

OneBeacon Insurance Group, Ltd.

Form 10-Q

August 01, 2008

**Table of Contents**







**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549



# FORM 10-Q



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

**For the period ended June 30, 2008**

**OR**

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

**For the transition period from        to**

**Commission file number 1-33128**

**ONEBEACON INSURANCE GROUP, LTD.**

(Exact name of Registrant as specified in its charter)

**Bermuda**

(State or other jurisdiction of  
incorporation or organization)

**98-0503315**

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

**601 Carlson Parkway  
Minnetonka, Minnesota**

(Address of principal executive offices)

**55305**

(Zip Code)

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



Edgar Filing: OneBeacon Insurance Group, Ltd. - Form 10-Q

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
--	---	---	--

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

As of July 30, 2008, 23,383,478 Class A common shares, par value of \$0.01 per share, and 71,754,738 Class B common shares, par value of \$0.01 per share, were outstanding.

---

Table of Contents

**ONEBEACON INSURANCE GROUP, LTD.**

**TABLE OF CONTENTS**

<b><u>PART I</u></b>	<b><u>FINANCIAL INFORMATION</u></b>	
<b><u>ITEM 1.</u></b>	<b><u>Financial Statements (Unaudited)</u></b>	
	<b><u>Consolidated Balance Sheets:</u></b>	
	<b><u>June 30, 2008 and December 31, 2007</u></b>	2
	<b><u>Consolidated Statements of Operations and Comprehensive Income (Loss):</u></b>	
	<b><u>Three and six months ended June 30, 2008 and 2007</u></b>	3
	<b><u>Consolidated Statements of Common Shareholders' Equity:</u></b>	
	<b><u>Three and six months ended June 30, 2008 and 2007</u></b>	4
	<b><u>Consolidated Statements of Cash Flows:</u></b>	
	<b><u>Three and six months ended June 30, 2008 and 2007</u></b>	5
	<b><u>Notes to Consolidated Financial Statements</u></b>	6
<b><u>ITEM 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	23
	<b><u>Results of Operations - For the three and six months ended June 30, 2008 and 2007</u></b>	24
	<b><u>Summary of Investment Results</u></b>	30
	<b><u>Non-GAAP Financial Measures</u></b>	35
	<b><u>Liquidity and Capital Resources</u></b>	36
	<b><u>Critical Accounting Estimates</u></b>	41
	<b><u>Forward Looking Statements</u></b>	42
<b><u>ITEM 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	43
<b><u>ITEM 4.</u></b>	<b><u>Controls and Procedures</u></b>	43
<b><u>PART II</u></b>	<b><u>OTHER INFORMATION</u></b>	
<b><u>ITEM 1.</u></b>	<b><u>Legal Proceedings</u></b>	43
<b><u>ITEM 1A.</u></b>	<b><u>Risk Factors</u></b>	43
<b><u>ITEM 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	44
<b><u>ITEM 4.</u></b>	<b><u>Submission of Matters to a Vote of Securityholders</u></b>	44
<b><u>ITEM 6.</u></b>	<b><u>Exhibits</u></b>	45

**SIGNATURES**

---

Table of Contents

**PART 1. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**ONEBEACON INSURANCE GROUP, LTD.**



**CONSOLIDATED BALANCE SHEETS**

Edgar Filing: OneBeacon Insurance Group, Ltd. - Form 10-Q

	June 30, 2008 (Unaudited)	December 31, 2007
	(\$ in millions, except share and per share amounts)	
<b>Assets</b>		
Investment Securities:		
Fixed maturity investments, at fair value (amortized cost \$2,450.1 and \$2,914.4)	\$ 2,465.3	\$ 2,966.6
Common equity securities, at fair value (cost \$780.4 and \$685.3)	914.3	832.1
Convertible bonds, at fair value (amortized cost \$327.7 and \$380.7)	320.9	389.2
Short-term investments, at amortized cost (which approximates fair value)	417.8	327.4
Held-to-maturity investments (assets held in trust):		
Fixed maturity investments, at amortized cost (estimated fair value \$ and \$306.9)		305.5
Short-term investments, at amortized cost (which approximates fair value)		0.1
Other investments, at fair value (cost \$248.7 and \$292.7)	358.1	348.6
Total investments	4,476.4	5,169.5
Cash	49.5	49.4
Reinsurance recoverable on unpaid losses	959.2	958.9
Reinsurance recoverable on unpaid losses Berkshire Hathaway, Inc.	1,612.7	1,670.6
Reinsurance recoverable on paid losses	22.1	21.9
Premiums receivable	591.5	529.2
Securities lending collateral	327.6	438.9
Deferred acquisition costs	212.7	200.0
Ceded unearned premiums	76.5	68.1
Net deferred tax asset	54.9	23.5
Investment income accrued	28.3	33.7
Accounts receivable on unsettled investment sales	12.6	76.1
Other assets	287.2	301.7
Total assets	\$ 8,711.2	\$ 9,541.5
<b>Liabilities</b>		
Loss and LAE reserves	\$ 4,425.5	\$ 4,480.3
Unearned premiums	1,050.3	1,005.9
Debt	755.8	757.7
Securities lending payable	327.6	438.9
Preferred stock subject to mandatory redemption Berkshire Hathaway, Inc. (redemption value \$ and \$300.0)		278.4
Ceded reinsurance payable	98.3	102.8
Accounts payable on unsettled investment purchases	8.1	8.5
Other liabilities	436.5	562.5
Total liabilities	7,102.1	7,635.0
<b>Common shareholders equity</b>		
Common shares and paid-in surplus (par value \$0.01; authorized, 200,000,000 shares; issued and outstanding, 95,490,249 and 98,465,204 shares)	1,023.0	1,084.4
Retained earnings	585.6	641.0
Accumulated other comprehensive (loss) income, after-tax:		
Net unrealized gains on investments		168.1
Net unrealized foreign currency translation (losses) gains	(0.3)	12.2
Other comprehensive income items	0.8	0.8
Total common shareholders equity	1,609.1	1,906.5
Total liabilities and common shareholders equity	\$ 8,711.2	\$ 9,541.5

See Notes to Consolidated Financial Statements including Note 10 Commitments and Contingencies

Table of Contents

## ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(\$ in millions, except per share amounts)			
<b>Revenues</b>				
Earned premiums	\$ 463.8	\$ 465.0	\$ 919.1	\$ 933.9
Net investment income	44.6	54.6	94.7	105.2
Net realized investment (losses) gains	(1.7)	57.1	2.0	112.0
Change in net unrealized investment gains	(0.9)		(60.0)	
Net other revenues	2.6	2.4	6.2	5.5
Total revenues	508.4	579.1	962.0	1,156.6
<b>Expenses</b>				
Loss and LAE	274.4	283.1	575.3	571.3
Policy acquisition expenses	84.3	78.3	169.0	156.6
Other underwriting expenses	79.2	89.6	149.3	180.5
General and administrative expenses	5.9	2.7	10.3	5.1
Accretion of fair value adjustment to loss and LAE reserves	3.0	4.0	6.0	8.0
Interest expense on debt	11.4	11.3	22.9	22.7
Interest expense dividends on preferred stock subject to mandatory redemption	4.7	7.6	11.8	15.1
Interest expense accretion on preferred stock subject to mandatory redemption	11.1	8.7	21.6	17.0
Total expenses	474.0	485.3	966.2	976.3
<b>Pre-tax income (loss)</b>	34.4	93.8	(4.2)	180.3
Income tax (provision) benefit	(10.6)	(31.5)	3.7	(57.5)
<b>Net income (loss)</b>	23.8	62.3	(0.5)	122.8
Change in net unrealized gains and losses for investments held		22.1		65.7
Recognition of net unrealized gains and losses for investments sold		(34.6)		(70.9)
Change in foreign currency translation		5.1		6.6
Change in other comprehensive income items	1.2	1.1		1.3
<b>Comprehensive net income (loss)</b>	\$ 25.0	\$ 56.0	\$ (0.5)	\$ 125.5
<b>Basic and diluted earnings per share</b>				
Basic:				
Net income (loss) available to common shareholders	\$ 0.25	\$ 0.62	\$ (0.01)	\$ 1.23
Diluted:				
Net income (loss) available to common shareholders	\$ 0.25	\$ 0.62	\$ (0.01)	\$ 1.23
<b>Dividends declared and paid per common share</b>	\$ 0.21	\$ 0.21	\$ 2.45	\$ 0.42

See Notes to Consolidated Financial Statements

Table of Contents

**ONEBEACON INSURANCE GROUP, LTD.**

**CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY**  
**(Unaudited)**

Edgar Filing: OneBeacon Insurance Group, Ltd. - Form 10-Q

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