

Best's Rating Report



OneBeacon
INSURANCE GROUP

ONEBEACON INSURANCE GROUP

| | |
|--------------------------------|---|
| Atlantic Specialty Ins Co | A |
| Employers' Fire Insurance Co | A |
| OneBeacon America Insurance Co | A |
| OneBeacon Insurance Company | A |
| Homeland Ins Co of NY | A |
| Homeland Insurance Company DE | A |
| OBI National Insurance Co | A |



Associated With:

White Mountains Insurance Group Ltd **ONEBEACON INSURANCE GROUP**

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Associated Ultimate Parent#: 058167

RECENT DEVELOPMENTS

In October 2012, OneBeacon Insurance Group, Ltd. ("OneBeacon Ltd"; NYSE: OB) announced that a definitive agreement had been signed under which Trebuchet US Holdings, Inc., a subsidiary of Armour Group Holdings Ltd. (collectively, "Armour"), will acquire all outstanding shares of OneBeacon Insurance Company ("OBIC"), OneBeacon America Insurance Company, Northern Assurance Company of America, Employers Fire Insurance Company, Camden Fire Insurance Association, OneBeacon Midwest Insurance Company, Houston General Insurance Company, and Traders & General Insurance Company from OneBeacon Insurance Group LLC ("OneBeacon LLC"), a subsidiary of OneBeacon Ltd. Effective August 1, 2013, Northern Assurance Company of America and OneBeacon Midwest Insurance Company merged with OneBeacon America Insurance Company. Also on August

1, 2013, Camden Fire Insurance Association, Houston General Insurance Company, and Traders & General Insurance Company merged with OBIC. The ratings of the companies subject to sale under the definitive agreement were placed under review and will remain under review until the close of the transaction and the completion of A.M. Best's analysis of its impact on the companies' ratings. The transaction is expected to close in the second half of 2014. Until the close of the transaction, the companies continue to derive their ratings from other affiliated reinsurance agreements.

RATING RATIONALE

Rating Rationale: The ratings apply to Atlantic Specialty Insurance Company ("ASIC") and its three reinsurance affiliates; Homeland Insurance Company of New York, Homeland Insurance Company of Delaware and OBI National Insurance Company, as well as three affiliates whose sale is currently pending: OBIC, OneBeacon America Insurance Company, and Employers Fire Insurance Company (collectively all seven companies comprise the "OneBeacon Insurance Group" or the "Group"). The ratings reflect the Group's sound level of risk-adjusted capitalization, solid earnings through generally favorable underwriting and operating performance, and the financial flexibility of OneBeacon Ltd, in which White Mountains Insurance Group, Ltd. ("White Mountains"; NYSE: WTM), owns a majority interest. These positive rating factors are partially offset by historical

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adverse development of its run-off operations (which are being sold to Armour), the payment of significant shareholder dividends which has constrained growth in surplus and the elevated level of equity investments which, while well-managed, adds volatility to the Group's earnings and balance sheet. Despite these concerns, the outlooks reflect A.M. Best's expectation that the Group will continue to generate solid operating results through favorable underwriting performance and steady investment income and capitalization will be maintained at levels fully supportive of the ratings.

The Group's risk-adjusted capitalization is enhanced by the protection afforded through a loss portfolio transfer (LPT) of A&E and other mass tort reserves to National Indemnity Company (NICO), with approximately \$200 million of unused protection available through this cover. The Group's gross exposure to A&E and other mass tort liabilities together with the NICO LPT will be sold as part of the sale of its run-off operations. Operating results have benefited from disciplined underwriting, strong claims management processes and management's proven ability to move profitably into unique specialty niches. Moreover, the Group is afforded additional financial flexibility by OneBeacon Ltd, which maintains significant cash, short-term investments, fixed income investments and equity securities at the holding company level. OneBeacon Ltd's financial leverage remains at a moderate level with adjusted debt-to-tangible capital of approximately 20% as of June 30, 2014.

Future positive rating actions may result from continued profitable underwriting and operating performance. However, negative rating actions could result if operating performance falls markedly short of A.M. Best's expectations or if there is a material weakening of risk-adjusted capitalization.

RATING UNIT MEMBERS

| AMB# | Company | Best's FSR | Outlook/ Implication |
|--|--------------------------------|---------------|-------------------------|
| OneBeacon Insurance Group (AMB# 018458): | | | |
| 012666 | Atlantic Specialty Ins Co | A | Stable |
| 002152 | Employers' Fire Insurance Co | A u | Negative |
| 002106 | OneBeacon America Insurance Co | A u | Negative |
| 002196 | OneBeacon Insurance Company | A u | Negative |
| 010604 | Homeland Ins Co of NY | A | Stable |
| 014398 | Homeland Insurance Company DE | A | Stable |
| 014397 | OBI National Insurance Co | A | Stable |

KEY FINANCIAL INDICATORS (\$000)

| Year | Net Premiums Written | Pre-tax Operating Income | Total Admitted Assets | Policy- holders' Surplus | Comb. Ratio |
|------|----------------------------|--------------------------------|-----------------------------|--------------------------------|----------------|
| 2009 | 1,650,380 | 250,036 | 4,418,387 | 1,587,928 | 94.1 |
| 2010 | 995,820 | 180,187 | 3,372,567 | 1,056,476 | 107.5 |
| 2011 | 1,100,552 | 74,944 | 3,034,735 | 1,031,966 | 96.6 |
| 2012 | 1,217,563 | 41,222 | 2,840,092 | 883,588 | 99.7 |
| 2013 | 969,250 | 85,214 | 2,690,246 | 866,189 | 99.1 |

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

BUSINESS PROFILE

OneBeacon Ltd was acquired by White Mountains from Aviva plc ("Aviva") in 2001, and as of December 31, 2013, White Mountains owned approximately 75% of OneBeacon Ltd's outstanding common shares. OneBeacon Ltd's operating companies are U.S.-based property

and casualty insurance writers. In recent years, the Group has focused its business strategy on its specialty lines business through a series of asset sales.

The Group's specialty lines business is focused on highly customized and unique segments. International Marine Underwriters offers products that provide coverage for physical damage or loss, general liability for cargo and commercial hull, both at primary and excess levels, marinas, including a package product offering comprehensive property and liability coverage and yachts. OneBeacon Professional Insurance ("OBPI") specializes in professional liability insurance products for a broad range of industry groups. OBPI's original focus on healthcare-related liability insurance continues, while expansion into non-healthcare-related liability insurance segments has increased over the last five years, including law firms, in-house counsel, design professionals and media organizations. Tuition reimbursement products are sold through A.W.G. Dewar ("Dewar"). Dewar's products protect both schools and parents from the financial consequences of a student's withdrawal or dismissal from school. Effective January 1, 2013, OneBeacon LLC sold Essentia Insurance Company, which writes collector car and boat business, to Markel Corporation and terminated its underwriting agreement with Hagerty Insurance Agency. As a result of these transactions, the Group began the run-off of its collector car and boat business.

The Group received approval in 2013 to provide multiple peril crop insurance through the federal crop insurance program administered by the U.S. Department of Agriculture's Risk Management Agency (RMA). They have entered into an exclusive agreement with a managing agency, Climate Crop Insurance Agency LLC, to provide coverage through the federal program and other supplemental coverages, including crop-hail. Additionally, in 2013 the Group formed a new wholly-owned subsidiary, Split Rock Insurance, Ltd. (Split Rock), a Bermuda based reinsurance company, which primarily reinsures certain risks of affiliated entities.

In October 2012, OneBeacon LLC announced that it had entered into a definitive agreement to sell its run-off business to Armour. OneBeacon LLC will transfer to Armour certain legal entities containing the assets, liabilities and capital supporting the run-off business. The transaction is subject to regulatory approval and is expected to close in the second half of 2014. In anticipation of the transaction with Armour, and as means to separate the run-off business from the ongoing specialty business, the Group sought and received various regulatory approvals to terminate, incept or amend various intercompany reinsurance agreements which took effect on October 1, 2012. Principal among these agreements was the termination of the intercompany pooling agreement. In lieu of the intercompany pooling agreement, various 100% quota share reinsurance agreements were entered into in order to segregate between run-off business and specialty business. Effective October 1, 2012, the various legal entities included in the sale to Armour cede 100% of their direct underwriting activity to OBIC, which retains the run-off business and then cedes 100% of the specialty business to ASIC. Legal entities not included in the sale cede 100% of their direct underwriting activity to ASIC, which retains the specialty business and then cedes 100% of the run-off business to OBIC.

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2013 BY-LINE BUSINESS (\$000)

| Product Line | —DPW— | | Reinsurance —Prem Assumed— | |
|------------------|------------------|--------------|----------------------------|--------------|
| | (\$000) | (%) | (\$000) | (%) |
| Oth Liab CM | 178,842 | 16.2 | 33,604 | 58.8 |
| Ocean Marine | 128,431 | 11.6 | 4,341 | 7.6 |
| Oth Liab Occur | 118,285 | 10.7 | 909 | 1.6 |
| Group A & H | 102,361 | 9.3 | 2,598 | 4.5 |
| Med Prof Liab CM | 108,467 | 9.8 | 7,143 | 12.5 |
| Com'l MultiPeril | 92,202 | 8.4 | 214 | 0.4 |
| Workers' Comp | 81,541 | 7.4 | 2,348 | 4.1 |
| Inland Marine | 72,378 | 6.6 | 30 | 0.1 |
| Comm'l Auto Liab | 53,174 | 4.8 | 458 | 0.8 |
| Allied Lines | 31,603 | 2.9 | 267 | 0.5 |
| Fire | 36,322 | 3.3 | 740 | 1.3 |
| All Other | 99,744 | 9.0 | 4,483 | 7.8 |
| Total | 1,103,349 | 100.0 | 57,135 | 100.0 |

| Product Line | Reinsurance —Prem Ceded— | | —NPW— | | Business Retention (%) |
|------------------|--------------------------|--------------|----------------|--------------|------------------------|
| | (\$000) | (%) | (\$000) | (%) | |
| Oth Liab CM | 22,344 | 11.7 | 190,101 | 19.6 | 89.5 |
| Ocean Marine | 20,645 | 10.8 | 112,127 | 11.6 | 84.5 |
| Oth Liab Occur | 10,746 | 5.6 | 108,448 | 11.2 | 91.0 |
| Group A & H | 10,037 | 5.2 | 94,922 | 9.8 | 90.4 |
| Med Prof Liab CM | 21,545 | 11.3 | 94,065 | 9.7 | 81.4 |
| Com'l MultiPeril | 8,244 | 4.3 | 84,172 | 8.7 | 91.1 |
| Workers' Comp | 8,700 | 4.5 | 75,188 | 7.8 | 89.6 |
| Inland Marine | 5,598 | 2.9 | 66,810 | 6.9 | 92.3 |
| Comm'l Auto Liab | 8,426 | 4.4 | 45,207 | 4.7 | 84.3 |
| Allied Lines | 4,561 | 2.4 | 27,309 | 2.8 | 85.7 |
| Fire | 11,805 | 6.2 | 25,257 | 2.6 | 68.1 |
| All Other | 58,583 | 30.6 | 45,644 | 4.7 | 43.8 |
| Total | 191,234 | 100.0 | 969,250 | 100.0 | 83.5 |

HISTORY

OneBeacon Insurance Group's history in the United States dates back to the 1800s. Following the June 2, 1998, worldwide merger between Commercial Union plc and General Accident plc, the former Commercial Union and General Accident companies in the U.S. became owned by one U.S. holding company, CGU Corp. On June 1, 2001, White Mountains purchased CGU Corp for \$2.1 billion and created OneBeacon Insurance Group. OneBeacon Ltd executed an initial public offering in November 2006. Prior to the offering, a new Bermuda holding company (OneBeacon Ltd) was formed, a portion of whose common shares were offered and sold in the IPO. White Mountains retained control of OneBeacon Ltd subsequent to the IPO through ownership of the Class B common shares, which comprised approximately 72% of the common interest, with the remaining 28% owned by outside (public) shareholders. White Mountains currently maintains an ownership interest of approximately 75% in OneBeacon Ltd.

Consolidated Balance Sheet Admitted Assets (\$000)

| | 12/31/2013 | % |
|------------------------------|--------------------|-------------|
| Bonds | \$1,522,745 | 56.6 |
| Preferred stock | 83,277 | 3.1 |
| Common stock | 230,146 | 8.6 |
| Cash & short-term invest | 192,705 | 7.2 |
| Other non-affil inv asset | 141,412 | 5.3 |
| Investments in affiliates | 49,233 | 1.8 |
| Real estate, offices | 44,335 | 1.6 |
| Total invested assets | \$2,263,854 | 84.2 |
| Premium balances | 234,958 | 8.7 |
| Accrued interest | 8,599 | 0.3 |
| All other assets | 182,835 | 6.8 |

Total assets \$2,690,246 100.0

Liabilities & Surplus (\$000)

| | | |
|---------------------------|-------------|------|
| Loss & LAE reserves | \$1,148,802 | 42.7 |
| Unearned premiums | 445,235 | 16.5 |
| Conditional reserve funds | 1,514 | 0.1 |
| All other liabilities | 228,506 | 8.5 |

| | | |
|----------------------------|--------------------|-------------|
| Total liabilities | \$1,824,057 | 67.8 |
| Capital & assigned surplus | 237,996 | 8.8 |
| Unassigned surplus | 628,192 | 23.4 |

Total policyholders' surplus \$ 866,189 32.2

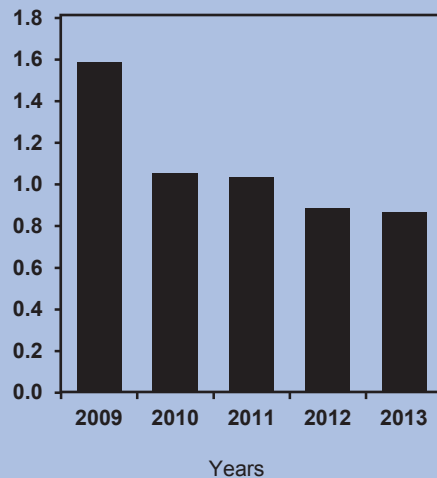
Total liabilities & surplus \$2,690,246 100.0

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ONEBEACON INSURANCE GROUP

Policyholders' Surplus



in billions
of dollars

FINANCIAL SUMMARY (\$000) as of 12/31/2013

| | |
|-----------------------------------|--------------|
| Policyholders' Surplus | \$ 866,189 |
| Direct Premiums Written | \$ 1,103,349 |
| Combined Ratio | 99.1 |
| Net Underwriting Income | \$ 53,723 |
| Net Investment Income | \$ 23,088 |

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Why is this *Best's® Rating Report* important to you?

A Best's Rating Report from the A.M. Best Company showcases the **opinion** from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders, as well as its relative credit risk.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of the insurance companies since 1899.

A Best's Financial Strength Rating is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. The rating is **not a recommendation**

to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

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