

OneBeacon Insurance Group, Ltd.

Form 10-Q

October 31, 2008

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**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, 2008

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**

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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 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
(Do not check if a smaller
reporting company)

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 October 29, 2008, 23,339,461 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.

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PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED BALANCE SHEETS

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	September 30, 2008 (Unaudited)	December 31, 2007
	(\$ in millions, except share and per share amounts)	
Assets		
Investment Securities:		
Fixed maturity investments, at fair value (amortized cost \$2,338.3 and \$2,914.4)	\$ 2,300.0	\$ 2,966.6
Common equity securities, at fair value (cost \$820.7 and \$685.3)	793.3	832.1
Convertible bonds, at fair value (amortized cost \$286.5 and \$380.7)	272.4	389.2
Short-term investments, at amortized cost (which approximates fair value)	531.7	327.4
Held-to-maturity investments (assets held in trust):		
Fixed maturity investments, at amortized cost (estimated fair value \$ and \$306.9)		305.5
Short-term investments, at amortized cost (which approximates fair value)		0.1
Other investments, at fair value (cost \$249.7 and \$292.7)	292.5	348.6
Total investments	4,189.9	5,169.5
Cash	45.6	49.4
Reinsurance recoverable on unpaid losses	863.7	958.9
Reinsurance recoverable on unpaid losses Berkshire Hathaway, Inc.	1,681.2	1,670.6
Reinsurance recoverable on paid losses	19.4	21.9
Premiums receivable	580.7	529.2
Securities lending collateral	211.8	438.9
Deferred acquisition costs	233.4	200.0
Ceded unearned premiums	71.9	68.1
Net deferred tax asset	172.1	23.5
Investment income accrued	26.7	33.7
Accounts receivable on unsettled investment sales	15.0	76.1
Other assets	301.0	301.7
Total assets	\$ 8,412.4	\$ 9,541.5
Liabilities		
Loss and LAE reserves	\$ 4,408.0	\$ 4,480.3
Unearned premiums	1,108.4	1,005.9
Debt	731.9	757.7
Securities lending payable	215.8	438.9
Preferred stock subject to mandatory redemption Berkshire Hathaway, Inc. (redemption value \$ and \$300.0)		278.4
Ceded reinsurance payable	97.6	102.8
Accounts payable on unsettled investment purchases	11.5	8.5
Other liabilities	465.8	562.5
Total liabilities	7,039.0	7,635.0
Common shareholders equity		
Common shares and paid-in surplus (par value \$0.01; authorized, 200,000,000 shares; issued and outstanding, 95,094,199 and 98,465,204 shares)	1,016.8	1,084.4
Retained earnings	355.3	641.0
Accumulated other comprehensive income, after-tax:		
Net unrealized gains on investments		168.1
Net unrealized foreign currency translation gains		12.2
Other comprehensive income items	1.3	0.8
Total common shareholders equity	1,373.4	1,906.5
Total liabilities and common shareholders equity	\$ 8,412.4	\$ 9,541.5

See Notes to Consolidated Financial Statements including Note 11 Commitments and Contingencies

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ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(\$ in millions, except per share amounts)			
Revenues				
Earned premiums	\$ 471.2	\$ 473.6	\$ 1,390.3	\$ 1,407.5
Net investment income	43.1	51.5	137.8	156.7
Net realized investment (losses) gains	(61.2)	30.7	(59.2)	142.7
Change in net unrealized investment gains	(294.7)		(354.7)	
Net other revenues	4.4	10.8	10.6	16.3
Total revenues	162.8	566.6	1,124.8	1,723.2
Expenses				
Loss and LAE	303.4	255.8	878.7	827.1
Policy acquisition expenses	92.6	74.9	261.6	231.5
Other underwriting expenses	74.3	66.4	223.6	246.9
General and administrative expenses	5.7	2.4	16.0	7.5
Accretion of fair value adjustment to loss and LAE reserves	3.0	4.0	9.0	12.0
Interest expense on debt	11.0	11.4	33.9	34.1
Interest expense dividends on preferred stock subject to mandatory redemption		7.1	11.8	22.2
Interest expense accretion on preferred stock subject to mandatory redemption		9.2	21.6	26.2
Total expenses	490.0	431.2	1,456.2	1,407.5
Pre-tax (loss) income	(327.2)	135.4	(331.4)	315.7
Income tax benefit (provision)	116.9	(53.1)	120.6	(110.6)
Net (loss) income	(210.3)	82.3	(210.8)	205.1
Change in net unrealized gains and losses for investments held		19.5		85.2
Recognition of net unrealized gains and losses for investments sold		(19.1)		(90.0)
Change in foreign currency translation	0.3	(4.1)	0.3	2.5
Change in other comprehensive income and loss items	0.5	(2.6)	0.5	(1.3)
Comprehensive net (loss) income	\$ (209.5)	\$ 76.0	\$ (210.0)	\$ 201.5
Basic and diluted earnings per share				
Basic:				
Net (loss) income available to common shareholders	\$ (2.21)	\$ 0.82	\$ (2.19)	\$ 2.05
Diluted:				
Net (loss) income available to common shareholders	\$ (2.21)	\$ 0.82	\$ (2.19)	\$ 2.05
Dividends declared and paid per common share	\$ 0.21	\$ 0.21	\$ 2.66	\$ 0.63

See Notes to Consolidated Financial Statements

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ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

(Unaudited)

	Common shareholders equity		Common shares and paid-in surplus		Retained earnings		Accum. other comprehensive income, after-tax	
	(\$ in millions)							
Balances at January 1, 2008	\$	1,906.5	\$	1,084.4	\$	641.0	\$	181.1
Adjustment to adopt SFAS No. 159, after-tax						180.6		(180.6)