurance Company, Houston General Insurance Exchange issued a surplus note of $23.7 million to OneBeacon. In 2006, AAIF, a wholly-owned subsidiary of

Table of Contents

OneBeacon, entered into an agreement to provide management services for a fee to Adirondack Insurance, a reciprocal. Adirondack Insurance was capitalized with a $70.7 million surplus note issued to OneBeacon in May 2006. Principal and interest on the surplus notes are repayable to OneBeacon only with regulatory approval. The obligation to repay principal on the notes is subordinated to all other liabilities including obligations to policyholders and claimants for benefits under insurance policies. OneBeacon has no ownership interest in the reciprocals.

Under the provisions of ASC 810, OneBeacon had determined that each of the reciprocals qualifies as a VIE. Further, OneBeacon had determined that it is the primary beneficiary as it has both the power to direct the activities of the VIE that most significantly impact the entity s economic performance and the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE as a result of the management services provided to the reciprocal and the funds loaned to it. Accordingly, OneBeacon consolidates Houston General Insurance and, up until the completion of the Personal Lines Transaction on July 1, 2010, consolidated New Jersey Skylands Insurance and Adirondack Insurance.

Subsequent to the Personal Lines Transaction, Houston General Insurance remains as OneBeacon s only reciprocal. At September 30, 2010 and December 31, 2009, consolidated amounts related to Houston General Insurance included total assets of $123.3 million and $111.4 million, respectively, and total liabilities of $140.8 million and $127.2 million, respectively. At September 30, 2010, the net amount of capital at risk is equal to the surplus note of $23.7 million less the accumulated losses of $17.5 million.

As described in Note 2, the Personal Lines Transaction, which was completed on July 1, 2010, included the sale of NJSM and AAIF and the transfer of the surplus notes issued by New Jersey Skylands Insurance and Adirondack Insurance. Completion of the Personal Lines Transaction triggered deconsolidation of New Jersey Skylands Insurance and Adirondack Insurance. At December 31, 2009, consolidated amounts related to New Jersey Skylands Insurance included total assets of $134.9 million and total liabilities of $154.8 million. At December 31, 2009, amounts related to Adirondack Insurance included total assets of $281.0 million and total liabilities of and $280.9 million.

NOTE 9. Retirement Plans

OneBeacon sponsors qualified and non-qualified, non-contributory, defined benefit pension plans covering substantially all employees who were employed as of December 31, 2001 and remain actively employed with OneBeacon. Current plans include a OneBeacon qualified pension plan (the Qualified Plan) and a OneBeacon non-qualified pension plan (the Non-qualified Plan) (collectively the Plans). OneBeacon s Plans were frozen and curtailed in the fourth quarter of 2002.

The components of net periodic benefit cost for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in millions)			
Service cost	$ 0.2	$ 0.1	$ 0.6	$ 0.4
Interest cost	1.6	1.6	4.6	4.8
Expected return on plan assets	(1.8)	(1.6)	(5.6)	(4.8)

Amortization of unrecognized loss		0.1		0.4		0.5		1.2
Net periodic pension cost before settlement and special termination benefits expense		0.1		0.5		0.1		1.6
Settlement expense		0.2				0.2		
Special termination benefits expense (1)		1.3		0.1		1.7		0.1
Net periodic benefit cost	$	1.6	$	0.6	$	2.0	$	1.7

(1) Special termination benefits represent additional payments made from the Qualified Plan to certain vested participants when their employment was terminated due to a reduction in force.

OneBeacon does not expect to make a contribution to its Qualified Plan in 2010. OneBeacon anticipates contributing $2.8 million to the Non-qualified Plan, for which OneBeacon has assets held in a rabbi trust. As of September 30, 2010, $2.0 million in contributions have been made to the Non-qualified Plan.

Table of Contents

As a result of the Commercial Lines Transaction and Personal Lines Transaction, the Plan experienced a partial plan settlement which required re-measurement of the remaining accumulated plan benefits in accordance with ASC 715. OneBeacon s discount rate assumption used to account for the Qualified Plan reflects the rate at which the benefit obligation could effectively be settled. Based on consideration of published yields for high quality long-term corporate bonds, U.S. Treasuries, insurance company annuity contract pricings, and cash flow matching analysis utilizing the Citigroup Pension Discount Curve and Liability Index, the discount rate utilized for the revaluation of the Qualified Plan obligations was 4.75% as compared to 5.50% at December 31, 2009. As a result of the partial settlement and re-measurement, the Company recognized a loss of $0.2 million through pre-tax income and a pre-tax loss of $0.5 million through other comprehensive income. The remaining Qualified Plan liabilities, which are primarily attributable to Qualified Plan participants who remain actively employed by OneBeacon is approximately $88.4 million.

NOTE 10. Employee Share-Based Incentive Compensation Plans

OneBeacon s share-based compensation plans consist of performance shares, stock options granted in connection with the initial public offering and restricted stock units. OneBeacon s share-based compensation plans 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. See Performance Shares below. Performance shares 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 one of the deferred compensation plans of the Company s subsidiaries. OneBeacon expenses the full cost of all its share-based compensation.

OneBeacon records its share-based compensation in accordance with ASC 718. ASC 718 applies to new grants of share-based awards, award modifications and the remaining portion of the fair value of unvested awards. The unvested portion of OneBeacon performance share awards, as well as the stock options granted in connection with the initial public offering, are subject to the fair value measurement and recognition requirements of ASC 718.

Performance Shares

The following summarizes performance share activity for performance shares whose value is based upon the market price of an underlying OneBeacon common share (OB Performance Shares) for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30,			
	2010		2009	
	Target OB Performance Shares outstanding	Accrued expense	Target OB Performance Shares outstanding	Accrued expense
		($ in millions)		
Beginning of period	1,770,423	$ 15.2	2,277,128	$ 8.0
Payments and deferrals (1)	(199,774)	(2.2)		
New awards	14,618		1,880	
Forfeitures and net change in assumed forfeitures	(20,438)	(0.3)	(2,990)	

Expense recognized			1.7			1.0
End of period	1,564,829	$	14.4	2,276,018	$	9.0

Table of Contents

	Nine months ended September 30,			
	2010		2009	
	Target OB Performance Shares outstanding	Accrued expense	Target OB Performance Shares outstanding	Accrued expense
		($ in millions)		
Beginning of period	2,224,215	$ 15.1	2,212,313	$ 4.6
Payments and deferrals (1)(2)(3)	(882,118)	(4.5)	(137,400)	
New awards	293,478		379,085	
Forfeitures and net change in assumed forfeitures	(70,746)	(0.7)	(177,980)	(0.3)
Expense recognized		4.5		4.7
End of period	1,564,829	$ 14.4	2,276,018	$ 9.0

(1) As a result of the Commercial Lines Transaction and the Personal Lines Transaction, payments were made to certain former employees of OneBeacon prior to the end of the performance cycle on a pro rata basis. Performance shares earned for the 2008-2010 and 2009-2011 performance cycles were based upon a performance factor of 100%.

(2) Performance shares earned for the 2007-2009 performance cycle were based upon a performance factor of 14.2%.

(3) Performance shares earned for the 2007-2008 performance cycle were based upon a performance factor of 1.4%.

The following summarizes performance shares outstanding and accrued performance share expense at September 30, 2010 for each performance cycle:

	Target OB Performance Shares outstanding	Accrued expense
	($ in millions)	
Performance cycle:		
2008 2010	1,007,691	$ 8.0
2009 2011	303,624	5.5
2010 2012	293,478	1.3
Sub-total	1,604,793	14.8
Assumed forfeitures	(39,964)	(0.4)
Total at September 30, 2010	1,564,829	$ 14.4

If 100% of the outstanding performance shares had been vested on September 30, 2010, the total additional compensation cost to be recognized would have been $8.3 million, based on current accrual factors (common share price and payout assumptions).

All performance shares earned for the 2009-2011, 2008-2010, 2007-2009 and 2007-2008 performance cycle were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company s subsidiaries.

Table of Contents

Stock Options

As described in the Company s 2009 Annual Report on Form 10-K, in November 2006, in connection with the initial public offering, OneBeacon issued to its key employees 1,420,000 options to acquire common shares of the Company at an above-market fixed exercise price. The following summarizes option activity for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30,					
	2010			2009		
	Target options outstanding		Accrued expense	Target options outstanding		Accrued expense
			($ in millions)			
Beginning of period	879,783	$	4.1	1,108,220	$	3.1
Forfeitures						
Vested and expired (1)	(43,218)					
Expense recognized			0.2			0.3
End of period	836,565	$	4.3	1,108,220	$	3.4

	Nine months ended September 30,					
	2010			2009		
	Target options outstanding		Accrued expense	Target options outstanding		Accrued expense
			($ in millions)			
Beginning of period	1,015,610	$	3.6	1,237,872	$	2.5
Forfeitures	(37,044)			(129,652)		
Vested and expired (1)	(142,001)					
Expense recognized			0.7			0.9
End of period	836,565	$	4.3	1,108,220	$	3.4

(1) During the three and nine months ended September 30, 2010, 43,218 and 142,001, respectively, options that vested as a result of the Commercial Lines Transaction and Personal Lines Transaction were unexercised and expired.

The options vest in equal installments on each of the third, fourth and fifth anniversaries of their issuance. These options expire five and a half years from the anniversary of issuance. The fair value of each option award at grant date was estimated using a Black-Scholes option pricing model using an expected volatility assumption of 30%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. The options originally had a per share exercise price of $30.00. On May 27, 2008, the Compensation Committee of the Board (the Compensation Committee) amended the exercise price to $27.97 as a result of the $2.03 per share special dividend paid in the first quarter of 2008. The compensation expense associated with the options and the incremental fair value of the award modification is being recognized ratably over the remaining period.

Restricted Stock Units

The options granted in connection with OneBeacon s initial public offering did not include a mechanism in the options to reflect the contribution to total return from the regular quarterly dividend. As a result, on February 26, 2008, OneBeacon granted 116,270 Restricted Stock Units (RSUs) to actively employed option holders. The RSUs vest one-third on each of November 9, 2009, 2010 and 2011 subject to, for each vesting tranche of units, various factors including but not limited to the attainment of growth of 4% per cycle in adjusted book value per share. The performance goal for the first vesting tranche of units was not attained by the 2009 vesting date and will be reassessed at the 2010 and 2011 vesting dates, consistent with the terms of the RSU plan. Upon vesting, the RSUs will be mandatorily deferred into one of the non-qualified deferred compensation plans of the Company s subsidiaries and will be paid out in 2012 in cash or shares at the discretion of the Compensation Committee. The expense associated with the RSUs is being recognized over the vesting period. For the three and nine months ended September 30, 2010, OneBeacon recognized $0 and $0.2 million, respectively, in expense. For the three and nine months ended September 30, 2009, OneBeacon recognized $0.3 million and $0.7 million, respectively, in expense. As of September 30, 2010, there were 77,140 RSUs outstanding to actively employed option holders.

Table of Contents

NOTE 11. Income Taxes

While OneBeacon is subject to taxation in several jurisdictions, the majority of OneBeacon s subsidiaries file a consolidated tax return in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective rate lower than that imposed by the United States.

OneBeacon s income tax expense related to pre-tax income for the three months ended September 30, 2010 and 2009 represented effective tax rates of 8.0% and 29.1%, respectively. The effective tax rates for the nine months ended September 30, 2010 and 2009 were 8.3% and 27.2%, respectively. The effective tax rate for the three and nine months ended September 30, 2010 were lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States and recognition of a deferred tax asset for a higher tax basis and deconsolidation of the companies sold as part of the Personal Lines Transaction, partially offset by an increase in the valuation allowance for insurance reciprocals. The effective tax rate for the three and nine months ended September 30, 2009 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States.

In arriving at the effective tax rate for the three and nine months ended September 30, 2010, OneBeacon forecasted the change in net realized and unrealized investment gains or losses for the year ending December 31, 2010 and included these gains or losses in the effective tax rate calculation pursuant to ASC 740-270. In arriving at the effective tax rate for the three and nine months ended September 30, 2009, OneBeacon treated the net realized and unrealized investment gains or losses as a discrete item separate from the other components of pre-tax income. Therefore, the benefit of these net gains or losses was calculated at the statutory rate applicable to the jurisdiction in which the gains or losses were recorded. The majority of the investment assets incurring current period net realized and unrealized gains or losses for the three and nine months ended September 30, 2009 were recorded in the U.S. and were taxed at the statutory rate of 35%. Net realized and unrealized investment gains or losses were treated as a discrete item due to the inability to reliably estimate this amount for the full year.

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 2005. In October 2008, the IRS commenced examination of OneBeacon s U.S. income tax returns for 2005 and 2006. On July 30, 2010, OneBeacon received Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2005 and 2006 which assessed an additional $5.5 million of tax. The estimated total assessment, including interest and utilization of alternative minimum and foreign tax credit carryovers, is $23.9 million. OneBeacon disagrees with the adjustments proposed by the IRS and intends to defend its position. The timing of the resolution of these issues is uncertain, however, it is reasonably possible that the resolution could occur within the next 12 months. An estimate of the range of potential outcomes cannot be made at this time. When ultimately settled, OneBeacon does not expect the resolution of this examination to result in a material change to its financial position.

NOTE 12. Fair Value of Financial Instruments

ASC 825 requires disclosure of fair value information of financial instruments. 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, other than financial guarantees and investment contracts. OneBeacon carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness.

The fair values of the fixed-rate, long-term indebtedness were estimated by discounting future cash flows using current market rates for similar obligations or using quoted market prices. Considerable judgment is required to develop such estimates of fair value. Therefore, the estimate provided herein is not necessarily indicative of the amounts that could be realized in a current market exchange.

At September 30, 2010 and December 31, 2009, the fair value of OneBeacon s Senior Notes (its fixed-rate, long-term indebtedness) was $441.0 million and $605.8 million, respectively, which compared to a carrying value of $419.5 million and $606.5 million, respectively.

In March 2004, OneBeacon issued the Atlantic Specialty Note. At December 31, 2009, the carrying value of the note of $14.0 million was considered to approximate its fair value. OneBeacon repaid the Atlantic Specialty Note in its entirety in March 2010. Refer to Note 6.

Table of Contents

NOTE 13. Earnings per Share

Basic and diluted earnings per share amounts have been determined in accordance with ASC 260. During the second quarter of 2010 and 2009, 20,068 shares and 26,851 shares, respectively, of the Company s Class A common shares were awarded to certain non-employee members of the Company s Board, in lieu of their 2010 and 2009 annual cash retainers. During the third quarter of 2007, the Company began a share repurchase program. Since the inception of this program, the Company has repurchased and retired 5.6 million of its Class A common shares. During the three and nine months ended September 30, 2010, the Company repurchased and retired 0.3 and 0.7 million, respectively, of its Class A common shares for $4.6 million and $10.5 million, respectively. During the three and nine months ended September 30, 2009, no shares were repurchased.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Basic earnings attributable to OneBeacon s common shareholders (in millions):				
Net income attributable to OneBeacon s common shareholders	$ 86.8	$ 108.6	$ 95.4	$ 269.6
Weighted average common shares outstanding	94.5	95.1	94.9	95.1
Diluted earnings attributable to OneBeacon s common shareholders (in millions):				
Net income attributable to OneBeacon s common shareholders	$ 86.8	$ 108.6	$ 95.4	$ 269.6
Weighted average common shares outstanding (1)	94.5	95.1	94.9	95.1
Basic earnings per share attributable to OneBeacon s common shareholders (in dollars):				
Net income attributable to OneBeacon s common shareholders per share	$ 0.92	$ 1.14	$ 1.01	$ 2.83
Diluted earnings per share attributable to OneBeacon s common shareholders (in dollars):				
Net income attributable to OneBeacon s common shareholders per share	$ 0.92	$ 1.14	$ 1.01	$ 2.83

(1) Common shares issuable upon exercise of the options (see Note 10) were not included as their inclusion would be anti-dilutive for the periods presented.

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 program does not have a stated expiration date. During the three and nine months ended September 30, 2010, the Company repurchased and retired 0.3 and 0.7 million, respectively, of its Class A common shares for $4.6 million and $10.5 million, respectively. During the three and nine months ended September 30, 2009, no shares were repurchased.

Dividends on Common shares

During the first nine months of 2010, the Company declared and paid cash dividends totaling $295.8 million, or $3.13 per Class A common share, including $59.7 million, or $0.63 per Class A common share, of regular quarterly cash dividends and $236.1 million, or $2.50 per Class A common share, of a special dividend. During the first nine months of 2009, the Company declared and paid cash dividends totaling $59.9 million, or $0.63 per Class A common share.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements. Statements that are not historical in nature are forward-looking statements. OneBeacon cannot promise that its expectations in such forward-looking statements will turn out to be correct. OneBeacon s actual results could be materially different from and worse than its expectations. See Forward-Looking Statements on page 56 for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.

Book Value Per Share

The following table presents our book value per share.

	September 30, 2010	June 30, 2010	December 31, 2009
	(in millions, except per share amounts)		
Numerator			
OneBeacon s common shareholders equity	**$ 1,219.1**	$ 1,392.9	$ 1,429.0
Denominator			
Common shares outstanding (1)	**94.4**	94.7	95.1
Book value per share	**$ 12.91**	$ 14.71	$ 15.03

(1) Includes the impact of repurchases of Class A common shares made through the Company s share repurchase program.

We ended the third quarter of 2010 with a book value per share of $12.91, reflecting an increase of 6.2% for the third quarter of 2010 and 6.7% through the nine months ended September 30, 2010, including dividends (a quarterly dividend of $0.21 per share and a special dividend of $2.50 per share paid in September 2010). The increase includes a 2.1% and 4.3% total return on invested assets for the three and nine months ended September 30, 2010, respectively. We reported comprehensive income attributable to OneBeacon s common shareholders of $86.5 million and $95.3 million in the three and nine months ended September 30, 2010, respectively, compared to comprehensive income attributable to OneBeacon s common shareholders of $108.8 million and $277.1 million in the same periods of 2009.

Our GAAP combined ratios were 94.6% and 102.2% for the three and nine months ended September 30, 2010, respectively, compared to 97.2% and 94.7% for the three and nine months ended September 30, 2009, respectively. The decrease in the combined ratio for the three months ended September 30, 2010 was primarily due to lower catastrophe losses as compared to the three months ended September 30, 2009. The increase in the combined ratio for the ninth months ended September 30, 2010 was primarily due to higher current accident year catastrophe losses and a number of non-catastrophe large losses as compared to the nine months ended September 30, 2009. The three months ended September 30, 2010 included $(3.2) million of favorable development on current accident year catastrophe losses, compared to $17.5 million of current accident year catastrophe losses in the three months ended September 30, 2009. The nine months ended September 30, 2010 included $50.9 million of current accident year catastrophe losses primarily related to the March Northeast U.S. storms and an increased frequency of catastrophe losses relative to the prior year period, compared to $23.6 million of current accident year catastrophe losses in the nine months ended September 30, 2009. Total net written premiums decreased 42.9% in the three months ended September 30, 2010 to $287.7 million, compared to $503.9 million in the three months ended September 30, 2009. Total net written premiums decreased 31.8% in the nine months ended September 30, 2010 to $1,003.1

million, compared to $1,471.2 million for the nine months ended September 30, 2009. The decrease in net written premiums for both periods was due primarily to the renewal rights transaction and the sale of our traditional personal lines business, both of which are described below.

Recent Developments

We recently completed two transactions that represent significant steps in our transformation into a specialty lines insurance company. The transactions freed up significant capital, increased our financial flexibility and substantially reduced our catastrophe exposure.

Commercial lines. On December 3, 2009, we sold the renewal rights to approximately $490 million in premiums from our non-specialty commercial lines business to The Hanover Insurance Group (The Hanover). The transaction included small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates (the Commercial Lines Transaction). As consideration, we received $23.2 million, and receive an additional 10% of premiums renewed in excess of

Table of Contents

$200 million for the first renewal period. During the three and nine months ended September 30, 2010, we recorded $3.7 million in additional consideration for aggregate premium renewals exceeding $200 million. We continue to manage claims from business written prior to the Commercial Lines Transaction. Through June 30, 2010, we also managed claims from business fronted by OneBeacon and reinsured to The Hanover. We continue to provide claims system access and first notice of loss service to The Hanover. The Hanover reimburses us for our expenses incurred to provide the claims administration services.

Personal lines. On July 1, 2010, we completed the sale of our traditional personal lines business (the Personal Lines Transaction) to Tower Group, Inc. (Tower). The Personal Lines Transaction included two insurance companies through which the majority of the traditional personal lines business was written on a direct basis, two attorneys-in-fact managing the reciprocal insurance exchanges (reciprocals) that write the traditional personal lines business in New York and New Jersey, the surplus notes issued by the New York and New Jersey reciprocals and the remaining renewal rights to certain other traditional personal lines insurance policies. In addition, the Personal Lines Transaction included the execution of reinsurance agreements with certain subsidiaries of the Company pursuant to which we cede, on a 100% quota share basis, traditional personal lines business not directly written by companies included in the sale and assume, on a 100% quota share basis, non-traditional personal lines business written directly by York. Net written premiums for the traditional personal lines business, which is included in the Personal Lines underwriting unit within our Insurance Operations segment, totaled approximately $420 million for the year ended December 31, 2009. OneBeacon and Tower also entered into a Transition Services Agreement (TSA), pursuant to which we provide certain services to Tower during the three-year term of the TSA. Tower reimburses us for our expenses incurred to provide these services. Reimbursement for these services is netted against the expense incurred.

As consideration, based upon the carrying value of the traditional personal lines business as of July 1, 2010, we received $166.6 million. The consideration represented the statutory surplus in the reciprocals (as consideration for surplus notes issued by the reciprocals), the combined GAAP equity in the insurance companies and attorneys-in-fact being sold, plus $32.5 million. For the nine months ended September 30, 2010, we recorded a total after tax net gain on the sale of $24.6 million that is comprised of $8.5 million included in net other revenues and $16.1 million included in the tax provision. Included in our second quarter financial statements was $5.6 million of the tax benefit related to the difference between the tax basis of the companies sold as part of the Personal Lines Transaction and the net asset value of those entities under GAAP. Our third quarter financial statements reflect the remaining $19.0 million of after tax net gain on the sale. The purchase price is subject to post-closing adjustments.

Table of Contents

Results of Operations

Review of Consolidated Results

A summary of our consolidated financial results for the three and nine months ended September 30, 2010 and 2009 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	($ in millions)			
Net written premiums	$ 287.7	$ 503.9	$ 1,003.1	$ 1,471.2
Revenues				
Earned premiums	$ 317.9	$ 492.8	$ 1,199.4	$ 1,470.8
Net investment income	21.6	34.4	74.9	92.4
Net realized and unrealized investment gains	51.6	117.6	79.6	239.1
Net other revenues	17.1	5.7	21.3	16.2
Total revenues	408.2	650.5	1,375.2	1,818.5
Expenses				
Loss and LAE	179.9	298.2	775.5	861.9
Policy acquisition expenses	66.9	101.4	263.5	294.3
Other underwriting expenses	53.8	79.4	186.5	236.4
General and administrative expenses	6.0	6.9	20.5	18.9
Accretion of fair value adjustment to loss and LAE reserves		1.4		4.1
Interest expense on debt	6.4	9.1	23.4	30.1
Total expenses	313.0	496.4	1,269.4	1,445.7
Pre-tax income	95.2	154.1	105.8	372.8
Income tax expense	(7.6)	(44.8)	(8.8)	(101.3)
Net income including noncontrolling interests	87.6	109.3	97.0	271.5
Less: Net income attributable to noncontrolling interests	(0.8)	(0.7)	(1.6)	(1.9)
Net income attributable to OneBeacon s common shareholders	86.8	108.6	95.4	269.6
Change in other comprehensive income and loss items	(0.3)	0.2	(0.1)	7.5
Comprehensive income attributable to OneBeacon s common shareholders	$ 86.5	$ 108.8	$ 95.3	$ 277.1

Consolidated Results Three months ended September 30, 2010 versus three months ended September 30, 2009

Our comprehensive income attributable to OneBeacon s common shareholders was $86.5 million in the three months ended September 30, 2010, compared to $108.8 million in the three months ended September 30, 2009. Net income attributable to OneBeacon s common shareholders was $86.8 million in the three months ended September 30, 2010, compared to $108.6 million in the three months ended September 30, 2009.

Our total revenues decreased by 37.2% to $408.2 million in the three months ended September 30, 2010, compared to $650.5 million in the three months ended September 30, 2009. The decrease was mainly due to a 35.5% decrease in earned premiums to $317.9 million primarily due to decreased earned premiums in personal lines and our non-specialty commercial lines which is included in run-off as a result of the transactions described above. Net realized and unrealized investment gains decreased 56.1% to $51.6 million, compared to $117.6 million in the three months ended September 30, 2009. Net investment income decreased by 37.2% to $21.6 million in the three months ended September 30, 2010, primarily due to lower investment yields and a reduction in invested assets as a result of the Personal Lines Transaction, repurchases of our senior notes and the special dividend. The three months ended September 30, 2010 also included no inflation adjustment related to our inflation indexed treasury securities as compared to a $2.6 million inflation adjustment related to these securities for the three months ended September 30, 2009. Net other revenues increased to $17.1 million in the three months ended September 30, 2010, compared to $5.7 million in the three months ended September 30, 2009. The increase was primarily due to the $8.5 million net gain on the Personal Lines Transaction and the $3.7 million of additional consideration related to the Commercial Lines Transaction, both described above.

Our total expenses decreased by 36.9% in the three months ended September 30, 2010 to $313.0 million, compared to $496.4 million in the three months ended September 30, 2009. Loss and LAE decreased by 39.7% to $179.9 million in the three months

Table of Contents

ended September 30, 2010, reflecting the change in our book of business resulting from the Commercial Lines Transaction and the Personal Lines Transaction, as well as a decrease in current accident year catastrophe losses. Current accident year catastrophe losses were $(3.2) million in the three months ended September 30, 2010, compared to $17.5 million in the three months ended September 30, 2009. Policy acquisition expenses decreased by 34.0% to $66.9 million and other underwriting expenses decreased by 32.2% to $53.8 million in the three months ended September 30, 2010, reflective of the shrink in our book of business resulting from the Commercial Lines Transaction and the Personal Lines Transaction. Interest expense decreased by 29.7% to $6.4 million in the three months ended September 30, 2010, reflective of actions taken to reduce outstanding debt. General and administrative expenses were essentially flat as compared to the prior year period.

Our income tax expense related to pre-tax income for the three months ended September 30, 2010 and 2009 represented effective tax rates of 8.0% and 29.1%, respectively. The effective tax rate for the three months ended September 30, 2010 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States and recognition of a deferred tax asset for a higher tax basis and deconsolidation of the companies sold as part of the Personal Lines Transaction, partially offset by an increase in the valuation allowance for insurance reciprocals. In arriving at the effective tax rate for the three months ended September 30, 2010, we forecasted the change in net realized and unrealized investment gains or losses for the year ending December 31, 2010 and included these gains or losses in the effective tax rate calculation pursuant to ASC 740-270. The effective tax rate for the three months ended September 30, 2009 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States. In arriving at the effective tax rate for the three months ended September 30, 2009, we treated net realized and unrealized investment gains as a discrete item separate from the other components of pre-tax income. Therefore, the benefit of these net gains or losses was calculated at the statutory rate applicable to the jurisdiction in which the gains or losses were recorded. The majority of the investment assets incurring current period realized and unrealized net gains or losses for the three months ended September 30, 2009 were recorded in the U.S. and were taxed at the statutory rate of 35%. Net realized and unrealized investment gains or losses were treated as a discrete item due to the inability to reliably estimate this amount for the full year.

Our GAAP combined ratio for the three months ended September 30, 2010 decreased to 94.6% from 97.2% for the three months ended September 30, 2009. The loss and LAE ratio decreased by 3.9 points to 56.6% while the expense ratio increased by 1.3 points to 38.0%. The decrease in the loss and LAE ratio was primarily due to lower current accident year catastrophe losses. The three months ended September 30, 2010 included $(3.2) million or (1.0) point of current accident year catastrophe losses, as compared to $17.5 million or 3.6 points of current accident year catastrophe losses in the three months ended September 30, 2009. The three months ended September 30, 2010 included $11.8 million or 3.7 points of favorable loss reserve development, as compared to $20.7 million or 4.2 points of favorable loss reserve development in the three months ended September 30, 2009. The favorable loss reserve development was primarily related to lower than expected severity on non-catastrophe losses related to professional liability lines, commercial package business and other general liability lines. The expense ratio increased primarily due to lower policy acquisition expenses and other underwriting expenses on a lower earned premium base.

Consolidated Results Nine months ended September 30, 2010 versus nine months ended September 30, 2009

Our comprehensive income attributable to OneBeacon s common shareholders was $95.3 million in the nine months ended September 30, 2010, compared to $277.1 million in the nine months ended September 30, 2009. Change in other comprehensive income and loss items in the nine months ended September 30, 2009 included a $7.4 million pre-tax ($4.8 million after tax) increase resulting from the settlement of our interest rate swap relating to the mortgage note. The impact was offset by a $7.4 million realized loss related to the settlement of the interest swap reflected in net other revenues. Net income attributable to OneBeacon s common shareholders was $95.4 million in the nine months ended September 30, 2010, compared to $269.6 million in the nine months ended September 30, 2009.

Our total revenues decreased by 24.4% to $1,375.2 million in the nine months ended September 30, 2010, compared to $1,818.5 million in the nine months ended September 30, 2009. The decrease was mainly due to an 18.5% decrease in earned premiums primarily due to decreased earned premiums in our personal lines and our non-specialty commercial lines which is included in run-off as a result of the transactions described above. Net realized and unrealized investment gains decreased by 66.7% to $79.6 million, compared to $239.1 million in the nine months ended September 30, 2009. Net investment income decreased by 18.9% to $74.9 million in the nine months ended September 30, 2010, primarily due to lower investment yields, a reduction in invested assets as a result of the Personal Lines Transaction, repurchases of our senior notes and the special dividend, and an increased allocation to lower yielding short-term investments during the first six months of 2010 in preparation for the closing of the Personal Lines Transaction. These were partially offset by a $1.7 million inflation adjustment related to our inflation indexed treasury securities as compared to a $(2.0) million inflation adjustment related to these securities for the nine months ended September 30, 2009. Net other revenues increased by 31.5% to $21.3 million in the nine months ended September 30, 2010, compared to $16.2 million in the nine months ended September 30, 2009. The increase was primarily due to the $8.5 million net gain on the Personal Lines Transaction and the $3.7 million of additional consideration related to the Commercial Lines Transaction, both described above, partially offset by a $10.8 million loss related to the purchase of a portion of our senior notes. The nine months ended September 30, 2009 included a $5.4 million gain related to the purchase of a portion of our senior notes, offset by a $7.4 million realized loss related to the settlement of the interest rate swap.

Table of Contents

Our total expenses decreased by 12.2% in the nine months ended September 30, 2010 to $1,269.4 million, compared to $1,445.7 million in the nine months ended September 30, 2009. Loss and LAE decreased by 10.0% to $775.5 million in the nine months ended September 30, 2010, reflective of the shrink in our book of business resulting from the Commercial Lines Transaction and the Personal Lines Transaction, partially offset by higher current accident year catastrophe losses and a number of non-catastrophe large losses. Current accident year catastrophe losses were $50.9 million in the nine months ended September 30, 2010, compared to $23.6 million in the nine months ended September 30, 2009. Other underwriting expenses decreased by 21.1% to $186.5 million and policy acquisition expenses decreased by 10.5% to $263.5 million in the nine months ended September 30, 2010, reflecting the change in our book of business resulting from the Commercial Lines Transaction and the Personal Lines Transaction. Interest expense decreased by 22.3% to $23.4 million in the nine months ended September 30, 2010, reflective of actions taken to reduce outstanding debt. These decreases were partially offset by a $1.6 million increase in general and administrative expenses to $20.5 million.

Our income tax expense related to pre-tax income for the nine months ended September 30, 2010 and 2009 represented effective tax rates of 8.3% and 27.2%, respectively. The effective tax rate for the nine months ended September 30, 2010 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States and recognition of a deferred tax asset for a higher tax basis and deconsolidation of the companies sold as part of the Personal Lines Transaction, partially offset by an increase in the valuation allowance for insurance reciprocals. In arriving at the effective tax rate for the nine months ended September 30, 2010, we forecasted the change in net realized and unrealized investment gains or losses for the year ending December 31, 2010 and included these gains or losses in the effective tax rate calculation pursuant to ASC 740-270. The effective tax rate for the nine months ended September 30, 2009 was lower than the U.S. statutory rate of 35% primarily due to income generated in jurisdictions other than the United States. In arriving at the effective tax rate for the nine months ended September 30, 2009, we treated net realized and unrealized investment gains or losses as a discrete item separate from the other components of pre-tax income. Therefore, the expense of these net gains or losses was calculated at the statutory rate applicable to the jurisdiction in which the gains or losses were recorded. The majority of the investment assets incurring current period realized and unrealized net gains or losses for the nine months ended September 30, 2009 were recorded in the U.S. and were taxed at the statutory rate of 35%. Net realized and unrealized investment gains or losses were treated as a discrete item due to the inability to reliably estimate this amount for the full year.

Our GAAP combined ratio for the nine months ended September 30, 2010 increased to 102.2% from 94.7% for the nine months ended September 30, 2009. The loss and LAE ratio increased by 6.1 points to 64.7% while the expense ratio increased by 1.4 points to 37.5%. The increase in the loss and LAE ratio was primarily due to an increase in current accident year catastrophe and non-catastrophe losses. The nine months ended September 30, 2010 included $50.9 million or 4.2 points of current accident year catastrophe losses, as compared to $23.6 million or 1.6 points of current accident year catastrophe losses in the nine months ended September 30, 2009. We also experienced a number of non-catastrophe large losses in our property and inland marine business within specialty lines and in our non-specialty commercial lines business in run-off. The nine months ended September 30, 2010 included $36.1 million or 3.0 points of favorable loss reserve development, as compared to $53.3 million or 3.6 points of favorable loss reserve development in the nine months ended September 30, 2009. The favorable loss reserve development was primarily related to lower than expected severity on non-catastrophe losses related to professional liability lines, commercial package business and other general liability lines. The favorable development also included a one-time $6.5 million release of commercial and personal auto reserves associated with participation in an involuntary auto pool. The expense ratio increased primarily due to lower policy acquisition expenses and other underwriting expenses on a lower earned premium base.

Table of Contents

Summary of Operations By Segment

Our segments consist of the following: (1) Insurance Operations; and (2) Other Operations. Specialty lines includes OneBeacon Professional Insurance (OBPI), International Marine Underwriters (IMU), Entertainment Brokers International Insurance Services (EBI), Specialty Accident and Health (A&H), OneBeacon Government Risks (OBGR), OneBeacon Energy Group, A.W.G. Dewar, Collector Cars and Boats, and Technology, Financial Services, OneBeacon Specialty Property (OBSP) and Property and Inland Marine (PIM) which were formerly reported in commercial lines. Specialty lines also includes OneBeacon Excess and Surplus, our newest specialty business. Personal lines includes our traditional personal lines, nearly all of which was subject to the Personal Lines Transaction described above, and AutoOne. Run-off includes non-specialty commercial lines business subject to the Commercial Lines Transaction and other run-off business. The prior period has been reclassified to conform to the current presentation. As a result of the transactions described above, we are currently evaluating our segments to determine the most effective management reporting structure.

Our investments are managed by our affiliate, White Mountains Advisors LLC, and by Prospector Partners, LLC. A discussion of our consolidated investment operations is included after the discussion of operations by segment. Our segment information is presented in Note 7 Segment Information of the accompanying consolidated financial statements.

Insurance Operations

Financial results for our Insurance Operations segment for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in millions)			
Net written premiums	$ 287.7	$ 503.9	$ 1,003.1	$ 1,471.2
Earned premiums	$ 317.9	$ 492.8	$ 1,199.4	$ 1,470.8
Net investment income	22.2	35.6	76.8	93.5
Net realized and unrealized investment gains	51.5	118.1	81.1	239.5
Net other revenues	17.4	5.1	33.2	12.1
Total revenues	409.0	651.6	1,390.5	1,815.9
Loss and LAE	179.9	298.2	775.5	861.9
Policy acquisition expenses	66.9	101.4	263.5	294.3
Other underwriting expenses	53.8	79.4	186.5	236.4
General and administrative expenses	4.6	4.2	14.0	12.8
Interest expense on debt		0.2	0.1	1.4
Total expenses	305.2	483.4	1,239.6	1,406.8
Pre-tax income	$ 103.8	$ 168.2	$ 150.9	$ 409.1

The following tables provide ratios, net written premiums and earned premiums by underwriting unit for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30, 2010			
	Specialty(1)	Personal	Run-off(2)	Total
	($ in millions)			
GAAP Ratios: (3)(4)(5)				
Loss and LAE	51.1%	76.3%	76.9%	56.6%
Expense	38.9	34.3	35.3	38.0
Combined	90.0%	110.6%	112.2%	94.6%
Net written premiums	$ 273.5	$ 13.6	$ 0.6	$ 287.7
Earned premiums	249.6	24.2	44.1	317.9

Table of Contents

	Three months ended September 30, 2009			
	Specialty(1)	Personal	Run-off(2)	Total
	($ in millions)			
GAAP Ratios: (3)(4)(5)				
Loss and LAE	52.6%	68.9%	66.3%	60.5%
Expense	39.1	32.5	37.1	36.7
Combined	91.7%	101.4%	103.4%	97.2%
Net written premiums	$ 260.9	$ 128.3	$ 114.7	$ 503.9
Earned premiums	233.9	140.5	118.4	492.8

	Nine months ended September 30, 2010			
	Specialty(1)	Personal	Run-off(2)	Total
	($ in millions)			
GAAP Ratios: (3)(4)(5)				
Loss and LAE	55.9%	76.2%	80.4%	64.7%
Expense	38.5	33.0	39.8	37.5
Combined	94.4%	109.2%	120.2%	102.2%
Net written premiums	$ 771.6	$ 238.6	$ (7.1)	$ 1,003.1
Earned premiums	726.7	265.4	207.3	1,199.4

	Nine months ended September 30, 2009			
	Specialty(1)	Personal	Run-off(2)	Total
	($ in millions)			
GAAP Ratios: (3)(4)(5)				
Loss and LAE	43.9%	75.2%	66.3%	58.6%
Expense	38.8	30.9	37.4	36.1
Combined	82.7%	106.1%	103.7%	94.7%
Net written premiums	$ 724.0	$ 397.9	$ 349.3	$ 1,471.2
Earned premiums	673.9	436.8	360.1	1,470.8

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(1) Specialty lines includes Technology, Financial Services, OBSP and PIM which were formerly reported in commercial lines. The prior periods have been reclassified to conform to the current presentation.

(2) Run-off includes non-specialty commercial lines business subject to the renewal rights agreement with The Hanover and other run-off business. The prior periods have been reclassified to conform to the current presentation.

(3) Includes our long-term incentive compensation expense. For the three months ended September 30, 2010 and 2009, long-term incentive compensation expense increased our combined ratio by 1.7 points and 2.1 points, respectively. For the nine months ended September 30, 2010 and 2009, long-term incentive compensation expense increased our combined ratio by 1.8 points and 1.7 points, respectively.

(4) Includes loss and LAE relating to catastrophes. For the three months ended September 30, 2010 and 2009, total calendar year incurred loss and LAE relating to catastrophes (decreased) increased our loss and LAE and combined ratios by (1.4) points and 2.5 points, respectively, including development on prior accident year catastrophes which decreased our loss and LAE and combined ratios by 0.4 points and 1.1 points, respectively. For the nine months ended September 30, 2010 and 2009, total calendar year incurred loss and LAE relating to catastrophes increased our loss and LAE and combined ratios by 4.1 points and 1.1 points, respectively, including development on prior accident year catastrophes which decreased our loss and LAE and combined ratios by 0.1 point and 0.5 points, respectively.

(5) Prior accident year development, including development on catastrophes, for the three months ended September 30, 2010 and 2009 decreased our loss and LAE and combined ratios by 3.7 points and 4.2 points, respectively. Prior accident year development, including development on catastrophes, for the nine months ended September 30, 2010 and 2009 decreased our loss and LAE and combined ratios by 3.0 points and 3.6 points, respectively.

41

Table of Contents

Insurance Operations Three months ended September 30, 2010 versus three months ended September 30, 2009

Overview. We reported a GAAP combined ratio of 94.6% for the three months ended September 30, 2010, compared to 97.2% for the three months ended September 30, 2009. The decrease in our combined ratio was primarily due to lower current accident year catastrophe losses, partially offset by slightly lower favorable loss reserve development and higher expenses in the three months ended September 30, 2010.

Specialty lines. Net written premiums for specialty lines increased by 4.8% to $273.5 million in the three months ended September 30, 2010 from $260.9 million in the three months ended September 30, 2009. The increase as compared to the prior year period was due to increases in net written premiums from multiple businesses, including OBPI ($6.2 million), A&H ($3.2 million), collector cars and boats ($2.5 million) and EBI ($2.2 million), partially offset by a decrease in net written premiums at PIM ($3.6 million), reflecting reunderwriting.

The specialty lines combined ratio for the three months ended September 30, 2010 decreased to 90.0% from 91.7% for the three months ended September 30, 2009. The loss and LAE ratio decreased by 1.5 points to 51.1% while the expense ratio decreased by 0.2 points to 38.9%. The decrease in the loss and LAE ratio was primarily due to a 4.9 point decrease in current accident year losses driven by lower catastrophe losses in the three months ended September 30, 2010, compared with the three months ended September 30, 2009. The three months ended September 30, 2010 included the impact of favorable loss reserve development on current accident year catastrophe losses. The three months ended September 30, 2010 included (0.9) points of current accident year catastrophe losses, primarily related to losses experienced in PIM, compared to 4.6 points in the prior year period. The three months ended September 30, 2010 included 3.5 points of favorable loss reserve development primarily related to professional liability, compared to 6.9 points in the prior year period. The expense ratio was essentially flat with a decrease in policy acquisition expenses substantially offset by an increase in other underwriting expenses.

Personal lines. As described above, on July 1, 2010, we completed the sale of our traditional personal lines business to Tower. Net written premiums for personal lines decreased by 89.4% to $13.6 million in the three months ended September 30, 2010 from $128.3 million in the three months ended September 30, 2009. In traditional personal lines, net written premiums decreased by 104.9% to $(5.3) million as a result of completing the Personal Lines Transaction. Further, net written premiums at AutoOne decreased by 1.6% to $18.9 million primarily due to actions taken to reduce our exposure in the voluntary private passenger automobile market. Personal lines earned premiums for the three months ended September 30, 2010 included the benefit of a $5.5 million correction of unearned Limited Assignment Distribution (LAD) fees.

The personal lines combined ratio for the three months ended September 30, 2010 increased to 110.6% from 101.4% for the three months ended September 30, 2009. The loss and LAE ratio increased by 7.4 points to 76.3%, while the expense ratio increased by 1.8 points to 34.3%. The increase in the loss and LAE ratio was mainly due to an 8.2 point increase in current accident year losses, which included an 8.5 point increase in current accident year non-catastrophe losses driven by results at AutoOne, as compared with the prior year period. The increase was partially offset by 1.5 points of favorable loss reserve development in the three months ended September 30, 2010, compared with 0.7 points of favorable loss reserve development in the three months ended September 30, 2009, related to AutoOne and traditional personal lines. The increase in the expense ratio was primarily due to the impact of other underwriting expenses and policy acquisition expenses on a lower earned premium base.

Run-off. Net written premiums for run-off decreased by 99.5% to $0.6 million in the three months ended September 30, 2010, compared with $114.7 million in the three months ended September 30, 2009. Net written premiums from non-specialty commercial businesses were $0.5 million in the three months ended September 30, 2010, compared with $114.8 million in the three months ended September 30, 2009. The decrease was due to the Commercial Lines Transaction, as described above. Net written premiums from legacy run-off business were $0.1 million in the three months ended September 30, 2010, compared with $(0.1) million in the three months ended September 30, 2009.

The run-off combined ratio for the three months ended September 30, 2010 increased to 112.2% from 103.4% for the three months ended September 30, 2009. The loss and LAE ratio increased by 10.6 points to 76.9%, while the expense ratio decreased by 1.8 points to 35.3%. The increase in the loss and LAE ratio was primarily due to a 13.9 point increase in current accident year losses. Current accident year non-catastrophe losses were 21.1 points higher than the prior year period due to higher-than-average levels of large losses in our non-specialty commercial business, while current accident year catastrophe losses were 7.2 points lower. This was partially offset by favorable loss reserve development. The three months ended September 30, 2010 included 6.3 points of favorable loss reserve development, mainly due to lower than expected severity in commercial package business, compared with 3.0 points of favorable loss reserve development related to lower than expected severity in package business and commercial multi-peril in the three months ended September 30, 2009. The decrease in the expense ratio was primarily due to a decrease in other underwriting expenses as a result of the Commercial Lines Transaction, partially offset by an increase in policy acquisition expenses on a lower earned premium base.

Results from run-off include underwriting losses from legacy run-off operations, including national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group. Legacy run-off business generated underwriting income of $0.3 million in the three months ended September 30, 2010, compared to an underwriting loss of $1.0 million in the three months ended September 30, 2009. The change was primarily due to decreased expenses in the three months ended September 30, 2010 as compared with the prior year period. The three months ended September 30, 2010 also included $0.8 million of loss and LAE, compared with $1.0 million of loss and LAE in the three months ended September 30, 2009.

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 or umbrella liability, as well as corporate accident losses. In addition, we have a reinsurance cover with NICO, which entitles us to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to claims arising from business written prior to 1992 for asbestos claims and prior to 1987 for environmental claims, and certain other exposures. Refer to our 2009 Annual Report on Form 10-K for a complete discussion regarding our reinsurance protections. 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 September 30, 2010, our net combined ratio was higher than our gross combined ratio by 5.5 points, primarily due to the impact of the business fronted under the Commercial Lines Transaction and reinsured under the Personal Lines Transaction, and to a lesser extent the cost of catastrophe reinsurance and also casualty reinsurance, partially offset by losses ceded under facultative reinsurance. As a result of the Commercial Lines Transaction and the Personal Lines Transaction, the cost of catastrophe reinsurance in the three months ended September 30, 2010 was 2.0 points lower than that in the prior period. For the three months ended September 30, 2009, our net combined ratio was higher than our gross combined ratio by 5.8 points, primarily due to the cost of catastrophe, facultative and property reinsurance.

Insurance Operations Nine months ended September 30, 2010 versus nine months ended September 30, 2009

Overview. We reported a GAAP combined ratio of 102.2% for the nine months ended September 30, 2010, compared to 94.7% for the nine months ended September 30, 2009. The increase in our combined ratio was primarily due to higher current accident year catastrophe and non-catastrophe losses and higher policy acquisition expenses, partially offset by decreased other underwriting expenses in the nine months ended September 30, 2010.

Specialty lines. Net written premiums for specialty lines increased by 6.6% to $771.6 million in the nine months ended September 30, 2010 from $724.0 million in the nine months ended September 30, 2009. The increase was due to solid retention levels for many of the businesses. The increase reflects a $32.3 million increase in net written premiums compared to the prior year period from OBPI. The increase compared to the prior year period was also due to an $8.8 million increase in net written premiums from A&H, an $8.0 million increase in net written premiums from EBI, a $6.5 million increase in net written premiums from our collector cars and boats business, a $6.4 million increase in net written premiums from OneBeacon Energy and a $5.0 million increase in net written premiums from OBGR, partially offset by a $6.5 million decrease in net written premiums from OBSP, a $5.5 million decrease in net written premiums from PIM and a $4.5 million decrease in net written premiums from IMU.

The specialty lines combined ratio for the nine months ended September 30, 2010 increased to 94.4% from 82.7% for the nine months ended September 30, 2009. The loss and LAE ratio increased by 12.0 points to 55.9% while the expense ratio decreased by 0.3 points to 38.5%. The increase in the loss and LAE ratio was primarily due to lower favorable loss reserve development. The nine months ended September 30, 2010 included 2.8 points of favorable loss reserve development primarily related to professional liability, compared to 9.8 points of favorable loss reserve development related to professional liability in the prior year period. Further, the nine months ended September 30, 2010 included a 5.0 point increase in current accident year losses, compared with the nine months ended September 30, 2009. The nine months ended September 30, 2010 included the impact of a number of large losses experienced at PIM, IMU and EBI. The nine months ended September 30, 2010 also included 2.5 points of catastrophe losses, primarily related to severe wind and rainstorms in the northeastern U.S. experienced in the first quarter and elsewhere in the U.S. in the second quarter. The nine months ended September 30, 2009 included 2.2 points of current accident year catastrophe losses. The expense ratio was essentially flat with a decrease in policy acquisition expenses substantially offset by an increase in other underwriting expenses.

Personal lines. As described above, on July 1, 2010, we completed the sale of our traditional personal lines business to Tower. Net written premiums for personal lines decreased by 40.0% to $238.6 million in the nine months ended September 30, 2010 from $397.9 million in the nine months ended September 30, 2009. In traditional personal lines, net written premiums decreased by 45.2% as a result of completing the Personal Lines Transaction to $178.5 million. Further, net written premiums at AutoOne decreased by 16.4% to $60.2 million primarily due to actions taken to reduce our exposure in the voluntary private passenger

Table of Contents

automobile market. Personal lines earned premiums for the three months ended September 30, 2010 included the benefit of a $5.5 million correction of unearned LAD fees.

The personal lines combined ratio for the nine months ended September 30, 2010 increased to 109.2% from 106.1% for the nine months ended September 30, 2009. The loss and LAE ratio increased by 1.0 point to 76.2%, while the expense ratio increased by 2.1 points to 33.0%. The increase in the expense ratio was primarily due to the impact of other underwriting expenses as well as increased policy acquisition expenses as expenses have not decreased proportionately with the reduction in earned premiums. The increase in the loss and LAE ratio was mainly due to a 9.4 point increase in current accident year losses, which included a 5.1 point increase in current accident year catastrophe losses, primarily related to severe wind and rainstorms in the northeastern U.S., compared to 0.1 point of catastrophe losses in the prior period, as well as a 4.3 point increase in current accident year non-catastrophe losses primarily driven by results in the automobile line, as compared with the prior year period. The increase was partially offset by 0.7 points of favorable loss reserve development in the nine months ended September 30, 2010, compared with 7.7 points of adverse loss reserve development in the nine months ended September 30, 2009, related to AutoOne and traditional personal lines.

Run-off. Net written premiums for run-off decreased by 102.0% to $(7.1) million in the nine months ended September 30, 2010, compared to $349.3 million in the nine months ended September 30, 2009. Net written premiums from non-specialty commercial businesses were $(7.7) million in the nine months ended September 30, 2010, compared with $349.2 million in the nine months ended September 30, 2009. The decrease was due to the Commercial Lines Transaction, as described above. Net written premiums from legacy run-off business were $0.6 million in the nine months ended September 30, 2010, compared with $0.1 million in the nine months ended September 30, 2009.

The run-off combined ratio for the nine months ended September 30, 2010 increased to 120.2% from 103.7% for the nine months ended September 30, 2009. The loss and LAE ratio increased by 14.1 points to 80.4%, while the expense ratio increased by 2.4 points to 39.8%. The increase in the loss and LAE ratio was primarily due to a 15.3 point increase in current accident year losses. The nine months ended September 30, 2010 included 9.2 points of current accident year catastrophe losses primarily related to severe wind and rainstorms in the northeastern U.S. experienced in the first quarter, compared with 2.4 points of current accident year catastrophe losses in the nine months ended September 30, 2009. In addition, current accident year non-catastrophe losses were 8.5 points higher than the prior year period due to higher-than-average levels of large losses in our non-specialty commercial business. The increase in the expense ratio was primarily due to a net increase in policy acquisition expenses and other underwriting expenses as expenses have not decreased proportionately with the reduction in earned premiums as a result of the Commercial Lines Transaction.

Results from run-off include underwriting losses from legacy run-off operations, including national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group. Legacy run-off business generated an underwriting loss of $1.6 million in the nine months ended September 30, 2010, compared to an underwriting loss of $3.1 million in the nine months ended September 30, 2009. The change was primarily due to lower expenses in the nine months ended September 30, 2010 as compared with the prior year period. The nine months ended September 30, 2010 also included $3.3 million of loss and LAE, compared with $4.5 million of loss and LAE in the nine months ended September 30, 2009.

Reinsurance protection. For the nine months ended September 30, 2010, our net combined ratio was higher than our gross combined ratio by 5.6 points, primarily due to the cost of catastrophe and property reinsurance, with the impact of the business fronted under the Commercial Lines Transaction offset by the impact of run-off losses ceded under facultative reinsurance. For the nine months ended September 30, 2009, our net combined ratio was higher than our gross combined ratio by 4.9 points, primarily due to the cost of catastrophe, property and facultative reinsurance.

Other Operations

Our Other Operations segment consists of the activities of OneBeacon Insurance Group, Ltd. and our intermediate subsidiary holding companies which include OneBeacon U.S. Enterprises Holdings, Inc. (OBEH) and OneBeacon U.S. Holdings, Inc. (OBH), both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda. Our Other Operations segment primarily consists of financing activities, purchase accounting adjustments relating to our acquisition by White Mountains Insurance Group, Ltd. (White Mountains) in 2001 (the OneBeacon Acquisition) and other assets and liabilities, and general and administrative expenses incurred at the holding company level.

The purchase accounting adjustments relating to the OneBeacon Acquisition were made to reflect the estimated fair value of our assets acquired and liabilities assumed on the date of the acquisition. The purchase accounting adjustments were primarily comprised of an adjustment to our loss and LAE reserves and related reinsurance recoverables to record them at fair value, an adjustment to record the cost of our investments at fair value and an allocation of the excess of acquired net assets over the purchase price to our non-current, non-financial assets, primarily our property, plant and equipment.

Table of Contents

The Other Operations segment results are affected by purchase accounting over time as the fair value adjustments made at our acquisition unwind. Fair value adjustments other than those related to loss and LAE reserves and related reinsurance recoverables have been fully recognized in our financial statements in periods prior to those presented below. The fair value adjustment to net loss and LAE reserves is expensed through income as our net loss and LAE reserves at the time of the OneBeacon Acquisition are settled.

A summary of results from our Other Operations segment for the three and nine months ended September 30, 2010 and 2009 is as follows:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in millions)			
Net investment expense	$ (0.6)	$ (1.2)	$ (1.9)	$ (1.1)
Net realized and unrealized investment gains (losses)	0.1	(0.5)	(1.5)	(0.4)
Net other (expenses) revenues	(0.3)	0.6	(11.9)	4.1
Total revenues	(0.8)	(1.1)	(15.3)	2.6
General and administrative expenses	1.4	2.7	6.5	6.1
Accretion of fair value adjustment to loss and LAE reserves		1.4		4.1
Interest expense on debt	6.4	8.9	23.3	28.7
Total expenses	7.8	13.0	29.8	38.9
Pre-tax loss	$ (8.6)	$ (14.1)	$ (45.1)	$ (36.3)

Other Operations Results Three months ended September 30, 2010 versus three months ended September 30, 2009

Our Other Operations segment reported a pre-tax loss of $8.6 million in the three months ended September 30, 2010, compared to a pre-tax loss of $14.1 million for the three months ended September 30, 2009. The decrease in loss was primarily related to a decrease in interest expense, reflective of actions taken to reduce outstanding debt, and decreases in general and administrative expenses and accretion of the fair value adjustment to loss and LAE reserves. Net investment expense decreased to $0.6 million in the three months ended September 30, 2010, compared to $1.2 million in the prior year period. These were partially offset by an decrease in net other (expenses) revenues to $(0.3) million in the three months ended September 30, 2010, compared to $0.6 million in the prior year period.

Other Operations Results Nine months ended September 30, 2010 versus nine months ended September 30, 2009

Our Other Operations segment reported a pre-tax loss of $45.1 million in the nine months ended September 30, 2010, compared to a pre-tax loss of $36.3 million for the nine months ended September 30, 2009. The increase in loss was primarily related to a decrease in net other (expenses) revenues mainly due to a $10.8 million loss related to the purchase of a portion of our senior notes, compared with a $5.4 million gain related to the purchase of a portion of our senior notes in the prior year period. Net realized and unrealized investment losses increased to $1.5 million in the nine months ended September 30, 2010, compared to $0.4 million in the prior year period. Net investment expense increased to $1.9 million in the nine months ended September 30, 2010, compared to $1.1 million in the prior year period. Decreases in interest expense and accretion of the fair value adjustment to loss and LAE reserves were partially offset by the slight increase in general and administrative expenses.

45

Table of Contents

Summary of Investment Results

Investment Philosophy

Our long-term investment philosophy has historically been to maximize our after tax total risk-adjusted return. Under this approach, each dollar of after tax investment income and realized and unrealized gains and losses is valued equally.

Our investment portfolio mix as of September 30, 2010 consisted in large part of high quality, fixed maturity investments and short-term investments, as well as a smaller allocation to equity investments which are comprised of common stock, convertible bonds and other investments such as hedge funds and private equity funds. Our management believes that prudent levels of investments in common equity securities, convertible bonds and other investments within our investment portfolio are likely to enhance long-term after tax total returns without significantly increasing the risk profile of the portfolio.

Our overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to credit risks. We also generally manage the interest rate risk associated with holding fixed maturity investments by actively maintaining the average duration of the portfolio to achieve an adequate after tax total return without subjecting the portfolio to an unreasonable level of interest rate risk.

Our common stock and convertible bonds investment strategy is to maximize absolute total return through investments in a variety of equity, equity-related and convertible bond instruments. Using a value orientation, we invest in relatively concentrated positions in the United States and other developed markets. Our philosophy is to invest for total risk-adjusted return using a bottom-up, value discipline. Preservation of capital is of the utmost importance.

Investment Returns

A summary of our consolidated pre-tax investment results for the three and nine months ended September 30, 2010 and 2009 is as follows:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in millions)			
Net investment income	$ 21.6	$ 34.4	$ 74.9	$ 92.4
Net realized investment gains (losses)	22.3	29.6	61.5	(35.3)
Change in net unrealized investment gains and losses	29.3	88.0	18.1	274.4
Total GAAP pre-tax investment results	$ 73.2	$ 152.0	$ 154.5	$ 331.5

Gross investment returns versus typical benchmarks for the three and nine months ended September 30, 2010 and 2009 are as follows:

	Three months ended September 30, (1)		Nine months ended September 30, (1)	
	2010	**2009**	**2010**	**2009**
Fixed maturity investments	1.8%	4.3%	5.0%	11.7%
Short-term investments	0.0	0.1	0.0	0.4
Total fixed income	1.4	3.5	3.8	9.1
Barclays U.S. Intermediate Aggregate Index	2.1	3.2	7.0	5.9
Common stock	9.7	4.7	9.9	(13.9)
Convertible bonds	6.4	12.1	8.6	17.8
Total common stock and convertible bonds	8.7	10.4	9.4	6.3
Other investments	1.5	2.7	2.4	8.7
Total common stock, convertible bonds and other investments	6.3	7.5	7.3	7.1
S&P 500 Index (total return)	11.3	15.6	3.9	19.3
Total consolidated portfolio	2.1%	4.0%	4.3%	8.8%

(1) Gross investment income returns exclude investment expenses of $2.1 million and $3.0 million, respectively, for the three months ended September 30, 2010 and 2009, and $6.8 million and $8.8 million, respectively, for the nine months ended September 30, 2010 and 2009.

Table of Contents

Investment Returns Three months ended September 30, 2010 versus three months ended September 30, 2009

Overview

Our total pre-tax investment results were $73.2 million, a return of 2.1% for the three months ended September 30, 2010, compared to $152.0 million, a return of 4.0% for the three months ended September 30, 2009. Net investment income in the three months ended September 30, 2010 was $21.6 million, a decrease of $12.8 million, compared to $34.4 million in the three months ended September 30, 2009 principally due to lower investment yields and a reduction in invested assets as a result of the Personal Lines Transaction, repurchases of our senior notes and the special dividend. Net realized investment gains were $22.3 million in the three months ended September 30, 2010, a decrease of $7.3 million compared to $29.6 million in the three months ended September 30, 2009. The change in net unrealized investment gains and losses was an increase of $29.3 million in the three months ended September 30, 2010, compared to an increase of $88.0 million in the three months ended September 30, 2009.

Fixed income

Our fixed income portfolio, which includes fixed maturity and short-term investments, returned 1.4% for the three months ended September 30, 2010, compared to 3.5% for the three months ended September 30, 2009. We recorded $16.1 million in net realized gains in the three months ended September 30, 2010. During the three months ended September 30, 2010 and 2009, we maintained a high quality fixed maturity portfolio with a relatively short duration of approximately 2 years for both periods, which performed consistently with its characteristics and slightly below the Barclays U.S. Intermediate Aggregate Index benchmark for the three months ended September 30, 2010 and above for the three months ended September 30, 2009.

Common stock, convertible bonds and other investments

Our total common stock, convertible bond and other investments portfolio returned 6.3% for the three months ended September 30, 2010, compared to 7.5% for the three months ended September 30, 2009. Our total common stock and convertible bond portfolio returned 8.7% and 10.4% for the three months ended September 30, 2010 and 2009, respectively, or 2.6 points worse and 5.2 points worse, respectively, than the Standard & Poor s 500 Index (S&P 500) benchmark. We recorded $3.6 million in net realized gains in the three months ended September 30, 2010. Our other investment portfolio returned 1.5% for the three months ended September 30, 2010, compared to 2.7% for the three months ended September 30, 2009.

Investment Returns Nine months ended September 30, 2010 versus nine months ended September 30, 2009

Overview

Our total pre-tax investment results were $154.5 million, a return of 4.3% for the nine months ended September 30, 2010, compared to $331.5 million, a return of 8.8% for the nine months ended September 30, 2009. Net investment income in the nine months ended September 30, 2010 was $74.9 million, a decrease of $17.5 million, compared to $92.4 million in the nine months ended September 30, 2009. The decrease was principally due to lower investment yields, a reduction in invested assets as a result of the Personal Lines Transaction, repurchases of our senior notes and the special dividend, and an increased allocation to lower yielding short-term investments during the first six months of 2010 in preparation for the closing of the Personal Lines Transaction. The decrease was partially offset by a $1.7 million inflation adjustment related to our inflation indexed treasury securities for the nine months ended September 30, 2010 as compared to a $(2.0) million inflation adjustment related to these securities for the nine months ended September 30, 2009. Net realized investment gains (losses) were $61.5 million in the nine months ended September 30, 2010, an increase of $96.8 million compared to $(35.3) million in the nine months ended September 30, 2009. The increase was principally due to $46.1 million of realized gains on the sales of fixed maturity securities in the nine months ended September 30, 2010 mainly in preparation for the close of the Personal Lines Transaction and $31.6 million of realized losses on the sales of common equity investments resulting from the reduction in the size of the equity portfolio in the nine months ended September 30, 2009. The change in net unrealized investment gains and losses was an increase of $18.1 million in the nine months ended September 30, 2010, compared to an increase of $274.4 million in the nine months ended September 30, 2009.

Fixed income

Our fixed income portfolio, which includes fixed maturity and short-term investments, returned 3.8% for the nine months ended September 30, 2010, compared to 9.1% for the nine months ended September 30, 2009. We recorded $46.1 million in net realized gains in the nine months ended September 30, 2010, mainly due to sales of fixed maturity investments during the first six months of 2010 in preparation of the close of the Personal Lines Transaction. During the nine months ended September 30, 2010 and 2009, we maintained a high quality fixed maturity portfolio with a relatively short duration of approximately 2 years for both periods, which performed consistently with its characteristics and below the Barclays U.S. Intermediate Aggregate Index benchmark for the nine months ended September 30, 2010 and above for the nine months ended September 30, 2009.

Table of Contents

Common stock, convertible bonds and other investments

Our total common stock, convertible bond and other investments portfolio returned 7.3% for the nine months ended September 30, 2010, compared to 7.1% for the nine months ended September 30, 2009. Our total common stock and convertible bond portfolio returned 9.4 % and 6.3% for the nine months ended September 30, 2010 and 2009, respectively, or 5.5 points better and 13.0 points worse, respectively, than the S&P 500 benchmark. We recorded $15.7 million in net realized gains in the nine months ended September 30, 2010. Our other investment portfolio returned 2.4% for the nine months ended September 30, 2010, compared to 8.7% for the nine months ended September 30, 2009.

Fair Value Considerations

We record our investments in accordance with ASC 820 which provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value 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). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the 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).

We use brokers and outside pricing services to assist in determining fair values. For investments in active markets, we use the quoted market prices provided by the outside pricing services to determine fair value. The outside pricing services used by us have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted market prices are unavailable, we utilize fair value estimates based upon other observable inputs including matrix pricing, benchmark interest rates, market comparables and other relevant inputs. In circumstances where observable inputs are adjusted to reflect management s best estimate of fair value, such fair value measurements are considered a lower level measurement in the fair value hierarchy.

Our process to validate the market prices obtained from the outside pricing sources include, but is not limited to, periodic evaluation of model pricing methodologies and analytical reviews of certain prices. We also periodically perform back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price.

Other investments, which are primarily comprised of hedge funds and private equity funds for which the fair value option has been elected, are carried at fair value based upon our proportionate interest in the underlying fund s net asset value, which is deemed to approximate fair value. The fair value of our investments in hedge funds and private equity funds has been estimated using net asset value because it reflects the fair value of the funds underlying investments in accordance with ASC 820. We employ a number of procedures to assess the reasonableness of the fair value measurements, including obtaining and reviewing each fund s audited financial statements and discussing each fund s pricing with the fund s manager. However, since the fund managers do not provide sufficient information to independently evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of our investment in hedge funds and private equity funds have been classified as Level 3 under the fair value hierarchy. Other investments also includes an investment in a community reinvestment vehicle which is accounted for at fair value and a tax advantaged federal affordable housing development fund which we account for under the equity method.

In circumstances where the underlying investments are publicly traded, such as the investments made by hedge funds, the fair value of the underlying investments is determined using current market prices. In circumstances where the underlying investments are not publicly traded, such as the investments made by private equity funds, the private equity fund managers have considered the need for a liquidity discount on each of the underlying investments when determining the fund s net asset value in accordance with ASC 820. In circumstances where our portion of a fund s net asset value is deemed to differ from fair value due to illiquidity or other factors associated with our investment in the fund, including counterparty credit risk, the net asset value is adjusted accordingly. At September 30, 2010 and December 31, 2009, we did not record a liquidity adjustment to the net asset value related to our investments in hedge funds or private equity funds.

As of September 30, 2010 and December 31, 2009, other investments reported at fair value represented approximately 5% and 4%, respectively, of the investment portfolio recorded at fair value. Other investments accounted for at fair value as of September 30, 2010 and December 31, 2009 were comprised of $73.7 million and $74.2 million, respectively, in hedge funds, $75.7 million and $58.0 million, respectively, in private equity funds and $14.1 million for both periods of an investment in a community reinvestment

Table of Contents

vehicle. At September 30, 2010 and December 31, 2009, we held investments in 14 and 15 hedge funds, respectively, and 16 private equity funds. The largest investment in a single fund was $24.0 million and $10.8 million, respectively, at September 30, 2010 and December 31, 2009.

As of September 30, 2010, other investments also included $20.8 million of an investment in a tax advantaged federal affordable housing development fund which is accounted for using the equity method.

As of September 30, 2010 and December 31, 2009, approximately 91% and 93%, respectively, of the investment portfolio recorded at fair value was priced based upon observable inputs.

The fair value measurements at September 30, 2010 and December 31, 2009 for assets recorded in accordance with ASC 825 and any related Level 3 inputs are as follows:

	Fair value at September 30, 2010	Level 3 Inputs	Level 3 Percentage
	($ in millions)		
Fixed maturity investments:			
U.S. Government and agency obligations	$ 261.1	$	%
Debt securities issued by corporations	887.6		
Municipal obligations	3.0		
Asset-backed securities	1,055.9	23.4	2.2
Foreign government obligations	14.4		
Preferred stocks	82.4	70.7	85.8
Fixed maturity investments	2,304.4	94.1	4.1
Short-term investments	465.6		
Common equity securities	262.7	39.3	14.9
Convertible bonds	93.8		
Other investments (1)	163.5	163.5	100.0
Total	$ 3,290.0	$ 296.9	9.0%

(1) Excludes the carrying value of $20.8 million associated with a tax advantaged federal affordable housing development fund accounted for using the equity method.

	Fair value at December 31, 2009	Level 3 Inputs	Level 3 Percentage
	($ in millions)		
Fixed maturity investments:			
U.S. Government and agency obligations	$ 531.6	$	%
Debt securities issued by corporations	1,347.0	0.2	
Municipal obligations	2.6		
Asset-backed securities	1,014.9	15.7	1.5
Foreign government obligations	26.7		
Preferred stocks	71.5	70.0	97.9
Fixed maturity investments	2,994.3	85.9	2.9

Short-term investments		544.4			
Common equity securities		187.6		33.8	18.1
Convertible bonds		170.2			
Other investments		146.3		146.3	100.0
Total	$	4,042.8	$	266.0	6.6%

At September 30, 2010 and December 31, 2009, we held one private preferred stock that represented approximately 86% and 98%, respectively, of our preferred stock portfolio. We 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.

In addition to the investment portfolio described above, we had $41.6 million and $27.2 million, respectively, of liabilities recorded at fair value and included in other liabilities as of September 30, 2010 and December 31, 2009. These liabilities relate to securities that have been sold short by a limited partnership in which we invest and are required to consolidate in accordance with GAAP. All of the liabilities included in the $41.6 million and $27.2 million, respectively, have been deemed to have a Level 1 designation as of September 30, 2010 and December 31, 2009.

Table of Contents

The changes in Level 3 fair value measurements for the three and nine months ended September 30, 2010 are as follows:

	Fixed maturity investments	Common equity securities	Convertible bonds ($ in millions)	Other investments	Total
Balance at January 1, 2010	$ 85.9	$ 33.8	$	$ 146.3	$ 266.0
Amortization/accretion	(1.4)				(1.4)
Total net realized and unrealized gains (losses)	2.8	2.4		3.8	9.0
Purchases				9.1	9.1
Sales	(1.7)	(0.4)		(2.1)	(4.2)
Transfers in					
Transfers out	(0.2)				(0.2)
Balance at March 31, 2010	$ 85.4	$ 35.8	$	$ 157.1	$ 278.3
Amortization/accretion					
Total net realized and unrealized gains (losses)	(3.2)	1.3		(1.7)	(3.6)
Purchases				9.1	9.1
Sales				(5.5)	(5.5)
Transfers in					
Transfers out	(14.7)				(14.7)
Balance at June 30, 2010	$ 67.5	$ 37.1	$	$ 159.0	$ 263.6
Amortization/accretion					
Total net realized and unrealized gains (losses)	3.1	2.0		2.7	7.8
Purchases	23.5	0.2		12.6	36.3
Sales				(10.8)	(10.8)
Transfers in					
Transfers out					
Balance at September 30, 2010	$ 94.1	$ 39.3	$	$ 163.5	$ 296.9

Transfers out of Level 3 fixed maturity investments of $0.2 million for the three months ended March 31, 2010 and $14.7 million for the three months ended June 30, 2010 each comprise one 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 during the three months ended March 31, 2010 and June 30, 2010, respectively.

Securities Lending

We had participated in a securities lending program as a mechanism for generating additional investment income on our fixed maturity and common equity portfolios. Under the securities lending arrangements, certain of our fixed maturity and common equity investments were loaned to other institutions for short periods of time through a lending agent. We maintained control over the securities we loaned, retained the earnings and cash flows associated with the loaned securities and received a fee from the borrower for the temporary use of the asset. Collateral, in the form of cash and United States government securities, was required at a rate of 102% of the fair value of the loaned securities. An indemnification agreement with the lending agent protected us in the event a borrower became insolvent or failed to return any of the securities on loan. In the event of a shortfall in the collateral amount required to be returned to the securities lending counterparty (e.g., as a result of investment losses), we were obligated to make up any deficiency.

Prior to February 2009, the collateral was controlled by the lending agent. The lending agent managed the investment of the cash collateral, however, other than in the event of default by the borrower, this collateral was not available to us and was remitted to the borrower by the lending agent upon the return of the loaned securities. Because of these restrictions, we considered our securities lending activities to be non-cash transactions. The fair value of the securities lending collateral was recorded as both an asset and liability on the balance sheet.

In February 2009, we amended the terms of the securities lending program to give us more control over the investment of borrowers collateral and to separate the assets supporting that collateral into a segregated account. Pursuant to the amendment, (i) the guidelines for the investment of any new cash collateral as well as the reinvestment of cash were narrowed to permit investment in

Table of Contents

only cash equivalent securities, (ii) we had the authority to direct the lending agent to both sell specific collateral securities in the segregated account and to not sell certain collateral securities which the lending agent proposes to sell, and (iii) we and the lending agent agreed to manage the securities lending program toward an orderly wind-down. In May 2009, we instructed the lending agent not to make any additional loans of securities and to recall all of the securities on loan and fund the return of collateral to the borrower. As a result of the actions described above, the securities lending assets are no longer segregated and are included within our investment securities. As of September 30, 2010, $1.7 million in collateral had not been returned to the borrower.

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. 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 common share repurchases, interest payments on our debt obligations, repurchases and retirements of our debt, dividend payments on our common shares, 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 costs, interest payments on our debt obligations, repurchases and retirements of our debt obligations, operating expenses, purchases of investments, and distributions and tax sharing payments made to parent holding companies.

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. 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 GAAP net income, as the claims 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 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, ranging up to 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 operating subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay without prior approval by regulatory authorities. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future.

Generally, our regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period in an amount equal to the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. Based on 2009 statutory surplus of $1.6 billion, our top tier regulated insurance operating subsidiaries have the ability to pay approximately $157 million of dividends during 2010, subject to the availability of unassigned funds. As of June 30, 2010, OneBeacon s top tier regulated insurance operating subsidiaries had $0.9 billion of unassigned funds. As of September 30, 2010, we had approximately $270 million of unrestricted net cash, short-term investments and fixed maturity investments outside of our regulated insurance operating subsidiaries.

During the nine months ended September 30, 2010, our top tier regulated operating subsidiaries distributed $651.0 million to OneBeacon Insurance Group LLC. This amount included $71.0 million in ordinary dividends, $410.0 million in extraordinary

Table of Contents

dividends and $170.0 million representing a return of capital. During the nine months ended September 30, 2010, our unregulated insurance operating subsidiaries paid $8.1 million of dividends to their immediate parent.

During the nine months ended September 30, 2010, we paid $59.7 million of regular quarterly dividends and $236.1 million of a special dividend to holders of OneBeacon s common shares.

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. 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 is considered to be the cost of insurance float. We calculate our insurance float by taking our net invested assets and subtracting our total capital. Although insurance float can be calculated using numbers determined under GAAP, insurance float is not a GAAP concept and, therefore, there is no comparable GAAP measure.

Insurance float can increase in a number of ways, including through acquisitions of insurance operations, organic growth in existing insurance operations and recognition of losses that do not cause a corresponding reduction in investment assets. Conversely, insurance float can decrease in a number of other ways, including sales of insurance 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 have historically obtained our insurance float through both acquisitions and organic growth. We intend to generate low-cost float over time through a combination of acquisitions and/or by organic growth in our ongoing insurance operations. However, we will seek to increase our insurance float organically only when market conditions allow for an expectation of generating underwriting profits.

Certain operational leverage metrics can be measured with ratios that are calculated using insurance float. There are many activities that do not change the amount of insurance float at an insurance company but can have a significant impact on the company s operational leverage metrics. For example, investment gains and losses, foreign currency gains and losses, debt issuances and 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.

The following table illustrates our consolidated insurance float position and four operational leverage ratios based on insurance float and net invested assets as of September 30, 2010 and December 31, 2009.

	September 30, 2010	December 31, 2009
	($ in millions)	
Total investments	$ 3,310.8	$ 4,042.8
Cash	34.6	44.8
Accounts receivable on unsettled investment sales	10.4	24.2
Accounts payable on unsettled investment purchases	(50.6)	(7.6)

Net invested assets	$	3,305.2	$	4,104.2
OneBeacon s common shareholders equity	$	1,219.1	$	1,429.0
Debt		419.5		620.5
Total capital	$	1,638.6	$	2,049.5
Insurance float	$	1,666.6	$	2,054.7
Insurance float as a multiple of total capital		1.0x		1.0x
Net invested assets as a multiple of total capital		2.0x		2.0x
Insurance float as a multiple of OneBeacon s common shareholders equity		1.4x		1.4x
Net invested assets as a multiple of OneBeacon s common shareholders equity		2.7x		2.9x

During the nine months ended September 30, 2010, insurance float decreased by approximately $390 million primarily as a result of the Personal Lines Transaction.

Table of Contents

Financing

The following table summarizes our capital structure as of September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
	($ in millions)	
Senior Notes, carrying value	$ 419.5	$ 606.5
Other debt		14.0
Total debt	419.5	620.5
OneBeacon s common shareholders equity	1,219.1	1,429.0
Total capital	$ 1,638.6	$ 2,049.5
Ratio of debt to total capital	25.6%	30.3%

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 May 3, 2010, OBH commenced a cash tender offer for up to $200.0 million in aggregate principal amount of the 5.875% Senior Notes due 2013 of our subsidiary OBH, which we refer to as the Senior Notes, at a price of $1,027.50 per $1,000 principal amount. The cash tender offer, which was not subject to the tender of any minimum principal amount of Senior Notes, expired on May 28, 2010. Holders of Senior Notes who tendered on or before May 14, 2010 received an early tender payment of $30 for every $1,000 principal amount of Senior Notes validly tendered. Payment for the Senior Notes included accrued and unpaid interest up to the settlement date. OBH accepted and retired $156.4 million aggregate principal amount, of which $155.2 million was tendered by the early tender deadline, for purchase for $165.4 million, which resulted in a $9.6 million loss.

During the second quarter of 2010, OBH repurchased and retired $18.2 million of outstanding Senior Notes for $18.9 million, which resulted in a $0.7 million loss. During the first quarter of 2010, OBH repurchased and retired $11.5 million of outstanding Senior Notes for $11.9 million, which resulted in a $0.5 million loss. During the first quarter of 2010, OneBeacon Insurance Company (OBIC) purchased $1.1 million of outstanding Senior Notes for $1.1 million. During the third quarter of 2009, OBIC purchased $21.0 million of outstanding Senior Notes for $19.8 million, which resulted in a $1.0 million gain. During the second quarter of 2009, OBIC purchased $37.3 million of outstanding Senior Notes for $35.2 million, which resulted in a $1.9 million gain. During the first quarter of 2009, OBH repurchased and retired $10.6 million of outstanding Senior Notes for $8.1 million, which resulted in a $2.5 million gain.

White Mountains currently provides an irrevocable and unconditional guarantee as to the payment of principal and interest (the Guarantee) on the Senior Notes. In consideration of this Guarantee, we have agreed to pay a specified fee to White Mountains in the amount of 25 basis points per annum on the outstanding principal amount of the Senior Notes. We have further agreed that if White Mountains voting interest in us ceases to represent more than 50% of all our voting securities, we will redeem, exchange or otherwise modify the Senior Notes in order to fully and permanently eliminate White Mountains obligations under the Guarantee (the Guarantee Elimination). White Mountains has agreed to provide written notice to us when its voting interest in us has been reduced below 50%. We will have 180 days from the receipt of such notification to complete the Guarantee Elimination. If the Guarantee Elimination is not completed within the initial 180-day period, the Guarantee fee shall increase by 200 basis points. The Guarantee fee shall further increase by 100 basis points for each subsequent 90-day period thereafter, up to a maximum Guarantee fee of 425 basis points, until the Guarantee Elimination has been completed.

The Senior Notes were issued under an indenture which contains restrictive covenants that, among other things, limit the ability of White Mountains, OBH and their respective subsidiaries, which includes us, as a subsidiary of White Mountains, to create liens and enter into sale and leaseback transactions and substantially limit the ability of White Mountains, OBH and its respective subsidiaries, which includes us, to consolidate, merge or transfer their properties and assets. The indenture does not contain any financial ratios or specified levels of net worth or liquidity to which White Mountains or OBH must adhere. At September 30, 2010, White Mountains and OBH were in compliance with all of the covenants under the Senior Notes.

The indenture also contains a cross default provision which provides that if White Mountains as guarantor has a payment default in excess of $25 million under a credit agreement, mortgage or similar debt agreement, the default provisions under the indenture to the Senior Notes will be triggered. White Mountains has a revolving credit facility which provides for borrowing up to a maximum of $475 million and which contains restrictive financial covenants. As of September 30, 2010, the facility was undrawn. At September 30, 2010, White Mountains was in compliance with all of the covenants under the facility. Refer to Note 16. Related Party Disclosures of the Company s 2009 Annual Report on Form 10-K.

Table of Contents

Ratings

On September 13, 2010, A.M. Best Company, Inc. affirmed our financial strength rating of A (Excellent, the third highest of fifteen ratings) and the credit rating on the Senior Notes of bbb (Good, the ninth highest of twenty-five creditworthiness ratings). On July 1, 2010, Fitch, Inc. changed the outlook on all of our credit and insurance financial strength ratings from negative to stable. On July 2, 2010, Standard & Poor s Rating Service (Standard & Poor s) lowered the credit rating on the Senior Notes from BBB (Adequate, the ninth highest of twenty-two creditworthiness ratings) on watch negative to BBB- (Adequate, the tenth highest of twenty-two creditworthiness ratings) with a stable outlook. At the same time, Standard & Poor s lowered the insurance financial strength ratings our principal insurance operating subsidiaries from A (Strong, the sixth highest of twenty-one ratings) on watch negative to A- (Strong, the seventh highest of twenty-one ratings) with a stable outlook. We do not expect the changes in ratings or outlooks noted above to have a material impact on our ability to raise new debt or the cost thereof.

Share Repurchase Program

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 program does not have a stated expiration date. During the three months ended September 30, 2010, 0.3 million Class A common shares were repurchased for $4.6 million and retired, at an average price per share of $14.40.

The following table includes information regarding repurchases by the Company of its Class A common shares during the periods indicated. All repurchased shares were retired.

	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (in millions)
July 1 31, 2010	94,941	$ 14.30	94,941	$ 90.9
August 1 31, 2010	222,845	$ 14.44	222,845	$ 87.7
September 1 30, 2010		$		$ 87.7
Total	317,786	$ 14.40	317,786	$ 87.7

Cash Flows

Detailed information concerning our cash flows for the nine months ended September 30, 2010 and 2009 follows:

Cash flows from operations for the nine months ended September 30, 2010 and 2009

Net cash flows from operations were $9.7 million and $113.6 million, respectively, for the nine months ended September 30, 2010 and 2009. Net cash flows from operations in the first nine months of 2010 and 2009 were adversely impacted by declining net investment income, primarily due to lower overall portfolio yields, shifts in portfolio mix to lower risk, lower yield investments and a decrease in the overall invested asset base. In addition, the decline in cash flows from operations for the nine months ended September 30, 2010 reflects the impact of the Commercial Lines Transaction and Personal Lines Transaction.

Cash flows from investing and financing activities for the nine months ended September 30, 2010

Financing and Other Capital Activities

During the first nine months of 2010, we declared and paid $59.7 million of regular quarterly cash dividends and $236.1 million of a special dividend to holders of OneBeacon s common shares.

During the first nine months of 2010, we repurchased and retired 0.7 million of our Class A common shares for $10.5 million through our share repurchase program.

During the first nine months of 2010, we paid a total of $18.1 million of interest on our debt obligations, including $17.8 million of interest on the Senior Notes.

Table of Contents

During the first nine months of 2010, OBIC purchased a portion of the Senior Notes for $1.1 million.

During the first nine months of 2010, OBH repurchased and retired a portion of the Senior Notes for $30.8 million.

During the second quarter of 2010, OBH repurchased and retired a portion of the Senior Notes for $165.4 million in a cash tender offer.

During the first quarter of 2010, we repaid the $14.0 million outstanding balance on the note issued in connection with the acquisition of the Atlantic Specialty Insurance Company

Acquisitions and Dispositions

During the third quarter of 2010, we completed the Personal Lines Transaction and received $166.6 million as consideration.

Other Liquidity and Capital Resource Activities

During the third quarter of 2010, we made payments with respect to our long-term incentive compensation plans totaling $5.5 million, in cash. These payments were made primarily with respect to 199,774 performance shares and 37,650 performance units for various performance cycles. As a result of the Commercial Lines Transaction and the Personal Lines Transaction, payments were made to certain former employees of OneBeacon prior to the end of the performance cycle on a pro rata basis. During the first quarter of 2010, we made payments with respect to our long-term incentive compensation plans totaling $21.4 million, in cash or by deferral into certain of our non-qualified compensation plans. These payments were made primarily with respect to 682,344 performance shares for the 2007-2009 performance cycle.

Cash flows from investing and financing activities for the nine months ended September 30, 2009

Financing and Other Capital Activities

During the first nine months of 2009, we declared and paid $59.9 million of regular quarterly cash dividends to holders of OneBeacon s common shares.

During the first nine months of 2009, we paid a total of $21.6 million of interest on our debt obligations, including $20.2 million of interest on the Senior Notes, and repaid a total of $2.2 million of principal on our debt obligations.

During the first nine months of 2009, OBIC purchased a portion of the Senior Notes for $55.0 million.

During the first quarter of 2009, OBH repurchased and retired a portion of the Senior Notes for $8.1 million.

During the second quarter of 2009, we repaid the $40.6 million outstanding balance on our mortgage note.

Other Liquidity and Capital Resource Activities

During the first quarter of 2009, we made payments with respect to our long-term incentive compensation plans totaling $27.3 million, in cash or by deferral into certain of our non-qualified compensation plans. These payments were made primarily with respect to 137,400 performance shares and 148,422 performance units for various performance cycles.

Critical Accounting Estimates

Refer to the Company s 2009 Annual Report on Form 10-K for a complete discussion regarding our critical accounting estimates. As of September 30, 2010, there were no material changes to our critical accounting estimates.

Table of Contents

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 or anticipate 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 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; and
- future capital expenditures.

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

- the risks associated with Item 1A of the Company s 2009 Annual Report on Form 10-K and in Item 1A of this Form 10-Q;

- recorded loss and loss adjustment expense reserves subsequently proving to have been inadequate;

- claims arising from catastrophic events, such as hurricanes, windstorms, earthquakes, floods, fires, explosions, terrorist attacks or severe winter weather;

- the continued availability and cost of reinsurance;

- competitive forces, including the conduct of other property and casualty insurers and agents;

- changes in domestic or foreign laws or regulations, or their interpretation, applicable to us, our competitors, our agents or our customers;

- the continued availability of capital and financing;

- general economic, market or business conditions;

- an economic downturn or other economic conditions adversely affecting our financial position, including stock market volatility;

- business opportunities (or lack thereof) that may be presented to us and pursued;

- actions taken by rating agencies from time to time, such as financial strength or credit rating downgrades or placing ratings on negative watch; 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 actual results or developments anticipated by us will be realized or, even if substantially realized,

Table of Contents

that they will have the expected consequences to, or effects on, us or our business or operations. 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 2009 Annual Report on Form 10-K and in particular item 7A Quantitative and Qualitative Disclosures About Market Risk . As of September 30, 2010, there were no material changes to the market risks described in our most recent Annual Report on Form 10-K.

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 CEO and CFO of OneBeacon (the principal executive officer and principal financial officer, respectively) have 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 September 30, 2010, 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 rules and forms. There were no significant changes with respect to our internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended September 30, 2010.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, including those identified in Item 1A Risk Factors of our 2009 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 September 30, 2010, there have been no material changes to the risk factors disclosed in our most recent Annual Report on Form 10-K, although we may disclose changes to such factors 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

The following table includes information regarding repurchases by the Company of its Class A common shares during the periods indicated. All repurchased shares were retired.

	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (in millions)
July 1 31, 2010	94,941	$ 14.30	94,941	$ 90.9
August 1 31, 2010	222,845	$ 14.44	222,845	$ 87.7
September 1 30, 2010		$		$ 87.7
Total	317,786	$ 14.40	317,786	$ 87.7

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

11*	Statement Re Computation of Per Share Earnings.
31.1**	Certification of T. Michael Miller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Paul H. McDonough pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of T. Michael Miller pursuant to 18 U.S.C. Section 1350, as 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.

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* Not included as an exhibit as the information is contained elsewhere within this report. See Note 13 of the Notes to the Consolidated Financial Statements.

** Filed Herewith

*** Furnished Herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities 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.

By: /s/ Ann Marie Andrews
Ann Marie Andrews
Chief Accounting Officer

Date: October 29, 2010