OneBeacon Insurance Group, Ltd.
Form 10-K
February 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2013
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
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Shares, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act. Yes o No x
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
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 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. Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
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 (Do not check if a smaller reporting company)	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

The aggregate market value of voting shares (based on the closing price of Class A common shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2013, was $327,705,756.

As of February 25, 2014, 23,583,865 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.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to the Registrant's Annual General Meeting of Members scheduled to be held May 21, 2014 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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ONEBEACON INSURANCE GROUP, LTD.
Annual Report on Form 10-K
For the Year Ended December 31, 2013

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PART I
ITEM 1. BUSINESS
Overview
OneBeacon Insurance Group, Ltd. (the Company or the Registrant), an exempted Bermuda limited liability company, through its subsidiaries (collectively, OneBeacon, we, us, or our) is a specialty property and casualty insurance writer that offers a wide range of insurance products in the U.S. primarily through independent agencies, regional and national brokers, wholesalers and managing general agencies. As a specialty underwriter, we believe that we will generate superior returns as compared to an underwriter that takes a more "generalist" underwriting approach and that our knowledge regarding specialized insurance products, targeted industries, classes of business, and risk characteristics provides us with a competitive edge when determining the terms and conditions on individual accounts.
During 2013, we exited our collector car and boat insurance business, which we wrote through an exclusive underwriting agreement with Hagerty Insurance Agency (Hagerty) that was terminated effective January 1, 2013. See Collector Cars and Boats in "Insurance Business—Specialty Products" below. Additionally, during 2013, we 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. We have entered into an exclusive agreement with a managing general agency, Climate Crop Insurance Agency LLC (The Climate Corporation), to provide coverages through the federal program and other supplemental coverages, including crop-hail. We began writing crop business in the fourth quarter of 2013.
During 2013, OneBeacon formed an indirect wholly-owned subsidiary, Split Rock Insurance, Ltd. (Split Rock), a Bermuda-based reinsurance company, which primarily reinsures certain risks of an affiliated entity.
Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate.
The Specialty Products segment is comprised of eight underwriting operating segments representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. The Specialty Industries segment is comprised of six underwriting operating segments representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. 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 our intermediate subsidiaries.
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. During the fourth quarter of 2006, White Mountains sold 27.6 million or 27.6% of our common shares in an initial public offering. Prior to the initial public offering, OneBeacon was a wholly-owned subsidiary of White Mountains. As of December 31, 2013, White Mountains owned 75.2% of our common shares.
Our headquarters are located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. Our U.S. corporate headquarters are located at 601 Carlson Parkway, Minnetonka, Minnesota 55305 and our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
OneBeacon has assets, liabilities and capital related to non-specialty business that it no longer writes, principally non-specialty commercial lines and certain other run-off business, including the vast majority of its asbestos and environmental reserves (Runoff Business). In October 2012, OneBeacon entered into a definitive agreement (as amended, 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 our run-off business (Runoff Transaction). Pursuant to the terms of the Stock Purchase Agreement, OneBeacon will transfer to Armour all of the issued and outstanding shares of common stock of certain legal entities that will contain the agreed upon level of invested assets and capital supporting the business, as well as liabilities (including gross and ceded loss reserves) and 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 mid-2014, subject to regulatory approval. See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions."

The assets and liabilities associated with the Runoff Business as of December 31, 2013 and 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.

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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.

At December 31, 2013 and 2012, OneBeacon had \$5.2 billion and \$5.4 billion of total assets and \$1.1 billion and \$1.0 billion of common shareholders' equity, respectively. OneBeacon wrote \$1.1 billion, \$1.2 billion and \$1.1 billion in net written premiums in 2013, 2012 and 2011, respectively.

The following table presents the financial strength ratings assigned to our principal insurance operating subsidiaries which support our ongoing specialty insurance operations (Ongoing Subsidiaries) as well as our Runoff Subsidiaries (as defined in Item 1A—"Risk Factors") as of February 28, 2014:

	A.M. Best(1)	Fitch(2)	Moody's(3)	Standard & Poor's(4)
Ongoing Subsidiaries:				
Ratings	"A" (Excellent)	"A" (Strong)	"A2" (Good)	"A-" (Strong)
Outlook	Stable	Stable	Stable	Stable
Runoff Subsidiaries:				
Ratings	"A" (Excellent)	"A" (Strong)	"A2" (Good)	Unrated
Outlook	Under Review - Negative	Rating Watch - Negative	Negative	N/A

(1) "A" is the third highest of sixteen financial strength ratings assigned by A.M. Best Company (A.M. Best).

(2) "A" is the sixth highest of nineteen international financial strength ratings assigned by Fitch Ratings (Fitch).

(3) "A2" is the sixth highest of twenty-one financial strength ratings assigned by Moody's Investor Service (Moody's).

(4) "A-" is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's Financial Services, LLC (Standard & Poor's).

Our Operating Principles

We strive to operate within the spirit of four operating principles. These are:

Underwriting Comes First. An insurance enterprise must respect the fundamentals of insurance. There must be a realistic expectation of underwriting profit on all business written, and demonstrated fulfillment of that expectation over time, with focused attention to the loss ratio and to all the professional insurance disciplines of pricing, underwriting and claims management.

Maintain a Disciplined Balance Sheet. The first concern here is that insurance liabilities must always be fully recognized. Loss reserves and expense reserves must be solid before any other aspect of the business can be solid. Pricing, marketing and underwriting all depend on informed judgment of ultimate loss costs and that can be managed effectively only with a disciplined balance sheet.

Invest for Total Return. Historically, accounting tends to hide unrealized gains and losses in the investment portfolio and over-reward reported investment income (interest and dividends). Regardless of the accounting, we must invest for the best growth in after tax value over time. In addition to investing our bond portfolios for total after tax return, that will also mean prudent investment in a balanced portfolio consistent with leverage and insurance risk considerations.

Think Like Owners. Thinking like owners has a value all its own. There are stakeholders in a business enterprise and doing good work requires more than this quarter's profit. But thinking like an owner embraces all that without losing the touchstone of a capitalist enterprise.

Property and Casualty Insurance Overview

Generally, property and casualty insurance companies write insurance policies in exchange for premiums paid by their customers (the insured). An insurance policy is a contract between the insurance company and the insured where the insurance company agrees to pay for losses suffered by the insured, or a third party claimant, that are covered under the contract. Such contracts often are subject to subsequent legal interpretation by courts, legislative action and arbitration.

We write both property insurance and casualty insurance. Property insurance generally covers the financial consequences of accidental losses to the insured's property, such as a business's building, inventory and equipment or personal property.

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Casualty insurance (often referred to as liability insurance) generally covers the financial consequences of a legal liability of an individual or an organization resulting from negligent acts and omissions causing bodily injury and/or property damage to a third party. Premiums from ocean and inland marine, certain commercial multiple peril, fire and allied lines, and private passenger auto policies generally represent our property lines of business, and claims from such business are typically reported and settled in a relatively short period of time. Premiums from general liability, workers compensation, commercial and personal auto liability and certain commercial multiple peril policies generally represent our casualty lines of business, and claims from such business can take years, even decades, to settle. Our Specialty Products and Specialty Industries segments each write business in both the property and casualty lines, as well as other lines of business such as accident and health insurance and credit insurance.

We believe that our various lines of business generally fall into three major categories, which are reflective of how we view the primary risk classification associated with each line: property lines, casualty lines, and other lines of business. Net written premiums by line of business for 2013, 2012 and 2011 consist of the following:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Insurance operations by line of business			
Property Lines:			
Ocean and Inland Marine	$187.1	$214.2	$210.7
Commercial Multiple Peril and Auto	70.1	52.7	39.7
Fire and Allied	51.9	50.5	57.7
Private Passenger Auto	2.4 (1)	99.7	92.8
Total Property Lines	311.5	417.1	400.9
Casualty Lines:			
General Liability	428.6	418.1	372.7
Workers Compensation	79.4	71.9	50.8
Automobile Liability	55.8	74.8	63.9
Other Casualty	53.1	38.2	30.7
Total Casualty Lines	616.9	603.0	518.1
Other Lines:			
Accident and Health	104.6	105.8	92.4
Credit and Other	55.6	53.3	51.3
Total Other	160.2	159.1	143.7
Total insurance operations by line of business	$1,088.6	$1,179.2	$1,062.7

(1) Decline in 2013 Private Passenger Auto net written premiums is due to the January 1, 2013 exit of the collector cars and boats business.

We derive substantially all of our revenues from earned premiums, investment income, and net realized and unrealized investment gains and losses on investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, we invest the premiums, earn investment income, and generate net realized and unrealized gains and losses on investment activities.

Insurance companies incur a significant amount of their total expenses from policy obligations, which are commonly referred to as claims. In settling policyholder losses, various loss adjustment expenses (LAE) are incurred such as insurance adjusters' fees and litigation expenses. Loss and LAE are categorized by the year in which the claim is incurred, or “accident year.” In the following calendar years, as we increase or decrease our estimate for the ultimate loss and LAE for claims incurred in prior accident years, we will record favorable or adverse “loss reserve development” which is recorded in the current calendar year period. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including their employees' compensation and benefits. The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company's combined ratio, under accounting principles generally accepted in the United States (GAAP), is calculated by adding the ratio of incurred loss and LAE to earned premiums (the loss and LAE ratio) and the ratio of policy acquisition and other underwriting expenses to earned premiums (the expense ratio). A combined ratio under 100% indicates that an insurance

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company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

Insurance Business

Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate.

The Specialty Products segment is comprised of eight underwriting operating segments representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. The Specialty Industries segment is comprised of six underwriting operating segments representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Investing, Financing and Corporate segment includes the investing and financing activities for OneBeacon on a consolidated basis, as well as certain other activities conducted through the Company and our intermediate subsidiaries. See Note 12—"Segment Information" of the accompanying consolidated financial statements.

Our net written premiums by segment for 2013, 2012 and 2011 consist of the following:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Specialty Products	$509.6	$630.9	$571.2
Specialty Industries	579.0	548.3	491.5
Total	$1,088.6	$1,179.2	$1,062.7

Specialty Products

For 2013, 2012 and 2011, our Specialty Products segment's net written premiums by underwriting operating segment were as follows:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Professional Insurance	$348.9	$340.7	$314.9
Tuition Reimbursement	65.9	65.1	60.6
Specialty Property	40.4	34.0	25.6
Programs	20.5	0.3	—
Collector Cars and Boats	(0.6)	179.7	166.6
Other Specialty Products	34.5	11.1	3.5
Total Specialty Products	$509.6	$630.9	$571.2

A description of business written by each underwriting operating segment in the Specialty Products segment follows:

OneBeacon Professional Insurance (Professional Insurance)

Professional Insurance specializes in professional liability product solutions for a specialized customer base, including hospitals, managed care organizations, long-term care facilities, medical facilities, physician groups, media organizations, lawyers, design professionals, financial services and technology providers. Additionally, Professional Insurance provides employment practices liability, management liability and other tailored products for complex organizations including health care provider excess insurance and HMO reinsurance. General liability, property and workers compensation coverages are also available for financial institutions. Professional Insurance policies are primarily issued on a "claims made" basis, which generally covers claims that are made against an insured during the time period when a liability policy is in effect, regardless of when the event causing the loss occurred. This coverage differs from “claims occurrence” basis policies, which generally cover losses on events that occur during a period specified in the policy, regardless of when the claim is reported.

Tuition Reimbursement

A.W.G. Dewar, Inc. (Dewar) has been a leading provider of tuition reimbursement insurance since 1930. Dewar's product, classified as credit insurance, protects both schools and parents from the financial consequences of a student's withdrawal or dismissal from school. We own approximately 82% of Dewar.

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OneBeacon Specialty Property (Specialty Property)

Specialty Property provides excess property and inland marine solutions that augment primary policies or provide coverage in excess of self-insured retentions. Target classes of business include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale, education and public entities. Specialty Property products are provided primarily through surplus lines wholesalers.

OneBeacon Program Group (Programs)

Formed in 2012, Programs provides a full range of multiline package insurance and turnkey systems (as needed) for select specialty programs overseen by dedicated agencies that perform all policy administration functions. Products are available on an admitted and nonadmitted basis with sufficient capacity to match most programs. Programs works primarily with managing general agents and managing general underwriters, commonly referred to as program administrators.

Collector Cars and Boats

Prior to January 1, 2013, we offered tailored coverages for collectible vehicles and wooden boats, automotive museums and restoration shops through an exclusive partnership with Hagerty. Notable features included agreed value for the insured vehicle or boat, flexible usage, and overseas shipping/foreign touring coverage, all supported by in-house claims expertise. In January 2013, OneBeacon and Hagerty terminated their relationship and we sold Essentia Insurance Company (Essentia), an indirect wholly-owned subsidiary that wrote the Hagerty collector cars and boats business, to Markel Corporation. We recognized a pre-tax gain on sale of approximately $23.0 million ($15.0 million after tax) in the first quarter of 2013. For the years ended December 31, 2012 and 2011, business written through Hagerty generated net written premiums of approximately 15% and 16%, respectively, of our consolidated net written premiums.

Other Specialty Products

OneBeacon Environmental (Environmental)

Environmental specializes in environmental risk solutions designed to address a variety of exposures for a broad range of businesses, including multiline casualty placements for the environmental industry. The product suite includes commercial general liability, contractors environmental liability, professional services liability, environmental premises liability, products pollution liability, follow-form excess and business auto.

OneBeacon Surety Group (Surety)

OneBeacon Surety Group offers a broad range of commercial bonds targeting Fortune 2500 and large private companies written through a network of independent agencies, brokers and wholesalers. Business is serviced through eight regions throughout the United States.

OneBeacon Crop Insurance (Crop)

Beginning in 2013, through our exclusive relationship with The Climate Corporation, Crop offers multiperil crop insurance through the federal crop insurance program administered by the U.S. Department of Agriculture’s Risk Management Agency. OneBeacon and The Climate Corporation also offer crop-hail products to supplement the federal crop insurance program.

Specialty Industries

For 2013, 2012 and 2011, our Specialty Industries segment's net written premiums by underwriting operating segment were as follows:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
International Marine Underwriters	$181.0	$160.1	$180.0
Technology	131.8	121.0	94.3
Accident	105.9	102.0	86.8
Government Risks	83.4	62.3	48.8
Entertainment	76.8	71.4	61.2
Energy	0.1	31.5	20.4
Total Specialty Industries	$579.0	$548.3	$491.5

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A description of business written by each underwriting operating segment in OneBeacon's Specialty Industries segment follows:

International Marine Underwriters (IMU)

IMU traces its roots to the early 1900s, and offers a full range of ocean and inland marine insurance solutions. Ocean marine products include, but are not limited to, commercial hull and marine liabilities at both the primary and excess levels; ocean and air cargo with coverage extensions such as inland transit, warehousing and processing; yachts; and several marine “package” products with comprehensive property, auto and liability coverage. Inland marine solutions include builders' risks, contractors' equipment, energy, installation floaters, fine arts, motor truck cargo, transportation, miscellaneous articles floaters, warehousemen's legal liability and other inland marine opportunities. During 2012, we merged the Property Inland Marine underwriting unit into our IMU underwriting segment.

OneBeacon Technology Insurance (Technology)

Technology provides targeted insurance solutions for specific technology segments including: information technology, telecommunications, electronic manufacturing, integration contractors, instrument manufacturers and clean tech/solar. Tailored products and coverages include property, general liability, business auto, commercial umbrella, workers compensation, international, technology errors or omissions, data privacy and communications liability. Specialized technology insurance expertise, innovation and service are delivered through dedicated underwriting, risk control and claims staff.

OneBeacon Accident Group (Accident)

Accident focuses on analyzing and developing unique accident solutions for the transportation, non-subscription and corporate accident marketplace, while also developing specialized accident insurance programs. Our Accident product suite includes accidental death and dismemberment, occupational accident, sports accident, non-truckers liability, vehicle physical damage and other accident coverages. Accident also provides employers and affinity groups with access to unique services including a discounted prescription drug program, identity theft management services and travel assistance services.

OneBeacon Government Risks (Government Risks)

Government Risks provides solutions for midsized municipalities and counties, special districts including water and sanitation, non-rail transit authorities and other publicly funded agencies. Government Risks products include property, casualty, and professional liability (comprised of law enforcement, public officials, and employment practices liability coverages) offered on a fully insured, deductible, self-insured retention or assumed reinsurance basis.

OneBeacon Entertainment (Entertainment)

Entertainment provides specialized commercial insurance, including professional liability protection, for the entertainment, sports and leisure industries. Coverages include film and television portfolio, producers portfolio, theatrical package, event cancellation, premises liability, event liability and participant liability.

OneBeacon Energy Group (Energy)

Energy, a business we decided to exit (except for certain inland marine accounts that were transferred into our IMU underwriting operating segment) commencing in the fourth quarter of 2012, focused on middle-market upstream and midstream conventional energy businesses, alternative and renewable energy producers, alternative fuel producers and related service and manufacturing enterprises. Energy offered a full array of property, inland marine and casualty insurance, including property damage, boiler and machinery breakdown, general liability, auto liability and umbrella liability. Energy did not offer offshore energy products.

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Geographic Concentrations

Substantially all of our net written premiums are derived from business produced in the United States. For 2013, 2012 and 2011, business was produced in the following geographies:

	Year ended December 31,		
	2013	2012	2011
California	15.7 %	15.9 %	13.9 %
New York	9.9	9.4	9.3
Texas	7.0	7.3	6.8
District of Columbia	5.7	4.6	3.8
Florida	4.8	5.1	5.0
Massachusetts	3.6	3.7	4.5
Other(1)	53.3	54.0	56.7
Total	100.0 %	100.0 %	100.0 %

(1) No other individual state is greater than 5% of net written premiums for 2013, 2012 and 2011.

Marketing and Distribution

We offer our products and services through a network of approximately 2,500 independent agents, regional and national brokers, wholesalers and managing general agencies. We selectively enter these relationships with producers who demonstrate an understanding of our target markets, our company's capabilities and the specialized needs of their clients. We believe this selective distribution approach creates greater insight into the underwriting and management of the risks associated with our particular lines of business. Further, we believe that agents and brokers will continue to represent a significant share of the business we desire going forward.

Underwriting and Pricing

We believe there must be a realistic expectation of attaining an underwriting profit on all the business we write, as well as a demonstrated fulfillment of that expectation over time. Consistent with our "Underwriting Comes First" operating principle, adequate pricing is a critical component for achieving an underwriting profit. We underwrite our book with a disciplined approach towards pricing our insurance products and are willing to forgo a business opportunity if we believe it is not priced appropriately to the exposure.

We actively monitor pricing activity and measure usage of tiers, credits, debits and limits. In addition, we regularly update base rates to achieve targeted returns on capital and attempt to shift writings away from lines and classes where pricing is inadequate. To the extent changes in premium rates, policy forms or other matters are subject to regulatory approval (see "Regulatory Matters—General" and "Risk Factors—Regulation may restrict our ability to operate"), we proactively monitor our pending regulatory filings to facilitate, to the extent possible, their prompt processing and approval. Lastly, we expend considerable effort to measure and verify exposures and insured values.

Competition

Property and casualty insurance is highly competitive. Our businesses each compete against a different subset of companies. In general terms, we compete in one or more of our businesses with most of the large multi-line insurance companies, such as ACE, AIG, Chubb Group, CNA, Liberty Mutual, Travelers and Zurich Insurance Group. We also compete with most of the specialty companies, such as Allied World Assurance Company, HCC Insurance Holdings, Inc., The Navigators Group, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. Lastly, we compete in certain of our businesses with various local and regional insurance companies.

The more significant competitive factors for most insurance products we offer are price, product terms and conditions, agency and broker relationships, and claims service. Our underwriting principles and dedication to independent distribution partners are unlikely to make us the low-cost provider in most markets. While it is often difficult for insurance companies to differentiate their products, we believe that providing superior specialty products to satisfy market needs and relying on agents and brokers who value our targeted expertise, superior claims service, and disciplined underwriting, establishes a competitive advantage.

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Claims Management

Effective claims management is a critical factor in achieving satisfactory underwriting results. We maintain an experienced staff of claims handlers and managers strategically located throughout our operating territories. We also maintain a special investigative unit designed to detect insurance fraud and abuse and support efforts by regulatory bodies and trade associations to curtail fraud.

Our claims operations are organized into ongoing claims and run-off claims, with specific claims resources supporting the respective operations. This approach allows us to better identify and manage claims handling costs. In addition, a shared claims service unit manages costs related to all claims staff and vendors. We have adopted a total claims cost management approach that gives equal importance to controlling claims handling expenses, legal expenses and claims payments, enabling us to lower the sum of the three. This approach requires the utilization of a considerable number of conventional metrics to monitor the effectiveness of various programs implemented to lower total loss costs. We utilize the metrics to prevent the implementation of expense containment programs that will cost us more than we expect to save.

Our claims department utilizes a claims workstation to record reserves, payments and adjuster activity and, with support from expert tools, assists each claim handler in identifying recovery potential, estimating property damage, evaluating claims and identifying fraud. Our commitment and performance in fighting insurance fraud has reduced claim costs and aided law enforcement investigations.

Catastrophe Risk Management and Reinsurance Protection

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.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to our operating results and financial condition. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in the area affected by the event as well as the severity of the event. We use models (primarily AIR Worldwide (AIR) Classic/2 version 15.0) to estimate the potential losses from catastrophes. We use this model output in conjunction with other data to manage our exposure to catastrophe losses through individual risk selection and by limiting our concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, we impose wind deductibles on existing coastal windstorm exposures.

We seek to further reduce our potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective May 1, 2013, we renewed our property catastrophe reinsurance program through April 30, 2014. The program provides coverage for our 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 $117.0 million of the next $130.0 million of losses resulting from the catastrophe are reinsured in three layers. We retain 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. That part of a catastrophe loss in excess of $150.0 million would be retained in full. In the event of a catastrophe, our 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. We anticipate that the $150.0 million limit is more than sufficient to cover the maximum hurricane and earthquake losses with a modeled 0.4% probability of occurrence (1-in-250-year). This $150.0 million limit was reduced from the $180.0 million limit that our previous catastrophe reinsurance program provided, as a result of lower catastrophe exposure as a specialty-focused company.

Our property catastrophe reinsurance program does not cover property losses resulting from any nuclear events or biological, chemical or radiological terrorist attacks. Also excluded are losses resulting from acts of terrorism committed by an individual or individuals acting on behalf of any foreign person or foreign interest as defined under the Terrorism Risk Insurance Program Reauthorization Act (the Terrorism Act, or TRIPRA). See "Business—Terrorism" below.

In addition to the corporate catastrophe reinsurance protection, we also purchase dedicated reinsurance protection for certain specific lines of business. We also purchase 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 is purchased above $100.0 million. We retain 5% of losses in excess of $20.0 million up to $40.0 million and 10% of losses in excess of $40.0 million. The property-per-risk treaty 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.

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We also maintain a casualty reinsurance program that provides protection for individual policies involving general liability, automobile liability, professional liability or umbrella liability. Our 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 in 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 first layer of the casualty treaty ($6.0 million excess of $5.0 million) has a 10% co-participation and a $3.0 million annual aggregate deductible. The second layer of the casualty treaty ($10.0 million excess of $11.0 million) has a 5% co-participation. We also purchase a treaty to protect against large workers compensation losses that provides coverage for 100% of the loss in excess of $1.0 million up to $10.0 million per occurrence. Additionally, for casualty and/or workers compensation catastrophe losses, we maintain a dedicated clash treaty, which provides coverage in the event that one loss event results in two or more claims, that covers up to $60.0 million in excess of a $10.0 million retention.

We purchase a per occurrence treaty for marine business – both inland and ocean – that protects against large occurrences, whether a single large claim or a catastrophe. The marine treaty attaches at $2.0 million per occurrence. The first layer of the marine treaty is $5.0 million in excess of $2.0 million, with annual aggregate deductibles of $1.5 million for individual ocean marine large claims, $1.5 million for individual inland marine large claims and $5.0 million for catastrophe losses. We retain 60% of the loss from $2.0 million up to $7.0 million. Catastrophe coverage is provided up to $60.0 million. Retained catastrophe losses are subject to the corporate catastrophe treaty. Individual risk losses from inland marine exceeding $20.0 million are subject to the corporate property per risk treaty. Reinstatement premiums are paid in full or in part depending on the layer and the occurrence if the coverage is attached.

We also purchase reinsurance for our Surety underwriting operating segment. This treaty covers 100% of losses in excess of $5.0 million up to $30.0 million per bond and up to $60.0 million in aggregate.

Reinsurance contracts do not relieve us of our obligation to our policyholders. Therefore, collectibility of balances due from reinsurers is critical to our financial strength. See Note 4—"Reinsurance" of the accompanying consolidated financial statements.

Terrorism

Since the terrorist attacks of September 11, 2001, we have sought to mitigate the risk associated with any future terrorist attacks by limiting the aggregate insured value of policies in geographic areas with exposure to losses from terrorist attacks. This is accomplished by either limiting the total insured values exposed, or, where applicable, through the use of terrorism exclusions.

In December 2007, the United States government extended the Terrorism Act until December 31, 2014. The Terrorism Act established a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended, the law now also covers domestic acts of terrorism. The law limits the industry's aggregate liability by requiring the federal government to share 85% of certified losses once a company meets a specific retention or deductible as determined by its prior year's direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at $100 billion. In exchange for this "backstop," primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage.

We estimate our individual retention level for commercial policies subject to the Terrorism Act to be approximately $100 million in 2014. The federal government will pay 85% of covered terrorism losses that exceed our or the industry's retention levels in 2014, up to a total of $100 billion.

Our current reinsurance programs provide varying degrees of coverage for terrorism events as defined under the Terrorism Act. All losses that result from a nuclear, biological, chemical or radiological terrorist attack are excluded. Our property catastrophe treaty also excludes "certified" (as defined by TRIPRA) acts of terrorism committed by an individual or individuals acting on behalf of any foreign person or foreign interest. Our casualty clash treaty provides coverage for both “certified” and “non-certified” terrorism losses on an aggregated basis, subject to a maximum of one full treaty limit. Our property per risk, casualty and workers compensation treaties each provide full coverage for “certified” acts of terrorism on behalf of a non-foreign person or interest, but are sublimited to one full treaty limit for “certified” acts of terrorism committed on behalf of any foreign person or foreign interest. Our healthcare treaty is sublimited to one full treaty limit of coverage for all acts of terrorism. See "Business—Catastrophe Risk Management and Reinsurance Protection" above.

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We closely monitor and manage our concentration of risk by geographic area. Our guideline is to control our exposures so that our total maximum expected loss from a terrorism event within any half-mile radius in a metropolitan area or around a target risk will not exceed $200 million, or $300 million in all other areas before considering the Terrorism Act. Reports monitoring our terrorism exposures are generated quarterly. The exposure of potential new business located in areas of existing concentration or that individually present significant exposure is evaluated during the underwriting process. As a result, we believe that we have taken appropriate actions to limit our exposure to losses from terrorist attacks and will continue to monitor our terrorism exposure in the future. Nonetheless, risks insured by us, including those covered by the Terrorism Act, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material.

Loss and LAE Reserves

We establish loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates."

The following table summarizes our loss and LAE reserve activities for 2013, 2012 and 2011:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Gross beginning balance	$1,000.0	$3,358.6	$3,295.5
Less beginning reinsurance recoverable on unpaid losses	(107.3)	(2,167.5)	(1,893.2)
Net beginning loss and LAE reserves	892.7	1,191.1	1,402.3
Loss and LAE incurred relating to:			
Current year losses	622.1	657.4	578.1
Prior year losses	—	(7.4)	(29.8)
Total incurred loss and LAE from continuing operations	622.1	650.0	548.3
Loss and LAE paid relating to:			
Current year losses	(188.6)	(224.6)	(216.9)
Prior year losses	(352.1)	(340.5)	(306.3)
Total loss and LAE payments from continuing operations	(540.7)	(565.1)	(523.2)
Net loss and LAE reserves	974.1	1,276.0	1,427.4
Total incurred loss and LAE from discontinued operations	78.9	48.4	89.5
Total loss and LAE payments from discontinued operations	(102.3)	(220.8)	(261.1)
Net loss and LAE reserves	950.7	1,103.6	1,255.8
Net change in loss and LAE reserves reported in liabilities held for sale	23.4 (1)	(147.1) (2)	(64.7) (3)
Net loss and LAE reserves sold	—	(63.8) (4)	—
Net ending loss and LAE reserves	974.1	892.7	1,191.1
Plus ending reinsurance recoverable on unpaid losses	80.2	107.3	2,167.5
Gross ending balance	$1,054.3	$1,000.0	$3,358.6

(1) Consists of the change in net loss and LAE reserves to $188.4 million from $211.8 million, which amounts were classified as held for sale as December 31, 2013 and 2012, respectively, in connection with the Runoff Transaction.

(2) Consists of the change in net loss and LAE reserves to $211.8 million from $64.7 million, which amounts were classified as held for sale as of December 31, 2012 and 2011, respectively, in connection with the Runoff Transaction and AutoOne Transaction (as defined in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions"), respectively.

(3) Consists of the net loss and LAE reserves of $64.7 million classified as held for sale as of December 31, 2011 in connection with the AutoOne Transaction.

(4) Relates to the AutoOne Transaction, which closed in February 2012.

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The following information presents (1) our reserve development over the preceding 10 years and (2) a reconciliation of reserves on a regulatory basis to reserves determined in accordance with GAAP, as prescribed by Securities Act Industry Guide No. 6.

Section I of the 10-year table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including incurred but not reported, or IBNR, reserves. The liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year. Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency (the average number of claims submitted per policy during a given period of time) and severity (the average value per claim during a given period of time) patterns, becomes known. Section IV shows the cumulative net redundancy/(deficiency) representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2013. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2013. Section VI shows the cumulative gross redundancy/(deficiency) representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2013.

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	Loss and LAE[(1), (2)] Year ended December 31,										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	($ in millions)										
I. Liability for unpaid loss and LAE:											
Gross balance	$130.3	$211.4	$376.7	$436.1	$480.2	$627.1	$702.1	$835.1	$868.5	$1,000.0	$1,054.3
Less reinsurance recoverable on unpaid loss and LAE	(15.7)	(14.5)	(46.8)	(30.6)	(24.3)	(49.6)	(43.8)	(53.6)	(61.6)	(107.3)	(80.2)
Net balance	114.6	196.9	329.9	405.5	455.9	577.5	658.3	781.5	806.9	892.7	974.1
II. Cumulative amount of net liability paid through:											
1 year later	48.7	58.1	126.8	96.6	97.8	154.8	219.4	306.3	339.0	332.7	
2 years later	62.3	76.6	168.7	132.3	159.4	235.2	357.0	474.4	505.7		
3 years later	74.3	95.4	185.4	167.2	197.3	294.4	436.3	560.1			
4 years later	81.2	101.2	205.1	183.9	230.3	331.4	477.1				
5 years later	82.5	105.0	214.1	195.3	244.7	346.8					
6 years later	84.1	106.6	218.7	199.6	252.6						
7 years later	84.5	106.9	221.4	201.9							
8 years later	84.3	108.7	222.2								
9 years later	82.8	109.0									
10 years later	83.1										
III. Net liability re-estimated as of:											
1 year later	109.7	179.9	325.9	308.1	391.1	492.9	630.2	751.7	799.5	892.7	
2 years later	102.3	152.4	269.6	267.8	335.4	459.3	595.8	743.8	806.9		
3 years later	100.0	128.1	243.1	243.2	318.8	416.1	589.6	733.2			
4 years later	91.7	119.1	238.8	227.1	297.4	413.5	576.9				
5 years later	87.2	118.2	228.8	224.8	294.3	396.9					
6 years later	86.2	111.8	229.5	221.6	280.8						
7 years later	86.3	110.1	230.2	216.0							
8 years later	86.1	111.2	227.6								
9 years later	84.5	109.9									
10 years later	83.7										
IV. Cumulative net redundancy	$30.9	$87.0	$102.3	$189.5	$175.1	$180.6	$81.4	$48.3	$—	$—	
Percent redundant	27.0%	44.2%	31.0%	46.7%	38.4%	31.3%	12.4%	6.2%	—%	—%	%
V. Reconciliation											

of net liability re-estimated as of the end of the latest re-estimation period (see III above):										
Gross unpaid loss and LAE latest re-estimate	$102.9	$129.4	$303.0	$245.5	$316.7	$443.4	$618.3	$776.0	$849.4	$1,016.1
Reinsurance recoverable latest re-estimate	(19.2)	(19.5)	(75.4)	(29.5)	(35.9)	(46.5)	(41.4)	(42.8)	(42.5)	(123.4)
Net unpaid loss and LAE latest re-estimate	$83.7	$109.9	$227.6	$216.0	$280.8	$396.9	$576.9	$733.2	$806.9	$892.7
VI. Cumulative gross redundancy (deficiency)	$27.4	$82.0	$73.7	$190.6	$163.5	$183.7	$83.8	$59.1	$19.1	$(16.1)
Percent redundant (deficient)	21.0%	38.8%	19.6%	43.7%	34.0%	29.3%	11.9%	7.1%	2.2%	(1.6)%

(1) The 10-year table is reflective of activity related to our loss and LAE reserves from Specialty Products and Specialty Industries and excludes the purchase accounting adjustments for the OneBeacon Acquisition or the effect of any reserve activity from the affiliate quota share agreements. Affiliate quota shares refer to two quota share reinsurance agreements we entered into with subsidiaries of White Mountains primarily for White Mountains' capital management purposes. These agreements were commuted in the fourth quarter of 2006 in connection with our initial public offering. The 10-year table also excludes the Runoff Business and AutoOne, which have been presented as discontinued operations in the statements of operations for all periods presented. For purposes of the 10-year table, loss and LAE reserves, and the related reinsurance recoverable on unpaid loss and LAE, related to the Runoff Business and AutoOne have been excluded for all periods presented to conform to the presentation of assets and liabilities associated with the Runoff Business and AutoOne, which are presented as held for sale in the consolidated balance sheets as of December 31, 2013 and 2012, respectively.

(2) The 10-year table also excludes loss and LAE reserves related to the sale of our personal lines business in 2010. The net reserves related to this business for the years 2003 through 2009 were as follows: $627.8 million, $518.3 million, $434.4 million, $386.6 million, $322.5 million, $333.5 million and $315.4 million, respectively. This business was sold in 2010 and therefore, there were no net reserves as of December 31, 2010, 2011, 2012 or 2013.

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The following table reconciles loss and LAE reserves, excluding the impact of purchase accounting adjustments, determined on a statutory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

	December 31,	
	2013	2012
	($ in millions)	
Statutory reserves[1]	$2,199.9	$2,299.1
Reinsurance recoverable on unpaid losses[2]	80.2	107.3
Runoff Business[3]	(1,225.8)	(1,406.4)
GAAP reserves	$1,054.3	$1,000.0

(1) Statutory reserves include Split Rock loss and LAE reserves

(2) Represents adjustments made to add back reinsurance recoverables on unpaid losses related to ongoing specialty business included with the presentation of reserves under statutory accounting.

(3) Represents loss and LAE reserves related to the Runoff Business which are presented as liabilities held for sale in the December 31, 2013 and 2012 balance sheet. Also includes adjustments made for certain reinsurance recoverables on unpaid losses that have a different presentation for statutory than for GAAP.

Investing, Financing and Corporate

Investing, Financing and Corporate primarily consists of investing and financing activities, as well as other assets and liabilities, and general and administrative expenses and interest expense incurred at the holding company level.

Investing

Overview

Invested assets are not allocated to our Specialty Products or Specialty Industries reportable segments since we do not manage our assets by segment. Invested assets, net investment income, and net realized and change in unrealized investment gains (losses) related to our Specialty Products and Specialty Industries segments are included in the Investing, Financing and Corporate segment since these assets are available for payment of losses and expenses for all segments.

Our traditional investment philosophy is to maximize our after tax risk-adjusted return while taking prudent levels of risk and maintaining a diversified portfolio. Under this approach, each dollar of after-tax investment income and realized and unrealized gains and losses is valued equally.

Our investment portfolios are managed under agreements with White Mountains Advisors LLC (WM Advisors), a registered investment advisor that is owned by White Mountains, and Prospector Partners, LLC (Prospector), a primary registered investment advisor. See Note 15—"Related Party Disclosures" of the accompanying consolidated financial statements. Our investment portfolio mix as of December 31, 2013 consisted in large part of high quality, short duration fixed maturity investments and short-term investments, as well as equity investments which are comprised of common stock, convertible fixed maturity securities and other investments such as hedge funds and private equity funds. Our management believes that prudent levels of investments in common equity securities, convertible fixed maturity securities, 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.

Fixed Income and Other Investments

WM Advisors, along with any sub-advisors they may engage, manages our fixed income portfolio, which includes both fixed maturity and short-term investments, and our other investments portfolio which primarily consists of hedge funds and private equity funds. WM Advisors' overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to their investment risks. WM Advisors generally manages the interest rate risk associated with holding fixed maturity investments by actively managing 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. During 2013, WM Advisors began investing in taxable and tax-exempt municipal securities, with the objective of providing absolute loss adjusted total returns with a focus on capital preservation.

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Common Equity Securities and Convertible Fixed Maturity Securities
Prospector is the primary manager of our common equity securities and convertible fixed maturity securities portfolios. Prospector's investment strategy is to maximize risk-adjusted absolute return through investments in a variety of equity, equity-related and convertible fixed maturity instruments. Prospector invests in the United States and other developed markets. Prospector's philosophy is to utilize a bottom-up, value investing approach. Preservation of capital is of the utmost importance.
Financing
Debt and the related interest expense on debt also are not allocated to or managed by segment and are included in the Investing, Financing and Corporate segment.
2012 Senior Notes
In November 2012, OneBeacon U.S. Holdings, Inc. (OBH), an intermediate holding company of OneBeacon, issued $275.0 million face value of senior unsecured notes through a public offering, at an issue price of 99.9% (2012 Senior Notes). The net proceeds from the issuance of the 2012 Senior Notes were used to repurchase OBH's existing outstanding senior notes, the 2003 Senior Notes (as defined in "Liquidity and Capital Resources—Financing" in Item 7). The 2012 Senior Notes bear an annual interest rate of 4.6%, payable semi-annually in arrears on May 9 and November 9 until maturity on November 9, 2022. OneBeacon Insurance Group, Ltd. provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the 2012 Senior Notes.
See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing."
Corporate
Our Corporate operations consists of the activities of OneBeacon Insurance Group, Ltd. and our intermediate subsidiary holding companies which include OneBeacon U.S. Enterprises Holdings, Inc. (OBEH), OneBeacon U.S. Financial Services, Inc., and OBH, all U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda. The primary purpose of these entities is to efficiently manage the group's various capital and financing activities.
Regulatory Matters
General
Our insurance operations are subject to regulation and supervision in each of the United States jurisdictions where they are domiciled and licensed to conduct business. Generally, state regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of the consolidated financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders. We are also subject to Bermuda insurance regulations, which are generally similar to insurance regulations imposed by U.S. states on U.S.-domiciled insurers, though there are important differences, as described below.
State Accreditation and Monitoring
All states have laws establishing standards that an insurer must meet to maintain its license to write business. In addition, the National Association of Insurance Commissioners (NAIC) has risk-based capital (RBC) standards for property and casualty companies, which are designed to determine minimum capital requirements and to raise the level of protection that statutory surplus provides for policyholder obligations. The RBC formula for property and casualty insurance companies measures three major areas of risk facing property and casualty insurers: underwriting, which encompasses the risk of adverse loss developments and inadequate pricing; declines in asset values arising from market and/or credit risk; and off-balance sheet risk arising from adverse experience from non-controlled assets, guarantees for affiliates or other contingent liabilities and excessive premium growth. Under laws adopted by individual states, insurers having less total adjusted capital than that required by the RBC calculation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

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The NAIC has a set of financial relationships or tests known as the Insurance Regulatory Information System (IRIS) to assist state insurance regulators in monitoring the financial condition of insurance companies and identifying companies that require special regulatory attention or action. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios (IRIS ratios), each with defined "usual ranges." Generally, regulators will begin to investigate or monitor an insurance company if its IRIS ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue or, in severe situations, assume control of the company. We are not aware that any of our insurance companies are currently subject to regulatory investigation based on these ratios.

State insurance laws require us to analyze the adequacy of our reserves annually. Our actuaries must submit an opinion that our reserves, when considered in light of the assets we hold with respect to those reserves, make adequate provision for our contractual obligations and related expenses.

The NAIC's Annual Financial Reporting Model Regulation, or the Model Audit Rule (MAR), which includes provisions that are similar to Sarbanes-Oxley requirements for public companies, requires certain insurance companies to appoint audit committees to oversee accounting and financial reporting processes as well as oversee the audit of the insurer’s financial statements. Audit committees also are required to appoint independent auditors, among other things. The designated audit committee must receive reports regarding significant deficiencies, material weaknesses and solvency concerns at the insurance company level. Certain insurance companies, including OneBeacon, are also required to file an annual management report on internal control over financial reporting.

Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states prohibit an insurer from withdrawing from one or more lines of insurance business in the state without the state regulator's approval. State regulators may refuse to approve withdrawal plans on the grounds that they could lead to market disruption, or for other reasons, including political and tax related reasons.

Mandatory Shared Market Mechanisms

As a condition of our license to do business in certain states, we are required to participate in mandatory shared market mechanisms. Each state dictates the types of insurance and the level of coverage that must be provided. The most common type of shared market mechanism in which we are required to participate is an assigned risk plan. Many states operate assigned risk plans. These plans require insurers licensed within the applicable state to accept the applications for insurance policies of customers who are unable to obtain insurance in the voluntary market. The total number of such policies an insurer is required to accept is based on its market share of voluntary business in the state. Underwriting results related to assigned risk plans are typically adverse. Accordingly, we may be required to underwrite policies with a higher risk of loss than we would otherwise accept.

Reinsurance facilities are another type of shared market mechanism. Reinsurance facilities require an insurance company to accept all applications submitted by certain state designated agents. The reinsurance facility then allows the insurer to cede some of its business to the reinsurance facility so that the facility will reimburse the insurer for claims paid on ceded business. Typically, however, reinsurance facilities operate at a deficit, which is funded through assessments against the same insurers. As a result, we could be required to underwrite policies with a higher risk of loss than we would otherwise voluntarily accept.

Pricing, Investment and Dividends

Nearly all states have insurance laws requiring property and casualty insurance companies to file price schedules, policy or coverage forms, and other information with the state's regulatory authority. In most cases, such price schedules and/or policy forms must be approved prior to use. While pricing laws vary from state to state, their objectives are generally to ensure that prices are adequate, not excessive and not discriminatory.

We are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Non-compliance may cause non-conforming investments to be non-admitted in measuring statutory surplus and, in some instances, may require divestiture. Our investment portfolio at December 31, 2013 complied with such laws and regulations in all material respects.

One of the primary sources of cash inflows for us and certain of our intermediary holding companies is dividends received from our operating subsidiaries. Under the insurance laws of the jurisdictions under which our U.S. insurance 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. During 2013, Atlantic Specialty Insurance Company (ASIC) distributed $190.0 million to OneBeacon Insurance Company (OBIC), its immediate parent, by way of an extraordinary return of capital, which was approved by the New York Department of Financial Services. OBIC, in turn, distributed the $190.0 million to its immediate parent. Subsequently, our intermediary holding companies contributed $35.0 million to OBIC in late 2013.

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Holding Company Structure

We are subject to regulation under certain state insurance holding company acts. These regulations contain reporting requirements relating to our capital structure, ownership, financial condition and general business operations. These regulations also contain special reporting and prior approval requirements with respect to certain transactions among affiliates. Since we are an insurance holding company, the domiciliary states of our U.S. insurance subsidiaries impose regulatory application and approval requirements on acquisitions of common shares which may be deemed to confer control over those subsidiaries, as that concept is defined under the applicable state laws. Acquisition of as little as 10% of our common shares may be deemed to confer control under the insurance laws of some jurisdictions, and the application process for approval can be extensive and time consuming.

Legislation

The insurance industry is highly regulated at the state level. While the federal government does not directly regulate the insurance business, federal legislation and administrative policies affect the insurance industry. In addition, legislation has been introduced from time to time in recent years that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry. Notably, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) created the Federal Insurance Office (FIO) within the Treasury Department, which is responsible for gathering information and monitoring the insurance industry to identify gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or U.S. financial system. The FIO also provides advice to the Financial Stability Oversight Council (FSOC) and represents the United States on international insurance matters. On December 12, 2013, the FIO released its report on “How to Modernize and Improve the System of Insurance Regulation in the United States” (FIO Report). The FIO Report, which was due in January 2012, was mandated by the Dodd-Frank Act. The FIO Report examined all segments of the insurance industry (except health insurance) and contained recommendations for improvement in the current state regulatory system (e.g., capital adequacy, market regulation) as well as opportunities for direct federal intervention (e.g., oversight over mortgage insurers, reforms related to market conduct examination, and oversight over rate related practices and other issues affecting consumers). We will continue to monitor reaction to and implementation of the recommendations in the FIO Report and its potential impact, if any, on our insurance company subsidiaries.

In addition, the Terrorism Act established a federal "backstop" for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended in December 2007, the law also covers domestic acts of terrorism. See "Business—Catastrophe Risk Management and Reinsurance Protection" and "—Terrorism". We are actively complying with the requirements of the Terrorism Act in order to ensure our ability to be reimbursed by the federal government for any losses we may incur as a result of future terrorist acts. The Terrorism Act expires December 31, 2014, and, while there is an on-going debate to extend the Act “as is” or with modifications, there can be no assurance that Congress will take any action before it expires.

Regulators in states that adopted the NAIC's 2010 amendment to the Model Insurance Company Holding Company System Regulatory Act (the Model Holding Company Act) have enhanced authority to regulate insurers as well as their affiliated entities, on an enterprise risk basis. The amendment to the Model Holding Company Act requires the ultimate controlling person in an insurer's holding company structure to identify and report to state insurance regulators material risks within the structure that could pose enterprise risk to the insurer. While some states have substantially adopted the Model Holding Company Act, others have not yet passed the legislation. We cannot predict whether and to what extent the non-adopting states will adopt the Model Holding Company Act.

State regulators also continue to adopt measures related to the NAIC’s Solvency Modernization Initiative (SMI). Initiated in 2008 with the goal of modernizing the U.S. insurance solvency framework, SMI focuses on capital requirements, governance and risk management, group supervision, statutory accounting and financial reporting, and reinsurance. One key regulatory change that emerged from SMI is a requirement that insurers summarize their key risks and risk management strategies to regulators.

This insurer-created, risk-focused summary report is called the Own Risk Solvency Assessment (ORSA). The ORSA is defined by the NAIC’s Risk Management and ORSA Model Act (the ORSA Model Act) and a related ORSA Guidance Manual, both of which were adopted by the NAIC in 2012. The ORSA Model Act requires an insurer and/or the insurance group to complete an ORSA "at least annually to assess the adequacy of its risk management and current, and likely future, solvency position." The ORSA requirement will apply to individual U.S. insurers that write more than $500 million of annual direct written and assumed premium, and/or insurance groups that collectively write more than $1 billion of annual direct written and assumed premium. The ORSA Model Act requires insurers to first provide their ORSAs to regulators in 2015, so it is expected that all states will adopt the ORSA Model Act before the end of 2014. We are assessing the potential for ORSA implementation and determining the overall impact of this regulation.

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Given that one of our insurance company subsidiaries, ASIC, is now authorized to write federal crop insurance, we could be impacted by regulatory and legislative developments affecting the federal crop insurance program. For example, the generally applicable levels of reinsurance support that the federal government provides to authorized carriers could be reduced by legislation re-authorizing the federal crop insurance program.

Environmental

Environmental cleanup of polluted waste sites is subject to both federal and state regulations. Superfund and comparable state statutes govern the cleanup and restoration of waste sites by potentially responsible parties (PRPs). These laws can impose liability for the entire cost of cleanup upon any PRP, regardless of fault. The insurance industry in general is involved in extensive litigation regarding coverage issues arising out of the cleanup of such sites by insured PRPs and as a result has disputed many such claims. From time to time, comprehensive Superfund reform proposals are introduced in Congress, but none has yet been enacted. At this time, it remains unclear as to whether Superfund reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of Superfund related claims. The NICO Cover (as defined in "Critical Accounting Estimates—2. Loss and LAE" in Item 7) includes coverage for such exposures at our company, however, there can be no assurance that the coverage provided under the NICO Cover will ultimately prove to be adequate for our incurred environmental losses.

Bermuda Law

We are an exempted company organized under the Companies Act 1981 of Bermuda (Companies Act). As a result, we are required to comply with the provisions of the Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realizable value of the company's assets would thereby be less than its liabilities.

Under our bye-laws, each common share is entitled to dividends if, and when, dividends are declared by our board of directors (the Board), subject to any preferred dividend rights of the holders of any preference shares. Issued share capital is the aggregate par value of the company's issued shares, and the share premium account is the aggregate amount paid for issued shares over and above their par value. Share premium accounts may be reduced in certain limited circumstances. In addition, the Companies Act regulates return of capital, reduction of capital and any purchase or redemption of shares by OneBeacon.

Although we are incorporated in Bermuda, we have been designated as a non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority, or the BMA. Pursuant to our non-resident status, we may hold any currency other than Bermuda dollars and convert that currency into any other currency, other than Bermuda dollars, without restriction.

Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 and the Exchange Control Act 1972, and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the BMA pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA in its policy dated June 1, 2005 provides that where any equity securities, including our common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equity securities of such company remain so listed. The New York Stock Exchange is deemed to be an appointed stock exchange under Bermuda law. Notwithstanding the above general permission, the BMA has granted us permission to, subject to our common shares being listed on an appointed stock exchange, (a) issue and transfer our shares, up to the amount of our authorized capital from time to time, to persons resident and non-resident of Bermuda for exchange control purposes; (b) issue and transfer our options, warrants, depositary receipts, rights, and other securities; and (c) issue and transfer our loan notes and other debt instruments and options, warrants, receipts, rights over loan notes and other debt instruments to persons resident and non-resident of Bermuda for exchange control purposes.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place in Bermuda. As an exempted company, we may not, without the express authorization of the Bermuda legislature or under a license granted by the Bermuda Minister of Finance, participate in various specified business transactions, including:

- the acquisition or holding of land in Bermuda, except land held by way of lease or tenancy agreement which is required for our business and held for a term not exceeding 50 years, or which is used to provide accommodation or

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recreational facilities for our officers and employees and held with the consent of the Bermuda Minister of Finance, for a term not exceeding 21 years;

- the taking of mortgages on land in Bermuda in excess of $50,000;
- the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government or public authority securities; or
- subject to some exceptions, the carrying on of business of any kind in Bermuda for which we are not licensed in Bermuda.

Under Bermuda law, non-Bermudians (other than spouses of Bermudians, holders of permanent resident certificates and holders of working resident certificates) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian or a holder of a permanent resident's certificate or holder of a working resident's certificate) is available who meets the minimum standard requirements for the advertised position.

Split Rock is the only OneBeacon insurance company subsidiary that is domiciled in Bermuda. Split Rock is licensed as a Class 3A insurer in Bermuda and is subject to the Insurance Act 1978 of Bermuda and related regulations, as amended (Insurance Act). While Bermuda insurance regulations are generally similar to insurance regulations imposed by U.S. states on U.S.-domiciled insurers, there are important differences. These differences must be accounted for in order for Split Rock to maintain its Bermuda insurance license. For example, instead of using the U.S. Risk-Based-Capital (RBC) formula to determine the minimum amount of capital needed to support an insurer's overall business operations, under the Insurance Act, Split Rock is required to maintain available statutory capital and surplus at a level equal to or in excess of its enhanced capital requirement which is established by reference to either a Bermuda Solvency Capital Requirement model or an approved internal capital model in lieu thereof. Another difference relates to regulation of insurer investments. Split Rock is required to maintain a minimum liquidity ratio to ensure that it has sufficient liquidity in its investment portfolio. In addition to compliance under the Insurance Act, Split Rock must also comply with provisions of the Companies Act relating to exempted companies.

Ratings

Insurance companies are evaluated by various rating agencies in order to measure each company's financial strength. Higher ratings generally indicate financial stability and a stronger ability to pay claims. We believe that strong ratings are an important factor in the marketing of insurance products and services to distribution partners and customers. These financial strength ratings do not refer to our ability to meet non-insurance obligations and are not a recommendation to purchase or discontinue any policy or contract issued by us or to buy, hold, or sell our securities. The following table presents the financial strength ratings assigned to our principal insurance operating subsidiaries which support our Ongoing Subsidiaries as well as our Runoff Subsidiaries, as of February 28, 2014:

	A.M. Best[(1)]	Fitch[(2)]	Moody's[(3)]	Standard & Poor's[(4)]
Ongoing Subsidiaries:				
Ratings	"A" (Excellent)	"A" (Strong)	"A2" (Good)	"A-" (Strong)
Outlook	Stable	Stable	Stable	Stable
Runoff Subsidiaries:				
Ratings	"A" (Excellent)	"A" (Strong)	"A2" (Good)	Unrated
Outlook	Under Review - Negative	Rating Watch - Negative	Negative	N/A

(1) "A" is the third highest of sixteen financial strength ratings assigned by A.M. Best.
(2) "A" is the sixth highest of nineteen international financial strength ratings assigned by Fitch.
(3) "A2" is the sixth highest of twenty-one financial strength ratings assigned by Moody's.
(4) "A-" is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's.

Employees

As of December 31, 2013, we employed approximately 1,200 persons.

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AVAILABLE INFORMATION

We are subject to the informational reporting requirements of the Securities Exchange Act of 1934. In accordance therewith, we file reports, proxy statements and other information with the Securities and Exchange Commission (SEC). These documents are available free of charge at www.onebeacon.com as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. In addition, our Code of Business Conduct as well as the charters of our Board Committees are available free of charge at www.onebeacon.com.

We will provide to any shareholder, upon request and without charge, copies of these documents (excluding any applicable exhibits unless specifically requested). Written or telephone requests should be directed to Investor Relations, OneBeacon Insurance Group, Ltd., 601 Carlson Parkway, Minnetonka, MN 55305, (877) 248-8765. Additionally, all such documents are physically available at our registered office at Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda.

ITEM 1A. RISK FACTORS

Our business is subject to various risks and uncertainties. Any of the risks described below could materially adversely affect our business, financial condition, and results of operations.

Risks Relating to Our Business

Unpredictable catastrophic events could materially adversely affect our results of operations and financial condition, and our ability to manage our exposure to catastrophic losses is limited.

We write insurance policies that cover unpredictable catastrophic events. Covered unpredictable events include natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, wildfires, and severe winter weather. Catastrophes can also include terrorist attacks, explosions and infrastructure failures.

Our exposure to hurricanes and earthquakes is the largest natural catastrophe risk to our business. Key exposures include: (1) hurricane or windstorm damage in the United States Northeast Atlantic Coast and Gulf Coast regions; (2) a major California earthquake; and (3) losses from terrorist attacks in the United States, such as the attacks on September 11, 2001.

The extent of catastrophe losses is a function of both the severity of the event and total amount of insured exposure in the affected area. Increases in the value and concentrations of insured property or insured employees, the effects of inflation, and changes in weather patterns could increase the future frequency and severity of claims from catastrophic events. Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year and adversely affect our financial condition. Our ability to write new insurance policies could also be impacted as a result of corresponding reductions in our surplus levels.

Some scientists believe changing climate conditions have added to the unpredictability and frequency of natural disasters and create additional uncertainty as to future trends and exposures. We cannot predict how changing climate conditions and the various governmental and other responses to such changes will impact our business. To the extent that climate change does increase the unpredictability, frequency or severity of natural disasters, we may face increased claims, which could have a material adverse effect on our results of operations and financial condition.

We analyze aggregate insured values and possible catastrophe losses through a variety of tools, including catastrophe modeling software. Loss estimates produced by catastrophe models depend on many variables, including assumptions about demand surge, storm surge, loss adjustment expenses, and storm intensity. If the assumptions defining our modeling variables are incorrect, or the model itself is incorrect, the losses we might incur from an actual catastrophe could be materially higher than our expectation of losses generated from modeled catastrophe scenarios, and our results of operations and financial condition could be materially adversely affected.

Future insurance and reinsurance coverage for terrorist acts is uncertain, and we may in the future have substantial exposure to such acts.

We cannot predict the extent to which our future insurance contracts will cover terrorist acts. One of the key drivers of uncertainty is the possibility of changes to TRIPRA, a federal law which is set to expire at the end of 2014. The current version of TRIPRA requires primary commercial insurers to make terrorism coverage available and provides federal protection for certain coverages, while excluding others (e.g., commercial automobile, surety, and all forms of professional liability coverage except directors and officers coverage), above both individual company retention and industry retention levels. While we have a reasonable expectation that TRIPRA will be extended for an additional period of time, there is no assurance of an extension or of the terms of any such extension. Because the current version of TRIPRA has greatly influenced the way in which commercial insurers define, offer, and price coverage for terrorist acts, changes to the Act or any other legislative or court-imposed requirements could fundamentally change risks associated with terrorism coverage and our decisions about if and how to define and cover those risks. This same uncertainty also affects reinsurance we purchase to protect us against losses related to terrorist acts.

Our future financial exposure to terrorist acts is also uncertain. While we manage our exposure to terrorism-related losses through coverage terms, by limiting geographic concentrations of risk, and by purchasing reinsurance, risks insured by us, including those covered by TRIPRA, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material to our results of operations and financial condition.

Our loss and loss adjustment expense (LAE) reserves may be inadequate to cover our ultimate liability for losses and as a result our financial condition and results of operations could be materially adversely affected.

We must maintain reserves adequate to cover our estimated ultimate liabilities for loss and LAE. Loss and LAE reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as IBNR reserves, and for expected future development on case reserves. These reserves are estimates based on actuarial, claims and underwriting assessments of what we believe the settlement and administration of claims will cost based on facts and circumstances then known to us. Because of uncertainties associated with estimating loss and LAE reserves, we cannot be certain that our reserves are adequate. Underestimation of loss and loss and LAE expenses could occur, for example, in our large number of workers' compensation permanent disability claims. These claims involve medical payments that will be made far into the future and therefore the impact of medical price inflation and increased utilization could have a material adverse impact on the ultimate amount of losses paid.

Furthermore, the risk management and modeling tools which we use to attempt to address loss and LAE reserve volatility and the impact of future inflation on our reserve portfolio may be inaccurate and ineffective, resulting in inaccurate reserves. New information could become available, or new or different legal, social or economic trends may emerge which would cause us to change our modeling assumptions.

In the event that reserves become insufficient to cover our actual loss and LAE, we may need to strengthen our reserves, which could have a material adverse effect on our results of operations and financial condition.

For additional information relating to loss and LAE reserve requirements, see "Business—Regulatory Matters." For further discussion of our loss and LAE reserves, including our asbestos and environmental (A&E) reserves, see "Business—Loss and LAE Reserves" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates."

Exposure to asbestos or environmental claims could materially adversely affect our results of operations and financial condition.

We have exposure to A&E claims, substantially all of which relate to the Runoff Business and are included in liabilities held for sale on the December 31, 2013 and 2012 consolidated balance sheets. Estimating our exposure to A&E claims is subject to a high degree of uncertainty and final ultimate loss and LAE could exceed coverage available under our reinsurance arrangements. The uncertainty regarding A&E exposure is driven by a number of factors, including policyholders that assert new theories of recovery and proposed state and federal legislation regarding A&E liability. Although we expect the number of our A&E related claims to decrease over time, these and other factors may increase our liability or number of claims. If we do not have adequate reinsurance protection and if we have not established adequate loss and LAE reserves to cover future claims, our results of operations and financial condition could be materially adversely affected.

Our investment portfolio may suffer reduced returns or losses which could adversely affect our results of operations and financial condition. Adverse changes in interest rates, equity markets, debt markets or market volatility could result in significant losses to the fair value of our investment portfolio.

Our investment portfolio, including the assets supporting our pension plans, consists of fixed maturity securities, convertible fixed maturity securities, short-term investments, common equity securities and other investments such as hedge funds and private equity funds. We invest to maximize after tax total risk-adjusted return over the long term subject to our investment guidelines and various regulatory restrictions. However, investing entails substantial risks.

We may not achieve our investment objectives, and our investment performance may vary substantially over time. Investment returns are an important part of our strategy to grow book value, and fluctuations in the fixed income or equity markets could impair our results of operations and financial condition.

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Both the investment income we generate and the fair market value of our investment portfolio are affected by general economic and market conditions, including fluctuations in interest rates, debt market levels, equity market levels and market volatility. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. In particular, a significant increase in interest rates could result in significant losses in the fair value of our investment portfolio, and consequently could adversely affect our results of operations and financial condition. We are exposed to changes in equity markets. We are also exposed to changes in the volatility levels of various investment markets. The underlying conditions prompting such changes are outside of our control and could adversely affect the value of our investments and our results of operations and financial condition.

Successful management of our investment portfolio is highly dependent on WM Advisors, which is owned by White Mountains, and Prospector. WM Advisors supervises and directs the fixed income and other investments portion of our investment portfolio, and Prospector is the primary supervisor and director of the publicly-traded common equity securities and convertible fixed maturity securities portion of our investment portfolio. If we lose our investment relationship with either of WM Advisors or Prospector, we may not be able to secure an investment advisor or advisors who will produce returns on our investments similar to these produced by WM Advisors and Prospector in the past, or any positive returns at all.

The property and casualty insurance industry is highly competitive and cyclical, and we may not be able to compete effectively in the future.

The property and casualty insurance industry is highly competitive and has historically been cyclical, experiencing periods of severe price competition and less selective underwriting standards (soft markets) followed by periods of relatively high prices and more selective underwriting standards (hard markets). Our businesses each compete against a different subset of companies. In general terms, we compete in one or more of our businesses with most of the large multi-line insurance companies, most of the specialty companies, and various local and regional insurers.

We could fail to build and sustain the kind of business relationships, including distribution relationships, that are necessary to compete. To compete, we offer our products through a select network of independent agents, regional and national brokers, wholesalers and managing general agencies, or MGAs. If our distribution partners find that our competitor insurers offer better priced coverage, we may be unable to maintain a competitive position, which in turn may adversely affect our results of operations and financial condition.

We could also fail to successfully manage risks associated with the general cyclicality of the property and casualty market. Any significant decrease in the rates we can charge for property and casualty insurance would adversely affect our results. We also expect to continue to experience the effects of cyclicality which, during down periods, could materially adversely affect our results of operations and financial condition.

We may not maintain favorable financial strength or creditworthiness ratings, which could adversely affect our ability to conduct business.

Third-party rating agencies assess and rate the financial strength, including claims-paying ability, of insurers and reinsurers. These ratings are based upon criteria established by the rating agencies and are subject to revision at any time at the sole discretion of the agencies. Some of the criteria relate to general economic conditions and other circumstances outside the rated company's control. These financial strength ratings are: (1) an important tool that policyholders, agents and brokers use to assess the suitability of insurers as business counterparties; and (2) an important factor in establishing the competitive position of insurance companies. A downgrade, withdrawal or negative watch/outlook of our financial strength ratings could severely limit or prevent our insurance subsidiaries from writing new insurance policies or renewing existing insurance policies, which could have a material adverse effect on our results of operations and financial condition.

General creditworthiness ratings are used by existing and potential investors to assess the likelihood of repayment on a particular debt issue. Strong creditworthiness ratings also provide better financial flexibility when issuing new debt or restructuring existing debt. A downgrade, withdrawal or negative watch/outlook of our creditworthiness ratings could limit our ability to raise new debt or make new debt more costly and/or have more restrictive conditions.

We may need additional capital in the future, which may not be available to us or available to us on favorable terms. Raising additional capital could dilute your ownership in our company and may cause the market price of our

common shares to fall.
We may need to raise additional funds through public or private debt or equity financings in order to:
- fund liquidity needs;
- replace capital lost in the event of a catastrophe or adverse reserve development or investment losses;
- repay the $275.0 million aggregate principal amount of our 2012 Senior Notes;

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- satisfy letter of credit or guarantee bond requirements that may be imposed by our clients or by regulators;
- acquire new businesses or invest in existing businesses;
- expand our business into new regions or countries; or
- otherwise respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute an existing shareholders' ownership percentage in our company and may decrease the market price of our common shares. Furthermore, the securities may have rights, preferences and privileges that are senior or otherwise superior to those of our common shares. Any additional financing we may need may not be available on terms favorable to us, or at all.

We may suffer losses from unfavorable outcomes from litigation and other legal proceedings.

In the ordinary course of business, we are subject to litigation and other legal proceedings as part of the claims process, the outcomes of which are uncertain. We maintain reserves for claims-related legal proceedings as part of our loss and LAE reserves. Adverse outcomes are possible and could negatively impact our financial condition. In addition, we also maintain separate reserves for legal proceedings that are not related to the claims process. In the event of an unfavorable outcome in one or more non-claims legal matters, our ultimate liability may be in excess of amounts we have currently reserved and such additional amounts may be material to our results of operations and financial condition.

As industry practices and legal, judicial, social and other conditions change, unexpected issues related to claims and coverage may emerge. For example, our claims exposure is subject to new theories of liability and disputes regarding medical causation with respect to certain diseases. These issues may adversely affect our results of operations and financial condition by either extending coverage beyond our underwriting intent or by increasing the number and size of claims. In some instances, these changes may not become apparent until sometime after we have issued the affected insurance contracts.

We depend on our key personnel to manage our business effectively and they may be difficult to replace.

Our performance substantially depends on the efforts and abilities of our management team and other executive officers and key employees, including our experienced teams of specialty underwriters. Furthermore, much of our competitive advantage is based on the expertise, experience and know-how of our key management personnel and underwriting teams. We do not have fixed term employment agreements with any of our key employees nor key man life insurance, and the loss of one or more of these key employees could adversely affect our business, results of operations and financial condition. Our success also depends on the ability to hire and retain additional key personnel, including underwriting and claims teams. Difficulty in hiring or retaining key personnel could adversely affect our results of operation and financial condition.

Our debt and related service obligations could adversely affect our business.

As of December 31, 2013, we had $275.0 million face value of indebtedness. See "Business—Investing, Financing and Corporate—2012 Senior Notes." Our ability to meet our debt and related service obligations, as well as our ability to pay a dividend on our common shares, will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors, many of which are beyond our control. If the Company or OBH defaults under a separate credit agreement, mortgage, or similar debt agreement with a principal amount greater than $75 million, and such default results in the acceleration of such debt, there is a default under the 2012 Senior Notes which would permit the holders of 25% or more of the 2012 Senior Notes to declare an event of default under the indenture documents resulting in a required repayment of the 2012 Senior Notes. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt and meet our other obligations, or to repay any accelerated indebtedness as a result of the trigger of the cross acceleration provisions in the indentures of the 2012 Senior Notes. If we do not have enough cash, we may be required to refinance all or part of our existing debt, sell assets, borrow more cash or issue equity. We cannot make assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing."

We could incur additional indebtedness or issue preferred stock, or other hybrid instruments, in the future. To the extent new debt, preferred stock, hybrid instrument, or other obligations are added to our current debt levels, the risks described in the previous paragraph would increase.

We may not successfully alleviate risk through reinsurance arrangements. Additionally, we may be unable to collect all amounts due from reinsurers under our existing reinsurance arrangements.

We attempt to limit our risk of loss through reinsurance arrangements. The availability and cost of reinsurance protection is subject to market conditions, which are outside of our control. In addition, the coverage provided by our reinsurance contracts may be inadequate to cover our future liabilities. As a result, we may not be able to successfully alleviate risk through these arrangements, which could have a material adverse effect on our results of operations and financial condition.

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Purchasing reinsurance does not relieve us of our underlying obligations to policyholders, so any inability to collect amounts due from reinsurers could also adversely affect our financial condition. Inability to collect amounts due from reinsurers can result from a number of scenarios, including: (1) reinsurers choosing to withhold payment due to a dispute or other factors beyond our control; and (2) reinsurers becoming unable to pay amounts owed to us as a result of a deterioration in its financial condition. While we regularly review the financial condition of our reinsurers and currently believe their condition is strong, it is possible that one or more of our reinsurers will be significantly adversely affected by future significant loss or economic events, causing them to be unable or unwilling to pay amounts owed to us.

In addition, factors such as the price or availability of reinsurance coverage, we sometimes decide to increase the amount of risk we retain by purchasing less reinsurance. Such determinations have the effect of increasing our financial exposure to losses associated with such risks and, in the event of significant losses associated with a given risk, could have a material adverse effect on our financial condition.

We may be unable to adequately maintain our systems and safeguard the security of our data which may adversely impact our ability to operate our business and cause reputational harm and financial loss.

Our business and operations rely on secure and efficient processing, storage and transmission of customer and company data, including personally identifiable information (PII) of customers. Our ability to effectively operate our business depends on our ability and the ability of certain third parties, including vendors and business partners, to access our computer systems to perform necessary functions such as providing quotes and product pricing, billing and processing premiums, administering claims, and reporting our financial results. Our business also depends up our ability to safeguard PII and other confidential and proprietary information that is in our possession. Our systems may be vulnerable to a variety of forms of unauthorized access that could result in a data breach, including hackers, computer viruses, and breaches that result from lost or stolen computer devices.

Data breaches could result in financial loss and reputational harm to us, which could affect our business and results of operations. With respect to data breaches that involve PII, some federal and state laws require us to take steps to safeguard PII. However, nearly every state has enacted regulations that require us, when we learn of a PII breach, to notify affected persons and state regulatory agencies.

Although we have taken measures to safeguard confidential data provided to us by customers and other third parties, we could experience a data breach that impacts our ability to conduct our business, results of operations, financial condition and reputation.

We may not be successful in developing our specialty businesses which could cause us to underestimate reserves, incur additional expenses, and fail to fully realize our investments in these businesses, which could materially affect our business and results of operations.

We have recently entered into new specialty business lines, including surety, programs, and crop lines. We intend to continue to look for appropriate opportunities to diversify our business portfolio by adding new specialty lines. We also intend to continue to grow our existing specialty lines. Due to our limited experience in new business lines, there could be limited expertise and financial information available to us to help estimate sufficient loss reserves, estimate likely ultimate loss and LAE and expenses, evaluate whether a given line can be managed and developed successfully. Also, these lines may not meet our performance expectations. Although we have a conservative approach to adding new lines, including stringent management oversight of underwriting, product and pricing development, and financial performance, there is no assurance that some or all of these new specialty businesses will be profitable, which could materially adversely affect our results of operations and financial condition.

Regulation may restrict our ability to operate.

The insurance industry is subject to extensive regulation under federal, state and Bermuda law. The primary goal of the regulation is protection of policyholders rather than shareholders. For example, in order to protect insurer solvency, state insurance regulations impose restrictions on the amount and type of investments, detail minimum capital standards, and require the maintenance of reserves. Also, laws that protect policyholders from premium rate increases may make it difficult for us to increase premiums to adequately reflect the cost of providing coverage. Our underwriting is heavily dependent on information gathered from third parties such as highly regulated credit report agencies and other data aggregators. Regulatory changes related to the availability or use of this information could materially affect how we underwrite and price premiums.

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Changes in federal, state or Bermuda laws and regulations may restrict our ability to operate and/or have an adverse effect upon the profitability of our business within a given jurisdiction, and could have an effect on our business, results of operations and financial condition. For example, the Federal Insurance Office recently released a report that recommended ways to “modernize” the state-based system for regulating insurance, which among other things, could pressure states to alter or harmonize regulations regarding insurer solvency. Also, as a result of international regulatory discussions related to Solvency II, it is possible that the states or Bermuda could increase our capital requirements, which could materially impact our business results and results of operations.

Mandated market mechanisms may require us to underwrite policies with a higher risk of loss, and assessments and other surcharges for guaranty funds and second-injury funds may reduce our profitability.

We are often required to participate directly or indirectly in mandatory shared market mechanisms as a condition of writing insurance in certain states. These markets, which are commonly referred to as "residual" or "involuntary" markets, generally consist of risks considered to be undesirable from a standard underwriting perspective. Because underwriting performance related to assigned risk plans, a form of mandated market mechanism, is typically adverse, we are required to underwrite policies with a higher risk of loss than we would normally accept. Our participation in assigned risk plans may result in greater than expected liabilities and could materially adversely affect our results of operations and financial condition.

In addition, virtually all states require their licensed insurers to bear a portion of loss suffered by some insureds as the result of impaired or insolvent insurance companies. These guaranty funds are funded by assessments that follow insurer insolvencies, which are difficult to predict. Many states also have established second-injury funds that compensate injured employees for aggravation of a prior condition or injury. Because these second injury funds are funded by insurer assessment or premium surcharge mechanisms, they could reduce our profitability or limit our ability to grow our business.

Our profitability may be adversely impacted by legislative actions and judicial decisions.

Legislative actions and judicial decisions continue to broaden liability and policy definitions and increase the severity of claim payments. To the extent these legislative actions and judicial decisions cause claim costs to increase above reserves established for these claims, we will be required to increase our loss and LAE reserves with a corresponding reduction in our net income in the period in which the deficiency is identified.

Legislative actions can also negatively impact non-claims parts of our business. For example, given that one of our insurance company subsidiaries is now authorized to write federal crop insurance, we could be impacted by legislative developments affecting the federal crop insurance program, including the recently enacted Agricultural Act of 2014 (the Farm Bill). For example, the Farm Bill requires authorized carriers to offer new federal crop insurance coverage options, which can affect potential liabilities. Future legislation could also alter or reduce the generally applicable levels of reinsurance support that the federal government provides to authorized insurers. These and other legislative actions could materially and adversely impact our results of operations.

We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective.

Our business is highly dependent on our ability to successfully execute a large number of insurance underwriting, claim processing and investment processes, many of which are complex. These processes are often subject to internal guidelines and policies, and government regulation. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system’s objectives will be met. If controls are not effective, it could lead to financial loss, unanticipated risk exposure, or damage to our reputation.

Ineffective controls could also lead to litigation or regulatory action with substantial financial impact. For example, on the regulatory front, non-compliance with federal crop regulations could lead to a loss of federal reinsurance support for policies associated with the failure. An example of ineffective controls leading to litigation can be seen in claims handling, where failure to properly handle a claim could increase our exposure by supporting policyholder theories that a claim was settled by us in bad faith.

There is no guaranty that the Board of Directors will maintain current dividend levels, which may reduce the return on an investment in our common shares.

Our current shareholder dividend practices are subject to change for reasons that may include decisions on whether, when and in which amounts to make any future distributions, which remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or suspend our dividend practices at any time and for any reason. Our common shareholders should be aware that they have no contractual or other legal right to dividends.

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The Company is a holding company with no direct operations, and our insurance subsidiaries' ability to pay dividends to us is restricted by law.

As a holding company with no direct operations, the Company relies on net investment income and dividends and other permitted payments from our subsidiaries to pay our expenses. Our subsidiaries may not be able to generate cash flow sufficient to pay a dividend or distribute funds to us. In addition, under the insurance laws of the jurisdictions in which our insurance subsidiaries are domiciled, an insurer is restricted with respect to the timing or the amount of dividends it may pay, and, in some cases, the prior approval of regulatory authorities may be required. During the fourth quarter of 2012, we executed various intercompany reinsurance agreements which, along with other internal capital transactions among our insurance operating subsidiaries, resulted in ASIC becoming the lead insurance company for the ongoing specialty business and OBIC becoming the lead insurance company for the Runoff Business. Notwithstanding these restructuring transactions, we continue to manage our statutory capital on a combined basis. Although OBIC remains a top tier regulated insurance operating subsidiary and maintains sufficient statutory capital to support the Runoff Business, the majority of the group's statutory capital is now included in ASIC to support the ongoing specialty business. Since ASIC is a second tier, wholly-owned subsidiary of OBIC, OBIC's ability to pay dividends in 2014 may be dependent on receipt of dividends from ASIC. Dividends from ASIC may require prior approval by its domiciliary regulator authority.

If our insurance subsidiaries cannot pay dividends in future periods, we may have difficulty servicing our debt, paying dividends on our common shares and meeting our holding company expenses. For additional information relating to insurance regulations governing our operations, see "Business—Regulatory Matters."

We are exposed to credit risk in certain of our business operations.

In addition to exposure to credit risk related to our investment portfolio and reinsurance recoverables, we are exposed to credit risk in several other areas of our business operations.

For example, we are exposed to credit risk in our surety business, where we guarantee to a third party that our customer will satisfy certain performance obligations. If our surety customer defaults, we may suffer losses and not be reimbursed by the customer. We sometimes mitigate the surety customer credit risk by requiring customers to post collateral for some or all of their performance obligations, often in the form of pledged securities such as money market funds or letters of credit provided by banks. However, there is also credit risk associated with any collateral – if we are holding collateral and our customer is unable to honor his or her obligations, we may be exposed to credit risks associated with pledged securities or the banks that issued the letter of credit.

Another example of our credit risk exposure relates to collection of premium by independent agents and brokers. In accordance with industry practice, when policyholders purchase insurance policies from us through independent agents and brokers, the premiums are often first received by the independent agents and brokers, who then route premiums to us. In most jurisdictions, the premiums are deemed paid to us whether or not we receive them. Consequently, we assume a degree of credit risk associated with due amounts from independent agents and brokers. Economic downturns generally increase these credit risks. And if credit risks materialize and control mechanisms like underwriting guidelines and collateral requirements are unsuccessful, we could be left with collateral that has little or no value. As a result, our exposure to the above credit risks could materially and adversely affect our results of operations.

Risks Relating to the Runoff Transaction

There is no certainty that the Runoff Transaction will close.

Completion of the sale of the Company's Runoff Business pursuant to the Stock Purchase Agreement is subject to conditions, primarily regulatory approval, that are outside the control of the parties. We anticipate that the regulatory approval process will include a public hearing at which interested parties may comment on the transaction. There can be no assurance as to whether or when the regulatory approval might be obtained and a closing would occur.

Risks Relating to Our Relationship with White Mountains

Control of us by White Mountains and the holding of White Mountains shares by some of our directors and officers may result in conflicts of interest.

White Mountains beneficially owns all of our Class B common shares, representing 96.8% of the voting power of our voting securities and 75.2% of our total equity as of December 31, 2013. As long as White Mountains owns our common shares representing more than 50% of the voting power of our outstanding voting securities, White Mountains will generally be able to determine the outcome of all corporate actions requiring shareholder approval, including the election of directors. Furthermore, we are relying on the "controlled company" exemption under the rules of the New York Stock Exchange, and are therefore not required to have a majority of independent directors on our Board. Of the eleven directors on our Board, six are current or former employees, directors or officers of White Mountains, or the Company, and one is a portfolio manager at Prospector. White Mountains also has control over the adoption or amendment of provisions in our memorandum of association or bye-laws and the approval of amalgamations, mergers, and other significant corporate transactions. Furthermore, White Mountains will continue to be able to exercise this control as long as its economic equity ownership in us is at least 20%. These factors also may delay or prevent a change in the management or voting control of us.

Also, at some time in the future, White Mountains may sell all or a portion of its ownership interest in us or may make a tax-free distribution to its shareholders of all or a portion of that interest. There is no guaranty that such a transaction would be in the best interests of our other shareholders.

Questions relating to conflicts of interest may arise between us and White Mountains in a number of areas relating to our past and ongoing relationships. Certain of our directors and executive officers may own substantial amounts of White Mountains stock and may also be directors or officers of White Mountains from time to time. Their ownership of White Mountains stock and these other relationships could create, or appear to create, potential conflicts of interest when these individuals are faced with decisions that could have different implications for us and White Mountains. These potential conflicts could arise, for example, over matters such as the desirability of an acquisition opportunity, employee retention or recruiting, or our dividend policy.

White Mountains may compete with us and the involvement of those individuals who are directors and officers of White Mountains and directors of ours in resolving matters relating to such competition will not constitute a breach of fiduciary duty to us.

Our bye-laws provide that White Mountains will have no obligation to refrain from:

- engaging in the same or similar business activities or lines of business as we do; or
- doing business with any of our clients or customers.

Because White Mountains may currently or in the future engage in the same activities in which we engage, we may be in direct competition with White Mountains. While White Mountains has indicated to us that its current expectation is to manage its activities such that opportunities to acquire specialty businesses will be pursued through OneBeacon, White Mountains is not legally obligated to do so and could in the future manage its activities in a different way. Due to the resources of White Mountains, including financial resources, name recognition and knowledge of our strengths, weaknesses and business practices, White Mountains could have a competitive advantage over us should it decide to engage in the type of business we conduct, which may have a material adverse effect on our operations and financial condition. Under our bye-laws, it is not a breach of fiduciary duty on the part of any of our officers and directors by reason of their participation in any of the above described activities.

Agreements, or agreements we may enter into, with White Mountains may not be on arm's length terms.

In connection with the initial public offering, we entered into certain contractual arrangements with White Mountains and its affiliates. These agreements were made in the context of a parent-subsidiary relationship. For example, some of our investments are managed pursuant to an investment management agreement and on a discretionary basis by a registered investment advisor owned by White Mountains. While we are satisfied with the terms of such arrangement, we cannot confirm that such terms are as favorable to us as they might have been had we contracted with an independent advisor. On the other hand, if our investment management agreement should terminate, we may not be able to replace these investment services in a timely manner or on terms and conditions, including cost, that are comparable to those we receive from White Mountains, and we may have to pay higher prices for similar services from unaffiliated third parties. For more information on these and other arrangements with White Mountains, see Note 15—"Related Party Disclosures" of the accompanying consolidated financial statements.

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Risks That Relate to Taxes

We may become subject to taxes in Bermuda after 2035.

We have received a standard assurance from the Bermuda Minister of Finance, under Bermuda's Exempted Undertakings Tax Protection Act 1966, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or to any of our operations or our shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 31, 2035. In the event that we become subject to any Bermuda tax after such date, it could have a material adverse effect on our results of operations and financial condition.

Changes in tax laws or tax treaties may cause more of the income of certain non-U.S. companies in our group to become subject to taxes in the United States.

The taxable income of our U.S. subsidiaries is subject to U.S. federal, state and local income tax and other taxes. The income of the non-U.S. companies in our group is generally not subject to tax in the United States other than withholding taxes on interest and dividends. Certain of our non-U.S. companies are eligible for the benefits of tax treaties between the United States and other countries. We believe our non-U.S. companies will continue to be eligible for treaty benefits. However, it is possible that factual changes or changes to U.S. tax laws or changes to tax treaties that presently apply to our non-U.S. companies could increase income, or the tax rate on income, subject to tax in the United States. Similarly, changes to the applicable tax laws, treaties or regulations of other countries could subject the income of members of our group to higher rates of tax outside the United States.

We have significant deferred tax assets which we may be unable to utilize if we do not generate sufficient future taxable income.

We have a deferred tax asset related to net operating loss carryforwards and tax credit carryforwards at December 31, 2013 that are subject to carryforward limitations in the United States. Utilization of these assets and other assets included in our net deferred tax asset is dependent on generating sufficient future taxable income of the appropriate character (i.e. ordinary income or capital gains) in the appropriate jurisdiction. If it is determined that it is more likely than not that sufficient future taxable income will not be generated, we would be required to increase the valuation allowance in future periods, which could have an adverse effect on our results of operations.

OneBeacon Insurance Group, Ltd., our Bermuda-based management and holding company and our non-U.S. subsidiaries may become subject to U.S. tax, which may have an adverse effect on our results of operations and our shareholders' investments.

OneBeacon Insurance Group, Ltd. and our non-U.S. subsidiaries operate in a manner so that none of these companies should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the Internal Revenue Service (IRS) will not contend successfully that the Company or its non-U.S. subsidiaries are engaged in a trade or business in the United States. If the Company or any of its non-U.S. subsidiaries were considered to be engaged in a trade or business in the United States, such entity could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, which could adversely affect our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our headquarters are located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. Our U.S. corporate headquarters are located at 601 Carlson Parkway, Minnetonka, Minnesota 55305 and our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. We also maintain branch offices in various cities throughout the United States. Our headquarters, U.S. corporate headquarters and our branch offices are leased. We also own a building in Canton, Massachusetts that houses certain limited corporate functions, as well as field and business operations personnel. In November 2011, we entered into a lease for most of our Canton building. The lease began in June 2012. As our facilities needs change over time, we may lease additional portions of the building. We intend to retain a portion of the building to house certain limited corporate functions, as well as field and business operations personnel. Management considers our office facilities suitable and adequate for our current level of operations.

ITEM 3. LEGAL PROCEEDINGS

OneBeacon, and the insurance and reinsurance industry in general, is routinely subject to claims-related litigation and arbitration in the normal course of business, as well as litigation and arbitration that do not arise from, or directly relate to, claims activity. 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.

Deutsche Bank Litigation

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as Plaintiffs), in their capacity as trustees for certain senior notes issued by the Tribune Company (Tribune), filed lawsuits in various jurisdictions (the Noteholder Actions) against numerous defendants including OneBeacon, OneBeacon-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the LBO). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the Bankruptcy Court). The Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions, and in 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate the actions for pretrial matters and transferred all such proceedings to the United States District Court for the Southern District of New York. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. OneBeacon and OneBeacon-sponsored benefit plans received approximately $32 million for Tribune common stock tendered in connection with the LBO.

The Court granted an omnibus motion to dismiss the Noteholder Actions in September 2013 and Plaintiffs have filed a notice of appeal.

In addition, OneBeacon, OneBeacon-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company (the Committee), on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the Committee Action). Tribune emerged from bankruptcy in 2012, and a litigation trustee replaced the Committee as plaintiff in the Committee Action. This matter was consolidated for pretrial matters with the Noteholder Actions in the United States District Court for the Southern District of New York and was stayed pending the motion to dismiss in the Noterholder Action. The Committee Action will proceed upon the lifting of the stay and a scheduling order from the court.

ITEM 4. MINE SAFETY DISCLOSURE

None.

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Class A common shares of OneBeacon are listed and traded on the New York Stock Exchange (Symbol: OB). Our Class A common shares began trading on November 9, 2006. Prior to such date, there was no established public trading market for our common shares. We also have Class B common shares that are not listed for trading, all of which are held by White Mountains. There is no public market for this class of securities. The closing price per share of the Class A common shares on the New York Stock Exchange on February 25, 2014 was $15.84. As of February 25, 2014, the 23,583,865 outstanding Class A common shares were held by 52 holders of record. During 2013, we paid a quarterly dividend of $0.21 per common share, or $80.2 million total. On February 26, 2014, the Board declared an ordinary dividend of $0.21 per common share, payable on March 28, 2014 to shareholders of record on March 14, 2014. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Dividend Capacity" and Note 11—"Statutory Capital and Surplus" of the accompanying consolidated financial statements.

The following table presents the range of share prices for our Class A common shares for the periods indicated, and the quarterly dividends declared per share:

	Three months ended,			
	March 31,	June 30,	September 30,	December 31,
2013				
Common share price:				
High	$14.77	$15.27	$ 14.80	$ 16.23
Low	$12.62	$12.98	$ 14.09	$ 14.29
Dividends declared	$0.21	$0.21	$ 0.21	$ 0.21
2012				
Common share price:				
High	$16.46	$15.41	$ 13.64	$ 13.90
Low	$14.96	$12.73	$ 12.23	$ 12.78
Dividends declared	$0.21	$0.21	$ 0.21	$ 0.21

We were acquired by White Mountains from Aviva in 2001. White Mountains is a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. During the fourth quarter of 2006, White Mountains sold 27.6 million or 27.6% of our Class A common shares in an initial public offering. Prior to the initial public offering, we were a wholly-owned subsidiary of White Mountains. As of December 31, 2013, White Mountains owned 75.2% of our common shares.

Purchases of Equity Securities by the Issuer

On August 22, 2007, the Board authorized us to repurchase up to $200.0 million of our 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 years ended December 31, 2013, 2012 and 2011, no shares were repurchased. As of December 31, 2013, an aggregate of 5.6 million Class A common shares under this program were repurchased for $112.3 million and retired.

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Stock Performance Graph

The following chart compares the total return on a cumulative basis of $100 invested in our Class A common shares on December 31, 2008 to the Standard & Poor's 500 Stock Index and the Standard & Poor's Property and Casualty Insurance Index. The following chart includes reinvestment of dividends.

Comparison of Five Year Cumulative Total Return

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected consolidated financial information for the dates indicated. We have derived the selected consolidated financial information presented below as of and for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 from our consolidated financial statements.

	Year ended December 31,				
	2013	2012	2011	2010	2009
Summary Income Statement Data:	(in millions, except per share amounts)				
Net written premiums	$1,088.6	$1,179.2	$1,062.7	$1,167.7	$1,366.1
Revenues					
Earned premiums	$1,120.4	$1,132.0	$1,012.2	$1,181.1	$1,385.1
Net investment income	41.1	53.6	71.4	96.6	125.5
Net realized and change in unrealized investment gains	49.4	55.7	10.6	74.6	248.6
Net other revenues (expenses)	31.2	(0.5)	(12.4)	(0.6)	(0.1)
Total revenues	1,242.1	1,240.8	1,081.8	1,351.7	1,759.1
Expenses					
Loss and loss adjustment expenses	622.1	650.0	548.3	685.6	716.0
Policy acquisition and other underwriting expenses	413.7	454.6	383.5	448.2	498.4
General and administrative expenses	12.0	13.4	9.8	12.9	13.1
Interest expense	13.0	16.9	20.5	29.6	39.7
Total expenses	1,060.8	1,134.9	962.1	1,176.3	1,267.2
Pre-tax income from continuing operations	181.3	105.9	119.7	175.4	491.9
Income tax expense	(34.3)	(8.4)	(14.8)	(25.1)	(125.1)
Net income from continuing operations	147.0	97.5	104.9	150.3	366.8
Loss from discontinued operations, net of tax	(46.6)	(24.3)	(29.6)	(30.4)	(22.7)
Gain (loss) from sale of discontinued operations, net of tax	46.6	(91.0)	(19.2)	—	—
Net income (loss) including noncontrolling interests	147.0	(17.8)	56.1	119.9	344.1
Less: Net income attributable to noncontrolling interests	(1.0)	(1.4)	(1.0)	(1.6)	(2.1)
Net income (loss) attributable to OneBeacon's common shareholders	146.0	(19.2)	55.1	118.3	342.0
Change in other comprehensive income (loss) items	20.6	(2.9)	(11.2)	6.5	18.8
Comprehensive income (loss) attributable to OneBeacon's common shareholders	$166.6	$(22.1)	$43.9	$124.8	$360.8
Basic and diluted earnings (loss) per share attributable to OneBeacon's common shareholders:					
Net income from continuing operations per share	$1.52	$1.00	$1.08	$1.57	$3.83
Loss from discontinued operations, net of tax, per share	(0.49)	(0.25)	(0.30)	(0.32)	(0.23)
Gain (loss) from sale of discontinued operations, net of tax, per share	0.49	(0.96)	(0.20)	—	—
Net income (loss) attributable to OneBeacon's common shareholders per share	$1.52	$(0.21)	$0.58	$1.25	$3.60
Weighted average number of common shares outstanding[1]	94.5	94.5	94.4	94.8	95.1
Cash dividends declared per common share	$0.84	$0.84	$1.84	$3.34	$0.84

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(1)

Weighted average common shares outstanding includes the impact of unvested restricted shares as well as the impact of repurchases of Class A common shares made under the Company's share repurchase authorization.

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	Year ended December 31, 2013	2012	2011	2010[2]	2009[2]
	(in millions)				
Underwriting Ratios:[1]					
Consolidated Insurance Operations					
Loss and LAE ratio	55.5 %	57.4 %	54.2 %	58.0 %	51.7 %
Expense ratio	36.9	40.1	37.9	38.0	36.0
Combined ratio	92.4 %	97.5 %	92.1 %	96.0 %	87.7 %
Specialty Products					
Loss and LAE ratio	56.4 %	57.2 %	51.2 %	50.5 %	39.8 %
Expense ratio	36.8	40.7	37.5	35.9	36.6
Combined ratio	93.2 %	97.9 %	88.7 %	86.4 %	76.4 %
Specialty Industries					
Loss and LAE ratio	54.7 %	57.7 %	57.7 %	61.1 %	49.3 %
Expense ratio	37.0	39.4	38.3	41.8	41.6
Combined ratio	91.7 %	97.1 %	96.0 %	102.9 %	90.9 %
Summary Balance Sheet Data:					
Total cash and investments	$2,533.0	$2,335.4	$2,762.5	$3,299.6	$4,087.6
Total assets	5,211.6	5,401.5	5,821.6	6,166.7	7,532.0
Loss and LAE reserves	1,054.3	1,000.0	3,358.6	3,295.5	3,934.8
Unearned premiums	544.9	573.8	528.0	627.5	1,018.3
Debt	274.7	274.7	269.7	419.6	620.5
OneBeacon's common shareholders' equity	1,104.3	1,014.5	1,099.8	1,229.0	1,429.0
OneBeacon's common shareholders' equity and noncontrolling interests	1,107.4	1,017.3	1,113.9	1,248.9	1,448.1

(1) Underwriting ratios are used to measure the components of underwriting profitability and include: The loss and LAE ratio, calculated by dividing loss and LAE by earned premiums; the expense ratio, calculated by dividing policy acquisition and other underwriting expenses by earned premiums; and the combined ratio, the sum of the loss and LAE ratio and the expense ratio.

(2) The consolidated loss and LAE, expense and combined ratios for the years ended December 31, 2010 and 2009 include the results from personal lines that were sold in 2010, which are included in the Investing, Financing and Corporate segment.

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ITEM 7. 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 75 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:

	December 31,		
	2013	2012	2011
	(in millions except per share amounts)		
Numerator			
OneBeacon's common shareholders' equity	$1,104.3	$1,014.5	$1,099.8
Denominator			
Common shares outstanding(1)	95.4	95.4	95.1
Book value per share	$11.58	$10.63	$11.56
Dividends paid per share	$0.84	$0.84	$1.84

(1) Common shares outstanding includes unvested restricted shares.

Book Value Per Share—December 31, 2013 versus December 31, 2012

We ended 2013 with a book value per share of $11.58, reflecting an increase of 17.3%, including quarterly dividends of $0.21 per share, on an internal rate of return basis for the year ended December 31, 2013. The growth in book value per share was driven by $147.0 million of net income from continuing operations, which included pre-tax underwriting results of $84.6 million, reflecting a combined ratio of 92.4%, and pre-tax net investment results of $90.5 million, reflecting a 3.8% total return on average invested assets, as well as a $23.0 million pre-tax gain from the sale of Essentia Insurance Company (Essentia). Additionally, we recognized a $6.8 million tax benefit relating to the restructuring of a surplus note with our HGIE reciprocal (Reciprocal Note Restructure), and $4.0 million of pre-tax income of from a licensing agreement related to the extension of a transition services agreement with the buyer of our personal lines business (Licensing Arrangement).

For the year ended December 31, 2013, we reported comprehensive income attributable to OneBeacon’s common shareholders of $166.6 million, which included a $20.6 million after-tax benefit resulting from the net change in benefit plan assets and obligations, driven by higher investment returns and discount rate assumptions.

Our comprehensive loss attributable to OneBeacon’s common shareholders for 2012 was $22.1 million, which included a $91.5 million estimated after tax loss on sale for the Runoff Transaction and a $24.3 million loss from discontinued operations, partially offset by $97.5 million of net income from continuing operations.

Book Value Per Share—December 31, 2012 versus December 31, 2011

We ended 2012 with a book value per share of $10.63, reflecting a decrease of 0.8%, including quarterly dividends of $0.21 per share, on an internal rate of return basis for the year ended December 31, 2012. The change in book value per share includes a 4.4% total return on average invested assets. The decrease in book value was driven by a $91.0 million estimated after tax loss from sale of discontinued operations and a $24.3 million loss from discontinued operations (including a $9.0 million after tax charge related to an adjustment to the discount rate applied to the workers compensation loss reserves being transferred as part of the Runoff Transaction). This negative impact to book value per share was partially offset by $97.5 million of net income from continuing operations and also a $13.6 million increase in capital, net of transaction costs, as a result of the sale of OneBeacon Holdings (Luxembourg) S.à r.l. (OB Lux) to a subsidiary of White Mountains Insurance Group, Ltd. (White Mountains).

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We reported comprehensive loss attributable to OneBeacon's common shareholders of $22.1 million for 2012, compared to comprehensive income attributable to OneBeacon's common shareholders of $43.9 million for 2011. The change in comprehensive income (loss) in 2012 compared to 2011 was primarily due to charges associated with the Runoff Transaction and $28.2 million of after tax ($43.4 million pre-tax) catastrophe losses and reinstatement premiums resulting from the impact of Superstorm Sandy, which made landfall in the mid-Atlantic and northeastern regions of the United States in October 2012.

Overview

We are an exempted Bermuda limited liability company. Our operating companies are U.S.-based property and casualty insurance writers, most of which operate under intercompany reinsurance agreements, which were established when we restructured our internal pooling arrangement as part of the Runoff Transaction during 2012, as further described below. During 2011 and part of 2012, most of our operating companies operated in a multi-company pool. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus rather than just on its own capital and surplus. Under such arrangements, the members share substantially all insurance business that is written, and allocate the combined premiums, losses and expenses. The internal pool restructuring did not have an effect on our consolidated results. We provide a wide range of specialty insurance products and services primarily through independent agencies, regional and national brokers, wholesalers and managing general agencies. For 2013 our net written premiums totaled $1.1 billion, and we had total assets of approximately $5.2 billion and total OneBeacon's common shareholders' equity of $1.1 billion at December 31, 2013.
Historically, we have offered a range of specialty, commercial and personal products and services, however, as a result of historical transactions we are now focused exclusively on specialty business. In addition, the transactions freed up significant capital, increased our financial flexibility and reduced our catastrophe exposure. Recent significant transactions include the sale of Essentia on January 1, 2013, the entry into an agreement to sell our Runoff Business on October 17, 2012, and the sale of AutoOne on February 22, 2012. See "Significant Transactions" below.

Our Segments

Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate.
The Specialty Products segment is comprised of eight operating segments, including a new Crop underwriting operating segment, as well as the Collector Cars and Boats underwriting operating segment that was exited in the first quarter of 2013 (see Note 2—"Acquisitions and Dispositions" of the accompanying consolidated financial statements), representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. In addition to Crop and Collector Cars and Boats, the Specialty Products segment includes the Professional Insurance, Specialty Property, Environmental, Tuition Reimbursement, Programs, and Surety underwriting operating segments. During 2013, we 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. We have entered into an exclusive agreement with a managing general agency, The Climate Corporation, to provide coverages through the federal program and other supplemental coverages, including crop-hail. We began writing crop business in the fourth quarter of 2013.
The Specialty Industries segment is comprised of six underwriting operating segments, representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Specialty Industries segment includes the International Marine Underwriters (IMU), Technology, Accident, Government Risks, Entertainment, and Energy (which has been exited) underwriting operating segments.
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 our intermediate subsidiaries.

Revenues

Premiums written are recognized as revenues and are earned ratably over the term of the related policy. Unearned premiums represent the portion of premiums written that are applicable to future insurance coverage provided by policies.

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Deferred Acquisition Costs

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs which are directly attributable to and vary with the production of business. These costs are deferred and amortized to the extent they relate to successful contract acquisitions over the applicable premium recognition period as policy acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. This limitation is referred to as a premium deficiency. A premium deficiency is recognized if the sum of expected loss and LAE expenses, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums and anticipated investment income. A premium deficiency is recognized by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency. There were no premium deficiencies recognized for any years presented.

On January 1, 2012, we 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.

Loss and Loss Adjustment Expenses (LAE)

Loss and LAE are charged against income as incurred. Unpaid insurance loss and LAE are based on estimates (generally determined by claims adjusters, legal counsel and actuarial staff) of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance loss and LAE reserves are based primarily on reports received from ceding companies and actuarial projections. Unpaid loss and LAE reserves represent management's best estimate of ultimate loss and LAE, net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any adjustments resulting therefrom are reflected in the current period. The process of estimating unpaid loss and LAE reserves involves a considerable degree of judgment by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

Reinsurance

Our insurance subsidiaries enter into ceded reinsurance contracts from time to time to protect their businesses from losses due to concentration of risk, to manage their operating leverage ratios and to limit losses arising from catastrophic events. The majority of such reinsurance contracts are executed through excess-of-loss treaties and catastrophe contracts under which the reinsurer indemnifies for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. We have also entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria covered on a pro rata basis. The amount of each risk ceded by us is subject to maximum limits which vary by line of business and type of coverage.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The collectibility of reinsurance recoverables is subject to the solvency of the reinsurers. We are selective in regard to our reinsurers, principally placing reinsurance with those reinsurers with strong financial condition, reputation, industry ratings and underwriting ability. Management monitors the financial condition and ratings of our reinsurers on an ongoing basis.

Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

Share-Based Compensation

Compensation Philosophy

Our executive compensation policies are designed with one goal in mind, namely, the maximization of shareholder value over long periods of time. We believe that this goal is best pursued by utilizing a pay-for-performance program that serves to attract and retain superior executive talent and provide management with performance-based incentives to maximize

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shareholder value. Through this compensation program, we seek to maximize shareholder value by aligning closely the financial interests of management with those of our shareholders.

Compensation of our senior management team, including our named executive officers, consists primarily of three components: base salary, annual bonus and long-term incentive awards. Base salaries have been capped at $500,000. Annual bonus targets for all senior executives are 50%, with the exception of the Chief Executive Officer at 75%, of base salary. Long-term incentives for senior executives have in the past been comprised of performance shares and/or performance units. Under these instruments, payouts are explicitly tied to OneBeacon's performance over a three-year period and are highly variable (the actual number of shares/units paid out at the end of the cycle will range from 0% to 200% of target depending on performance against established goals). See Note 9—"Employee Share-Based Incentive Compensation Plans" of the accompanying consolidated financial statements.

Share-Based Compensation Recognition

Our share-based compensation plans consist of performance shares, which are typically settled in cash, and restricted shares. Compensation cost is measured and recognized based on the current market price of the underlying common shares and on the number of shares that are expected to vest.

Share-Based Compensation Plans

Performance Shares

In February 2009, the Compensation Committee defined growth in its intrinsic business value per share for the 2009-2011 performance cycle to be a weighted measure comprised of growth in adjusted book value per share and underwriting return on equity. A total of 256,751 performance shares were outstanding as of December 31, 2011 for the 2009-2011 performance cycle, the payment of which was based upon a performance factor of 138.6%.

In February 2010, the Compensation Committee granted performance shares with a goal of growth in book value per share. The performance metrics for the 2010-2012 performance cycle were not achieved and, therefore, no payments were made in 2013 for the 238,658 performance shares that were outstanding as of December 31, 2012.

In February 2011, 2012 and 2013, the Compensation Committee granted performance shares with a goal of growth in book value per share of 11%, 10% and 13%, respectively, for the 2011-2013, 2012-2014 and 2013-2015 performance cycles, respectively. As of December 31, 2013, 142,138 performance shares, 181,290 performance shares and 179,000 performance shares were outstanding with respect to the 2011-2013, 2012-2014 and 2013-2015 performance cycles, respectively.

Restricted Shares

On March 1, 2012, OneBeacon issued 300,000 shares of restricted stock to certain employees that vest in equal installments on February 28, 2014 and 2015. On May 25, 2011, OneBeacon issued 630,000 shares of restricted stock to its CEO that vest in equal installments on February 22, 2014, 2015, 2016 and 2017. Concurrently with the 2011 grant of restricted stock, 35,000 performance shares issued to the CEO for the 2011-2013 performance share cycle were forfeited. Performance share awards to the CEO for each year through 2016 are being reduced by 35,000 shares. The restricted shares contain dividend participation features, and therefore, are considered participating securities. At December 31, 2013 and 2012, the Company had unvested restricted shares outstanding of 915,000 and 927,000, respectively.

Income taxes

The income tax expense related to pre-tax income from continuing operations for the years ended December 31, 2013, 2012 and 2011 represented net effective tax rates of 18.9%, 7.9% and 12.4%, respectively. Our effective tax rate for 2013 was lower than the U.S. statutory rate of 35% due to a reduction in the valuation allowance as a result of the $6.8 million tax benefit associated with the restructuring of a surplus note with HGIE, a reciprocal which is included in our consolidated results as a variable interest entity, and income generated in jurisdictions other than the United States, principally representing interest income taxed in a jurisdiction with a lower effective tax rate. Our effective tax rate for the years ended December 31, 2012 and 2011 were lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States, principally representing interest income taxed in a jurisdiction with a lower effective tax rate. For the years ended December 31, 2013, 2012 and 2011, the effective tax rate on non-U.S. income was 0.5%, 0.6% and 0.3%, respectively, and the effective rate on U.S. income was 28.1%, 26.1% and 31.6%, respectively.

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Significant Transactions
Dispositions
Essentia
Effective January 1, 2013, OneBeacon completed the sale of Essentia, an indirect wholly-owned subsidiary which wrote the collector cars and boats business, to Markel Corporation. Concurrently, OneBeacon and Hagerty Insurance Agency (Hagerty) terminated their underwriting arrangement with respect to the collector cars and boats business, and we recognized a pre-tax gain on sale of $23.0 million ($15.0 million after tax) in 2013. For the years ended December 31, 2012 and 2011, the business associated with this agreement generated net written premiums of $179.7 million and $166.6 million, respectively, or 15.2% and 15.7%, respectively, of consolidated written premiums. Earned premiums for 2013, 2012 and 2011 were $89.1 million, $172.4 million and $159.3 million, respectively.
Runoff Business
As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" and Note 2—"Acquisitions and Dispositions" of the accompanying consolidated financial statements, in October 2012, we entered into the Stock Purchase Agreement with respect to the sale of our Runoff Business to Armour. Pursuant to the terms of the Stock Purchase Agreement, at closing, we 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, we may provide, under certain scenarios, financing in the form of surplus notes.
The Runoff Transaction is subject to various closing conditions, primarily the receipt of regulatory approvals. The regulatory review process has included a third party actuarial review of the Runoff Business loss and LAE reserves, completed in September of 2013, as well as independent stochastic modeling of the future cash flows of the Runoff Business. 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 we will provide certain transition services to Armour during the term of the TSA, which has an initial term of one year. We have concluded that continuing involvement after the closing of the transaction is insignificant relative to the business being sold.
The Pennsylvania Insurance Department (PID) is required to conduct an examination of the Runoff Business as part of its regulatory review of the Runoff Transaction. Pursuant to this examination, the PID required a third party actuarial review to provide an independent actuarial assessment of the loss reserves associated with the Runoff Business, which is a normal requirement associated with such examinations. The independent actuarial review was completed in September 2013, at which time the PID posted the summary review to its web site. The independent actuarial review produced a range of total statutory net loss and LAE reserves of $215 million to $668 million as of March 31, 2013. This compared to our recorded statutory net loss and LAE reserves of $166 million as of March 31, 2013. Since March 31, 2013, we increased the Runoff Business loss and LAE reserves by $78.9 million.
During the fourth quarter of 2013, and as part of our annual certification process, we completed a comprehensive actuarial analysis of the non-A&E loss and LAE reserves associated with the Runoff Business. In addition to our internal actuaries taking into account the differing assumptions, methods, and analyses produced by the independent actuarial review and other factors, management considered other sources of information, including runoff claims staffing models and related costs. For our A&E reserve estimates associated with the Runoff Business, we primarily rely on the internal study of our legacy A&E exposures completed in 2011 and on our subsequent monitoring of quarterly A&E activity, including the comparison of that activity against what was assumed in that most recent study. See “Critical Accounting Estimates” in Item 7—"Management’s Discussion and Analysis of Financial Condition and Results to Operations.”
As a result of the comprehensive actuarial analysis conducted by our actuaries during the fourth quarter of 2013, we recorded $71.5 million of unfavorable prior year non-A&E loss and LAE development related to the Runoff Business. The increase in loss reserves was concentrated in the workers compensation, personal auto liability, and excess

liability lines of business. In addition, we increased our estimate of adjusting and other expenses, a component of LAE reserves. We have not revised our estimate of net ultimate A&E payments. See "Discontinued Operations" in Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations."

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Although the Stock Purchase Agreement stipulates the amount of reserves and surplus to be transferred to Armour at closing, the PID may require additional reserves and/or surplus as a closing condition. In that event, and to respond to such a closing condition, the Stock Purchase Agreement provides that we would invest in surplus notes issued by the transferring companies, subject to certain limits on the amount of surplus notes issued. We believe that the transferred reserves and surplus plus the funding requirements/limitations agreed to in the Stock Purchase Agreement cover the full range of claim projections produced in the independent actuarial review. Currently, we expect to provide financing by way of surplus notes in an amount that falls within the provisions of the Stock Purchase Agreement.

In October 2013, we and Armour amended the Stock Purchase Agreement to extend the date by which either party may terminate the Stock Purchase Agreement to July 31, 2014. If the required regulatory approval to close the Runoff Transaction has not been obtained on or prior to July 31, 2014, either we or Armour may unilaterally extend the termination date of the Stock Purchase Agreement by no more than 90 days. We expect the Runoff Transaction to close in mid-2014.

AutoOne

On February 22, 2012, we completed the sale of our 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.

Debt Issuance and Refinancing

In November 2012, OneBeacon U.S. Holdings, Inc. (OBH) issued $275.0 million face value of senior unsecured notes through a public offering, at an issue price of 99.9% (2012 Senior Notes), which bear an annual interest rate of 4.6%. The net proceeds from the issuance of the 2012 Senior Notes were used to repurchase the outstanding balance on OBH's senior unsecured notes issued in May 2003, which had an annual interest rate of 5.875%. OneBeacon Insurance Group, Ltd provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the 2012 Senior Notes. See Note 6—"Debt" of the accompanying consolidated financial statements. In conjunction with the repurchase of the 2003 Senior Notes in 2012, we recognized a loss of $6.3 million primarily as a result of make whole payments to holders of the 2003 Senior Notes.

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Results of Operations

Review of Consolidated Results

A summary of our consolidated financial results is as follows:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Net written premiums	$1,088.6	$1,179.2	$1,062.7
Revenues			
Earned premiums	$1,120.4	$1,132.0	$1,012.2
Net investment income	41.1	53.6	71.4
Net realized and change in unrealized investment gains	49.4	55.7	10.6
Net other revenues (expenses)	31.2	(0.5)	(12.4)
Total revenues	1,242.1	1,240.8	1,081.8
Expenses			
Loss and loss adjustment expense	622.1	650.0	548.3
Policy acquisition expenses	208.9	249.4	221.2
Other underwriting expenses	204.8	205.2	162.3
General and administrative expenses	12.0	13.4	9.8
Interest expense	13.0	16.9	20.5
Total expenses	1,060.8	1,134.9	962.1
Pre-tax income from continuing operations	181.3	105.9	119.7
Income tax expense	(34.3)	(8.4)	(14.8)
Net income from continuing operations	147.0	97.5	104.9
Loss from discontinued operations, net of tax	(46.6)	(24.3)	(29.6)
Gain (loss) from sale of discontinued operations, net of tax	46.6	(91.0)	(19.2)
Net income (loss) including noncontrolling interests	147.0	(17.8)	56.1
Less: Net income attributable to noncontrolling interests	(1.0)	(1.4)	(1.0)
Net income (loss) attributable to OneBeacon's common shareholders	146.0	(19.2)	55.1
Net change in benefit plan assets and obligations, net of tax	20.6	(2.9)	(11.2)
Comprehensive income (loss) attributable to OneBeacon's common shareholders	$166.6	$(22.1)	$43.9

The following table provides our consolidated underwriting ratios for our continuing operations:

	Year ended December 31,		
	2013	2012	2011
Underwriting ratios:			
Loss and loss adjustment expense (LAE)	55.5 %	57.4 %	54.2 %
Expense	36.9	40.1	37.9
Total combined ratio	92.4 %	97.5 %	92.1 %

The impact of certain items to our underwriting ratios was as follows:

	(Favorable) unfavorable impact		
	2013	2012	2011
Point impact on loss and LAE ratio and combined ratio:			
Catastrophe losses, net of reinsurance	0.8 pts	4.2 pts	3.6 pts
Prior year loss reserve development	—	(0.7) pts	(2.9) pts

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Consolidated Results—Year ended December 31, 2013 versus year ended December 31, 2012

Our comprehensive income attributable to OneBeacon's common shareholders was $166.6 million for 2013, compared to a comprehensive loss of $22.1 million for 2012. Net income attributable to OneBeacon's common shareholders was $146.0 million for 2013, compared to a net loss of $19.2 million for 2012. The improvement in net income (loss) compared to the prior year period was primarily due to a $115.3 million improvement in the after-tax results of discontinued operations, substantially all of which related to the loss in 2012 from the Runoff Transaction. Additionally, we recognized a $23.0 million pre-tax ($15.0 million after tax) gain from the sale of Essentia in 2013, a $6.8 million tax benefit from the Reciprocal Note Restructure, and a $4.0 million pre-tax benefit related to the Licensing Arrangement. These improvements to net income (loss) for 2013 were offset significantly by a $18.8 million decrease in pre-tax net investment results, primarily driven by changes in the market value of our fixed maturity portfolio as a result of increases in interest rates. The $20.6 million change in other comprehensive income (loss) items in 2013 primarily reflects the impact of positive investment returns and an increase in the discount rate used to estimate our qualified pension plan projected benefit obligation in 2013, as compared to a $2.9 million after tax decrease in our pension plans in 2012 driven by an increase in the plan's projected benefit obligation, resulting from a lower discount rate, offset by positive investment returns.

Consolidated net written premiums decreased to $1,088.6 million in 2013, compared to $1,179.2 million for 2012. The termination of our agreement with Hagerty, together with our separate decision to exit the Energy underwriting operating segment, negatively impacted our total net written premiums for 2013, when compared to 2012, by $205.5 million, which drove the decrease in net written premiums of 7.7% on a consolidated basis. This decline was partially offset by broad increases in net written premiums across our other businesses, including our new Surety and Programs businesses.

Our total revenues of $1,242.1 million for 2013 were flat compared to $1,240.8 million for 2012, as decreases in earned premiums and net investment results were offset by an increase in other revenues. Net investment income decreased to $41.1 million for 2013, compared to $53.6 million for 2012, primarily due to continued lower investment yields on new purchases during the past year and a slight decline in average invested assets, including invested assets reclassified to assets held for sale. The decline in average invested assets since December 31, 2012 was driven by $102.3 million of losses paid related to the Runoff Business, as well as dividends paid to shareholders. Net realized and change in unrealized investment gains decreased to $49.4 million, compared to $55.7 million in 2012, driven by increasing interest rates partially offset by favorable equity market fluctuations. Net other revenues (expenses) improved to $31.2 million in 2013, compared to $(0.5) million in 2012, substantially due to the $23.0 million pre-tax ($15.0 million after tax) gain from the sale of Essentia, and $4.0 million of pre-tax income from the Licensing Arrangement.

Expenses decreased to $1,060.8 million for 2013, compared to $1,134.9 million for 2012, resulting primarily from decreased policy acquisition expenses and net loss and LAE. Net loss and LAE decreased to $622.1 million in 2013, compared to $650.0 million in 2012, primarily due to lower catastrophe losses and improved non-catastrophe underwriting results. Policy acquisition expenses were $208.9 million for 2013, representing a decrease of $40.5 million from the prior year, driven by our recently exited Collector Cars and Boats underwriting operating segment, which carried a high acquisition expense related to contingent commissions. Other underwriting expenses remained relatively flat at $204.8 million in 2013, compared to $205.2 million in 2012, with decreased fringe benefits and information technology expenses offset by increased non-claims litigation expenses and incentive compensation accruals in 2013. Interest expense decreased from $16.9 million in 2012 to $13.0 million in 2013, reflecting the lower interest rate of 4.6% on our senior notes for 2013 compared to an interest rate of 5.875% on senior notes prior to their refinancing in the fourth quarter of 2012.

Our income tax expense related to pre-tax income from continuing operations for 2013 and 2012 represented net effective tax rates of 18.9% and 7.9%, respectively. The effective tax rate for 2013 was lower than the U.S. statutory rate of 35% due to a reduction in the valuation allowance as a result of the $6.8 million tax benefit associated with the restructuring of a surplus note with HGIE, a reciprocal which is included in our consolidated results as a variable interest entity, and income generated in jurisdictions other than the United States, principally representing interest income taxed in a jurisdiction with a lower effective tax rate. The effective tax rate for the year ended December 31, 2012 was lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States, principally representing interest income taxed in a jurisdiction with a lower effective tax rate. The effective tax rate on non-U.S. income for 2013 and 2012 was 0.5% and 0.6%, respectively, and the effective tax rate on U.S. income was 28.1% and 26.1%, respectively.

Our combined ratio for 2013 was 92.4%, reflecting a 55.5% loss and LAE ratio and a 36.9% expense ratio, and represented a significant improvement over the combined ratio reported for 2012 of 97.5%, consisting of a 57.4% loss and LAE ratio and a 40.1% expense ratio. The 1.9 point decrease in the loss LAE ratio for 2013, compared to 2012, was driven by significantly lower catastrophe losses, offset in part by less favorable loss reserve development compared to 2012. Catastrophe losses were $9.1 million, or 0.8 points, for 2013, primarily resulting from storms in the southern United States and rainstorms in Colorado, compared to $47.7 million, or 4.2 points, for 2012, primarily related to Superstorm Sandy. There was no net loss

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reserve development for 2013, as unfavorable development on a few large claims in both Specialty Property and Entertainment were offset by favorable development in Professional Insurance, IMU and Technology. This compared to favorable loss reserve development of $7.4 million, or 0.7 points, for 2012, primarily resulting from favorable development in Technology and Professional Insurance that was partially offset by adverse development within Specialty Property and Energy. The expense ratio improved 3.2 points to 36.9% for 2013. Our expense ratio was positively impacted by a 3.4 point decrease in policy acquisition expenses for 2013, compared to 2012, driven by our exit of the Collector Cars and Boats business, which carried a high acquisition expense ratio.

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, professional liability or umbrella liability. 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 2013, our net combined ratio was higher than our gross combined ratio by 1.9 points as a result of the cost of the reinsurance programs more than offsetting the benefits from ceded losses.

Consolidated Results—Year ended December 31, 2012 versus year ended December 31, 2011

Our comprehensive loss attributable to OneBeacon's common shareholders was $22.1 million for 2012, compared to comprehensive income attributable to OneBeacon's common shareholders of $43.9 million in 2011. Net loss attributable to OneBeacon's common shareholders was $19.2 million for 2012, compared to net income attributable to OneBeacon's common shareholders of $55.1 million for 2011. The decrease in results for 2012 as compared to the prior year was primarily due to charges associated with the Runoff Transaction and $28.2 million after-tax ($43.4 million pre-tax) of catastrophe losses and reinstatement premiums resulting from the impact of Superstorm Sandy, which made landfall in the mid-Atlantic and northeastern regions of the United States in October 2012. Change in other comprehensive income (loss) items in 2012 included the impact of a $2.9 million after tax decrease in the over-funded status of our qualified pension primarily related to an increase in the plan's projected benefit obligation, as compared to an $11.2 million after tax decrease in the overfunded status of our pension plans in the prior year driven by a decline in the value of the investment results.

Our total revenues increased 14.7% to $1,240.8 million in 2012, compared to $1,081.8 million in 2011. The increase was primarily due to an 11.8% increase in earned premiums resulting from growth in both our Specialty Products and Specialty Industries segments. Net realized and change in unrealized investment gains increased to $55.7 million, compared to $10.6 million in 2011. Net investment income decreased to $53.6 million in 2012, compared to $71.4 million in 2011, primarily due to a 13.2% decline in average invested assets, including invested assets reclassified to assets held for sale. The decline in average invested assets since December 31, 2011 was driven by $220.8 million of losses paid related to the Runoff Business, as well as the closing of AutoOne and return of capital to shareholders. Net other revenues (expenses) improved $11.9 million to $(0.5) million in 2012, compared to $(12.4) million in 2011. Included in net other revenues (expenses) for 2012 was a $6.3 million pre-tax loss related to the repurchase of our 2003 Senior Notes, offset in part by a $4.2 million pre-tax gain on the sale of a shell company, Pennsylvania General Insurance Company (PGIC). The year ended December 31, 2011 included a $12.0 million other expense related to the partial redemption of a portion of our 2003 Senior Notes.

Our full year 2012 expenses increased to $1,134.9 million, compared to $962.1 million in 2011. The net loss and LAE increase of 18.5% to $650.0 million in 2012 exceeded the 11.8% increase in earned premiums due to a decrease in favorable loss reserve development as well as increases in catastrophe losses driven by Superstorm Sandy, and non-catastrophe losses. Catastrophe losses from Superstorm Sandy were $43.4 million pre-tax ($28.2 million after tax). The pre-tax loss was comprised of gross incurred losses of $103.2 million less reinsurance recoveries of $68.4 million, plus reinstatement premiums of $8.6 million. Policy acquisition expenses increased 12.7% to $249.4 million and other underwriting expenses increased 26.4% to $205.2 million in 2012, compared to the prior year period, as a result of our investment in new businesses and costs associated with actions taken to migrate certain corporate functions to Minnesota in 2012. These were somewhat offset by depreciation of property leased to a tenant included in general and administration expense in 2012 that, in 2011, was part of our insurance operations and recognized in other underwriting expense, which also resulted in the significant change in general and administrative expenses, which increased 36.7% to $13.4 million. Interest expense decreased 17.6% to $16.9 million in 2012, reflective of actions taken to reduce outstanding debt.

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Our income tax expense related to pre-tax income from continuing operations for the years ended December 31, 2012 and 2011 represented net effective tax rates of 7.9% and 12.4%, respectively. The effective tax rates for the years ended December 31, 2012 and 2011 were lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States, principally representing interest income taxed in a jurisdiction with a lower effective tax rate. For the years ended December 31, 2012 and 2011, the effective tax rate on non-U.S. income was 0.6% and 0.3%, respectively, and the effective tax rate on U.S. income was 26.1% and 31.6%, respectively. See Note 7—"Income Taxes" of the accompanying consolidated financial statements.

Our combined ratio was 97.5% for 2012, compared to 92.1% for 2011. The increase in the combined ratio for 2012 was primarily due to the impact of Superstorm Sandy in 2012, as well as a 2.2 point decrease in favorable loss reserve development compared to 2011. Favorable loss reserve development was $7.4 million, or 0.7 points, in 2012 compared to $29.8 million, or 2.9 points, for the prior year period. The favorable loss reserve development for 2012 was primarily in the workers' compensation, multiple peril liability and general liability lines. This favorable development was offset somewhat by adverse loss reserve development on a few excess property claims. Catastrophe losses were $47.7 million, or 4.2 points, for 2012, due primarily to the impact of Superstorm Sandy. The year ended December 31, 2011 included $36.7 million, or 3.6 points, of catastrophe losses primarily related to hurricane Irene, tornados in the southeastern and midwestern United States as well as storms and freezing weather in the northeastern and southwestern United States. Total net written premiums increased 11.0% in 2012 to $1,179.2 million, compared to $1,062.7 million for the prior year, due to the growth from both our Specialty Products and Specialty Industries segments. The expense ratio increased 2.2 points, primarily due to our investment in new businesses and costs associated with actions taken to migrate certain corporate functions to Minnesota in 2012.

Reinsurance protection. For 2012, our net combined ratio was lower than our gross combined ratio by 0.8 points, primarily due to the significant amount of reinsurance cessions related to Superstorm Sandy, which were partially off-set by the impact of the cost of facultative reinsurance and property reinsurance, and also the cost of catastrophe reinsurance and marine reinsurance.

Summary of Operations By Segment

Our reportable segments are Specialty Products, Specialty Industries, and Investing, Financing and Corporate.

The Specialty Products segment is comprised of eight operating segments, including a new Crop underwriting operating segment, as well as the Collector Cars and Boats underwriting operating segment that was exited in the first quarter of 2013 (see Note 2—"Acquisitions and Dispositions" of the accompanying consolidated financial statements), representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. In addition to Crop and Collector Cars and Boats, the Specialty Products segment includes the Professional Insurance, Specialty Property, Environmental, Tuition Reimbursement, Programs, and Surety underwriting operating segments. During 2013, we 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. We have entered into an exclusive agreement with a managing general agency, The Climate Corporation, to provide coverages through the federal program and other supplemental coverages, including crop-hail. We began writing crop business in the fourth quarter of 2013.

The Specialty Industries segment is comprised of six underwriting operating segments, representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Specialty Industries segment includes the International Marine Underwriters (IMU), Technology, Accident, Government Risks, Entertainment, and Energy (which has been exited) underwriting operating segments.

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 our intermediate subsidiaries.

Specialty Products

Financial results for our Specialty Products reportable segment were as follows:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Net written premiums	$509.6	$630.9	$571.2
Earned premiums	$553.5	$604.0	$549.8
Loss and LAE	(312.3)	(345.6)	(281.7)
Policy acquisition expenses	(106.3)	(150.3)	(129.1)
Other underwriting expenses	(97.4)	(96.2)	(77.1)
Total underwriting income	37.5	11.9	61.9
Net other revenues	0.3	0.4	—
General and administrative expenses	—	—	—
Pre-tax income from continuing operations	$37.8	$12.3	$61.9

The following table provides underwriting ratios for Specialty Products:

	Year ended December 31,		
	2013	2012	2011
Underwriting ratios:			
Loss and LAE	56.4 %	57.2 %	51.2 %
Expense	36.8	40.7	37.5
Total combined ratio	93.2 %	97.9 %	88.7 %

The impact of certain items to our underwriting ratios was as follows:

	(Favorable) unfavorable impact Year ended December 31,		
	2013	2012	2011
Point impact on loss and LAE ratio and combined ratio:			
Catastrophe losses, net of reinsurance	0.6 pts	3.8 pts	0.9 pts
Prior year loss reserve development	1.1 pts	(0.3) pts	(3.0) pts

Specialty Products—Year ended December 31, 2013 versus year ended December 31, 2012

Net written premiums for Specialty Products decreased to $509.6 million for 2013 from $630.9 million for 2012. The decrease was due to a decline in net written premiums of $180.3 million from our Collector Cars and Boats underwriting operating segment that we exited January 1, 2013. This decrease was offset, in part, by increases in net written premiums of $20.2 million from Programs which we began writing in 2012, $8.8 million from Surety which we began writing in 2012, $8.2 million from Professional Insurance primarily related to management liability, $6.4 million from Specialty Property, $5.3 million from Environmental which we began writing in 2011, $0.8 million from Tuition Reimbursement, and $9.3 million related to our new businesses, including Crop.

The Specialty Products combined ratio for 2013 decreased to 93.2% from 97.9% for 2012. The loss and LAE ratio decreased by 0.8 points to 56.4% and the expense ratio decreased by 3.9 points to 36.8%. The decrease in the loss and LAE ratio was due primarily to a 3.2 point decrease in catastrophe losses, offset by 1.1 points of net unfavorable loss reserve development primarily related to a few large claims in Specialty Property, reduced in part by favorable loss reserve development in the healthcare business included in Professional Insurance. This compared to 0.3 points of favorable loss reserve development in 2012, primarily related to Professional Insurance, offset in part by adverse loss reserve development for Specialty Property. The year ended December 31, 2013 included 0.6 points of catastrophe losses, primarily related to storms in the southern and midwestern United States impacting Professional Insurance and Collector Cars and Boats, compared with 3.8 points of catastrophe losses in 2012, primarily related to Superstorm Sandy impacting primarily Specialty Property, Professional Insurance, and Collector Cars and Boats. The decrease in the expense ratio for 2013, compared to 2012, was primarily due to a 5.7 point decrease in policy acquisition expenses, due primarily to lower expense in Collector Cars and Boats which carried a higher acquisition ratio. This decrease in policy acquisition expense was partially offset by a 1.8 point increase in other underwriting expense, driven by increased non-claims litigation expenses and incentive compensation accruals, offset in part by decreased fringe benefits and information technology expenses.

Specialty Products—Year ended December 31, 2012 versus year ended December 31, 2011

Net written premiums for Specialty Products increased 10.5% to $630.9 million in 2012 from $571.2 million in 2011. The increase was due to increases in net written premiums of $25.8 million from Professional Insurance primarily related to the management liability line, $13.1 million from Collector Cars and Boats driven by growth in new business as well as retention, $9.0 million from Specialty Property, $5.3 million from Environmental which we began writing in 2011, $4.5 million from Tuition Reimbursement, $1.7 million from Surety which we began writing in 2012, and $0.3 million from Programs which we began writing in 2012.

The Specialty Products combined ratio for 2012 increased to 97.9% from 88.7% for 2011. The loss and LAE ratio increased by 6.0 points to 57.2% while the expense ratio increased by 3.2 points to 40.7%. The increase in the loss and LAE ratio was primarily due to lower favorable loss reserve development as well as higher catastrophe losses. The year ended December 31, 2012 included 0.3 points of favorable loss reserve development primarily related to Professional Insurance, offset in part by adverse loss reserve development for Specialty Property, compared to 3.0 points of favorable loss reserve development primarily related to Professional Insurance in 2011. The year ended December 31, 2012 included 3.8 points of catastrophe losses, primarily related to Superstorm Sandy impacting primarily Specialty Property, Professional Insurance, and Collector Cars and Boats, compared to 0.9 points of catastrophe losses in 2011, primarily related to tornadoes in the southeastern and midwestern United States. Additionally, current accident year non-catastrophe losses increased 0.4 points, compared with 2011. The increase in the expense ratio was primarily due to increased policy acquisition expenses, mainly related to Collector Cars and Boats and an assumed reinsurance program at Professional Insurance.

Specialty Industries

Financial results for our Specialty Industries reportable segment were as follows:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Net written premiums	$579.0	$548.3	$491.5
Earned premiums	$566.9	$528.0	$462.4
Loss and LAE	(309.8)	(304.4)	(266.6)
Policy acquisition expenses	(102.6)	(99.1)	(92.1)
Other underwriting expenses	(107.4)	(109.0)	(85.2)
Total underwriting income	47.1	15.5	18.5
Net other revenues (expenses)	1.1	(0.8)	0.6
General and administrative expenses	(2.4)	(1.9)	(1.7)
Pre-tax income from continuing operations	$45.8	$12.8	$17.4

The following table provides underwriting ratios for Specialty Industries:

	Year ended December 31,		
	2013	2012	2011
Underwriting ratios:			
Loss and LAE	54.7%	57.7%	57.7%
Expense	37.0	39.4	38.3
Total combined ratio	91.7%	97.1%	96.0%

The impact of certain items to our underwriting ratios was as follows:

	(Favorable) unfavorable impact		
	Year ended December 31,		
	2013	2012	2011
Point impact on loss and LAE ratio and combined ratio:			
Catastrophe losses, net of reinsurance	1.0 pts	4.7 pts	6.8 pts
Prior year loss reserve development	(1.1) pts	(1.1) pts	(2.8) pts

Specialty Industries—Year ended December 31, 2013 versus year ended December 31, 2012

Net written premiums for Specialty Industries increased to $579.0 million in 2013 from $548.3 million in 2012. The increase in 2013 was due to increases in net written premiums of $21.1 million from our Government Risks underwriting operating segment, $20.9 million from IMU (which includes $6.2 million of energy business net written premiums that were included in Energy in 2012), $10.8 million from Technology, $5.4 million from Entertainment, and $3.9 million from Accident, which were primarily due to rate increases and new business, as well as solid retention levels. These increases were partially offset by a $25.2 million decrease in net written premiums from the Energy underwriting operating segment, which we exited in the first quarter of 2013.

The Specialty Industries combined ratio for 2013 decreased to 91.7% from 97.1% for 2012, as the loss and LAE ratio decreased by 3.0 points to 54.7% and the expense ratio decreased by 2.4 points to 37.0%. The year ended December 31, 2013 included 1.1 points of favorable loss reserve development primarily related to our ocean marine business included in IMU and to Technology, offset in part by few large claims in Entertainment, compared to 1.1 points of favorable loss reserve development in 2012 primarily related to Technology. Additionally, current accident year losses decreased 3.0 points for 2013, compared to 2012, as catastrophe losses decreased 3.7 points while non-catastrophe losses increased 0.7 points. The year ended December 31, 2013 included 1.0 point of catastrophe losses, primarily related to storms in the midwestern and southern United States impacting our inland marine business included in IMU, as well as impacting Government Risks and Technology, and rainstorms in Colorado impacting our inland marine business included in IMU. This compared to 4.7 points of catastrophe losses in 2012, primarily related to Superstorm Sandy and, to a much lesser extent, thunderstorms in the midwestern, mid-Atlantic, and northeastern United States, which primarily impacted IMU. The change in the expense ratio included a 1.7 point decrease in other underwriting expenses in 2013, compared to 2012, driven by decreased fringe benefits and information technology expenses, offset in part by increased incentive compensation accruals, as well as a 0.7 point decrease in policy acquisition expenses, driven by lower premium taxes and commissions.

Specialty Industries—Year ended December 31, 2012 versus year ended December 31, 2011

Net written premiums for Specialty Industries increased 11.6% to $548.3 million in 2012 from $491.5 million in 2011. The increase compared to the prior year was due to increases in net written premiums of $26.7 million from our Technology underwriting operating segment, $15.2 million from Accident, $13.5 million from Government Risks, $11.1 million from Energy, and a $10.2 million from Entertainment. These increases were primarily due to new business as well as solid retention levels despite competition in the marketplace. These increases were partially offset by a $19.9 million decrease in net written premiums from IMU, reflecting a revised underwriting strategy.

The Specialty Industries combined ratio for 2012 increased to 97.1% from 96.0% for 2011. The loss and LAE ratio was unchanged at 57.7% while the expense ratio increased by 1.1 points to 39.4%. The year ended December 31, 2012 included 1.1 points of favorable loss reserve development primarily related to Technology, compared to 2.8 points of favorable loss reserve development primarily related to Technology in the prior year. This 1.7 point decrease in favorable loss reserve development was offset by a 1.7 point decrease in current accident year losses, compared to 2011. The year ended December 31, 2012 included 4.7 points of catastrophe losses, primarily related to Superstorm Sandy and thunderstorms in the midwestern, mid-Atlantic, and northeastern United States, which primarily impacted IMU, as compared to 6.8 points of catastrophe losses in 2011, primarily related to hurricane Irene, storms and freezing weather in the northeastern and southwestern United States impacting primarily IMU, and tornadoes in the southeastern and midwestern United States most notably impacting IMU and Technology. The increase in the expense ratio was due to a 2.2 point increase in other underwriting expenses primarily for Entertainment and Technology, partially offset by a 1.1 point decrease in policy acquisition expenses primarily related to Entertainment.

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Crop Insurance

Beginning in 2013, we received approval to provide multiple peril crop insurance (MPCI) through the federal crop insurance program administered by the Risk Management Agency (RMA), which is a division of the U.S. Department of Agriculture. We entered into an exclusive agreement with a managing general agency, The Climate Corporation, to provide coverages through the federal program and other supplemental coverages, including crop-hail (a separate, non-federally subsidized product that is regulated by each state). In the federal crop insurance program, the RMA sets the policy terms and conditions, rates and forms, and is also responsible for setting compliance standards. As a participating company, we report all details of underwritten policies to the RMA and are party to a Standard Reinsurance Agreement (SRA). The SRA defines the relationship between participating companies and the Federal Crop Insurance Corporation.

MPCI net written premiums are recognized at the sales closing date, with necessary adjustments made as we receive acreage reports from the policyholders. Premiums written are recognized as revenues and are earned ratably over the period of risk commencing with the sales closing date and ending with the crop harvest date. All of our written premium in 2013 related to the MPCI program.

Investing, Financing and Corporate

A summary of results from our Investing, Financing and Corporate reportable segment is as follows:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Net investment income	$41.1	$53.6	$71.4
Net realized and change in unrealized investment gains	49.4	55.7	10.6
Pre-tax investment results	90.5	109.3	82.0
Net other revenues (expenses)	29.8	(0.1)	(13.0)
General and administrative expenses	(9.6)	(11.5)	(8.1)
Interest expense	(13.0)	(16.9)	(20.5)
Pre-tax income from continuing operations	$97.7	$80.8	$40.4

Investing, Financing and Corporate—Year ended December 31, 2013 versus year ended December 31, 2012

Investing, Financing and Corporate reported pre-tax income from continuing operations of $97.7 million in 2013, compared to $80.8 million in 2012. The increase was primarily related to a $23.0 million pre-tax ($15.0 million after tax) gain from the sale of Essentia and a $4.0 million pre-tax benefit related to the Licensing Arrangement, mostly offset by a significant decrease in investment returns. As described in greater detail in "Summary of Investment Results" below, net investment income decreased to $41.1 million in 2013, compared to $53.6 million in 2012, and net realized and change in unrealized investment gains decreased to $49.4 million in 2013, compared to $55.7 million in 2012. Interest expense decreased to $13.0 million for 2013, compared to $16.9 million for 2012, reflecting the lower interest rate of 4.6% on our senior notes for 2013 compared to an interest rate of 5.875% on senior notes prior to their refinancing in the fourth quarter of 2012. See "Liquidity and Capital Resources—Financing."

Investing, Financing and Corporate—Year ended December 31, 2012 versus year ended December 31, 2011

Investing, Financing and Corporate reported pre-tax income from continuing operations of $80.8 million in 2012, compared to $40.4 million in 2011. The increase was primarily related to an increase in net realized and change in unrealized investment gains and a decrease in net other expenses, offset in part by a decrease in net investment income. As described in "Summary of Investment Results" below, net realized and change in unrealized investment gains increased to $55.7 million in 2012, compared to $10.6 million in 2011, and net investment income decreased to $53.6 million in 2012, compared to $71.4 million in 2011. The decrease in interest expense reflects our actions taken to reduce outstanding debt prior to refinancing the debt in the fourth quarter 2012. Further, net other expenses included a $6.3 million loss on the redemption of our outstanding 2003 Senior Notes in 2012, compared to $12.0 million loss related to the redemption of a portion of our 2003 Senior Notes in 2011. General and administrative expenses increased to $11.5 million in 2012 as compared with $8.1 million in 2011 due significantly to depreciation of property leased to a tenant which is included in general and administration expense in 2012 that in 2011 was recognized in other underwriting expense.

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Discontinued Operations

The following summarizes the results of operations, including related income taxes associated with the business classified as discontinued operations:

	Year ended December 31,		
	2013	2012	2011
	($ in millions)		
Net written premiums	$0.4	$3.5	$58.0
Revenues			
Earned premiums	$0.8	$10.6	$70.5
Other revenue	6.3	—	1.7
Total revenues	7.1	10.6	72.2
Expenses			
Loss and loss adjustment expenses	78.9	48.4	89.5
Policy acquisition expenses (benefit)	—	(2.1)	5.3
Other underwriting expenses	(0.2)	1.7	22.8
Total expenses	78.7	48.0	117.6
Pre-tax loss	(71.6)	(37.4)	(45.4)
Income tax benefit			