

OneBeacon Insurance Group, Ltd.  
Form 10-Q  
October 28, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the period ended September 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-33128

ONEBEACON INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda

98-0503315

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

601 Carlson Parkway  
Minnetonka, Minnesota

55305

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

As of October 24, 2013, 23,649,400 Class A common shares, par value \$0.01 per share, and 71,754,738 Class B common shares, par value \$0.01 per share, were outstanding.

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

ONEBEACON INSURANCE GROUP, LTD.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2013	December 31, 2012
	(Unaudited)	
	(in millions, except share and per share amounts)	
Assets		
Investment Securities:		
Fixed maturity investments, at fair value	\$1,626.1	\$1,593.3
Short-term investments, at amortized cost (which approximates fair value)	162.0	232.8
Common equity securities, at fair value	327.5	259.0
Convertible fixed maturity investments, at fair value	31.9	62.6
Other investments	146.2	143.8
Total investment securities	2,293.7	2,291.5
Cash	173.8	43.9
Reinsurance recoverables	86.1	110.6
Premiums receivable	255.9	225.6
Deferred acquisition costs	107.7	123.9
Net deferred tax asset	127.2	137.8
Investment income accrued	10.6	12.1
Accounts receivable on unsettled investment sales	9.4	2.1
Other assets	203.5	227.2
Assets held for sale	1,957.2	2,226.8
Total assets	\$5,225.1	\$5,401.5
Liabilities		
Unpaid loss and loss adjustment expense reserves	\$1,052.9	\$1,000.0
Unearned premiums	552.7	573.8
Debt	274.7	274.7
Accounts payable on unsettled investment purchases	5.9	6.2
Other liabilities	316.7	302.7
Liabilities held for sale	1,957.2	2,226.8
Total liabilities	4,160.1	4,384.2
OneBeacon's common shareholders' equity and noncontrolling interests		
OneBeacon's common shareholders' equity		
Common shares and paid-in surplus (par value \$0.01; authorized, 200,000,000 shares; issued and outstanding, 95,404,138 and 95,386,179 shares)	1,021.7	1,019.1
Retained earnings	53.7	9.2
Accumulated other comprehensive loss, after tax	(13.3	) (13.8
Total OneBeacon's common shareholders' equity	1,062.1	1,014.5
Total noncontrolling interests	2.9	2.8
Total OneBeacon's common shareholders' equity and noncontrolling interests	1,065.0	1,017.3
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	\$5,225.1	\$5,401.5

See Notes to Consolidated Financial Statements.



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ONEBEACON INSURANCE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(\$ in millions, except per share amounts)			
<b>Revenues</b>				
Earned premiums	\$278.9	\$293.9	\$846.2	\$846.0
Net investment income	10.1	12.8	30.9	41.5
Net realized and change in unrealized investment gains	17.0	40.0	19.9	57.9
Net other revenues (expenses)	5.5	(0.4	) 30.1	(0.1
Total revenues	311.5	346.3	927.1	945.3
<b>Expenses</b>				
Loss and loss adjustment expenses	167.8	164.7	473.7	452.5
Policy acquisition expenses	53.6	66.6	160.9	185.6
Other underwriting expenses	46.8	47.4	150.7	146.2
General and administrative expenses	4.1	4.4	11.0	9.7
Interest expense	3.3	4.0	9.8	12.1
Total expenses	275.6	287.1	806.1	806.1
Pre-tax income from continuing operations	35.9	59.2	121.0	139.2
Income tax benefit (expense)	2.9	(14.2	) (15.9	) (28.1
Net income from continuing operations	38.8	45.0	105.1	111.1
Income (loss) from discontinued operations, net of tax	0.3	(15.8	) 0.3	(24.8
Loss from sale of discontinued operations, net of tax	—	(91.0	) —	(91.0
Net income (loss), including noncontrolling interests	39.1	(61.8	) 105.4	(4.7
Less: Net income attributable to noncontrolling interests	—	(0.4	) (0.8	) (1.2
Net income (loss) attributable to OneBeacon's common shareholders	39.1	(62.2	) 104.6	(5.9
Net change in benefit plan assets and obligations, net of tax	0.2	(2.0	) 0.5	(1.7
Comprehensive income (loss) attributable to OneBeacon's common shareholders	\$39.3	\$(64.2	) \$105.1	\$(7.6
<b>Earnings per share attributable to OneBeacon's common shareholders—basic and diluted</b>				
Net income from continuing operations, per share	\$0.41	\$0.47	\$1.09	\$1.15
Loss from discontinued operations, net of tax, per share	—	(0.17	) —	(0.27
Loss from sale of discontinued operations, net of tax, per share	—	(0.95	) —	(0.95
Net income (loss) attributable to OneBeacon's common shareholders per share	\$0.41	\$(0.65	) \$1.09	\$(0.07
Dividends declared and paid per OneBeacon's common share	\$0.21	\$0.21	\$0.63	\$0.63

See Notes to Consolidated Financial Statements.



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

	OneBeacon's Common Shareholders' Equity					Total OneBeacon's common shareholders' equity and noncontrolling interests
	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income (loss)	Total OneBeacon common shareholders' equity	Noncontrolling interests, after tax	
	(\$ in millions)					
Balances at January 1, 2013	\$1,019.1	\$9.2	\$ (13.8 )	\$ 1,014.5	\$ 2.8	\$ 1,017.3
Comprehensive income:						
Net income	—	104.6	—	104.6	0.8	105.4
Other comprehensive income item, after tax:						
Net change in benefit plan assets and obligations, net of tax	—	—	0.5	0.5	—	0.5
Total comprehensive income	—	104.6	0.5	105.1	0.8	105.9
Amortization of restricted share and option awards	2.3	—	—	2.3	—	2.3
Issuance of common shares	0.3	—	—	0.3	0.1	0.4
Dividends	—	(60.1 )	—	(60.1 )	(0.8 )	(60.9 )
Balances at September 30, 2013	\$1,021.7	\$53.7	\$ (13.3 )	\$ 1,062.1	\$ 2.9	\$ 1,065.0
	OneBeacon's Common Shareholders' Equity					Total OneBeacon's common shareholders' equity and noncontrolling interests
	Common shares and paid-in surplus	Retained earnings	Accum. other comprehensive income (loss)	Total OneBeacon common shareholders' equity	Noncontrolling interests, after tax	
	(\$ in millions)					
Balances at January 1, 2012	\$1,002.2	\$108.5	\$ (10.9 )	\$ 1,099.8	\$ 14.1	\$ 1,113.9
Comprehensive income (loss):						
Net (loss) income	—	(5.9 )	—	(5.9 )	1.2	(4.7 )
Other comprehensive income item, after tax:						
Net change in benefit plan assets and obligations, net of tax	—	—	(1.7 )	(1.7 )	—	(1.7 )
Total comprehensive income (loss)	—	(5.9 )	(1.7 )	(7.6 )	1.2	(6.4 )
Amortization of restricted share and option awards	1.9	—	—	1.9	—	1.9
Issuance of common shares	0.3	—	—	0.3	0.2	0.5
Dividends	—	(60.0 )	—	(60.0 )	(0.6 )	(60.6 )
Contributions	—	—	—	—	0.2	0.2
Gain on sale of OB Holdings Lux	14.0	—	—	14.0	—	14.0
Balances at September 30, 2012	\$1,018.4	\$42.6	\$ (12.6 )	\$ 1,048.4	\$ 15.1	\$ 1,063.5

See Notes to Consolidated Financial Statements.





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

	Nine months ended September 30,		
	2013	2012	
	(\$ in millions)		
Cash flows from operations:			
Net income (loss) including noncontrolling interests	\$ 105.4	\$ (4.7	)
Charges (credits) to reconcile net income to cash flows (used for) provided from operations:			
Net (income) loss from discontinued operations	(0.3	) 24.8	
Net loss from sale of discontinued operations	—	91.0	
Net realized and change in unrealized investment gains	(19.9	) (57.9	)
Net realized gain on sale of business	(23.0	) —	
Deferred income tax expense	12.3	12.3	
Other operating items:			
Net change in loss and LAE reserves	52.9	(0.9	)
Net change in unearned premiums	(21.1	) 85.2	
Net change in premiums receivable	(30.3	) (45.7	)
Net change in reinsurance recoverable on paid and unpaid losses	24.5	64.4	
Net change in other assets and liabilities	77.8	(32.3	)
Net cash provided from operations—continuing operations	178.3	136.2	
Net cash used for operations—discontinued operations	(98.0	) (155.6	)
Net cash provided from (used for) operations	80.3	(19.4	)
Cash flows from investing activities:			
Net maturities, purchases and sales of short-term investments	67.3	(22.7	)
Maturities of fixed maturity investments	196.6	147.5	
Sales of fixed maturity investments	1,208.6	1,305.9	
Sales of common equity securities	142.0	37.2	
Sales of convertible fixed maturity investments	39.5	16.0	
Distributions and redemptions of other investments	13.1	6.9	
Purchases of fixed maturity investments	(1,381.8	) (1,317.2	)
Purchases of common equity securities	(168.5	) (49.3	)
Purchases of convertible fixed maturity investments	(12.0	) (6.8	)
Contributions for other investments	(7.1	) (3.1	)
Proceeds from sale of business	31.3	—	
Net change in unsettled investment purchases and sales	(7.7	) (69.1	)
Net acquisitions of property and equipment	(7.6	) (1.2	)
Net cash provided from investing activities—continuing operations	113.7	44.1	
Net cash provided from investing activities—discontinued operations	—	—	
Net cash provided from investing activities	113.7	44.1	
Cash flows from financing activities:			
Cash dividends paid to common shareholders	(60.1	) (60.0	)
Proceeds on sale of OB Holdings Lux	—	14.0	
Payments on capital lease obligation	(4.0	) (3.6	)
Net cash used for financing activities—continuing operations	(64.1	) (49.6	)
Net cash used for financing activities—discontinued operations	—	—	
Net cash used for financing activities	(64.1	) (49.6	)
Net increase (decrease) in cash during period	129.9	(24.9	)

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Cash reclassified from assets held for sale	—	5.5	
Cash transferred with sale of business	—	(3.5	)
Net increase (decrease) after reclassification of cash to assets held for sale			