

OneBeacon Insurance Group, Ltd.
Form 10-Q
July 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number 1-33128

ONEBEACON INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda

(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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

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

As of July 26, 2013, 23,649,400 Class A common shares, par value \$0.01 per share, and 71,754,738 Class B common shares, par value \$0.01 per share, were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONEBEACON INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited) (in millions, except share and per share amounts)	December 31, 2012
Assets		
Investment Securities:		
Fixed maturity investments, at fair value	\$1,648.5	\$1,593.3
Short-term investments, at amortized cost (which approximates fair value)	155.9	232.8
Common equity securities, at fair value	298.6	259.0
Convertible fixed maturity investments, at fair value	29.8	62.6
Other investments	145.0	143.8
Total investment securities	2,277.8	2,291.5
Cash	110.8	43.9
Reinsurance recoverables	84.6	110.6
Premiums receivable	233.7	225.6
Deferred acquisition costs	100.1	123.9
Net deferred tax asset	120.2	137.8
Investment income accrued	10.9	12.1
Accounts receivable on unsettled investment sales	4.1	2.1
Other assets	225.8	227.2
Assets held for sale	2,047.0	2,226.8
Total assets	\$5,215.0	\$5,401.5
Liabilities		
Unpaid loss and loss adjustment expense reserves	\$1,027.8	\$1,000.0
Unearned premiums	517.2	573.8
Debt	274.7	274.7
Accounts payable on unsettled investment purchases	28.8	6.2
Other liabilities	274.5	302.7
Liabilities held for sale	2,047.0	2,226.8
Total liabilities	4,170.0	4,384.2
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, 95,407,138 and 95,386,179 shares)	1,021.0	1,019.1
Retained earnings	34.6	9.2
Accumulated other comprehensive loss, after tax	(13.5)	(13.8)
Total OneBeacon's common shareholders' equity	1,042.1	1,014.5
Total noncontrolling interests	2.9	2.8
Total OneBeacon's common shareholders' equity and noncontrolling interests	1,045.0	1,017.3
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	\$5,215.0	\$5,401.5

See Notes to Consolidated Financial Statements.

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ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(\$ in millions, except per share amounts)			
Revenues				
Earned premiums	\$280.8	\$280.3	\$567.3	\$552.1
Net investment income	11.4	14.0	20.8	28.7
Net realized and change in unrealized investment gains	(25.5)	) (11.9)	) 2.9	17.9
Net other revenues	0.6	0.2	24.6	0.3
Total revenues	267.3	282.6	615.6	599.0
Expenses				
Loss and loss adjustment expenses	157.0	151.4	305.9	287.8
Policy acquisition expenses	52.5	60.9	107.3	119.0
Other underwriting expenses	54.6	51.3	103.9	98.8
General and administrative expenses	2.9	2.6	6.9	5.3
Interest expense	3.3	4.0	6.5	8.1
Total expenses	270.3	270.2	530.5	519.0
Pre-tax income (loss) from continuing operations	(3.0)	) 12.4	85.1	80.0
Income tax benefit (expense)	1.0	(0.4)	) (18.8)	) (13.9)
Net income (loss) from continuing operations	(2.0)	) 12.0	66.3	66.1
Income (loss) from discontinued operations, net of tax	(0.5)	) 0.5	—	(9.0)
Net income (loss), including noncontrolling interests	(2.5)	) 12.5	66.3	57.1
Less: Net income attributable to noncontrolling interests	(0.4)	) (0.2)	) (0.8)	) (0.8)
Net income (loss) attributable to OneBeacon's common shareholders	(2.9)	) 12.3	65.5	56.3
Net change in benefit plan assets and obligations, net of tax	0.2	0.1	0.3	0.3
Comprehensive income (loss) attributable to OneBeacon's common shareholders	\$(2.7)	) \$12.4	\$65.8	\$56.6
Earnings (loss) per share attributable to OneBeacon's common shareholders—basic and diluted				
Net income (loss) from continuing operations, per share	\$(0.03)	) \$0.12	\$0.68	\$0.68
Income (loss) from discontinued operations, net of tax, per share	—	0.01	—	(0.09)
Net income (loss) attributable to OneBeacon's common shareholders per share	\$(0.03)	) \$0.13	\$0.68	\$0.59
Dividends declared and paid per OneBeacon's common share	\$0.21	\$0.21	\$0.42	\$0.42

See Notes to Consolidated Financial Statements.

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

	OneBeacon's Common Shareholders' Equity					Total OneBeacon's common shareholders' equity and noncontrolling interests
	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income (loss)	Total OneBeacon common shareholders' equity	Noncontrolling interests, after tax	
	(\$ in millions)					
Balances at January 1, 2013	\$1,019.1	\$ 9.2	\$ (13.8)	\$ 1,014.5	\$ 2.8	\$ 1,017.3
Comprehensive income:						
Net income	—	65.5	—	65.5	0.8	66.3
Other comprehensive income item, after tax:						
Net change in benefit plan assets and obligations, net of tax	—	—	0.3	0.3	—	0.3
Total comprehensive income	—	65.5	0.3	65.8	0.8	66.6
Amortization of restricted share and option awards	1.6	—	—	1.6	—	1.6
Issuance of common shares	0.3	—	—	0.3	0.1	0.4
Dividends	—	(40.1)	—	(40.1)	(0.8)	(40.9)
Balances at June 30, 2013	\$1,021.0	\$ 34.6	\$ (13.5)	\$ 1,042.1	\$ 2.9	\$ 1,045.0
	OneBeacon's Common Shareholders' Equity					Total OneBeacon's common shareholders' equity and noncontrolling interests
	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income (loss)	Total OneBeacon common shareholders' equity	Noncontrolling interests, after tax	
	(\$ in millions)					
Balances at January 1, 2012	\$1,002.2	\$ 108.5	\$ (10.9)	\$ 1,099.8	\$ 14.1	\$ 1,113.9
Comprehensive income:						
Net income	—	56.3	—	56.3	0.8	57.1
Other comprehensive income item, after tax:						
Net change in benefit plan assets and obligations, net of tax	—	—	0.3	0.3	—	0.3
Total comprehensive income	—	56.3	0.3	56.6	0.8	57.4
Amortization of restricted share and option awards	1.1	—	—	1.1	—	1.1
Issuance of common shares	0.3	—	—	0.3	0.2	0.5
Dividends	—	(40.0)	—	(40.0)	(0.6)	(40.6)
Gain on sale of OB Holdings Lux	14.0	—	—	14.0	—	14.0
Balances at June 30, 2012	\$1,017.6	\$ 124.8	\$ (10.6)	\$ 1,131.8	\$ 14.5	\$ 1,146.3

See Notes to Consolidated Financial Statements.

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

	Six months ended June 30,	
	2013	2012
	(\$ in millions)	
Cash flows from operations:		
Net income including noncontrolling interests	\$66.3	\$57.1
Charges (credits) to reconcile net income to cash flows (used for) provided from operations:		
Net loss from discontinued operations	—	9.0
Net realized and change in unrealized investment gains	(2.9)	(17.9)
Net realized gain on sale of business	(23.0)	—
Deferred income tax expense	19.1	9.7
Other operating items:		
Net change in loss and LAE reserves	27.8	(30.9)
Net change in unearned premiums	(56.6)	43.5
Net change in premiums receivable	(8.1)	(50.2)
Net change in reinsurance recoverable on paid and unpaid losses	26.0	61.9
Net change in other assets and liabilities	11.3	(57.6)
Net cash provided from operations—continuing operations	59.9	24.6
Net cash used for operations—discontinued operations	(77.2)	(94.8)
Net cash used for operations	(17.3)	(70.2)
Cash flows from investing activities:		
Net maturities, purchases and sales of short-term investments	73.2	102.6
Maturities of fixed maturity investments	154.1	95.0
Sales of fixed maturity investments	912.2	862.7
Sales of common equity securities	109.6	26.9
Sales of convertible fixed maturity investments	37.3	9.0
Distributions and redemptions of other investments	11.3	10.6
Purchases of fixed maturity investments	(1,078.8)	(1,004.1)
Purchases of common equity securities	(125.8)	(31.7)
Purchases of convertible fixed maturity investments	(8.6)	(3.6)
Contributions for other investments	(5.5)	(6.8)
Proceeds from sale of business	31.3	—
Net change in unsettled investment purchases and sales	20.6	8.8
Net acquisitions of property and equipment	(4.0)	(0.7)
Net cash provided from investing activities—continuing operations	126.9	68.7
Net cash provided from investing activities—discontinued operations	—	—
Net cash provided from investing activities	126.9	68.7
Cash flows from financing activities:		
Cash dividends paid to common shareholders	(40.1)	(40.0)
Proceeds on sale of OB Holdings Lux	—	14.0
Payments on capital lease obligation	(2.6)	(2.4)
Net cash used for financing activities—continuing operations	(42.7)	(28.4)
Net cash used for financing activities—discontinued operations	—	—
Net cash used for financing activities	(42.7)	(28.4)
Net increase (decrease) in cash during period	66.9	(29.9)
Cash reclassified from assets held for sale	—	5.5

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Cash transferred with sale of business	—	(3.5)
Net increase (decrease) after reclassification of cash to assets held for sale	66.9	(27.9)
Cash balance at beginning of period	43.9	54.9	
Cash balance at end of period	\$110.8	\$27.0	
See Notes to Consolidated Financial Statements.			

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of presentation

These interim consolidated financial statements include the accounts of OneBeacon Insurance Group, Ltd. (the "Company" or the "Registrant") and its subsidiaries (collectively, "OneBeacon") and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company is an exempted Bermuda limited liability company. The OneBeacon operating companies are U.S.-based property and casualty insurance writers, most of which historically have operated in a multi-company pool or have participated in 100% quota share reinsurance agreements. OneBeacon offers a wide range of specialty insurance products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies. OneBeacon was acquired by White Mountains Insurance Group, Ltd. ("White Mountains") from Aviva plc ("Aviva") in 2001 (the "OneBeacon Acquisition"). White Mountains is a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. As of June 30, 2013, White Mountains owned 75.2% 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's headquarters are located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. The Company's U.S. corporate headquarters are located at 601 Carlson Parkway, Minnetonka, Minnesota 55305 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC ("OneBeacon LLC"), entered into a definitive agreement (the "Stock Purchase Agreement") with Trebuchet US Holdings, Inc. ("Trebuchet"), a wholly-owned subsidiary of Armour Group Holdings Limited (together with Trebuchet, "Armour"), to sell its run-off business. See Note 2—"Acquisitions and Dispositions" and Note 15—"Discontinued Operations." OneBeacon's run-off business includes the results of OneBeacon's remaining non-specialty commercial lines business and certain other run-off business, including the vast majority of asbestos and environmental reserves, as well as certain purchase accounting adjustments related to the run-off business and OneBeacon Acquisition (the "Runoff Business," the sale of which is referred to as the "Runoff Transaction"). The assets and liabilities associated with the Runoff Business as of June 30, 2013 and December 31, 2012 have been presented in the balance sheet as held for sale assuming the investing and financing steps required to effect the sale were completed as of the current balance sheet date. The Runoff Business has been presented as discontinued operations in the consolidated statements of operations and cash flows, with the prior periods reclassified to conform to the current period's presentation. The Runoff Business disposal group excludes investing and financing activities from amounts classified as discontinued operations. OneBeacon's investing and financing operations are conducted on an overall consolidated level and, accordingly, there are no separately identifiable investing or financing cash flows associated with the Runoff Business. Pursuant to the terms of the Stock Purchase Agreement, the legal entities included in the sale and expected to be transferred to Armour will hold an agreed upon level of invested assets and capital at closing.

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

The Company revised its reporting segment structure in the fourth quarter of 2012 into Specialty Products, Specialty Industries and Investing, Financing and Corporate. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. The Specialty Products segment is comprised of eight underwriting operating segments, including a new Crop Insurance underwriting operating segment that was approved during the second quarter of 2013, as well as the Collector Cars and Boats underwriting operating segment that was exited in the first quarter of 2013, representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. During the second quarter of 2013, the Company received approval to provide multiple peril crop insurance through the federal crop insurance program administered by the U.S. Department of Agriculture's Risk Management Agency. The Company has entered into an exclusive agreement with a

managing general agency, The Climate Corporation, a firm that specializes in the crop business, to provide coverages through the federal program and other supplemental coverages, including crop-hail. The operations associated with this new underwriting operating segment have been included in the Specialty Products reportable segment. The Specialty Industries segment is comprised of six underwriting operating segments, including one that was exited in the first quarter of 2013, representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Investing, Financing and Corporate segment includes the investing and financing activities for OneBeacon on a consolidated basis, and certain other activities conducted through the Company and its intermediate subsidiaries. All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments, 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 2012 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 2012 Annual Report on Form 10-K for a complete discussion regarding OneBeacon's significant accounting policies. As described above, certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

Recently Adopted Changes in Accounting Principles

Policy Acquisition Costs

On January 1, 2012, OneBeacon adopted Accounting Standards Update ("ASU") 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (Accounting Standards Codification (ASC) 944). ASU 2010-26 changes the types of policy acquisition costs that are eligible for deferral. Specifically, ASU 2010-26 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 ASU 2010-26, 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.

OneBeacon adopted ASU 2010-26 prospectively. As a result of adopting ASU 2010-26, \$5.6 million of unamortized deferred acquisition costs as of January 1, 2012, primarily relating to a portion of profit sharing commission that had been deferred under prior guidance, were determined to no longer be deferrable and were recognized in expense over the original amortization period. During the three and six months ended June 30, 2012, \$2.0 million and \$4.4 million, respectively, of the \$5.6 million of unamortized acquisitions costs as of January 1, 2012 were recognized in expense, with the remainder of the \$5.6 million balance expensed during the year ended December 31, 2012 such that no incremental impact was recognized in the three and six months ended June 30, 2013.

Fair Value Measurements and Disclosures

On January 1, 2012, OneBeacon adopted ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS (ASC 820). ASU 2011-04 clarifies existing guidance with respect to the concepts of highest and best use and valuation premise and measuring instruments classified within a reporting entity's shareholders' equity. ASU 2011-04 also clarifies disclosure requirements, requiring disclosure of quantitative information about unobservable inputs used in Level 3 fair value measurements. ASU 2011-04 also amends existing guidance. In circumstances where a reporting entity manages a portfolio of financial assets and liabilities based on the net market and counterparty credit risk exposures, ASU 2011-04 permits determination of the fair value of those instruments to be based on the net risk exposure. In addition, ASU 2011-04 permits the application of premiums or discounts to be applied in a fair value measurement to the extent that market participants would consider them in valuing the financial instruments. ASU 2011-04 also expands the required disclosures for Level 3 measurements, requiring that reporting entities provide a narrative description of the sensitivity of Level 3 fair value measurements to changes in unobservable inputs and the interrelationships between those inputs, if any. As a result of adopting ASU 2011-04, OneBeacon expanded its fair value disclosures. See Note 5—"Investment Securities."

Comprehensive Income

On January 1, 2012, OneBeacon adopted ASU 2011-05, Comprehensive Income (ASC 220). ASU 2011-05 requires all components of comprehensive income to be reported in a continuous financial statement or in consecutive statements displaying the components of net income and the components of other comprehensive income. Since OneBeacon already presents comprehensive income in a continuous financial statement, adoption of ASU 2011-05 had no effect on OneBeacon's financial statement presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Recently Issued Accounting Pronouncements

There were no recently issued accounting pronouncements that were expected to have a material effect on OneBeacon.

NOTE 2. Acquisitions and Dispositions

Effective January 1, 2013, OneBeacon completed the sale of Essentia Insurance Company ("Essentia"), an indirect wholly-owned subsidiary which wrote the collector car and boat business, to Markel Corporation. Concurrently therewith, OneBeacon and Hagerty Insurance Agency ("Hagerty") terminated their underwriting arrangement with respect to the collector car and boat business. OneBeacon recognized a pre-tax gain on sale of \$23.0 million (\$15.0 million after tax) in the first quarter of 2013. For the three and six months ended June 30, 2012, the business associated with this agreement generated net written premiums of \$58.0 million and \$93.3 million, respectively, or 19.8% and 15.7%, respectively, of consolidated written premiums.

As described in Note 1, on October 17, 2012, OneBeacon entered into the Stock Purchase Agreement with respect to the sale of its Runoff Business to Armour. Pursuant to the terms of the Stock Purchase Agreement, at closing, OneBeacon will transfer to Armour all of the issued and outstanding shares of common stock of certain legal entities that will contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the business as well as certain elements of the Runoff Business infrastructure, including staff and office space. Additionally, as part of the Runoff Transaction, OneBeacon may provide, under certain scenarios, financing in the form of surplus notes. The Runoff Transaction is expected to close in the fourth quarter of 2013.

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

As described in Note 1, the Runoff Business is presented as held for sale as of June 30, 2013 and December 31, 2012 and as discontinued operations for the three and six months ended June 30, 2013 and 2012. See Note 15—"Discontinued Operations" for further information regarding balances classified as held for sale and activity reported as discontinued operations.

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

On January 24, 2012, OneBeacon sold all of the issued and outstanding shares of common stock of OneBeacon Holdings (Luxembourg) S.à r.l. ("OB Lux") to White Sands Holdings (Luxembourg) S.à r.l. ("White Sands"), a subsidiary of White Mountains, for \$24.7 million. As a result of the sale, OneBeacon recorded a gain of \$14.0 million as additional paid in capital. Net of transaction costs expensed through the statement of operations, the gain was \$13.6 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Loss and LAE reserve summary - Ongoing Business

The following table summarizes the loss and LAE reserve activities of OneBeacon's insurance subsidiaries for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(\$ in millions)		(\$ in millions)	
Gross beginning balance	\$1,010.3	\$3,249.6	\$1,000.0	\$3,358.6
Less beginning reinsurance recoverable on unpaid losses	(105.8)	(2,109.0)	(107.3)	(2,167.5)
Net beginning loss and LAE reserves	904.5	1,140.6	892.7	1,191.1
Loss and LAE incurred relating to:				
Current year losses	158.0	154.8	309.8	293.1
Prior year losses	(1.0)	(3.4)	(3.9)	(5.3)
Total incurred loss and LAE from continuing operations	157.0	151.4	305.9	287.8
Loss and LAE paid relating to:				
Current year losses	(41.2)	(43.3)	(61.0)	(63.4)
Prior year losses	(74.3)	(76.9)	(191.6)	(192.8)
Total loss and LAE payments from continuing operations	(115.5)	(120.2)	(252.6)	(256.2)
Net loss and LAE reserves	946.0	1,171.8	946.0	1,222.7
Total incurred loss and LAE from discontinued operations	7.5	1.1	7.5	20.7
Total loss and LAE payments from discontinued operations	(25.7)	(38.3)	(71.4)	(109.7)
Net loss and LAE reserves	927.8	1,134.6	882.1	1,133.7
Net change in loss and LAE reserves reported in liabilities held for sale ⁽¹⁾⁽²⁾	18.2	—	63.9	64.7
Net loss and LAE reserves sold ⁽³⁾	—	—	—	(63.8)
Net ending loss and LAE reserves	946.0	1,134.6	946.0	1,134.6
Plus ending reinsurance recoverable on unpaid losses	81.8	2,040.7	81.8	2,040.7
Gross ending loss and LAE reserves	\$1,027.8	\$3,175.3	\$1,027.8	\$3,175.3

Balance for the three months ended June 30, 2013 consists of the change in net loss and LAE reserves from \$166.1 million to \$147.9 million, which amounts were classified as held for sale as of March 31, 2013 and June 30, 2013, respectively, in connection with the Runoff Transaction. Balance for the six months ended June 30, 2013 consists of the change in net loss and LAE reserves from \$211.8 million to \$147.9 million, which amounts were classified as held for sale as of December 31, 2012 and June 30, 2013, respectively, in connection with the Runoff Transaction.

(2) Balance for the six months ended June 30, 2012 relates to net loss and LAE reserves reclassified from held for sale upon the closing of the AutoOne Transaction in February 2012.

(3) Balance for the six months ended June 30, 2012 relates to the AutoOne Transaction, which closed in February 2012.

During the three and six months ended June 30, 2013, OneBeacon recorded \$1.0 million and \$3.9 million, respectively, of favorable loss and LAE reserve development on prior accident year reserves primarily related to its healthcare business, which is included in the Professional Insurance underwriting operating segment, its ocean marine business within the International Marine Underwriters ("IMU") underwriting operating segment, and its Government Risks underwriting operating segment. The favorable development was partially offset by adverse development in the Collector Cars and Boats underwriting operating segment in the three months ended June 30, 2013. During the three

and six months ended June 30, 2012, OneBeacon recorded \$3.4 million and \$5.3 million, respectively, of favorable loss and LAE reserve development on prior accident year loss reserves,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

primarily resulting from lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines.

See Note 15—"Discontinued Operations" for a discussion of impacts to reserves for unpaid losses and LAE related to discontinued operations.

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. See Note 15—"Discontinued Operations" for amounts related to the Runoff Business.

Effective May 1, 2013, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2014. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first \$20.0 million of losses resulting from any single catastrophe are retained and the next \$130.0 million of losses resulting from the catastrophe are reinsured in three layers, although OneBeacon retains a co-participation of 50% of losses from \$20.0 million to \$30.0 million, 10% of losses from \$30.0 million to \$70.0 million, and 5% of losses from \$70.0 million to \$150.0 million. Any loss above \$150.0 million would be retained in full. 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.

In addition to the corporate catastrophe reinsurance protection, OneBeacon may also purchase dedicated reinsurance protection for specific businesses. OneBeacon purchased a per occurrence treaty for its IMU underwriting operating segment that protects against large occurrences, whether a single large claim or a catastrophe. The IMU treaty attaches at \$2.0 million per occurrence. Coverage is provided up to \$60.0 million. The first layer of the marine treaty is \$5.0 million in excess of \$2.0 million, with an annual aggregate deductible of \$1.5 million for large losses and \$5.0 million for catastrophes losses. Losses not covered by the marine treaty are subject to the corporate property and per risk treaties after the Company's retention. Reinstatement premiums are paid in full or in part depending on the layer and the occurrence if the coverage is attached. Losses retained under marine reinsurance treaties are subject to the corporate catastrophe treaty. Additionally, in 2013 OneBeacon purchased reinsurance for its Surety underwriting operating segment. This treaty covers losses in excess of \$5.0 million up to \$30.0 million and has a 17% co-participation.

OneBeacon also purchases property-per-risk reinsurance coverage to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of \$10.0 million up to \$100.0 million. Individual risk facultative reinsurance may be purchased above \$100.0 million where OneBeacon deems it appropriate. OneBeacon retains a co-participation of 5% for losses in excess of \$20.0 million up to \$40.0 million and a co-participation of 10% for losses in excess of \$40.0 million. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of \$10.0 million up to \$100.0 million on an individual risk basis for acts of foreign terrorism. However, any nuclear events, or biological, chemical or radiological terrorist attacks are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual policies involving general liability, automobile liability, professional liability or umbrella liability. OneBeacon's healthcare professional liability treaty covers losses in excess of \$5.0 million up to \$20.0 million in two layers. The first layer, \$5.0 million excess of \$5.0 million has a 10% co-participation. All other casualty business is covered in a separate treaty covering losses in excess of \$5.0 million up to \$21.0 million. The casualty treaty has a 10% co-participation in the first layer (\$6.0 million excess of \$5.0 million) and a 5% co-participation in the second layer of \$10.0 million excess of \$11.0 million. OneBeacon purchases a treaty to protect against large workers compensation losses that covers 100% of the loss in excess of \$1.0 million up to \$10.0 million per person. In addition, for casualty losses involving more than one insured, OneBeacon maintains a dedicated treaty that covers up to \$60.0 million in excess of a \$10.0 million retention.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. Reinsurance

At June 30, 2013, OneBeacon had reinsurance recoverable on paid losses of \$2.8 million and reinsurance recoverables on unpaid losses of \$81.8 million. Reinsurance contracts do not relieve OneBeacon of its obligations. Therefore, collectibility of balances due from reinsurers is critical to OneBeacon's financial strength. The following table provides a listing of OneBeacon's top reinsurers for its continuing insurance operations, excluding industry pools and associations, based upon reinsurance recoverable amounts on paid and unpaid losses, the percentage of the total balance, and the reinsurer's A.M. Best Company, Inc. ("A.M. Best") ratings:

(\$ in millions)	Balance at June 30, 2013	% of total	A.M. Best Rating ⁽¹⁾
Hannover Ruckversich	\$10.2	9	% A+
Munich Reinsurance America	6.7	6	% A+
Platinum Underwriters	5.4	5	% A
Swiss Reinsurance America Corp	5.0	4	% A+
Hartford Steam Boiler	4.9	4	% A++

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

Greater than 90% of reinsurance recoverables on paid and unpaid losses are from reinsurers rated A or better.

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 2012 Annual Report on Form 10-K for a complete discussion.

OneBeacon classifies its portfolio of fixed maturity investments and common equity securities, including convertible fixed maturity investments, held for general investment purposes as trading securities. Trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Realized and change in unrealized investment gains and losses on trading securities are reported in total revenues as net realized and unrealized investment gains (losses) in revenues on a pre-tax basis.

Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximates fair value.

Other investments primarily include 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 total revenues as net realized and unrealized investment gains (losses). 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 is accounted for under the equity method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

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. Other investments primarily include hedge funds and private equity funds. Net investment income for the three and six months ended June 30, 2013, and 2012 consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(\$ in millions)			
Fixed maturity investments	\$10.4	\$12.9	\$20.3	\$26.6
Short-term investments	—	0.1	—	0.1
Common equity securities	1.6	1.6	2.9	3.3
Convertible fixed maturity investments	0.3	1.2	0.7	2.3
Other investments	0.7	(0.1)	) 0.4	(0.2)
Gross investment income	13.0	15.7	24.3	32.1
Less investment expenses	(1.6)	) (1.7)	) (3.5)	) (3.4)
Net investment income	\$11.4	\$14.0	\$20.8	\$28.7

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(\$ in millions)			
Fixed maturity investments	\$3.9	\$0.9	\$7.8	\$16.1
Short-term investments	0.1	—	0.1	—
Common equity securities	1.2	(6.7)	) 17.9	(3.1)
Convertible fixed maturity investments	(1.9)	) 0.5	(0.4)	) 1.4
Other investments	2.9	0.9	4.7	2.0
Net realized investment gains (losses), pre-tax	\$6.2	\$(4.4)	) \$30.1	\$16.4

As of June 30, 2013 and December 31, 2012, OneBeacon reported \$28.8 million and \$6.2 million, respectively, in accounts payable on unsettled investment purchases and \$4.1 million and \$2.1 million, respectively, in accounts receivable on unsettled investment sales.

The net changes in fair value for the three and six months ended June 30, 2013, and 2012 are as follows:

	Three months ended June 30, 2013			Six months ended June 30, 2013		
	Changes in net unrealized investment gains (losses) ⁽¹⁾	Changes in net foreign currency translation gains (losses) ⁽¹⁾	Total net changes in fair value reflected in revenues ⁽¹⁾	Changes in net unrealized investment gains (losses) ⁽¹⁾	Changes in net foreign currency translation gains (losses) ⁽¹⁾	Total net changes in fair value reflected in revenues ⁽¹⁾
	(\$ in millions)					
Fixed maturity investments	\$(29.8)	) \$(0.1)	) \$(29.9)	) \$(34.2)	) \$(0.1)	) \$(34.3)
Short-term investments	—	—	—	—	—	—
Common equity securities	(2.4)	) —	(2.4)	) 5.5	—	5.5
Convertible fixed maturity investments	(0.7)) —	(0.7)) (1.6)) —	(1.6)
Other investments	1.3	—	1.3	3.2	—	3.2
Net change, pre-tax	\$(31.6)) \$(0.1)) \$(31.7)) \$(27.1)) \$(0.1)) \$(27.2)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

	Three months ended June 30, 2012			Six months ended June 30, 2012		
	Changes in net unrealized investment gains (losses) ⁽²⁾	Changes in net foreign currency translation gains (losses) ⁽²⁾	Total net changes in fair value reflected in revenues ⁽²⁾	Changes in net unrealized investment gains (losses) ⁽²⁾	Changes in net foreign currency translation gains (losses) ⁽²⁾	Total net changes in fair value reflected in revenues ⁽²⁾
	(\$ in millions)					
Fixed maturity investments	\$4.8	\$ (0.1)	) \$4.7	\$2.7	\$—	\$2.7
Short-term investments	—	—	—	—	—	—
Common equity securities	(6.5)	) —	(6.5)	) (1.7)	) —	(1.7)
Convertible fixed maturity investments	(3.8)	) —	(3.8)	) (1.4)	) —	(1.4)
Other investments	(1.9)	) —	(1.9)	) 1.9	—	1.9
Net change, pre-tax	\$ (7.4)	) \$ (0.1)	) \$ (7.5)	) \$1.5	\$—	\$1.5

Includes pre-tax changes in net deferred gains and losses on sales of investments between OneBeacon and entities
⁽¹⁾ under White Mountains' common control of \$(0.1) million for the six months ended June 30, 2013. There were no such changes in net deferred gains and losses for the three months ended June 30, 2013.

Includes pre-tax changes in net deferred gains and losses on sales of investments between OneBeacon and entities
⁽²⁾ under White Mountains' common control of \$(0.1) million and \$(0.2) million for the three and six months ended June 30, 2012, respectively.

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 June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013 (\$ in millions)	December 31, 2012
Investment securities:		
Gross unrealized investment gains	\$111.5	\$127.4
Gross unrealized investment losses	(19.9)	) (8.7)
Total net unrealized investment gains, pre-tax	91.6	118.7
Income taxes	(29.8)) (39.4)
Total net unrealized investment gains, after tax	\$61.8	\$79.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The cost or amortized cost, gross unrealized pre-tax investment gains and losses, net foreign currency losses and carrying values of OneBeacon's fixed maturity investments as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013 ⁽¹⁾				
	Cost or amortized cost (\$ in millions)	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
U.S. Government and agency obligations	\$220.6	\$0.1	\$(1.9	) \$—	\$218.8
Debt securities issued by industrial corporations	710.1	16.6	(3.0	) —	723.7
Municipal obligations	3.3	—	(0.2	) —	3.1
Asset-backed securities	878.4	2.3	(5.3	) —	875.4
Foreign government obligations	3.4	0.4	—	(0.1	) 3.7
Preferred stocks	78.3	6.3	—	—	84.6
Total fixed maturity investments	\$1,894.1	\$25.7	\$(10.4	) \$(0.1	) \$1,909.3
	December 31, 2012 ⁽¹⁾				
	Cost or amortized cost (\$ in millions)	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government and agency obligations	\$197.1	\$0.5	\$—	\$—	\$197.6
Debt securities issued by industrial corporations	678.7	32.8	—	—	711.5
Municipal obligations	3.3	—	(0.1	) —	3.2
Asset-backed securities	918.5	9.7	(0.3	) —	927.9
Foreign government obligations	6.0	0.5	—	—	6.5
Preferred stocks	78.3	6.4	—	—	84.7
Total fixed maturity investments	\$1,881.9	\$49.9	\$(0.4	) \$—	\$1,931.4

Includes carrying value of \$260.8 million and \$338.1 million of fixed maturity investments reclassified to assets

⁽¹⁾ held for sale in the consolidated balance sheets as part of the Runoff Transaction as of June 30, 2013 and December 31, 2012, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The cost or amortized cost, gross unrealized pre-tax investment gains and losses, net foreign currency gains and carrying values of OneBeacon's common equity securities, convertible fixed maturity investments and other investments as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013				
	Cost or amortized cost (\$ in millions)	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	\$255.7	\$47.4	\$(4.5)	) \$—	\$298.6
Convertible fixed maturity investments	28.3	1.7	(0.2)	) —	29.8
Other investments	113.1	36.7	(4.8)	) —	145.0
Total common equity securities, convertible fixed maturity investments and other investments	\$397.1	\$85.8	\$(9.5)	) \$—	\$473.4
	December 31, 2012				
	Cost or amortized cost (\$ in millions)	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	\$221.6	\$39.8	\$(2.4)	) \$—	\$259.0
Convertible fixed maturity investments	59.5	3.2	(0.1)	) —	62.6
Other investments	115.1	34.5	(5.8)	) —	143.8
Total common equity securities, convertible fixed maturity investments and other investments	\$396.2	\$77.5	\$(8.3)	) \$—	\$465.4

Fair value measurements

As of June 30, 2013 and December 31, 2012, approximately 91% and 92% of the investment portfolio recorded at fair value was priced based upon observable inputs, respectively.

The fair values of OneBeacon's investments in hedge funds and private equity funds have been classified as Level 3 under the fair value hierarchy since the fund managers do not provide sufficient information to independently evaluate the pricing inputs and methods for each underlying investment, and therefore the inputs are considered to be unobservable. At June 30, 2013 and December 31, 2012, OneBeacon did not record a liquidity adjustment to the net asset value related to its investments in hedge funds or private equity funds.

As of both June 30, 2013 and December 31, 2012, other investments reported at fair value represented approximately 5% of the investment portfolio recorded at fair value. Other investments accounted for at fair value as of June 30, 2013 and December 31, 2012 were comprised of \$47.4 million and \$47.3 million, respectively, in hedge funds, \$63.1 million and \$61.3 million, respectively, in private equity funds and \$14.1 million for both periods in an investment in a community reinvestment vehicle. As of June 30, 2013 and December 31, 2012, OneBeacon held investments in 8 hedge funds for both periods and 19 and 17 private equity funds, respectively. The largest investment in a single fund was \$14.1 million and \$12.9 million at June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013 and December 31, 2012, other investments also included \$20.4 million and \$21.1 million, respectively, of an investment in a tax advantaged federal affordable housing development fund which is accounted for using the equity method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The fair value measurements at June 30, 2013 and December 31, 2012 and their related inputs are as follows:

	Fair value at June 30, 2013 ⁽²⁾ (\$ in millions)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
U.S. Government and agency obligations	\$218.8	\$218.8	\$—	\$—
Debt securities issued by corporations:				
Consumer	201.4	—	201.4	—
Industrial	103.7	—	103.7	—
Financial	129.7	—	129.7	—
Communications	93.0	—	93.0	—
Energy	41.2	—	41.2	—
Basic materials	80.4	—	80.4	—
Utilities	45.4	—	45.4	—
Technology	28.9	—	28.9	—
Debt securities issued by corporations	723.7	—	723.7	—
Municipal obligations	3.1	—	3.1	—
Asset-backed securities	875.4	—	856.3	19.1
Foreign government obligations	3.7	3.1	0.6	—
Preferred stocks	84.6	—	13.7	70.9
Fixed maturity investments	1,909.3	221.9	1,597.4	90.0
Short-term investments	155.9	155.4	0.5	—
Common equity securities:				
Financials	68.1	68.0	—	0.1
Basic Materials	23.2	23.2	—	—
Consumer	109.0	109.0	—	—
Energy	35.1	35.1	—	—
Utilities	7.2	7.2	—	—
Other	56.0	56.0	—	—
Common equity securities	298.6	298.5	—	0.1
Convertible fixed maturity investments	29.8	—	29.8	—
Other investments ⁽¹⁾	124.6	—	—	124.6
Total ⁽¹⁾	\$2,518.2	\$675.8	\$1,627.7	\$214.7

Excludes the carrying value of \$20.4 million and \$21.1 million, respectively, associated with a tax advantaged

(1) federal affordable housing development fund accounted for using the equity method as of June 30, 2013 and December 31, 2012.

(2) Fair value includes \$260.8 million and \$338.1 million of fixed maturity investments reclassified to assets held for sale in the June 30, 2013 and December 31, 2012 consolidated balance sheets as part of the Runoff Transaction.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

	Fair value at December 31, 2012 ⁽²⁾ (\$ in millions)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
U.S. Government and agency obligations	\$ 197.6	\$ 197.6	\$—	\$—
Debt securities issued by corporations:				
Consumer	249.9	—	249.9	—
Industrial	103.5	—	103.5	—
Financial	92.3	—	92.3	—
Communications	70.0	—	70.0	—
Energy	57.1	—	57.1	—
Basic materials	77.8	—	77.8	—
Utilities	46.5	—	46.5	—
Technology	14.4	—	14.4	—
Debt securities issued by corporations	711.5	—	711.5	—
Municipal obligations	3.2	—	3.2	—
Asset-backed securities	927.9	—	922.6	5.3
Foreign government obligations	6.5	5.8	0.7	—
Preferred stocks	84.7	—	13.9	70.8
Fixed maturity investments	1,931.4	203.4	1,651.9	76.1
Short-term investments	232.8	232.8	—	—
Common equity securities:				
Financials	48.4	48.3	—	0.1
Basic Materials	42.9	42.9	—	—
Consumer	80.5	80.5	—	—
Energy	38.1	38.1	—	—
Utilities	17.0	17.0	—	—
Other	32.1	32.1	—	—
Common equity securities	259.0	258.9	—	0.1
Convertible fixed maturity investments	62.6	—	62.6	—
Other investments ⁽¹⁾	122.7	—	—	122.7
Total ⁽¹⁾	\$2,608.5	\$695.1	\$1,714.5	\$198.9

At both June 30, 2013 and December 31, 2012, OneBeacon held one private preferred stock that represented approximately 84% 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The following table summarizes the ratings of OneBeacon's corporate debt securities as of June 30, 2013 and 2012:

	June 30, 2013	December 31, 2012
	(\$ in millions)	
AA	\$46.8	\$37.0
A	325.1	301.6
BBB	341.2	362.5
BB	6.9	7.0
Other	3.7	3.4
Debt securities issued by corporations	\$723.7	\$711.5

Rollforwards of Fair Value Measurements by Level

The changes in Level 1 fair value measurements for the three and six months ended June 30, 2013 are as follows:

	Fixed maturity investments	Common equity securities	Convertible fixed maturity investments	Other investments	Total ⁽¹⁾
	(\$ in millions)				
Balance at January 1, 2013	\$203.4	\$258.9	\$—	\$—	\$462.3
Amortization/accretion	(0.2	) —	—	—	(0.2)
Total net realized and unrealized gains (losses)	(0.1	) 24.6	—	—	24.5
Purchases	59.3	102.4	—	—	161.7
Sales	(98.8	) (89.7	) —	—	(188.5)
Transfers in	—	—	—	—	—
Transfers out	—	—	—	—	—
Balance at March 31, 2013	\$163.6	\$296.2	\$—	\$—	\$459.8
Amortization/accretion	—	—	—	—	—
Total net realized and unrealized gains (losses)	(2.2	) (1.2	) —	—	(3.4)
Purchases	71.6	23.4	—	—	95.0
Sales	(11.1	) (19.9	) —	—	(31.0)
Transfers in	—	—	—	—	—
Transfers out	—	—	—	—	—
Balance at June 30, 2013	\$221.9	\$298.5	\$—	\$—	\$520.4

⁽¹⁾ Excludes short-term investments which are deemed to have a Level 1 designation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The changes in Level 2 fair value measurements for the three and six months ended June 30, 2013 are as follows:

	Fixed maturity investments	Common equity securities	Convertible fixed maturity investments	Other investments	Total ⁽¹⁾
	(\$ in millions)				
Balance at January 1, 2013	\$1,651.9	\$—	\$62.6	\$—	\$1,714.5
Amortization/accretion	(3.1)	) —	—	—	(3.1)
Total net realized and unrealized gains (losses)	(0.5)	) —	0.5	—	—
Purchases	531.4	—	5.0	—	536.4
Sales	(560.3)	) —	(29.6)	) —	(589.9)
Transfers in	—	—	—	—	—
Transfer out	—	—	—	—	—
Balance at March 31, 2013	\$1,619.4	\$—	\$38.5	\$—	\$1,657.9
Amortization/accretion	(2.7)	) —	(0.1)	) —	(2.8)
Total net realized and unrealized gains (losses)	(23.5)	) —	(2.6)	) —	(26.1)
Purchases	319.0	—	3.7	—	322.7
Sales	(316.6)	) —	(9.7)	) —	(326.3)
Transfers in	1.8	—	—	—	1.8
Transfer out	—	—	—	—	—
Balance at June 30, 2013	\$1,597.4	\$—	\$29.8	\$—	\$1,627.2

⁽¹⁾Excludes short-term investments which are deemed to have a Level 2 designation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The changes in Level 3 fair value measurements for the three and six months ended June 30, 2013 are as follows:

	Fixed maturity investments	Common equity securities	Convertible fixed maturity investments	Other investments ⁽¹⁾	Total ⁽¹⁾
	(\$ in millions)				
Balance at January 1, 2013	\$76.1	\$0.1	\$—	\$ 122.7	\$198.9
Amortization/accretion	—	—	—	—	—
Total net realized and unrealized gains	0.1	—	—	3.7	3.8
Purchases	1.8	—	—	1.8	3.6
Sales	—	—	—	(4.5	) (4.5
Transfers in	—	—	—	—	—
Transfers out	—	—	—	—	—
Balance at March 31, 2013	\$78.0	\$0.1	\$—	\$ 123.7	\$201.8
Amortization/accretion	—	—	—	—	—
Total net realized and unrealized gains	(0.2	) —	—	4.2	4.0
Purchases	14.0	—	—	3.4	17.4
Sales	—	—	—	(6.7	) (6.7
Transfers in	—	—	—	—	—